

S&T BANCORP INC
Form 10-Q
November 05, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from To

Commission file number 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-1434426 (IRS Employer Identification No.)
800 Philadelphia Street, Indiana, PA (Address of principal executive offices)	15701 (zip code)
800-325-2265 (Registrant's telephone number, including area code)	

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, \$2.50 Par Value - 27,850,678 shares as of October 22, 2010

Table of Contents

INDEX

S&T BANCORP, INC. AND SUBSIDIARIES

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets – September 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Income (Loss) – Three and Nine Months Ended September 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Changes in Shareholders’ Equity – Nine Months Ended September 30, 2010 and 2009</u>	5
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-24
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24-39
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40-41
Item 4. <u>Controls and Procedures</u>	41
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3. <u>Defaults Upon Senior Securities</u>	42
Item 4. <u>Removed and Reserved</u>	42
Item 5. <u>Other Information</u>	42
Item 6. <u>Exhibits</u>	42
<u>Signatures</u>	43

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	September 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
<i>(in thousands, except share and per share data)</i>		
ASSETS		
Cash and due from banks	\$ 88,157	\$ 69,152
Securities available-for-sale	277,718	354,860
Federal Home Loan Bank stock, at cost	23,542	23,542
Loans held for sale	4,070	6,073
Portfolio loans	3,366,913	3,398,334
Allowance for loan losses	56,281	59,580
Portfolio loans, net	3,310,632	3,338,754
Premises and equipment, net	39,678	40,990
Goodwill	165,273	165,167
Other intangibles, net	7,927	9,408
Bank owned life insurance	54,375	52,863
Other assets	126,736	109,666
Total Assets	\$ 4,098,108	\$ 4,170,475
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 743,453	\$ 712,120
Interest-bearing demand	276,953	260,554
Money market	246,769	289,367
Savings	746,352	752,130
Certificates of deposit	1,291,043	1,290,370
Total Deposits	3,304,570	3,304,541
Securities sold under repurchase agreements	48,189	44,935
Short-term borrowings		51,300
Long-term borrowings	29,849	85,894
Junior subordinated debt securities	90,619	90,619
Other liabilities	50,374	39,868
Total Liabilities	3,523,601	3,617,157
SHAREHOLDERS EQUITY		
Preferred stock, no par value Authorized 10,000,000 shares in 2010 and 2009 Issued and outstanding 108,676 in 2010 and 2009 (Fixed rate cumulative perpetual preferred stock, series A, \$1,000 per share liquidation preference)	105,942	105,370
Common stock (\$2.50 par value) Authorized 50,000,000 shares in 2010 and 2009 Issued 29,714,038 shares in 2010 and 2009 Outstanding 27,849,171 shares at September 30,	74,285	74,285

Edgar Filing: S&T BANCORP INC - Form 10-Q

2010 and 27,746,554 shares at December 31, 2009

Additional paid-in capital	51,399	51,158
Retained earnings	397,964	383,118
Accumulated other comprehensive loss	(3,522)	(6,214)
Treasury stock (1,864,867 shares at September 30, 2010 and 1,967,484 shares at December 31, 2009, at cost)	(51,561)	(54,399)

Total Shareholders Equity	574,507	553,318
----------------------------------	----------------	----------------

Total Liabilities and Shareholders Equity	\$ 4,098,108	\$ 4,170,475
--	---------------------	---------------------

See Notes to Consolidated Financial Statements

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (LOSS)****(Unaudited)**

<i>(dollars and share data in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans, including fees	\$ 42,718	\$ 44,741	\$ 127,598	\$ 136,077
Investment securities:				
Taxable	1,803	2,581	6,041	8,593
Tax-exempt	683	867	2,204	2,822
Dividends	121	121	366	469
Total Interest Income	45,325	48,310	136,209	147,961
INTEREST EXPENSE				
Deposits	7,014	9,003	22,115	29,900
Securities sold under repurchase agreements	17	33	50	132
Short-term borrowings	21	107	146	475
Long-term borrowings and junior subordinated debt securities	1,300	2,334	4,386	7,927
Total Interest Expense	8,352	11,477	26,697	38,434
NET INTEREST INCOME	36,973	36,833	109,512	109,527
Provision for loan losses	8,278	8,382	21,835	61,954
Net Interest Income After Provision for Loan Losses	28,695	28,451	87,677	47,573
NONINTEREST INCOME				
Security gains (losses), net	6	(2,059)	263	(4,601)
Service charges on deposit accounts	2,974	3,305	9,111	9,593
Wealth management fees	1,861	1,920	5,761	5,575
Insurance fees	2,125	2,020	6,457	5,867
Mortgage banking	1,573	(3)	2,150	1,788
Debit and credit card fees	1,951	1,875	5,615	5,081
Other	1,845	1,166	5,851	4,394
Total Noninterest Income	12,335	8,224	35,208	27,697
NONINTEREST EXPENSE				
Salaries and employee benefits	11,887	12,284	36,263	36,637
Occupancy, net	1,674	1,681	5,317	5,163
Furniture and equipment	1,190	1,201	3,607	3,824
Other taxes	739	940	2,626	2,741
Data processing	1,547	1,565	4,601	4,575
Amortization of intangibles	463	557	1,483	1,752
Legal	511	534	3,715	1,580
Joint venture amortization	627	683	1,964	3,852
FDIC assessment	1,359	1,526	4,058	6,914
Other	4,951	3,868	14,981	16,002

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total Noninterest Expense	24,948	24,839	78,615	83,040
Income (Loss) Before Taxes	16,082	11,836	44,270	(7,770)
Provision (benefit) for income taxes	3,600	2,578	11,080	(6,530)
Net Income (Loss)	12,482	9,258	33,190	(1,240)
Preferred stock dividends and amortization of discount	1,551	1,543	4,648	4,368
Net Income (Loss) Available to Common Shareholders	\$ 10,931	\$ 7,715	\$ 28,542	\$ (5,608)
Earnings per common share basic	\$ 0.39	\$ 0.28	\$ 1.03	\$ (0.20)
Earnings per common share diluted	0.39	0.28	1.03	(0.20)
Dividends declared per common share	0.15	0.15	0.45	0.61
Average common shares outstanding basic	27,800	27,634	27,767	27,655
Average common shares outstanding diluted	27,813	27,695	27,790	27,655

See Notes to Consolidated Financial Statements

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

<i>(in thousands, except share and per share data)</i>	Comprehensive (Loss) Income	Accumulated						Total
		Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Other		
						Comprehensive Loss	Treasury Stock	
Balance at January 1, 2009	\$		\$ 74,285	\$ 43,327	\$ 402,608	\$ (13,986)	\$ (57,540)	\$ 448,694
Net loss for nine months ended September 30, 2009	\$ (1,240)				(1,240)			(1,240)
Other Comprehensive Income, Net of Tax								
Change in unrealized gains on securities of \$2,372 net of reclassification adjustment for losses included in net loss of \$4,601 and tax expense of \$2,441	4,532					4,532		4,532
Adjustment to funded status of pension, net of tax expense \$349	648					648		648
Comprehensive Income	\$ 3,940							
Preferred stock dividend and amortization of discount		519			(4,368)			(3,849)
Cash dividends declared on common stock (\$0.61 per share)					(16,869)			(16,869)
Treasury stock issued for options exercised (51,879 shares)				(1,040)			1,434	394
Recognition of restricted stock compensation expense				351				351
Tax benefit from nonstatutory stock options exercised				4				4
Recognition of nonstatutory stock option compensation expense				341				341
Issuance of preferred stock ⁽¹⁾		104,664						104,664
Warrant for common stock issuance ⁽¹⁾				4,012				4,012
Balance at September 30, 2009		\$ 105,183	\$ 74,285	\$ 46,995	\$ 380,131	\$ (8,806)	\$ (56,106)	\$ 541,682
Balance at January 1, 2010		\$ 105,370	\$ 74,285	\$ 51,158	\$ 383,118	\$ (6,214)	\$ (54,399)	\$ 553,318
Net income for nine months ended September 30, 2010	\$ 33,190				33,190			33,190
Other Comprehensive Income, Net of Tax								
Change in unrealized gains on securities of \$3,718 net of reclassification adjustment for gains included in net income of \$263 and tax expense of \$1,209	2,246					2,246		2,246
Adjustment to funded status of pension, net of tax expense \$240	446					446		446
Comprehensive Income	\$ 35,882							
Preferred stock dividend and amortization of discount		572			(4,648)			(4,076)
Cash dividends declared and paid (\$0.45 per share)					(12,505)			(12,505)
Treasury stock issued (102,617 shares)					(1,191)		2,838	1,647
Recognition of restricted stock compensation expense				341				341

Edgar Filing: S&T BANCORP INC - Form 10-Q

Tax benefit from nonstatutory stock options expensed						4		4				
Forfeitures of nonstatutory stock options						(104)		(104)				
Balance at September 30, 2010						\$ 105,942	\$ 74,285	\$ 51,399	\$ 397,964	\$ (3,522)	\$ (51,561)	\$ 574,507

⁽¹⁾ The preferred stock issued to the U.S. Treasury in the amount of \$104,664 is presented net of a discount of \$4,012.

See Notes to Consolidated Financial Statements

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

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2010	2009
OPERATING ACTIVITIES		
Net income (loss)	\$ 33,190	\$ (1,240)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	21,835	61,954
Provision for unfunded loan commitments	(1,555)	3,359
Depreciation and amortization	4,951	5,047
Net amortization of investment security premiums	632	718
Recognition of stock-based compensation expense	227	4
Security (gains) losses, net	(263)	4,601
Deferred income taxes	(3,652)	(9,230)
Tax benefits from stock-based compensation	(4)	(4)
Mortgage loans originated for sale	(71,650)	(120,711)
Proceeds from the sale of loans	73,652	119,428
Gain on the sale of loans, net	(866)	(372)
Net decrease in interest receivable	2,996	4,442
Net decrease in interest payable	(1,719)	(2,386)
Net increase in other assets	(17,062)	(427)
Net increase (decrease) in other liabilities	14,480	(7,980)
Net Cash Provided by Operating Activities	55,192	57,203
INVESTING ACTIVITIES		
Proceeds from maturities of securities available-for-sale	128,525	159,041
Proceeds from sales of securities available-for-sale	2,566	4,002
Purchases of securities available-for-sale	(50,863)	(75,114)
Net decrease in loans	4,512	79,134
Purchases of premises and equipment	(1,942)	(1,468)
Proceeds from the sale of premises and equipment	111	1,613
Net Cash Provided by Investing Activities	82,909	167,208
FINANCING ACTIVITIES		
Net decrease in core deposits	(644)	(48,670)
Net increase in certificates of deposit	569	100,038
Net decrease in short-term borrowings	(51,300)	(225,925)
Net increase (decrease) in securities sold under repurchase agreements	3,254	(51,989)
Repayments of long-term borrowings	(56,045)	(84,178)
Proceeds from issuance of preferred stock and common stock warrants		108,676
Sale of treasury stock	1,647	394
Preferred stock dividends	(4,076)	(3,155)
Cash dividends paid to common shareholders	(12,505)	(21,275)
Tax benefits from stock-based compensation	4	4

Edgar Filing: S&T BANCORP INC - Form 10-Q

Net Cash Used in Financing Activities	(119,096)	(226,080)
Net increase (decrease) in cash and cash equivalents	19,005	(1,669)
Cash and cash equivalents at beginning of year	69,152	69,780

Cash and Cash Equivalents at End of Period	\$ 88,157	\$ 68,111
---	------------------	------------------

Supplemental Disclosures

Transfers of other real estate owned and other repossessed assets	\$ 2,760	\$ 3,894
Interest paid	28,416	40,819
Income taxes paid	11,192	5,338
See Notes to Consolidated Financial Statements		

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Nature of Operations

The accompanying unaudited Consolidated Financial Statements of S&T Bancorp, Inc. and subsidiaries (S&T) have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

S&T operates in three business segments, providing a full range of services to individual and corporate customers through Community Banking, Wealth Management and Insurance. The Consolidated Balance Sheet as of December 31, 2009 has been extracted from the audited financial statements included in S&T 's 2009 annual report on Form 10-K. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the annual report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (SEC) on February 26, 2010.

Accounting Policies

The financial statements of S&T have been prepared in accordance with GAAP. 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 dates of the balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates.

Principals of Consolidation

The Consolidated Financial Statements include the accounts of S&T and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent to 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting.

Recently Issued and Effective Accounting Pronouncements

Fair Value Measurements

In January 2010, the FASB issued an accounting standards update that required more robust disclosures on the fair value of assets and liabilities when an asset or liability is transferred in the fair value hierarchy in or out of Level 1 and 2. This update must be applied for interim and annual periods beginning after January 1, 2010. The adoption of this pronouncement did not have a material impact on S&T 's Consolidated Financial Statements.

Accounting for Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement regarding accounting for transfers of financial assets, which eliminates the qualifying special-purpose entities (QSPEs) concept and associated guidance that had been a significant source of complexity, creates more stringent conditions for reporting a transfer of a portion of financial asset as a sale, clarifies other sale accounting criteria and changes the initial measurement of a transferor 's interest in transferred financial assets. The accounting pronouncement was effective as of January 1, 2010. The adoption of this pronouncement did not have a material impact on S&T 's Consolidated Financial Statements.

