S&T BANCORP INC
Form 10-Q
November 04, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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 000-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1434426**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
800 Philadelphia Street, Indiana, PA	**15701**
(Address of principal executive offices)	**(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 x 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 x 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	x
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 x

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 - 28,107,287 shares as of October 31, 2011

Table of Contents

INDEX

S&T BANCORP, INC. AND SUBSIDIARIES

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $203,898 and $61,260, respectively	$ 262,406	$ 108,196
Securities available-for-sale, at fair value	340,123	288,025
Federal Home Loan Bank stock, at cost	19,175	22,365
Loans held for sale	3,959	8,337
Portfolio loans, net of unearned income	3,132,183	3,355,590
Allowance for loan losses	(51,533)	(51,387)
Portfolio loans, net	3,080,650	3,304,203
Premises and equipment, net	38,729	39,954
Goodwill	165,273	165,273
Other intangibles, net	6,142	7,465
Bank owned life insurance	56,220	54,924
Other assets	119,293	115,597
Total Assets	**$ 4,091,970**	**$ 4,114,339**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 817,518	$ 765,812
Interest-bearing demand	291,726	295,246
Money market	255,058	262,683
Savings	772,653	753,813
Certificates of deposit	1,134,476	1,239,970
Total Deposits	**3,271,431**	**3,317,524**
Securities sold under repurchase agreements	42,409	40,653
Long-term borrowings	32,319	29,365
Junior subordinated debt securities	90,619	90,619
Other liabilities	51,518	57,513
Total Liabilities	**3,488,296**	**3,535,674**
SHAREHOLDERS EQUITY		
Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, $1,000 per share liquidation preference 10,000,000 preferred shares authorized in 2011 and 2010 108,676 shares issued and outstanding in 2011 and 2010	106,733	106,137
Common stock, $2.50 par value 50,000,000 shares authorized in 2011 and 2010 29,714,038 shares issued in 2011 and 2010 28,106,451 shares and 27,951,689 shares outstanding at September 30, 2011 and December 31, 2010, respectively	74,285	74,285
Additional paid-in capital	52,400	51,570
Retained earnings	416,616	401,734
Accumulated other comprehensive loss	(1,919)	(6,334)

Treasury stock (1,607,587 shares and 1,762,349 shares at September 30, 2011 and December 31, 2010, respectively, at cost)		(44,441)		(48,727)
Total Shareholders Equity		**603,674**		**578,665**
Total Liabilities and Shareholders Equity	**$**	**4,091,970**	**$**	**4,114,339**

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)	**Three Months Ended September 30, 2011**	**2010**	**Nine Months Ended September 30, 2011**	**2010**
INTEREST INCOME				
Loans, including fees	$ 38,103	$ 42,718	$ 116,720	$ 127,598
Investment securities:				
Taxable	2,054	1,803	5,944	6,041
Tax-exempt	525	683	1,678	2,204
Dividends	163	121	478	366
Total Interest Income	**40,845**	**45,325**	**124,820**	**136,209**
INTEREST EXPENSE				
Deposits	5,745	7,014	17,764	22,115
Short-term borrowings and securities sold under repurchase agreements	13	38	43	196
Long-term borrowings and junior subordinated debt securities	1,218	1,300	3,734	4,386
Total Interest Expense	**6,976**	**8,352**	**21,541**	**26,697**
NET INTEREST INCOME	**33,869**	**36,973**	**103,279**	**109,512**
Provision for loan losses	1,535	8,278	13,272	21,835
Net Interest Income After Provision for Loan Losses	**32,334**	**28,695**	**90,007**	**87,677**
NONINTEREST INCOME				
Service charges on deposit accounts	2,683	2,842	7,356	8,706
Insurance fees	2,192	2,125	6,505	6,457
Debit and credit card fees	2,132	1,951	6,221	5,615
Wealth management fees	1,965	1,861	6,159	5,761
Securities (losses) gains, net	(81)	6	(124)	263
Mortgage banking	(447)	1,573	424	2,150
Other	1,899	1,977	5,942	6,256
Total Noninterest Income	**10,343**	**12,335**	**32,483**	**35,208**
NONINTEREST EXPENSE				
Salaries and employee benefits	11,741	11,887	37,632	36,263
Data processing	1,743	1,547	4,928	4,601
Occupancy, net	1,653	1,674	5,248	5,317
Furniture and equipment	1,263	1,176	3,805	3,562
Other taxes	864	739	2,669	2,626
Joint venture amortization	839	627	2,428	1,964