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

In June 2009, the FASB issued a pronouncement regarding consolidation accounting, which requires former QSPEs to be evaluated for consolidation and also changes the approach to determining a variable interest entity's (VIE) primary beneficiary. The pronouncement also requires more frequent reassessment as to whether they must consolidate VIEs. The application of this pronouncement to investment companies was deferred indefinitely. This pronouncement was effective as of January 1, 2010. The adoption of this pronouncement did not have a material impact on S&T's Consolidated Financial Statements.

Future Application of Accounting Pronouncements

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In September 2010, the FASB's Emerging Issues Task Force reached a final Consensus on accounting for costs associated with acquiring or renewing insurance contracts. The Consensus clarifies that only costs that are associated with the successful acquisition of a new or renewal insurance contract would be capitalized as deferred acquisition costs. The Consensus will be effective for fiscal

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

periods beginning on or after December 15, 2011. Either prospective or retrospective application is permitted. S&T is currently evaluating the impact of the Consensus on the Consolidated Financial Statements.

Disclosures about Credit Quality and the Allowance for Credit Losses

Pursuant to the July 2010 FASB accounting standards update, further disclosures will be required about the credit quality of financing receivables and the allowance for credit losses. The disclosures will provide financial statement users with additional information about the nature of credit risks inherent in entities' financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses and the reasons for the change in the allowance for credit losses. This requirement is effective for all periods ending on or after December 15, 2010, although certain disclosures will have a deferred effective date. The accounting standards update requires additional disclosure and we do not anticipate it will have any impact on the Consolidated Financial Statements.

Fair Value Measurements

Pursuant to the January 2010 FASB accounting standards update, further disclosures will be required for the activity within Level 3 of the fair value hierarchy regarding purchases, sales, issuances and settlements. This requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years, although early adoption is permitted. The accounting standards update requires additional disclosure and we do not anticipate it will have any impact on the Consolidated Financial Statements.

Reclassification

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. The reclassifications had no significant effect on S&T's financial condition or results of operations.

NOTE 2. CAPITAL PURCHASE PROGRAM

On January 16, 2009, S&T completed a \$108.7 million capital raise as a participant in the U.S. Treasury Capital Purchase Program (the "CPP"). In conjunction with S&T's participation in the CPP, S&T issued to the U.S. Treasury 108,676 shares of S&T's Series A Preferred Stock. The Series A Preferred Stock pays cumulative dividends at a rate of five percent per year for the first five years and thereafter at a rate of nine percent per year. As part of its purchase of the Series A Preferred Stock, the U.S. Treasury received a Warrant to purchase 517,012 shares of S&T's common stock at an initial per share exercise price of \$31.53. The Warrant provides for the adjustment of the exercise price and the number of shares of S&T's common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of S&T's common stock and upon certain issuances of S&T's common stock at or below a specified price relative to the initial exercise price.

Under changes made to the CPP by the American Recovery and Reinvestment Act of 2009 ("ARRA"), subject to approval by banking regulatory agencies, S&T can redeem the Series A Preferred Stock, plus any accrued and unpaid dividends, at any time. If S&T only redeems part of the CPP investment, then it must pay a minimum of 25 percent of the issuance price, or \$27.2 million. The consent of the U.S. Treasury will be required for S&T to increase its common stock dividend (above the dividend amount prior to the participation in the CPP) or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances through January 16, 2012. The consent of the U.S. Treasury will not be required if S&T has redeemed the Series A Preferred Stock or the U.S. Treasury has transferred the Series A Preferred Stock to a third party. In addition, the Series A Preferred Stock issuance includes certain restrictions on executive compensation that could limit the tax deductibility of compensation S&T pays to executive management.

The Warrant expires ten years from the issuance date. In addition, the U.S. Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

NOTE 3. FAIR VALUE MEASUREMENTS

S&T uses fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading assets and derivatives are recorded at their estimated fair value on a recurring basis. Additionally, from time to time, S&T may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned (OREO), mortgage servicing rights (MSRs) and certain other assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

In determining fair value, S&T uses various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which are developed based on market data obtained from sources independent of S&T. Unobservable inputs reflect S&T's estimate of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

Level 2: valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.

Level 3: valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies that S&T uses for financial instruments recorded at estimated fair value on either a recurring or nonrecurring basis:

Recurring Basis

Securities Available-for-Sale

Securities available-for-sale include both debt and equity securities.

S&T obtains estimated fair values for debt securities from a third-party pricing service, which utilizes several sources for valuing fixed-income securities. The market evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2.

S&T's collateralized mortgage obligations and mortgage-backed securities of U.S. government corporations and agencies are valued based on market data. The service provider utilizes evaluated pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs.

S&T's obligations of states and political subdivisions portfolio is valued using proprietary valuation matrices from the service provider. The market evaluation model includes a separate curve structure for the bank-qualified versus general market municipals. For the bank-qualified municipals, the source is the service provider's own trading desk. Securities are further broken down according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal curves.

Marketable equity securities that have an active, quotable market are classified in Level 1. Marketable equity securities that are quotable, but are thinly traded or inactive, are classified as Level 2 and securities that are not readily traded and do not have a quotable market are classified as Level 3.

Trading Assets

When available, S&T uses quoted market prices to determine the estimated fair value of trading assets. S&T's only trading asset is a Rabbi Trust for deferred compensation plans, which is invested in two readily quoted mutual funds. The assets within the Rabbi Trust are classified as Level 1.

Derivative Financial Instruments

S&T calculates the estimated fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity and uses observable market based inputs, such as interest rate curves and implied volatilities. As such, estimates of fair value are classified as Level 2.

S&T incorporates credit valuation adjustments into the valuation models to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the estimated fair value measurements. In adjusting the estimated fair value of its derivative contracts for the effect of nonperformance risk, S&T has considered the impact of netting and any applicable credit enhancements and collateral postings.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Nonrecurring Basis

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and carried at the lower of cost or estimated fair value. Periodically, it may be necessary to record fair value adjustments under lower of cost or estimated fair value. S&T determines estimated fair value based on reference to quoted market prices for similar assets and liabilities. As a result, such estimates of fair value are classified as Level 2.

Impaired Loans

A loan is considered impaired if management determines that it is probable that S&T will not be able to collect all amounts due according to the contractual terms of the loan agreement of a construction, commercial real estate or commercial and industrial loan greater than \$0.5 million. S&T calculates the estimated fair value of impaired loans based upon the estimated fair value of the collateral less estimated selling costs when the loan is collateral dependent, or based upon the present value of expected future cash flows available to pay the loan. Collateral values are generally based upon appraisals from approved, independent state certified appraisers.

Appraisals, whether current or not current, may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation or management's knowledge of the borrower and the borrower's business. Since not all valuation inputs are observable, S&T classifies these nonrecurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

OREO and Other Repossessed Assets

OREO and other repossessed assets are comprised of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at the estimated fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of carrying value or estimated fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals from approved, independent state certified appraisers. OREO and other repossessed assets are classified as level 2.

Mortgage Servicing Rights

The estimated fair value of the MSR's are determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSR's. As the valuation model includes significant unobservable inputs, MSR's are classified as Level 3.

Other Assets

In accordance with GAAP, S&T measures certain other assets at estimated fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write downs of individual assets. Valuation methodologies used to measure these fair value adjustments are consistent with overall principles of fair value accounting and consistent with those described above.

Financial Instruments

Edgar Filing: S&T BANCORP INC - Form 10-Q

In addition to financial instruments recorded at estimated fair value in S&T's financial statements, the fair value accounting pronouncement requires disclosure of estimated fair value of all of an entity's assets and liabilities considered to be financial instruments. The majority of S&T's assets and liabilities are considered to be financial instruments as defined in the pronouncement. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is S&T's general practice and intent to hold its financial instruments to maturity and to not engage in trading or sales activities. For estimated fair value disclosure purposes, S&T substantially utilized the estimated fair value measurement criteria as required and explained above. In cases where quoted estimated fair values are not available, S&T uses present value methods to determine the estimated fair value of its financial instruments.

Cash and Cash Equivalents and Other Short-Term Assets

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks approximate those assets estimated fair values.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Loans

The estimated fair value of variable rate performing loans is based on carrying values adjusted for credit risk. The estimated fair values for other performing loans is estimated using discounted cash flow analyses, utilizing interest rates currently being offered for loans with similar terms, adjusted for credit risk. The estimated fair value of nonperforming loans is based on their carrying value less any specific reserve. The carrying amount of accrued interest approximates its estimated fair value.

Bank Owned Life Insurance

The estimated fair value represents the net cash surrender value.

Deposits

The estimated fair value disclosed for deposits without a defined maturity (e.g., noninterest and interest-bearing demand, money market and savings accounts) are, by definition, equal to the amount payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their estimated fair value. Estimated fair values for fixed rate and other time deposits are based on discounted cash flow analysis, using interest rates currently offered for time deposits with similar terms. The carrying amount of accrued interest approximates its estimated fair value.

Short-Term Borrowings

The carrying amounts of federal funds purchased, securities sold under repurchase agreements and other short-term borrowings approximate their estimated fair values.

Long-Term Borrowings

The estimated fair values disclosed for long-term borrowings are estimated by discounting contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities.

Junior Subordinated Debt Securities

For the variable rate junior subordinated debt securities that reprice quarterly, estimated fair values are based on carrying values. For the \$25.0 million junior subordinated debt issued with a fixed rate period of five years which then converts to a variable rate, estimated fair valued is based on discounted cash flows at current interest rates during the fixed rate period.

Loan Commitments and Standby Letters of Credit

Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

Other

Estimates of fair value have not been made for items that are not defined as financial instruments, including such items as S&T's core deposit intangibles and the value of its trust operation.

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

The following tables present S&T's assets and liabilities that are measured at estimated fair value on a recurring basis by the fair value hierarchy level at September 30, 2010 and December 31, 2009. There were no transfers between Level 1 and Level 2 for items of a recurring basis during the periods presented.

	September 30, 2010			Total
	Level 1	Level 2	Level 3	
<i>(in thousands)</i>				
ASSETS				
Obligations of U.S. government corporations and agencies	\$ -	\$ 99,664	\$ -	\$ 99,664
Collateralized mortgage obligations of U.S. government corporations and agencies	-	45,145	-	45,145
Mortgage-backed securities of U.S. government corporations and agencies	-	48,873	-	48,873
Obligations of states and political subdivisions	-	72,924	-	72,924
Marketable equity securities	1,468	8,031	1,613	11,112
Trading account assets	1,871	-	-	1,871
Interest rate swaps	-	24,873	-	24,873
Interest rate lock commitments	-	1,012	-	1,012
Total Assets	\$ 3,339	\$ 300,522	\$ 1,613	\$ 305,474
LIABILITIES				
Interest rate swaps	\$ -	\$ 24,670	\$ -	\$ 24,670
Forward sale contracts	-	186	-	186
Total Liabilities	\$ -	\$ 24,856	\$ -	\$ 24,856

	December 31, 2009			Total
	Level 1	Level 2	Level 3	
<i>(in thousands)</i>				
ASSETS				
Obligations of U.S. government corporations and agencies	\$ -	\$ 127,971	\$ -	\$ 127,971
Collateralized mortgage obligations of U.S. government corporations and agencies	-	60,229	-	60,229
Mortgage-backed securities of U.S. government corporations and agencies	-	61,521	-	61,521
Obligations of states and political subdivisions	-	92,928	-	92,928
Marketable equity securities	3,607	7,466	1,138	12,211
Trading account assets	3,090	-	-	3,090
Interest rate swaps	-	11,661	-	11,661
Interest rate lock commitments	-	126	-	126
Forward sale contracts	-	192	-	192

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total Assets	\$ 6,697	\$ 362,094	\$ 1,138	\$ 369,929
LIABILITIES				
Interest rate swaps	\$ -	\$ 11,594	\$ -	\$ 11,594
Total Liabilities	\$ -	\$ 11,594	\$ -	\$ 11,594

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

S&T classifies financial instruments in Level 3 when valuation models are used because significant inputs are not observable in the market. The following tables present the changes in assets measured at estimated fair value on a recurring basis for which S&T has utilized Level 3 inputs to determine the estimated fair value:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	Marketable Equity Securities ⁽¹⁾	
<i>(in thousands)</i>		
Balance at beginning of period	\$ 1,628	\$ 1,138
Principal transactions	-	-
Total gains (losses)		
Included in earnings	-	-
Included in other comprehensive income	(15)	(15)
Transfers into Level 3	-	490
Transfers out of Level 3	-	-
Ending Balance at September 30, 2010	\$ 1,613	\$ 1,613

⁽¹⁾ Changes in estimated fair market value of available-for-sale investments are recorded in accumulated other comprehensive income, while gains and losses from sales are recorded in net security gains (losses) in the Consolidated Statements of Income (Loss).

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
	Marketable Equity Securities ⁽¹⁾	
<i>(in thousands)</i>		
Balance at beginning of period	\$ 1,050	\$ 1,050
Principal transactions	-	-
Total gains (losses)		
Included in earnings	-	-
Included in other comprehensive income	88	88
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Ending Balance at September 30, 2009	\$ 1,138	\$ 1,138

⁽¹⁾ Changes in estimated fair market value of available-for-sale investments are recorded in accumulated other comprehensive income, while gains and losses from sales are recorded in net security gains (losses) in the Consolidated Statements of Income (Loss).

Edgar Filing: S&T BANCORP INC - Form 10-Q

S&T may be required to measure certain assets and liabilities on a nonrecurring basis. The following tables present S&T's assets that are measured at estimated fair value on a nonrecurring basis by the fair value hierarchy level at September 30, 2010 and December 31, 2009. There were no liabilities measured at estimated fair value on a nonrecurring basis during these periods.

	September 30, 2010			Total
	Level 1	Level 2	Level 3	
<i>(in thousands)</i>				
ASSETS				
Loans held for sale	\$ -	\$ 4,070	\$ -	\$ 4,070
Impaired loans	-	44,589	19,362	63,951
Other real estate owned	-	7,367	-	7,367
Mortgage servicing rights	-	-	2,182	2,182
Total Assets	\$ -	\$ 56,026	\$ 21,544	\$ 77,570

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

	December 31, 2009			Total
	Level 1	Level 2	Level 3	
<i>(in thousands)</i>				
ASSETS				
Loans held for sale	\$ -	\$ 6,073	\$ -	\$ 6,073
Impaired loans	-	79,258	12,285	91,543
Other real estate owned and other repossessed assets	-	4,607	-	4,607
Mortgage servicing rights	-	-	2,263	2,263
Total Assets	\$ -	\$ 89,938	\$ 14,548	\$ 104,486

In addition to financial instruments recorded at estimated fair value in S&T's financial statements, the fair value accounting pronouncement requires disclosure of estimated fair value of all of an entity's assets and liabilities considered to be financial instruments. For estimated fair value disclosure purposes, S&T substantially utilized the estimated fair value measurement criteria as required and discussed above. These estimates of fair value are significantly affected by the assumptions made and, accordingly, do not necessarily indicate amounts that could be realized in a current market exchange.

The following table indicates the estimated fair value of S&T's financial instruments as of:

	September 30, 2010		December 31, 2009	
	Estimated Fair Value	Carrying Value ⁽¹⁾	Estimated Fair Value	Carrying Value ⁽¹⁾
<i>(in thousands)</i>				
ASSETS				
Cash and due from banks	\$ 88,157	\$ 88,157	\$ 69,152	\$ 69,152
Securities available-for-sale	277,718	277,718	354,860	354,860
Federal Home Loan Bank stock, at cost	23,542	23,542	23,542	23,542
Gross loans	3,368,531	3,370,983	3,380,070	3,404,407
Bank owned life insurance	54,375	54,375	52,863	52,863
Trading account assets	1,871	1,871	3,090	3,090
Mortgage servicing rights	2,182	2,163	2,263	2,100
Interest rate swaps	24,873	24,873	11,661	11,661
Interest rate lock commitments	1,012	1,012	126	126
Forward sales contracts	-	-	192	192
LIABILITIES				
Deposits	\$ 3,318,599	\$ 3,304,570	\$ 3,324,377	\$ 3,304,541
Securities sold under repurchase agreements	48,189	48,189	44,935	44,935
Short-term borrowings	-	-	51,300	51,300
Long-term borrowings	32,231	29,849	87,817	85,894
Junior subordinated debt securities	91,758	90,619	92,296	90,619
Interest rate swaps	24,670	24,670	11,594	11,594

Forward sale contracts	186	186	-	-
------------------------	-----	-----	---	---

(1) As reported in the Consolidated Balance Sheets

NOTE 4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

Interest rate swaps are contracts in which a series of interest rate flows (fixed and floating) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. S&T utilizes interest rate swaps for commercial loans. These derivative positions relate to transactions in which S&T enters into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, S&T agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a same

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

notional amount at a fixed rate. At the same time, S&T agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows S&T's customer to effectively convert a variable rate loan to a fixed rate loan with S&T receiving a variable yield. These agreements could have floors or caps on the contracted interest rates.

Pursuant to S&T's agreements with various financial institutions, S&T may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of swap transactions. Based upon S&T's current positions and related future collateral requirements relating to them, S&T believes any affect on its cash flow or liquidity position to be immaterial. Derivatives contain an element of credit risk, the possibility that S&T will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by S&T's Asset and Liability Committee (ALCO) and derivatives with customers may only be executed with customers within credit exposure limits approved by S&T's Board of Directors Loan Committee. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Income (Loss).

Interest Rate Lock Commitments and Forward Sale Contracts

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

	Derivatives		Derivatives	
	(included in Other Assets)		(included in Other Liabilities)	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<i>(in thousands)</i>				
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts - Commercial Loans				
Estimated fair value	\$ 24,873	\$ 11,661	\$ 24,670	\$ 11,594
Notional amount	214,592	227,203	214,592	227,203
Collateral posted	-	-	19,161	10,935
Interest Rate Lock Commitments - Mortgage Loans				
Estimated fair value	1,012	126	-	-
Notional amount	38,336	10,672	-	-
Forward Sale Contracts - Mortgage Loans				
Estimated fair value	-	192	186	-

Edgar Filing: S&T BANCORP INC - Form 10-Q

Notional amount	-	15,012	34,150	-
-----------------	---	--------	--------	---

Amount of Gain (Loss) Recognized in Income on Derivatives
Three **Nine**

Months Ended September 30, **Months Ended September 30,**
2010 **2009** **2010** **2009**

(in thousands)

Derivatives not Designated as Hedging Instruments

Interest rate swap contracts - commercial loans	\$ (139)	\$ (541)	\$ 136	\$ (431)
Interest rate lock commitments - mortgage loans	712	69	886	169
Forward sale contracts - mortgage loans	8	(220)	(378)	(48)

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 5. SECURITIES AVAILABLE-FOR-SALE**

The following tables indicate the composition of the securities portfolio for the periods stated:

	Amortized Cost	Available-for-Sale Gross		Estimated Fair Value
		Gross Unrealized Gains	Unrealized Losses	
September 30, 2010				
<i>(in thousands)</i>				
Obligations of U.S. government corporations and agencies	\$ 96,975	\$ 2,689	\$ -	\$ 99,664
Collateralized mortgage obligations of U.S. government corporations and agencies	43,314	1,831	-	45,145
Mortgage-backed securities of U.S. government corporations and agencies	45,925	2,948	-	48,873
Obligations of states and political subdivisions	70,070	2,866	(12)	72,924
Debt Securities Available-for-Sale	256,284	10,334	(12)	266,606
Marketable equity securities	10,349	1,064	(301)	11,112
Total	\$ 266,633	\$ 11,398	\$ (313)	\$ 277,718

	Amortized Cost	Available-for-Sale Gross		Estimated Fair Value
		Gross Unrealized Gains	Unrealized Losses	
December 31, 2009				
<i>(in thousands)</i>				
Obligations of U.S. government corporations and agencies	\$ 126,588	\$ 1,461	\$ (78)	\$ 127,971
Collateralized mortgage obligations of U.S. government corporations and agencies	58,010	2,219	-	60,229
Mortgage-backed securities of U.S. government corporations and agencies	58,834	2,687	-	61,521
Obligations of states and political subdivisions	91,146	2,013	(231)	92,928
Debt Securities Available-for-Sale	334,578	8,380	(309)	342,649
Marketable equity securities	12,652	741	(1,182)	12,211

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total	\$ 347,230	\$ 9,121	\$ (1,491)	\$ 354,860
--------------	-------------------	-----------------	-------------------	-------------------

There were \$0.1 million and \$0.4 million in gross realized gains and \$0.1 million in gross realized losses for the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2009 there were none and \$0.2 million in gross realized gains and \$2.1 million and \$4.8 million in gross realized losses. Realized gains and losses on the sale of securities are determined using the specific-identification method.

The following tables present the age of gross unrealized losses and estimated fair value by investment category:

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
September 30, 2010						
<i>(in thousands)</i>						
Obligations of U.S. government corporations and agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collateralized mortgage obligations of U.S. government corporations and agencies	1	-	-	-	1	-
Mortgage-backed securities of U.S. government corporations and agencies	-	-	-	-	-	-
Obligations of states and political subdivisions	210	(1)	949	(11)	1,159	(12)
Debt Securities Available-for-Sale	211	(1)	949	(11)	1,160	(12)
Marketable equity securities	1,626	(301)	-	-	1,626	(301)
Total Temporarily Impaired Securities	\$ 1,837	\$ (302)	\$ 949	\$ (11)	\$ 2,786	\$ (313)

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

	Less than 12 Months		12 Months or More		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
December 31, 2009	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
<i>(in thousands)</i>						
Obligations of U.S. government corporations and agencies	\$ 20,912	\$ (78)	\$ -	\$ -	\$ 20,912	\$ (78)
Collateralized mortgage obligations of U.S. government corporations and agencies	-	-	-	-	-	-
Mortgage-backed securities of U.S. government corporations and agencies	-	-	-	-	-	-
Obligations of states and political subdivisions	5,969	(84)	3,881	(147)	9,850	(231)
Debt Securities Available-for-Sale	26,881	(162)	3,881	(147)	30,762	(309)
Marketable equity securities	8,385	(1,182)	-	-	8,385	(1,182)
Total Temporarily Impaired Securities	\$ 35,266	\$ (1,344)	\$ 3,881	\$ (147)	\$ 39,147	\$ (1,491)

S&T does not believe any individual unrealized losses as of September 30, 2010 represent an other-than-temporary impairment (OTTI). S&T performs a review of the securities portfolio on a quarterly basis to identify securities that may indicate an OTTI. S&T's policy for OTTI declines within the marketable equity securities portfolio requires an impairment charge when the security is in a loss position for 12 consecutive months, unless facts and circumstances would suggest the need for OTTI prior to that time. S&T's policy for OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the length of time and extent to which the estimated fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its estimated fair value and whether management intends to sell the security or if it is more likely than not that management will be required to sell the investment security prior to the security recovery.

The unrealized losses on marketable equity securities at September 30, 2010 were attributable to temporary declines in market value. S&T does not intend to sell and it is not likely that S&T will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of its amortized cost.

The amount of the net unrealized gains on available-for-sale securities as of September 30, 2010 and December 31, 2009 that have been included in accumulated other comprehensive income were \$11.1 million and \$7.6 million, respectively. For the three and nine months ended September 30, 2010, approximately \$0.1 million and \$0.4 million, respectively, of unrealized gains were reclassified out of accumulated other comprehensive income into earnings. For the three and nine month ended September 30, 2010, \$0.1 million of unrealized losses were reclassified out of accumulated other comprehensive income into earnings to record OTTI on marketable equity securities.

The amortized cost and estimated fair value of debt securities at September 30, 2010, by estimated maturity, is included in the table below. Expected maturities will differ from contractual maturities because the borrowers may have the right to call or prepay the obligation without call or prepayment penalties.

	Amortized	Estimated
Available-for-Sale	Cost	Fair Value

Edgar Filing: S&T BANCORP INC - Form 10-Q

(in thousands)

Due in one year or less	\$ 12,756	\$ 12,915
Due after one year through five years	121,508	125,553
Due after five years through ten years	35,078	36,840
Due after ten years	86,942	91,298

Total Debt Securities Available-for-Sale	\$ 256,284	\$ 266,606
---	-------------------	-------------------

At September 30, 2010 and December 31, 2009, securities with principal amounts of \$222.3 million and \$251.4 million, respectively, were pledged to secure repurchase agreements, public funds and trust fund deposits.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. RESTRICTED INVESTMENT IN BANK STOCK

S&T is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon their level and availability of borrowings and participation in other programs offered by the FHLB. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB.

Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the low-cost products and services offered by the FHLB.

Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, the FHLB stock can only be purchased, redeemed and transferred at par value.

At September 30, 2010 and December 31, 2009, S&T's FHLB stock totaled \$23.5 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

S&T was notified in December 2008 by the FHLB that they have suspended the payment of dividends and the repurchase of excess capital stock until further notice. S&T's management reviewed and evaluated the FHLB capital stock for OTTI at September 30, 2010. Management reviewed the FHLB's Form 10-Q for the period ended June 30, 2010 filed with the SEC on August 9, 2010.

Management considered the following matters when evaluating the FHLB stock for OTTI:

Ability of the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB. The FHLB is meeting their debt obligations. Although the responsibility to repay debt may be shared among FHLB's in the event that one FHLB cannot pay, to date, a FHLB has never been required to pay the consolidated obligation of another FHLB.

Impact of legislative and regulatory changes on the institution and, accordingly, on the customer base of the FHLB. With the exception of the Housing Act, enacted July 20, 2008, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, enacted on July 21, 2010 (including regulations promulgated pursuant to the Housing Act and Dodd-Frank Act), there are no pending legislative or regulatory changes that would impact the customer base of the FHLB.

Liquidity position of the FHLB.