FDIC assessment	749	1,359	2,892	4,058
Legal	577	511	1,794	3,715
Amortization of intangibles	414	463	1,323	1,483
Other	4,350	4,965	14,517	15,026
Total Noninterest Expense	**24,193**	**24,948**	**77,236**	**78,615**
Income Before Provision for Income Taxes	**18,484**	**16,082**	**45,254**	**44,270**
Provision for Income Taxes	4,681	3,600	10,246	11,080
Net Income	**13,803**	**12,482**	**35,008**	**33,190**
Preferred stock dividends and discount amortization	1,559	1,551	4,672	4,648
Net Income Available to Common Shareholders	**$ 12,244**	**$ 10,931**	**$ 30,336**	**$ 28,542**
Common earnings per share basic	$ 0.44	$ 0.39	$ 1.08	$ 1.03
Common earnings per share diluted	$ 0.44	$ 0.39	$ 1.08	$ 1.03
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.45	$ 0.45
Average common shares outstanding basic	28,003	27,800	27,971	27,767
Average common shares outstanding diluted	28,025	27,813	27,991	27,790

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except per share data)	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
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								
Change in unrealized gains on available-for-sale securities, net of tax of $1,351	2,509					2,509		2,509
Reclassification adjustment for net gains on securities available-for-sale included in net income, net of tax of $142	(263)					(263)		(263)
Adjustment to funded status of employee benefit plans, net of tax of $240	446					446		446
Total Comprehensive Income	**$ 35,882**							
Preferred stock dividends and discount amortization		572			(4,648)			(4,076)
Cash dividends declared ($0.45 per share)					(12,505)			(12,505)
Treasury stock issued (102,617 shares)					(1,191)		2,838	1,647
Recognition of restricted stock compensation expense				341				341
Tax benefits from stock-based compensation				4				4
Forfeitures of nonstatutory stock options				(104)				(104)
Balance at September 30, 2010		**$ 105,942**	**$ 74,285**	**$ 51,399**	**$ 397,964**	**$ (3,522)**	**$ (51,561)**	**$ 574,507**
Balance at January 1, 2011		**$ 106,137**	**$ 74,285**	**$ 51,570**	**$ 401,734**	**$ (6,334)**	**$ (48,727)**	**$ 578,665**
Net income for nine months ended September 30, 2011	$ 35,008				35,008			35,008
Other Comprehensive Income								
Change in unrealized gains on available-for-sale securities, net of tax of $2,100	3,901					3,901		3,901
Reclassification adjustment for net losses on securities available-for-sale included in net income, net of tax of $43	81					81		81
Adjustment to funded status of employee benefit plans, net of tax of $233	433					433		433
Total Comprehensive Income	**$ 39,423**							
Preferred stock dividends and discount amortization		596			(4,672)			(4,076)
Cash dividends declared ($0.45 per share)					(12,614)			(12,614)

Treasury stock issued (156,419 shares)			(10)	(2,840)		4,325	1,475
Recognition of restricted stock compensation expense			830				830
Forfeitures of restricted stock (1,657 shares)			10			(39)	(29)
Balance at September 30, 2011	**$ 106,733**	**$ 74,285**	**$ 52,400**	**$ 416,616**	**$ (1,919)**	**$ (44,441)**	**$ 603,674**

See Notes to Consolidated Financial Statements

5

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30	
(in thousands)	**2011**	**2010**
OPERATING ACTIVITIES		
Net income	$ 35,008	$ 33,190
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,272	21,835
Provision for unfunded loan commitments	(1,015)	(1,555)
Depreciation and amortization	4,858	4,951
Net amortization (accretion) of discounts and premiums	844	632
Stock-based compensation expense	636	227
Securities losses (gains), net	124	(263)
Deferred income taxes	(142)	(3,652)
Tax benefits from stock-based compensation	0	(4)
Mortgage loans originated for sale	(49,477)	(71,650)
Proceeds from the sale of loans	54,557	73,652
Gain on the sale of loans, net	(544)	(866)
Net decrease in interest receivable	1,216	2,996
Net decrease in interest payable	(179)	(1,719)
Net decrease (increase) in other assets	3,135	(17,062)
Net (decrease) increase in other liabilities	(3,941)	14,480
Net Cash Provided by Operating Activities	**58,352**	**55,192**
INVESTING ACTIVITIES		
Proceeds from maturities, prepayments and calls of securities available-for-sale	51,069	128,525
Proceeds from sales of securities available-for-sale	70	2,566
Purchases of securities available-for-sale	(98,080)	(50,863)
Proceeds from the redemption of Federal Home Loan Bank stock	3,190	0
Net decrease in loans	189,730	4,512
Proceeds from sale of loans not originated for resale	8,595	0
Purchases of premises and equipment	(2,288)	(1,942)
Proceeds from the sale of premises and equipment	285	111
Net Cash Provided by Investing Activities	**152,571**	**82,909**
FINANCING ACTIVITIES		
Net increase (decrease) in core deposits	59,401	(644)
Net (decrease) increase in certificates of deposit	(105,580)	569
Net decrease in short-term borrowings	0	(51,300)
Net increase in securities sold under repurchase agreements	1,756	3,254
Proceeds from long-term borrowings	4,192	9,663
Repayments of long-term borrowings	(1,238)	(65,708)
Purchase of treasury shares	(29)	0
Sale of treasury shares	1,475	1,647
Cash dividends paid to preferred shareholder	(4,076)	(4,076)
Cash dividends paid to common shareholders	(12,614)	(12,505)
Tax benefits from stock-based compensation	0	4

Net Cash Used in Financing Activities		**(56,713)**		**(119,096)**
Net increase in cash and cash equivalents		154,210		19,005
Cash and cash equivalents at beginning of period		108,196		69,152
Cash and Cash Equivalents at End of Period	**$**	**262,406**	**$**	**88,157**
Supplemental Disclosures				
Transfers to other real estate owned and other repossessed assets	$	6,942	$	8,608
Interest paid	$	21,720	$	28,416
Income taxes paid	$	9,900	$	11,192

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

Principals of Consolidation

The interim Consolidated Financial Statements include the accounts of S&T Bancorp, Inc. and subsidiaries (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.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of 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 financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly S&T s financial position and results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year s presentation. These reclassifications did not have a material impact on S&T s consolidated financial condition or results of operations.

Acquisition of Mainline Bancorp, Inc.

On September 14, 2011, S&T announced the signing of a definitive merger agreement to acquire Mainline Bancorp, Inc. (Mainline), a bank holding company based in Ebensburg, Pennsylvania. Mainline, with approximately $242 million in assets, maintains eight offices in Cambria and Blair counties of Pennsylvania. Under the terms of the merger agreement, shareholders of Mainline will have the opportunity to elect to receive $69.00 per share in cash, or between 3.6316 and 4.3125 shares of S&T common stock, with the precise number of shares based on the average of the high and low sale prices of S&T for a 10 trading day period ending 5 days prior to the business day preceding the merger vote by Mainline shareholders. The transaction, valued at approximately $21 million, is expected to be completed in the first quarter of 2012, pending regulatory approvals, the approval of shareholders of Mainline, and other closing conditions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Adopted Accounting Standards Updates

A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring

In April 2011, the FASB issued ASU No. 2011-02, which amends the guidance for evaluating whether the restructuring of a receivable by a creditor is a troubled debt restructuring (TDR). In evaluating whether a restructuring constitutes a TDR both for purposes of recording an impairment loss and for disclosure purposes, a creditor must separately conclude that both of the following exist: (*a*) the restructuring constitutes a concession; and (*b*) the debtor is experiencing financial difficulties. For S&T, the new guidance was effective July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. S&T is also required to disclose the activity based information that was previously deferred by ASU No. 2011-01. The adoption of this ASU did not have a material impact on S&T s results of operations or financial position.