S&T believes its holdings in the FHLB stock are ultimately recoverable at par value as of September 30, 2010 and, therefore, determined that the FHLB stock was not OTTI. In addition, S&T has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future. Further, on October 29, 2010, S&T received \$1.2 million from the FHLB to redeem 11,771 shares of capital stock.

NOTE 7. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table presents the composition of the loan portfolio for the periods stated:

Edgar Filing: S&T BANCORP INC - Form 10-Q

September 30, 2010

December 31, 2009

(in thousands)

Consumer		
Home equity	\$ 451,275	\$ 458,643
Residential mortgage	361,320	357,393
Consumer installment	76,148	81,141
Construction	6,946	11,836
Total Consumer Loans	895,689	909,013
Commercial		
Commercial real estate	1,436,971	1,428,329
Commercial and industrial	728,091	701,650
Construction	306,162	359,342
Total Commercial Loans	2,471,224	2,489,321
Gross Portfolio Loans	3,366,913	3,398,334
Allowance for loan losses	(56,281)	(59,580)
Total Portfolio Loans	3,310,632	3,338,754
Loans held for sale	4,070	6,073
Total Loans	\$ 3,314,702	\$ 3,344,827

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

The following table presents changes in the allowance for loan losses for the nine months ended September 30:

	2010	2009
<i>(in thousands)</i>		
Balance at beginning of year	\$ 59,580	\$ 42,689
Charge-offs	(27,553)	(44,787)
Recoveries	2,419	1,024
Net Charge-offs	(25,134)	(43,763)
Provision for loan losses	21,835	61,954
Balance at End of Period	\$ 56,281	\$ 60,880

Nonperforming assets include nonaccrual loans, restructured loans and OREO. S&T's policy is to place loans in all categories on nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There are no loans 90 days or more past due and still accruing. The principal balances of loans on nonaccrual status were \$75.3 million and \$90.8 million at September 30, 2010 and December 31, 2009, respectively.

Included in nonperforming assets were troubled debt restructurings (TDRs) of \$14.6 million at September 30, 2010. Additionally, one TDR of \$1.3 million was performing at September 30, 2010. No restructured loans were reported in prior periods. These TDRs are a result of S&T's efforts to work directly with our customers. Restructured loans are loans that S&T, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider.

OREO and other repossessed assets, which are included in other assets in the Consolidated Balance Sheets, were \$7.4 million at September 30, 2010 and \$4.6 million at December 31, 2009. At September 30, 2010, OREO consisted of 32 properties with three properties comprising \$3.7 million or 50 percent of the balance.

The following table represents S&T's investment in loans considered to be impaired and related information on those impaired loans for the periods stated:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Balance of impaired loans with an allocated allowance for loan loss	\$ 24,346	\$ 51,602
Balance of impaired loans with no allocated allowance for loan loss	39,605	39,941
Total Balance of Loans Considered to be Impaired	\$ 63,951	\$ 91,543

Edgar Filing: S&T BANCORP INC - Form 10-Q

Allowance for loan losses allocated to loans considered to be impaired	\$	10,466	\$	17,003
Average recorded balance of impaired loans		77,139		85,606

NOTE 8. MORTGAGE SERVICING RIGHTS

The value of servicing loans is recognized as part of the interest rate lock derivative value when commitments to fund a loan to be sold are made. Upon sale of the loan, the value of the mortgage servicing right is recognized as a separate asset, which represents the then current estimated fair value of future net cash flows expected to be realized for performing the servicing activities. The estimated fair value of the MSR is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rates of mortgage loan prepayments are the most significant factors driving the value of MSRs. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the estimated fair value of the MSR, mortgage interest rates, which are used to determine prepayment rates and discount rates, are held constant over the estimated life of the portfolio. MSR is reported in other assets in the Consolidated Balance Sheets and is amortized into mortgage banking in the Consolidated Statements of Income (Loss) in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans.

MSRs are regularly evaluated for impairment based on the estimated fair value of those rights. The MSR is stratified by certain risk characteristics, primarily loan term and note rate. If temporary impairment exists within a risk stratification tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the estimated fair value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced.

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

MSRs are also reviewed for OTTI. OTTI exists when the recoverability of a recorded valuation allowance is determined to be remote, taking into consideration historical and projected interest rates and loan pay-off activity. When this occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the MSRs. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent recoveries.

For the nine months ended September 30, 2010 and 2009, the 1-4 family mortgage loans that were sold to Fannie Mae amounted to \$65.1 million and \$116.7 million, respectively. At September 30, 2010 and 2009, S&T's servicing portfolio totaled \$293.3 million and \$247.3 million, respectively.

The following tables indicate MSRs and the net carrying values for the nine months ended September 30, 2010 and 2009:

	Servicing Rights	Valuation Allowance	Net Carrying Value
<i>(in thousands)</i>			
Balance at beginning of period	\$ 2,692	\$ (592)	\$ 2,100
Additions/(reductions)	635	(288)	347
Amortization	(284)	-	(284)
Ending Balance at September 30, 2010	\$ 3,043	\$ (880)	\$ 2,163

	Servicing Rights	Valuation Allowance	Net Carrying Value
<i>(in thousands)</i>			
Balance at beginning of period	\$ 1,872	\$ (1,040)	\$ 832
Additions/(reductions)	1,056	79	1,135
Amortization	(299)	-	(299)
Ending Balance at September 30, 2009	\$ 2,629	\$ (961)	\$ 1,668

NOTE 9. BORROWINGS

Short-term borrowings are for original terms under one year and may be comprised of retail repurchase agreements (REPOs), wholesale REPOs, federal funds purchased, term auction facility (TAF) advances and FHLB advances. S&T defines repurchase agreements with its local retail customers as retail REPOs; short-term wholesale REPOs are those transacted with other banks and brokerage firms. Securities pledged as collateral under these REPO financing arrangements cannot be sold or pledged by the secured party and are therefore accounted for as a secured borrowing. The estimated fair value of collateral provided to a third party is continually monitored and additional collateral is obtained or requested to be returned as appropriate. Federal funds purchased are unsecured overnight borrowings with other financial institutions. TAF

Edgar Filing: S&T BANCORP INC - Form 10-Q

advances are collateral backed short-term loans with the Federal Reserve. FHLB advances are for various terms secured by a blanket lien on residential mortgages, other real estate secured loans and FHLB stock with the FHLB of Pittsburgh.

The following table represents the composition of short-term borrowings at:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Securities sold under repurchase agreements, retail	\$ 48,189	\$ 44,935
Federal Home Loan Bank advances	-	51,300
Total	\$ 48,189	\$ 96,235

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

Long-term debt instruments are for original terms greater than one year and may be comprised of wholesale REPOs, FHLB advances, junior subordinated debt securities and trust preferred securities. Long-term REPOs and FHLB advances have the same collateral requirements as their short-term equivalents. Junior subordinated debt securities and trust preferred securities are structured to meet regulatory requirements for inclusion in risk-based capital components.

The following is a summary of long-term debt at:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Long-term borrowings	\$ 29,849	\$ 85,894
Junior subordinated debt securities	90,619	90,619
Total	\$ 120,468	\$ 176,513

S&T had total long-term debt outstanding of \$51.5 million at a fixed rate and \$68.7 million at a variable rate at September 30, 2010. Included in long-term borrowings is a capital lease of \$0.3 million.

S&T had total borrowings at September 30, 2010 and December 31, 2009 at the FHLB of Pittsburgh of \$29.6 million and \$136.9 million, respectively. There were no short-term borrowings at the end of the current period. Total borrowings consisted of short-term and long-term borrowings of \$51.3 million and \$85.6 million at December 31, 2009. At September 30, 2010, S&T had a maximum borrowing capacity of \$1.2 billion with the FHLB of Pittsburgh.

NOTE 10. EMPLOYEE BENEFITS

S&T Bank maintains a defined benefit pension plan (the Plan) covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years of employment. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. S&T made no contributions to its pension plan in 2009 and no contributions are required to be made for 2010 at this time. The expected long-term rate of return on plan assets is 8.00 percent.

The following table summarizes the components of net periodic pension expense for the Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<i>(in thousands)</i>				
Service cost - benefits earned during the period	\$ 456	\$ 578	\$ 1,684	\$ 1,728
Interest cost on projected benefit obligation	979	949	3,013	2,850
Expected return on plan assets	(1,261)	(1,072)	(3,661)	(3,221)
Amortization of prior service cost	(2)	(1)	(5)	(5)

Recognized net actuarial loss	179	324	617	962
Net Periodic Pension Expense	\$ 351	\$ 778	\$ 1,648	\$ 2,314

NOTE 11. COMMITMENTS AND CONTINGENCIES**Commitments**

S&T, in the normal course of business, offers off-balance sheet credit arrangements to enable its customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. S&T's exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. S&T applies the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. S&T's allowance for lending-related commitments including unfunded commercial real estate, commercial and industrial term loan commitments and letters of credit totaled \$2.7 million at September 30, 2010 and \$4.2 million at December 31, 2009. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

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

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

The following table sets forth the commitments and letters of credit for the periods stated:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Commitments to extend credit	\$ 842,256	\$ 966,903
Standby letters of credit	146,401	156,293
Total	\$ 988,657	\$ 1,123,196

Litigation

S&T, in the normal course of business, is subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, S&T believes that the outcome of such proceedings or claims pending will not have a material adverse effect on its consolidated financial position.

NOTE 12. EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Potentially dilutive securities are excluded from the basic calculation, but are included in diluted EPS. In computing diluted EPS, average common shares outstanding have been increased by the dilutive common stock equivalents relating to S&T's outstanding stock options and restricted stock. Excluded from the calculation were 1,012,909 shares of anti-dilutive stock options, common stock warrants of 517,012 shares and 19,025 shares of restricted stock for the three months ended September 30, 2010 and 1,012,909 shares of anti-dilutive stock options, common stock warrants of 517,012 shares and 8,828 shares of restricted stock for the nine months ended September 30, 2010. For the nine months ended September 30, 2009, basic EPS equals diluted EPS due to S&T's net loss position.

A reconciliation of the weighted average common shares outstanding used to calculate basic net income (loss) per common share and diluted net income (loss) per common share follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding (basic)	27,799,992	27,633,742	27,767,068	27,654,570
Impact of common stock equivalents	12,645	61,463	22,842	-
Weighted Average Common Shares Outstanding (Diluted)	27,812,637	27,695,205	27,789,910	27,654,570

NOTE 13. SEGMENTS

Edgar Filing: S&T BANCORP INC - Form 10-Q

S&T operates in three reportable operating segments: Community Banking, Wealth Management and Insurance.

The Community Banking segment offers services which include accepting demand deposit accounts and certificates of deposit, originating commercial and consumer loans, providing letters of credit and credit card services.

The Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

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

The following represents total assets by reportable segment:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Community Banking	\$ 4,087,293	\$ 4,159,563
Insurance	8,690	8,702
Wealth Management	2,125	2,210
Total Assets	\$ 4,098,108	\$ 4,170,475

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

The following tables provide financial information for these three segments of S&T. The information provided under the caption "Eliminations" represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments which are necessary for purposes of reconciling to the Consolidated Financial Statements.

	Three Months Ended September 30, 2010				Consolidated
	Community Banking	Wealth Management	Insurance	Eliminations	
<i>(in thousands)</i>					
Interest income	\$ 45,300	\$ -	\$ 1	\$ 24	\$ 45,325
Interest expense	8,371	(108)	73	16	8,352
Net interest income (expense)	36,929	108	(72)	8	36,973
Provision for loan losses	8,278	-	-	-	8,278
Noninterest income	8,081	1,922	1,171	1,161	12,335
Noninterest expense	19,187	2,372	1,205	684	23,448
Depreciation expense	375	7	12	643	1,037
Intangible amortization	431	18	14	-	463
Income tax expense (benefit)	3,929	(125)	(46)	(158)	3,600
Net Income (Loss)	\$ 12,810	\$ (242)	\$ (86)	\$ -	\$ 12,482

	Three Months Ended September 30, 2009				Consolidated
	Community Banking	Wealth Management	Insurance	Eliminations	
<i>(in thousands)</i>					
Interest income	\$ 48,283	\$ -	\$ -	\$ 27	\$ 48,310
Interest expense	11,485	(95)	72	15	11,477
Net interest income (expense)	36,798	95	(72)	12	36,833
Provision for loan losses	8,382	-	-	-	8,382
Noninterest income	4,349	1,972	1,107	796	8,224
Noninterest expense	19,653	1,399	1,025	1,147	23,224
Depreciation expense	400	8	15	635	1,058
Intangible amortization	521	20	16	-	557
Income tax expense (benefit)	3,320	240	(8)	(974)	2,578
Net Income (Loss)	\$ 8,871	\$ 400	\$ (13)	\$ -	\$ 9,258

Edgar Filing: S&T BANCORP INC - Form 10-Q

	Nine Months Ended September 30, 2010				Consolidated
	Community Banking	Wealth Management	Insurance	Eliminations	
<i>(in thousands)</i>					
Interest income	\$ 136,132	\$ -	\$ 1	\$ 76	\$ 136,209
Interest expense	26,798	(365)	219	45	26,697
Net interest income (expense)	109,334	365	(218)	31	109,512
Provision for loan losses	21,835	-	-	-	21,835
Noninterest income	23,066	5,920	3,660	2,562	35,208
Noninterest expense	61,947	5,929	3,364	2,761	74,001
Depreciation expense	1,135	23	48	1,925	3,131
Intangible amortization	1,384	57	42	-	1,483
Income tax expense (benefit)	13,046	131	(4)	(2,093)	11,080
Net Income (Loss)	\$ 33,053	\$ 145	\$ (8)	\$ -	\$ 33,190

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

	Nine Months Ended September 30, 2009				
	Community Banking	Wealth Management	Insurance	Eliminations	Consolidated
<i>(in thousands)</i>					
Interest income	\$ 147,880	\$ -	\$ -	\$ 81	\$ 147,961
Interest expense	38,570	(400)	218	46	38,434
Net interest income (expense)	109,310	400	(218)	35	109,527
Provision for loan losses	61,954	-	-	-	61,954
Noninterest income	16,663	5,710	3,253	2,071	27,697
Noninterest expense	67,535	4,599	3,285	2,699	78,118
Depreciation expense	1,214	25	46	1,885	3,170
Intangible amortization	1,641	64	47	-	1,752
Income tax (benefit) expense	(4,471)	540	(121)	(2,478)	(6,530)
Net (Loss) Income	\$ (1,900)	\$ 882	\$ (222)	\$ -	\$ (1,240)

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

Management's Discussion and Analysis (MD&A) represents an overview of the consolidated results of operations and financial condition of S&T and highlights material changes to the financial condition and results of operations at and for the three and nine months ended September 30, 2010. MD&A should be read in conjunction with the consolidated financial statements and notes thereto. The results of operations reported within are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates statements that S&T believes are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to S&T's financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to or other similar words. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to, those described in this Form 10-Q or the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Future Factors include:

Edgar Filing: S&T BANCORP INC - Form 10-Q

changes in interest rates, spreads on earning assets and interest-bearing liabilities, the shape of the yield curve and interest rate sensitivity;
a prolonged period of low interest rates;
credit losses;
financial resources in the amounts, at the times and on the terms required to support our future businesses;
legislation affecting the financial services industry as a whole, and/or S&T, including the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
regulatory supervision and oversight, including required capital levels, and public policy changes, including environmental regulations;
increasing price and product/service competition by competitors, including new entrants;
rapid technological developments and changes;
the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

continued deterioration of the housing market and reduced demand for mortgages;
 containing costs and expenses;
 reliance on large customers;
 the outcome of pending and future litigation and governmental proceedings;
 managing our internal growth and acquisitions;
 general economic or business conditions, either nationally or regionally in western Pennsylvania, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
 a decline in market capitalization to common book value, which could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a charge to net income; and
 a continuation of recent turbulence in significant portions of the global financial and real estate markets could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally.

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

Critical Accounting Policies and Judgments

S&T's Consolidated Financial Statements are prepared based upon the application of certain critical accounting policies including, securities valuation, allowance for loan losses, goodwill and other intangible assets and income taxes. These policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect S&T's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on S&T's future financial condition and results of operations.

There have been no significant changes in S&T's critical accounting policies since December 31, 2009. S&T's critical accounting policies are presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in S&T's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission (SEC) on February 26, 2010.

Overview

S&T is a financial holding company with its headquarters located in Indiana, Pennsylvania with assets of approximately \$4.1 billion at September 30, 2010. S&T provides a full range of financial services through a branch network of 53 offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania. S&T provides full service retail and commercial banking products as well as cash management services; insurance; estate planning and administration; employee benefit investment management and administration; corporate services and other fiduciary services. S&T earns revenue primarily from interest on loans, security investments and fees charged for financial services provided to our customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses as well as other operating costs such as: salaries and employee benefits, occupancy, data processing expenses and tax expense. S&T's strategic plan to deliver profitable growth to our shareholders includes: increasing loans and core deposits with sufficient interest rate spreads, controlling loan delinquency and loan losses, controlling operating expenses and expanding the business through new de novo branching, mergers and acquisitions, introduction of new products and services and expansion of our products and services provided to our existing customers. S&T's common stock trades on the Nasdaq Global Select Market under the symbol STBA.

Net income available to common shareholders for the first nine months of 2010 was \$28.5 million resulting in diluted earnings per common share of \$1.03 compared to a \$5.6 million net loss and \$(0.20) diluted earnings per share in the first nine months of 2009. The increase in net income was primarily driven by a reduction in the provision for loan losses. During the first nine months of 2010, a provision of \$21.8 million was recorded compared to \$62.0 million in the first nine months of 2009. The reduction in provision is a result of improved asset quality measures and positive trends in S&T's nonperforming loan portfolio. Net interest margin remains strong at 4.05 percent for the first nine months of 2010 compared to 3.87 percent in the comparable period of 2009; a result of lower deposit and borrowing costs. In this low interest rate environment, it will be challenging for S&T to maintain net interest margin at the current rate in future periods.

Edgar Filing: S&T BANCORP INC - Form 10-Q

Asset quality will continue to be a primary driver of our results for the remainder of fiscal 2010. We remain diligent and focused on monitoring our nonperforming assets. S&T continually strives to be well positioned for changes in both the economy and interest rates, regardless of the timing or direction of these changes. Management regularly assesses our balance sheet, capital, liquidity and operation infrastructures in order to be positioned to take advantage of internal or acquisition growth.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

Recent Regulatory Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act increases regulation and oversight and imposes restrictions on the ability of firms within the industry, including S&T, to conduct business in accordance with historical practices. Among other things, the Dodd-Frank Act:

Establishes a Financial Stability Oversight Council, which will be responsible for identifying and monitoring systemic risks posed by financial firms' activities and practices.

Impacts the ability of companies to invest for their own account (the so-called Volcker rule).

Creates a Consumer Financial Protection Bureau, housed within the Federal Reserve, to take over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others. Institutions such as S&T Bank, which have assets of \$10 billion or less, will continue to be supervised in this area by their primary federal regulators (in the case of S&T, the Federal Deposit Insurance Corporation (FDIC)).

Includes mortgage reform provisions that would require all lenders to consider a customer's ability to repay, would make more loans subject to the higher-cost loans rules, and impose new disclosures and certain other provisions relating to appraisals and servicing of loans.

Expands the reach of the affiliate transaction rules in Section 23A of the Federal Reserve Act to apply to securities lending, repurchase agreement and derivatives activities that S&T may have with an affiliate.

Clarifies standards for federal preemption of state laws related to federally chartered institutions and their subsidiaries in the consumer protection area.

Provides for new disclosure and other requirements related to executive compensation and corporate governance. Among other things, financial institutions with \$1 billion or more in assets are prohibited from rewarding their executive officers, employees, directors and principal shareholders with incentive-based compensation arrangements that encourage inappropriate risks and are required to report all incentive-based compensation arrangements to the appropriate federal regulator.

Requires the federal banking agencies to ensure that the same minimum leverage and risk-based capital requirements imposed on insured depository institutions are imposed on holding companies and certain other companies on a consolidated basis, including S&T. Going forward, hybrid capital instruments, such as trust preferred securities, can no longer be included as a component of Tier 1 capital, although already outstanding trust preferred securities can continue to be counted as Tier 1 capital by companies like S&T with consolidated assets of up to \$15 billion. The federal banking agencies are also required to develop additional capital requirements to address the risk of an institution's activities to that institution and to other private and public stakeholders in the event of adverse performance, disruption or failure of the institution.

Directs the Federal Reserve to issue rules that are expected to limit debit card interchange fees and debit network practices.

Makes substantial changes to the processes by which asset-backed securities are created, rated and sold, including a requirement that lenders retain a portion of the credit risk for any asset transferred or sold.

Increases the minimum reserve ratio for the FDIC's Deposit Insurance Fund from 1.15 percent to 1.35 percent and changes the basis for determining deposit insurance premiums from deposits to assets.

Permanently increases deposit insurance coverage to \$250,000 per account and allows depository institutions to pay interest on checking accounts.

Many of the provisions of the Dodd-Frank Act will not become effective until a year or more after its enactment and the adoption and effectiveness of implementing regulations, which are just starting to be issued in proposed or interim form. As a result, we cannot predict the ultimate impact of the Dodd-Frank Act on S&T at this time. We believe that it could increase costs and limit our ability to pursue business opportunities in an efficient manner, which could materially and adversely affect our business, financial condition and results of operations. We

cannot predict the impact or substance of other future legislation or regulation.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, S&T management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis and operating revenue. S&T believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and our business and performance trends as they facilitate comparisons with the performance of others in the financial services industry. Although S&T believes that these non-GAAP financial measures enhance investors' understanding of S&T's business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

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

We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Income (Loss) is reconciled to net interest income adjusted to a fully taxable equivalent basis in the table below for the three months ended September 30, 2010 and page 31 for the nine months ended September 30, 2010.

Operating revenue is the sum of net interest income and noninterest income, less security gains. In order to understand the significance of net interest income to S&T's business and operating results, S&T management believes it is appropriate to evaluate the significance of net interest income as a component of operating revenue.

RESULTS OF OPERATIONS**Three Months Ended September 30, 2010 Compared to****Three Months Ended September 30, 2009****Net Income**

Net income available to common shareholders was \$10.9 million or \$0.39 diluted earnings per share for the third quarter of 2010 compared to \$7.7 million or \$0.28 diluted earnings per share for the same period of 2009. The increase in net income was primarily the result of an increase in mortgage banking income of \$1.6 million due to increased volume in mortgage sales and net mortgage derivative gains. Management does not believe that mortgage banking income will continue to be as robust during the remainder of 2010 due to an expected decrease in net mortgage derivative gains. Additionally, during the third quarter of 2009 approximately \$2.0 million of other-than-temporary-impairment (OTTI) was recorded in our equity portfolio. The common return on average assets was 1.06 percent for the three months ended September 30, 2010, compared to 0.73 percent for the three months ended September 30, 2009. The common return on average common equity was 7.61 percent for the three months ended September 30, 2010 compared to 5.67 percent for the same period of 2009.

Net Interest Income

Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities and changes in interest yields and rates. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 76 percent and 79 percent of operating revenue (net interest income plus noninterest income, excluding security gains) in the third quarter of 2010 and 2009, respectively. The level and mix of interest-earning assets and funds are continually monitored by S&T's Asset and Liability Committee (ALCO) in order to mitigate the interest-rate sensitivity and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to maintain an acceptable net interest margin given the challenges of the current interest rate environment.

The following table reconciles interest income per the Consolidated Statements of Income (Loss) to net interest income adjusted to a fully taxable equivalent basis:

	Three Months Ended September 30,	
	2010	2009
<i>(in millions)</i>		
Interest income per Consolidated Statements of Income	\$ 45.3	\$ 48.3
Adjustment to fully taxable equivalent basis	1.2	1.3

Interest Income Adjusted to Fully Taxable Equivalent Basis	46.5	49.6
Interest expense	8.4	11.5
Net Interest Income Adjusted to Fully Taxable Equivalent Basis	\$ 38.1	\$ 38.1

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Average Balance Sheet and Net Interest Income Analysis**

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities:

	Three Months Ended			Three Months Ended		
	September 30, 2010			September 30, 2009		
	Balance	Income	Rate	Balance	Income	Rate
<i>(in millions)</i>						
ASSETS						
Loans ⁽¹⁾	\$ 3,377.6	\$ 43.5	5.10%	\$ 3,439.7	\$ 45.5	5.25%
Securities/other ⁽¹⁾	315.8	3.0	3.82%	397.1	4.1	4.11%
Total Interest-earning Assets	3,693.4	46.5	4.99%	3,836.8	49.6	5.13%
Noninterest-earning assets	412.3			371.2		
TOTAL	\$ 4,105.7			\$ 4,208.0		
LIABILITIES AND SHAREHOLDERS' EQUITY						
NOW/money market/savings	\$ 1,250.3	\$ 0.7	0.24%	\$ 1,190.6	\$ 1.2	0.39%
Certificates of deposit	1,309.9	6.3	1.89%	1,413.3	7.9	2.20%
Borrowed funds < 1 year	62.0	0.1	0.24%	162.5	0.1	0.34%
Borrowed funds > 1 year	121.2	1.3	4.26%	200.0	2.3	4.63%
Total Interest-bearing Liabilities	2,743.4	8.4	1.21%	2,966.4	11.5	1.54%
Noninterest-bearing liabilities:						
Demand deposits	743.3			647.3		
Shareholders' equity/other	619.0			594.3		
TOTAL	\$ 4,105.7			\$ 4,208.0		
Net Yield on Interest-earning Assets⁽¹⁾			4.09%			3.94%
Net Interest Income⁽¹⁾		\$ 38.1			\$ 38.1	

⁽¹⁾ The yield on interest-earning assets and the net interest margin are presented on a fully taxable equivalent (FTE) and annualized basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35 percent.

Edgar Filing: S&T BANCORP INC - Form 10-Q

for each period presented. S&T believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

The net interest margin on a fully taxable equivalent basis was 4.09 percent for the third quarter of 2010 compared to 3.94 percent in the same period of 2009. Net interest income remained stable at \$38.1 million in the third quarter of 2010 compared to the same period of 2009 despite a \$143.4 million decrease in average interest-earning assets. The average rate on interest-earnings assets declined 14 basis points while the rate on total interest-bearing liabilities decreased 33 basis points. Positively affecting net interest income was a \$79.6 million increase in average net free funds during the three months ended September 30, 2010 compared to the same period of 2009. Average net free funds are the excess of demand deposits, other noninterest-bearing liabilities and shareholders' equity over nonearning assets. The increase in demand deposit accounts is due to the low interest rate environment, our marketing efforts for new demand accounts and corporate cash management services and participation in the Transaction Account Guarantee (TAG) Program.

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

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

	Three Months Ended September 30, 2010 Compared to September 30, 2009⁽²⁾		
	Volume	Rate	Net
<i>(in millions)</i>			
Interest earned on:			
Loans ⁽¹⁾	\$ (0.8)	\$ (1.2)	\$ (2.0)
Securities/other ⁽¹⁾	(0.9)	(0.2)	(1.1)
Total Interest-earning Assets	(1.7)	(1.4)	(3.1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
NOW/money market/savings	-	(0.5)	(0.5)
Certificates of deposit	(0.6)	(1.0)	(1.6)
Borrowed funds < 1 year	-	-	-
Borrowed funds > 1 year	(0.9)	(0.1)	(1.0)
Total Interest-bearing Liabilities	(1.5)	(1.6)	(3.1)
Net Interest Income ⁽¹⁾	\$ (0.2)	\$ 0.2	\$ -

⁽¹⁾ Tax-exempt income is on a fully taxable equivalent basis using the statutory federal corporate income tax rate of 35 percent for 2010 and 2009.

⁽²⁾ 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.

Provision for Loan Losses

The provision for loan losses is determined based on management's estimates of the appropriate level of allowance for loan losses needed to absorb probable losses inherent in the existing loan portfolio, after giving consideration to charge-offs and recoveries for the period. The provision for loan losses was \$8.3 million for the third quarter of 2010 compared to \$8.4 million for the third quarter of 2009.

During the third quarter of 2010, S&T experienced an overall improvement in asset quality measures compared to the third quarter of 2009. During the third quarter of 2010, net charge-offs of \$6.0 million were recorded compared to \$5.4 million in the comparable period in 2009. Of the \$6.0 million in charge-offs, approximately \$3.9 million had previously established specific reserves. Specific reserves for impaired loans were \$10.5 million at September 30, 2010 compared to \$17.9 million at September 30, 2009. Overall, S&T's nonperforming loan formation has slowed compared to 2009. Refer to the Allowance for Loan Losses section of this MD&A for further details.

Noninterest Income

Edgar Filing: S&T BANCORP INC - Form 10-Q

Three Months Ended September 30	2010	2009	\$ Change
<i>(in thousands)</i>			
Security gains (losses), net	\$ 6	\$ (2,059)	\$ 2,065
Service charges on deposit accounts	2,974	3,305	(331)
Wealth management fees	1,861	1,920	(59)
Insurance fees	2,125	2,020	105
Mortgage banking	1,573	(3)	1,576
Debit and credit card fees	1,951	1,875	76
Other	1,845	1,166	679
Total Noninterest Income	\$ 12,335	\$ 8,224	\$ 4,111

Noninterest income increased \$4.1 million to \$12.3 million in the third quarter of 2010 compared to the third quarter of 2009. S&T recognized nominal gains on available-for-sale securities in the three months ended September 30, 2010 compared to a loss to record OTTI on seven equity securities for \$2.1 million in the same period of 2009. The increase in mortgage banking income of \$1.6 million is a result of higher mortgage derivative gains and increased loan sales. Net derivative gains of \$0.7 million were recorded in

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

the third quarter of 2010 compared to net loss of \$0.2 million in the third quarter of 2009. Gains on loan sales increased to \$0.5 million from the third quarter of 2009 losses of \$0.1 million. The increase in mortgage banking income is a result of increased volumes, due to the low interest rate environment. The increase of \$0.7 million in other noninterest income is primarily a result of a reclassification of \$0.6 million of ATM interchange income due to the change in the presentation from a net amount of fee income and expenses to a gross presentation. Additionally, losses on commercial swaps were \$0.4 million less than in the third quarter of 2009, which was offset by a decrease in letter of credit fees of \$0.2 million.

Noninterest Expense

Three Months Ended September 30	2010	2009	\$ Change
<i>(in thousands)</i>			
Salaries and employee benefits	\$ 11,887	\$ 12,284	\$ (397)
Occupancy, net	1,674	1,681	(7)
Furniture and equipment	1,190	1,201	(11)
Other taxes	739	940	(201)
Data processing	1,547	1,565	(18)
Amortization of intangibles	463	557	(94)
Legal	511	534	(23)
Joint venture amortization	627	683	(56)
FDIC assessment	1,359	1,526	(167)
Other	4,951	3,868	1,083
Total Noninterest Expense	\$ 24,948	\$ 24,839	\$ 109

Noninterest expense remained relatively consistent in the third quarter of 2010 compared to the third quarter of 2009. The increase of \$1.1 million in other noninterest expense is primarily related to a \$0.9 million write-off of an uncollectible receivable. The receivable related to expenses for a mutual fund advised by an affiliate that was deemed to be uncollectible.

Federal Income Taxes

Federal income tax expense was \$3.6 million for the quarter ended September 30, 2010 compared to \$2.6 million for the quarter ended September 30, 2009, or 22.4 percent and 21.8 percent of pretax income reported in each period. The rate is less than the 35 percent statutory rate due to benefits resulting from tax-exempt interest, excludable dividend income and the tax benefits associated with Low Income Housing Tax Credit (LIHTC) and Federal Historic Tax Credit projects which are relatively consistent from year to year regardless of the level of pretax income. The impact of such benefits was slightly lower in 2010 based upon higher pretax income reported in the period.

RESULTS OF OPERATIONS**Nine Months Ended September 30, 2010 Compared to****Nine Months Ended September 30, 2009****Net Income**

Edgar Filing: S&T BANCORP INC - Form 10-Q

Net income available to common shareholders was \$28.5 million or \$1.03 diluted earnings per share for the first nine months of 2010 compared to a net loss available to common shareholders of \$5.6 million or \$(0.20) diluted earnings per share for the same period of 2009. The increase in net income was primarily the result of a reduction of \$40.1 million for the provision for loan losses for the nine months ended September 30, 2010. The common return on average assets was 0.92 percent for the nine months ended September 30, 2010, compared to (0.17) percent for the nine months ended September 30, 2009. The common return on average common equity was 6.78 percent for the nine months ended September 30, 2010 compared to (1.38) percent for the same period of 2009.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Net Interest Income**

The following table reconciles interest income per the Consolidated Statements of Income (Loss) to net interest income adjusted to a fully taxable equivalent basis:

	Nine months Ended	
	September 30 2010	September 30 2009
<i>(in millions)</i>		
Interest income per Consolidated Statements of Income	\$ 136.2	\$ 148.0
Adjustment to fully taxable equivalent basis	3.6	3.9
Interest Income Adjusted to Fully Taxable Equivalent basis	139.8	151.9
Interest expense	26.7	38.4
Net Interest Income Adjusted to Fully Taxable Equivalent Basis	\$ 113.1	\$ 113.5

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances and yields earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities:

Average Balance Sheet and Net Interest Income Analysis

	Nine Months Ended			Nine Months Ended		
	September 30, 2010			September 30, 2009		
	Balance	Income	Rate	Balance	Income	Rate
<i>(in millions)</i>						
ASSETS						
Loans ⁽¹⁾	\$ 3,394.6	\$ 129.8	5.11%	\$ 3,493.6	\$ 138.3	5.29%
Securities/other ⁽¹⁾	337.0	10.0	3.93%	423.3	13.6	4.28%
Total Interest-earning Assets	3,731.6	139.8	5.01%	3,916.9	151.9	5.18%
Noninterest-earning assets	394.1			373.4		

Edgar Filing: S&T BANCORP INC - Form 10-Q

TOTAL	\$ 4,125.7			\$ 4,290.3		
LIABILITIES AND SHAREHOLDERS EQUITY						
NOW/money market/savings	\$ 1,260.2	\$ 2.5	0.27%	\$ 1,242.1	\$ 3.8	0.41%
Certificates of deposit	1,311.7	19.6	1.99%	1,376.7	26.1	2.54%
Borrowed funds < 1 year	89.4	0.2	0.29%	216.8	0.6	0.37%
Borrowed funds > 1 year	138.0	4.4	4.25%	229.3	7.9	4.62%
Total Interest-bearing Liabilities	2,799.3	26.7	1.28%	3,064.9	38.4	1.68%
Noninterest-bearing liabilities:						
Demand deposits	718.9			622.4		
Shareholders equity/other	607.5			603.0		
TOTAL	\$ 4,125.7			\$ 4,290.3		
Net Yield on Interest-earning Assets⁽¹⁾				4.05%		3.87%
Net Interest Income⁽¹⁾	\$ 113.1			\$ 113.5		

⁽¹⁾ The yield on interest-earning assets and the net interest margin are presented on a fully taxable equivalent (FTE) and annualized basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35 percent for each period presented. S&T believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

The net interest margin on a fully taxable equivalent basis was 4.05 percent in the first nine months of 2010 compared to 3.87 percent in the same period of 2009. Net interest income decreased only \$0.4 million in the first nine months of 2010 compared to the same period of 2009 despite a decrease of \$185.3 million in average interest-earning assets. The average rate on interest-earning assets declined 17 basis points while the rate on total interest-bearing liabilities decreased 40 basis points. Positively affecting net interest income was an \$80.4 million increase in average net free funds during the nine months ended September 30, 2010 compared to the same period of 2009. Average net free funds are the excess of demand deposits, other noninterest-bearing liabilities

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

and shareholders' equity over nonearning assets. The increase in demand deposit accounts is due to the low interest rate environment, our marketing efforts for new demand accounts and corporate cash management services and participation in the TAG program

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

	Nine Months Ended September 30, 2010		
	Volume	Rate	Net
Compared to September 30, 2009 ⁽²⁾			
<i>(in millions)</i>			
Interest earned on:			
Loans ⁽¹⁾	\$ (3.9)	\$ (4.6)	\$ (8.5)
Securities/other ⁽¹⁾	(2.8)	(0.8)	(3.6)
Total Interest-earning Assets	(6.7)	(5.4)	(12.1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
NOW/money market/savings	-	(1.3)	(1.3)
Certificates of deposit	(1.2)	(5.3)	(6.5)
Borrowed funds < 1 year	(0.4)	-	(0.4)
Borrowed funds > 1 year	(3.1)	(0.4)	(3.5)
Total Interest-bearing Liabilities	(4.7)	(7.0)	(11.7)
Net Interest Income ⁽¹⁾	\$ (2.0)	\$ 1.6	\$ (0.4)

⁽¹⁾ Tax-exempt income is on a fully taxable equivalent basis using the statutory federal corporate income tax rate of 35 percent for 2010 and 2009.

⁽²⁾ 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.

Provision for Loan Losses

The provision for loan losses was \$21.8 million for the first nine months of 2010 compared to \$62.0 million for the first nine months of 2009. For the first nine months of 2010, S&T experienced net loan charge-offs of \$25.1 million compared to net loan charge-offs of \$43.8 million for the first nine months of 2009. Overall, asset quality measures have improved from the first nine months of 2009. Nonperforming loan formation has slowed significantly compared to 2009. These relationships have been reserved against or charged off to reflect the fair market value of the collateral expected to be received. Refer to the Allowance for Loan Losses section of this MD&A for further details.

Noninterest Income

Edgar Filing: S&T BANCORP INC - Form 10-Q

Nine Months Ended September 30	2010	2009	\$ Change
<i>(in thousands)</i>			
Security gains (losses), net	\$ 263	\$ (4,601)	\$ 4,864
Service charges on deposit accounts	9,111	9,593	(482)
Wealth management fees	5,761	5,575	186
Insurance fees	6,457	5,867	590
Mortgage banking	2,150	1,788	362
Debit and credit card fees	5,615	5,081	534
Other	5,851	4,394	1,457
Total Noninterest Income	\$ 35,208	\$ 27,697	\$ 7,511

Noninterest income increased \$7.5 million to \$35.2 million in the first nine months of 2010 compared to the first nine months of 2009. S&T recognized \$0.3 million of gains on available-for-sale securities in the nine months ended September 30, 2010 compared to \$4.6 million of losses for OTTI on several equity securities in the same period of 2009. The \$0.6 million increase in insurance fees is primarily driven by higher annual bonus commission income received in the first quarter of 2010 compared to the prior year based upon positive trends in loss rates. The increase in mortgage banking income of \$0.4 million is a result of higher mortgage derivative gains. Net derivative gains of \$0.5 million were recorded in the first nine months of 2010 compared to net gains of \$0.1 million in the first nine months of 2009. Gains on loan sales increased to \$1.1 million for the first nine months of 2010 compared

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

to \$0.5 million for the same period of 2009. These gains were offset by mortgage servicing amortization and impairment of \$0.6 million. The increase in mortgage banking income is a result of increased volumes, due to the low interest rate environment. Debit and credit card fee income increased \$0.5 million as a result of a change in S&T's ATM and point of sale (POS) network provider and increased volume. The increase of \$1.5 million in other noninterest income is primarily a result of a reclassification of \$1.7 million of ATM interchange income due to the change in the presentation from a net amount off fee income and expenses to a gross presentation.

Noninterest Expense

Nine Months Ended September 30	2010	2009	\$ Change
<i>(in thousands)</i>			
Salaries and employee benefits	\$ 36,263	\$ 36,637	\$ (374)
Occupancy, net	5,317	5,163	154
Furniture and equipment	3,607	3,824	(217)
Other taxes	2,626	2,741	(115)
Data processing	4,601	4,575	26
Amortization of intangibles	1,483	1,752	(269)
Legal	3,715	1,580	2,135
Joint venture amortization	1,964	3,852	(1,888)
FDIC assessment	4,058	6,914	(2,856)
Other	14,981	16,002	(1,021)
Total Noninterest Expense	\$ 78,615	\$ 83,040	\$ (4,425)

Noninterest expense decreased by \$4.4 million during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Legal expense increased \$2.1 million as a result of onetime legal settlement costs of \$2.3 million that occurred in the first and second quarters of 2010. Joint venture amortization decreased \$1.9 million during the first nine months of 2010 due to the impairment for LIHTC recorded in 2009. S&T's FDIC assessment decreased by \$2.9 million primarily due to a special assessment incurred in 2009. The \$1.0 million decrease in other noninterest expense is primarily related to changes in the reserve for unfunded loan commitments of \$4.9 million due to a significant decline in the volume of commitments. This decrease was offset by an increase in the aforementioned ATM reclassification of \$1.7 million, a write-off of \$1.2 million for an uncollectible receivable related to excess expenses for a mutual fund advised by an affiliate, increased loan related expense of \$0.7 million and increased consulting expense of \$0.7 million.

Federal Income Taxes

Federal income tax expense was \$11.1 million for the nine months ended September 30, 2010 compared to a \$6.5 million benefit for the nine months ended September 30, 2009 on pretax income of \$44.3 million and a pretax loss of \$7.8 million, respectively. The annual effective tax rate for the first nine months of 2010 (applied to pretax income) was 24.5 percent, which is less than the statutory rate of 35 percent due to benefits resulting from tax-exempt interest, excludible dividend income, and tax benefits associated with LIHTC and Federal Historic Tax Credit Projects. Discrete items recognized in the period were immaterial resulting in total tax expense for the nine months ended September 30, 2010 that was 25.0 percent of pretax income.

In 2009 the annual forecast of income produced a negative annual effective tax rate. Accordingly, the income tax benefit recognized in the nine month period ended September 30, 2009 was the amount related to year to date actual results using a discrete period approach as permitted by the respective accounting guidance.

Financial Condition

Loan growth continued to be challenging in our market in the first nine months of 2010. Total loans at September 30, 2010 remain relatively consistent with total loans at December 31, 2009 with a decrease of \$15.3 million of consumer loans and a decrease of \$18.1 million of commercial loans. Securities have decreased by \$77.1 million from \$354.8 million to \$277.7 million from December 31, 2009 to the period ended September 30, 2010 as a result of prepayments, calls and maturities. Deposits remain stable at \$3.3 billion as of September 30, 2010 and December 31, 2009.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Security Activity**

Securities Available-for-Sale (at Fair Value)	September 30, 2010	December 31, 2009	\$ Change
<i>(in thousands)</i>			
Obligations of U.S. government corporations and agencies	\$ 99,664	\$ 127,971	\$ (28,307)
Collateralized mortgage obligations of U.S. government corporations and agencies	45,145	60,229	(15,084)
Mortgage-backed securities of U.S. government corporations and agencies	48,873	61,521	(12,648)
Obligations of states and political subdivisions	72,924	92,928	(20,004)
Debt Securities Available-for-Sale	266,606	342,649	(76,043)
Marketable equity securities	11,112	12,211	(1,099)
Total	\$ 277,718	\$ 354,860	\$ (77,142)

S&T invests in various securities in order to provide a source of liquidity, to satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to S&T. Risks associated with various securities portfolios are managed and monitored by investment policies annually approved by the S&T Board of Directors and administered through ALCO and the Treasury function of S&T Bank. The decrease in securities of \$77.1 million relates to maturities of debt securities of \$128.5 million offset by purchases of \$50.9 million.

S&T's policy for security classification includes obligations of U.S. government corporations and agencies, collateralized mortgage obligations of U.S. government corporations and agencies, mortgage-backed securities of U.S. government corporations and agencies, obligations of states and political subdivisions and marketable equity securities as available-for-sale. The marketable equity securities portfolio is primarily comprised of bank stocks. On a quarterly basis, management evaluates the securities portfolios for OTTI according to the respective accounting literature requiring investments to be reported at estimated fair value. During the first nine months of 2010, there was no significant investment impairment charges recorded. The performance of the debt and equity securities markets could generate further impairment in future periods requiring realized losses to be reported.

Lending Activity

	September 30, 2010	December 31, 2009	\$ Change
<i>(in thousands)</i>			
Consumer			
Home equity	\$ 451,275	\$ 458,643	\$ (7,368)
Residential mortgage	365,390	363,466	1,924
Consumer installment	76,148	81,141	(4,993)
Construction	6,946	11,836	(4,890)
Total Consumer Loans	899,759	915,086	(15,327)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Commercial				
Commercial real estate	1,436,971	1,428,329	8,642	
Commercial and industrial	728,091	701,650	26,441	
Construction	306,162	359,342	(53,180)	
Total Commercial Loans	2,471,224	2,489,321	(18,097)	
Total	\$ 3,370,983	\$ 3,404,407	\$ (33,424)	

The loan portfolio represents the most significant source of interest income for S&T. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Other conditions such as the overall economic climate can significantly impact the borrower's ability to pay. In order to mitigate such risk, loan underwriting standards for S&T are established by a formal policy and are subject to periodic review and approval by the S&T Board of Directors.

Loans decreased \$33.4 million as of September 30, 2010 compared to December 31, 2009. Declines occurred in both the consumer and commercial loan portfolios, due to less demand in our market area resulting from the current economic climate.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

Commercial loans, including commercial real estate, commercial and industrial and construction comprised 73 percent of the loan portfolio as of September 30, 2010 and December 31, 2009. Although commercial loans can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, underwriting and continuous review. The loan-to-value policy guidelines for commercial real estate loans are generally 65-85 percent. Variable rate commercial loans were 52 percent of the commercial loan portfolio at September 30, 2010 and 50 percent at December 31, 2009.

Home equity and residential mortgage loans comprised 24 percent of the loan portfolio at September 30, 2010 and December 31, 2009. Residential mortgage lending continues to be a strategic focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. The loan-to-value policy guideline is 80 percent for residential first lien mortgages. Higher loan-to-value loans may be approved with the appropriate private mortgage insurance coverage. Second lien positions are assumed with home equity loans, but normally only to the extent that the combined credit exposure for both the first and second liens does not exceed 100 percent of the estimated fair value of the property.

Management believes the downturn in the local residential real estate market and the impact of declining values on the real estate loan portfolio will be mitigated because of S&T's conservative mortgage lending policies for portfolio loans, which require a maximum term of 20 years for fixed rate mortgages. Balloon payment mortgages are also offered in the portfolio. The maximum balloon term is 15 years with a maximum amortization term of 30 years. Balloon mortgages with terms of 10 years or less may have a maximum amortization term for up to 40 years. Combo mortgage loans consisting of S&T residential first mortgage and home equity second mortgage are also available to creditworthy borrowers.

S&T designates specific loan originations, generally longer-term, lower-yielding 1-4 family mortgages, as held for sale and sells them to Fannie Mae. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the nine months ended September 30, 2010 and 2009, S&T sold \$65.1 million and \$116.7 million, respectively, of 1-4 family mortgages and currently services \$293.3 million of secondary market mortgage loans to Fannie Mae at September 30, 2010. Loans sold to Fannie Mae decreased from the prior year as rates declined substantially in early 2009 resulting in a significant amount of mortgage refinances and while rates remain low, volumes have slowed from early 2009. S&T intends to continue to sell longer-term loans to Fannie Mae in the future, especially during periods of lower interest rates.

Loan underwriting standards for S&T are established by a formal policy and are subject to the periodic review and approval by the S&T Board of Directors. During 2009, S&T implemented or enhanced various new policies and procedures including: monitoring, risk ratings, stress testing and compliance for the area of commercial lending.

S&T offers a variety of unsecured and secured consumer loan and credit card products. Loan-to-value policy guidelines for direct loans are 90-100 percent of invoice for new automobiles and 80-90 percent of National Automobile Dealer Association (NADA) value for used automobiles.

Allowance for Loan Losses

Problem loans are identified and continually monitored through detailed reviews of specific commercial loans, and the analysis of delinquency and charge-off levels of consumer loan portfolios. Management evaluates the degree of loss exposure for loans on a continuous basis through a formal allowance for loan loss policy as administered by S&T Bank's Credit Administration Department and various management and director committees. Updates are presented by management to the S&T Board of Directors as to the status of loan quality. Charged-off and recovered loan amounts are applied to the allowance for loan losses. The allowance for loan losses is increased through a charge to current earnings through the provision for loan losses, based upon management's assessment of the adequacy of the allowance for loan losses. A quantitative analysis is utilized to support the adequacy of the allowance for loan losses. This analysis includes a review of the historical charge-off rates for all loan categories as well as fluctuations and trends in various risk factors that have occurred within the portfolio's economic life cycle. The analysis also includes assessment of qualitative factors such as credit trends, unemployment trends, vacancy trends, loan growth and the degree of variable interest rate risk. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses

Edgar Filing: S&T BANCORP INC - Form 10-Q

change, S&T's estimate of loan losses could also change.

Significant to this analysis and assessment is the loan portfolio composition of a higher mix of commercial loans. These loans are generally larger in size and many are not seasoned and may be more vulnerable to an economic slowdown. Management relies on its risk rating process to assess potential weaknesses within specific credits. Current risk factors, trends in risk ratings and historical charge-off experiences are considered in the determination of the allowance for loan losses.

S&T has a charge-off policy within its general lending policy. The charge-off policy has two components, retail and commercial.

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

Two types of retail loans are included in the charge-off policy. The first type is unsecured or secured with non real estate. These loans are evaluated for a charge at 90 days past due. Unsecured loans are fully charged-off. If the loan is secured with non real estate, it will be charged down to the value of the collateral less the estimated cost to sell. If the collateral is repossessed and remains unsold for 120 days the carrying value will be completely charged-off. The second type is loans secured by real estate. These loans will be evaluated for a charge at 90 days past due. The loan will be charged down to the value of the collateral less the estimated cost to sell.

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

the status of a bankruptcy proceeding;

the value of collateral and probability of successful liquidation; and

the status of adverse proceedings or litigation that may result in collection

The following table presents changes in the allowance for loan losses for the nine months ended September 30:

	2010	2009
<i>(in thousands)</i>		
Balance at beginning of period:	\$ 59,580	\$ 42,689
Charge-offs:		
Commercial, mortgage and industrial	(25,108)	(40,262)
Residential real estate	(1,669)	(3,545)
Consumer	(776)	(980)
Total	(27,553)	(44,787)
Recoveries:		
Commercial, mortgage and industrial	1,597	631
Residential real estate	631	240
Consumer	191	153
Total	2,419	1,024
Net Charge-offs	(25,134)	(43,763)
Provision for loan losses	21,835	61,954
Allowance for Loan Losses	\$ 56,281	\$ 60,880

Ratio of net charge-offs to average loans outstanding (<i>annualized</i>)	0.99%	1.67%
Allowance for loan losses to total loans	1.67%	1.77%
Allowance for loan losses to nonperforming loans	75%	70%

The allowance for loan losses at September 30, 2010 was \$56.3 million, a decrease of \$4.6 million from September 30, 2009. Included in the allowance for loan losses at September 30, 2010 is \$10.5 million of specific reserves compared to \$17.9 million at September 30, 2009. S&T has experienced improving asset quality metrics in the first nine months of 2010, including a slowing in nonperforming loans (NPL) formation. During the first nine months of 2010, S&T recorded net charge-offs of \$25.1 million. Additionally, only five relationships greater than \$1.0 million moved to NPL status during the first nine months of 2010. For each relationship, an impaired loan analysis was completed and specific reserves were established. Management believes these relationships have been adequately reserved as determined by the quarterly impairment analysis performed by the Credit Administration Department.

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

S&T's allowance for lending-related commitments is computed using a methodology similar to that used to determine the allowance for loan losses. Amounts are added to the allowance for lending-related commitments through a charge to current earnings through noninterest expense. The balance in the allowance for lending-related commitments decreased to \$2.7 million at September 30, 2010 compared to \$4.2 million at December 31, 2009. The decrease relates to reduction in commitments due to maturities and utilization of the commitments. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

The following table summarizes the composition of nonperforming loans:

	September 30, 2010	December 31, 2009	\$ Change
<i>(in thousands)</i>			
Consumer			
Home equity	\$ 1,700	\$ 2,252	\$ (552)
Residential mortgage	5,159	5,583	(424)
Consumer installment	89	20	69
Construction	530	-	530
Total Consumer Loans	7,478	7,855	(377)
Commercial			
Commercial real estate	38,250	53,789	(15,539)
Commercial and industrial	7,393	7,489	(96)
Construction	7,600	21,674	(14,074)
Total Commercial Loans	53,243	82,952	(29,709)
Total Nonaccrual Loans	60,721	90,807	(30,086)
Restructured loans			
Commercial real estate	13,542	-	13,542
Commercial and industrial	1,076	-	1,076
Total restructured loans	14,618	-	14,618
OREO	7,367	4,607	2,760
Total Nonperforming Assets	\$ 82,706	\$ 95,414	\$ (12,708)

Asset Quality Ratios:

Nonperforming loans as a percent of total loans	2.23%	2.67%
Nonperforming assets as a percent of total loans + OREO	2.45%	2.80%

Nonperforming assets include nonaccrual and restructured loans and OREO. S&T's policy is to place loans in all categories on nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There are no loans 90 days or more past due and still accruing.

Edgar Filing: S&T BANCORP INC - Form 10-Q

Restructured loans are loans that S&T, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A concession is considered to have been granted if any of the following occur: the effective rate on the restructured loan is less than the effective rate on the original loan, a reduction or forgiveness of principal, reduction or forgiveness of accrued interest, a reduction or deferral of principal, or an extension of the maturity date at a stated interest rate lower than the current market rate for the new debt with similar risk.

Deposits

	September 30, 2010	December 31, 2009	\$ Change
<i>(in thousands)</i>			
Noninterest-bearing demand	\$ 743,453	\$ 712,120	\$ 31,333
Interest-bearing demand	276,953	260,554	16,399
Money market	246,769	289,367	(42,598)
Savings	746,352	752,130	(5,778)
Certificates of deposit	1,291,043	1,290,370	673
Total Deposits	\$ 3,304,570	\$ 3,304,541	\$ 29

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

Deposits are the primary source of funds to S&T. Management believes that the S&T deposit base is stable and that S&T has the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Certificates of deposit of \$100,000 and over were 14 percent of total deposits at September 30, 2010 and 12 percent at December 31, 2009, and primarily represent deposit relationships with local customers in our market area. S&T had \$84.2 million and \$109.8 million of brokered retail certificates of deposit outstanding at September 30, 2010 and December 31, 2009, respectively.

S&T participates in the Certificate of Deposit Account Registry Services (CDARS) program. The reciprocal program allows S&T customers to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. S&T maintains deposits by accepting certificates of deposits from customers of CDARS member banks in the exact amount as S&T customers placed. S&T can also access the CDARS network to accept brokered certificates of deposit that are not part of the reciprocal CDARS program. As of September 30, 2010, the CDARS certificates of deposit were primarily reciprocal totaling \$47.6 million. The issuance of brokered retail certificates of deposit and participation in the CDARS program is an ALCO strategy to increase and diversify funding sources.

Borrowings

	September 30, 2010	December 31, 2009	\$ Change
<i>(in thousands)</i>			
Securities sold under repurchase agreements	\$ 48,189	\$ 44,935	\$ 3,254
Short-term borrowings	-	51,300	(51,300)
Long-term borrowings	29,849	85,894	(56,045)
Junior subordinated debt securities	90,619	90,619	-
Total Borrowings	\$ 168,657	\$ 272,748	\$ (104,091)

Borrowings are an additional source of funding for S&T. Borrowings are comprised of retail repurchase agreements (REPOs), wholesale REPOs, federal funds purchased and short-term and long-term borrowings. Retail REPOs are transacted with our local customers; wholesale REPOs are those transacted with other banks and brokerage firms. The decline in borrowings of \$104.1 million is a result of an ALCO strategy to deleverage the balance sheet and decreased loan demand as consumers and businesses continue to be cautionary in these economic times. At September 30, 2010 long-term borrowings consisted of borrowings at the FHLB of \$29.6 million and a capital lease of \$0.3 million. The change in long-term borrowings from December 31, 2009 is a result of long-term borrowing maturities of \$64.7 million offset by new borrowings of \$9.7 million.

Liquidity and Capital Resources

Liquidity refers to the ability to satisfy the financial needs of depositors who want to withdraw funds, or of borrowers needing to access funds to meet their credit needs. The ALCO is responsible for establishing and monitoring liquidity guidelines, policies and procedures.

The principal sources of asset liquidity are cash and due from banks, interest-earning deposits with banks, federal funds sold, unpledged securities available-for-sale, maturing and amortizing loans and securities and earnings. Liability liquidity sources include a stable core deposit base, the ability to renew maturing certificates of deposit, borrowing availability at the FHLB of Pittsburgh (FHLB), fed funds lines with other financial institutions, access to the brokered certificates of deposit market including CDARS, and the ability to raise debt and equity. Customer deposits are an important source of liquidity which depends on the confidence of those customers in S&T supported by its capital position and the protection provided by FDIC insurance.

Edgar Filing: S&T BANCORP INC - Form 10-Q

ALCO uses a variety of methods to monitor the liquidity position of S&T. These include a liquidity gap, which measures potential sources and uses of funds over future time periods out to one year. Policy guidelines require S&T to maintain a positive liquidity gap, meaning sources greater than uses, in the 30 day time period. In addition, ratios including net noncore funding dependence, net loans and standby letters of credit to assets, and net loans to deposits are reviewed and monitored. ALCO also performs contingency funding analyses to determine S&T's ability to meet potential liquidity needs under stress scenarios that cover varying time horizons ranging from immediate to long term. Policy guidelines require coverage ratios of potential sources greater than uses depending on the scenario and time horizon.

During 2010 liquidity improved due to decreases in loan and security balances, stable deposit levels and a larger borrowing capacity at the FHLB which resulted from reduced borrowings.

Shareholders' equity was \$574.5 million and increased \$21.2 million at September 30, 2010 compared to \$553.3 million at December 31, 2009. S&T had net income available to common shareholders of \$28.5 million and dividends paid to common shareholders were \$12.5 million for the nine months ended September 30, 2010. Also affecting capital was an increase of \$1.6 million due to the issuance of treasury stock, an increase of \$2.2 million in unrealized gains on securities available-for-sale, net of tax, which is included in other comprehensive income, offset by preferred dividends and amortization of \$4.1 million.

Management believes that the bank has sufficient cash flow, including cash and cash equivalents, and borrowing capacity to fund all outstanding commitments and letters of credit, while maintaining proper levels of liquidity. Management believes that S&T has the ability to raise additional capital, if necessary.

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

The following summarizes risk-based capital amounts and ratios for S&T Bancorp, Inc. and S&T Bank:

	Adequately Capitalized ⁽¹⁾	Well- Capitalized ⁽²⁾	September 30, 2010		December 31, 2009	
			Amount	Ratio	Amount	Ratio
<i>(in thousands)</i>						
S&T Bancorp, Inc.						
Tier 1 leverage	4.00%	5.00%	\$ 428,625	10.92%	\$ 409,128	10.26%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	428,625	12.97%	409,128	12.10%
Total capital to risk-weighted assets	8.00%	10.00%	540,505	16.35%	521,657	15.43%
S&T Bank						
Tier 1 leverage	4.00%	5.00%	\$ 289,395	7.41%	\$ 270,224	6.81%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	289,395	8.81%	270,224	8.05%
Total capital to risk-weighted assets	8.00%	10.00%	400,682	12.20%	382,475	11.39%

⁽¹⁾ For an institution to qualify as adequately capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 8 percent, 8 percent and 4 percent respectively. At September 30, 2010, S&T exceeded those requirements.

⁽²⁾ For an institution to qualify as well capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10 percent, 6 percent and 5 percent respectively. At September 30, 2010, S&T exceeded those requirements.

In August 2009, S&T filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC for the issuance of up to \$300 million of a variety of securities including, debt and capital securities, preferred and common stock and warrants. S&T may use the proceeds from the sale of any securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to, its subsidiaries, possible acquisitions and stock repurchases. As of September 30, 2010, S&T had not issued any securities pursuant to the shelf registration statement.

On January 16, 2009, S&T completed a \$108.7 million capital raise as a participant in the Capital Purchase Program (the CPP). S&T used the funds received from the issuance of the Series A Preferred Stock and warrants to reduce S&T's overnight borrowings at the FHLB which had the effect of increasing S&T's liquidity for lending activities.

Table of Contents**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The process by which we manage our interest rate risk is called asset/liability management. The goals of our asset/liability management are increasing net interest income without taking undue interest rate risk or material loss of net market value of our equity, while maintaining adequate liquidity. Net interest income is increased by widening the interest spread and increasing earning assets. Liquidity is measured by the ability to meet both depositors and credit customers requirements.

ALCO monitors and manages interest-rate sensitivity through gap, rate shock analysis, simulations and EVE (economic value of equity) in order to avoid unacceptable earnings fluctuations due to interest rate changes. S&T's gap model includes certain management assumptions based upon past experience and the expected behavior of customers. The assumptions include principal prepayments for fixed rate loans, mortgage-backed securities and collateralized mortgage obligations, and classifying the demand, savings and money market balances by degree of interest-rate sensitivity. The gap and cumulative gap represent the net position of assets and liabilities subject to repricing in specified time periods, as measured by a ratio of rate sensitive assets to rate sensitive liabilities. The table below shows the amount and timing of repricing assets and liabilities as of September 30, 2010.

<i>(in thousands)</i> GAP	Interest Rate Sensitivity September 30, 2010			
	1-6 Months	7-12 Months	13-24 Months	>2 Years
Repricing Assets:				
Cash/Due From Banks	\$	\$	\$	\$ 88,157
Securities	35,064	37,592	70,433	134,629
Other Investments				23,542
Net Loans	1,646,498	288,674	433,095	946,435
Other Assets				393,989
Total	1,681,562	326,266	503,528	1,586,752
Repricing Liabilities:				
Demand				743,453
NOW	34,619	34,619	69,238	138,477
Money Market	246,769			
Savings	515,647	32,958	65,916	131,831
Certificates	382,706	259,295	410,014	239,028
Repos & Short-term Borrowings	48,189			
Long-term Borrowings	69,594	695	1,430	48,749
Other Liabilities/Equity				624,881
Total	1,297,524	327,567	546,598	1,926,419
Gap	384,038	(1,301)	(43,070)	(339,667)
Cumulative GAP	\$ 384,038	\$ 382,737	\$ 339,667	\$

Rate Sensitive Assets/Rate Sensitive Liabilities	September 30, 2010	December 31, 2009
Cumulative 6 months	1.30	1.12
Cumulative 12 months	1.24	1.10

S&T's one-year repricing gap at September 30, 2010 indicates an asset sensitive position. This means that more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive position will differ depending upon the change in market interest rates. For example, with an asset sensitive position in an increasing interest rate environment, more assets than liabilities will increase in rate. This

Edgar Filing: S&T BANCORP INC - Form 10-Q

situation could result in an increase to our interest rate spreads, net interest income and operating income. Conversely, with an asset sensitive position in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease to our interest rate spreads, net interest income and operating income.

In addition to the gap analysis, S&T performs rate shock analyses on a static balance sheet to estimate the effect that specific interest-rate changes would have on 12 months of pretax net interest income. Rate shock analyses assume an immediate parallel shift of +/-300 basis points in market interest rates. S&T has modified assumptions in the -300 basis point rate shock analysis due to the very low level of interest rates. Rate shock analyses also incorporate management assumptions regarding the level of interest rate changes on non-maturity deposit products (savings, money market and NOW and demand deposits) and changes in the prepayment behavior of fixed rate loans and securities with optionality. Inclusion of these assumptions makes rate shock analysis more useful than gap analysis alone.

Table of Contents**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK continued**

The table below shows the percent change to pretax net interest income with a rate shock of +/- 300 basis points.

Percent Change to Pretax Net Interest Income	Immediate Change in Rates	
	+300 bps	-300 bps
September 30, 2010	13.44 %	(7.40) %
December 31, 2009	8.16 %	(6.93) %

The impact to pretax net interest income in the +/-300 basis point rate shocks for September 30, 2010 is consistent with having an asset sensitive balance sheet. When comparing the +300 basis point rate shock results in September 30, 2010 to December 31, 2009, the percent change to net interest income has improved because the balance sheet has become more asset sensitive. The balance sheet has become more asset sensitive due to lower investment and loan volume resulting in a reduction in short term borrowings and lengthening of the time deposit portfolio. When comparing the -300 basis point rate shock results in September 30, 2010 to December 31, 2009, the percent change to net interest income is relatively unchanged.

Item 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2010. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2010, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on February 26, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Removed and Reserved

Item 5. Other Information

Not Applicable

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.

32 Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.

Table of Contents

SIGNATURES

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

Date: November 5, 2010

S&T Bancorp, Inc.

(Registrant)

/s/ Mark Kochvar
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)