When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

In December 2010, the FASB issued ASU No. 2010-28, which reflects the decision reached in EITF Issue No. 10-A. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, this ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this ASU did not have a material impact on S&T s results of operations or financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Recently Issued Accounting Standards Updates

Testing Goodwill for Impairment

In September 2011, the FASB issued ASU No. 2011-08, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not, it need not perform the two-step impairment test. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on S&T s results of operations or financial position.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, the provisions of which allow an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively and is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU will only impact S&T s presentation of comprehensive income and is not expected to have an impact on S&T s results of operations or financial position.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued ASU No. 2011-04, which represents the convergence of the FASB s and the IASB s guidance on fair value measurement. ASU 2011-04 reflects the common requirements under U.S. GAAP and IFRS for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning for the term fair value. The new guidance does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. A public company is required to apply the ASU prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for a public company. The adoption of this ASU is not expected to have a material impact on S&T s results of operations or financial position.

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued ASU No. 2011-03, which is intended to improve financial reporting of repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. When an entity enters into a typical repo arrangement, it transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Current guidance prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to a repo agreement. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. This ASU improves the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets and focuses the assessment on the transferor s contractual rights. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on S&T s results of operations or financial position.

NOTE 2. CAPITAL PURCHASE PROGRAM

On January 16, 2009, S&T, as a participant in the U.S. Treasury Capital Purchase Program (CPP), issued to the U.S. Treasury 108,676 shares of its Series A Preferred Stock and a Warrant to purchase 517,012 shares of common stock at an exercise price of $31.53 per share, in exchange for proceeds of $108.7 million. 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. 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. 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. The Warrant expires ten years from date of issuance.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Under changes made to the CPP by the American Recovery and Reinvestment Act of 2009 (ARRA), S&T can redeem the Series A Preferred Stock, plus any accrued and unpaid dividends, subject to approval by banking regulatory agencies, 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 S&T s 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.

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 fair value on a recurring basis. Additionally, from time to time, S&T may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned (OREO), mortgage servicing rights (MSR) 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. 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. S&T s policy is to recognize transfers between any of the fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

The following are descriptions of the valuation methodologies that S&T uses for financial instruments recorded at 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. 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.

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

S&T uses quoted market prices to determine the fair value of its trading assets. S&T s trading assets are held in a Rabbi Trust under a deferred compensation plan and are invested in two readily quoted mutual funds. Accordingly, these assets are classified as Level 1.

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Derivative Financial Instruments

S&T calculates the 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. Accordingly, derivatives 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 calculating fair value measurements. In adjusting the 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.

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 from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the price secondary markets are currently offering for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 2.

Impaired Loans

Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. S&T establishes a specific reserve based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan s effective interest rate, 2) the loan s observable market price or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent. Collateral values are generally based upon appraisals by approved, independent state certified appraisers.

Appraisals 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. Because not all valuation inputs are observable, impaired loans are classified 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 obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date 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 by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on management s historical knowledge, changes in market conditions from the time of valuation or other information available to management. Because not all valuation inputs are observable, OREO and other repossessed assets are classified as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

Mortgage Servicing Rights

The fair value of 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 rate of mortgage loan prepayments is the most significant factor driving the value of MSR. If the carrying value of MSR exceeds fair value, they are considered impaired. As the valuation model includes significant unobservable inputs, MSR are classified as Level 3 within the fair value hierarchy.

Other Assets

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

Financial Instruments

In addition to financial instruments recorded at fair value in S&T s financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity s assets and liabilities that are considered financial instruments. The majority of S&T s assets and liabilities are considered financial instruments as defined in the guidance. Many of these 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 fair value disclosure

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

purposes, S&T substantially utilized the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, S&T uses present value methods to determine the 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 and interest-bearing deposits with banks approximate fair value.

Loans

The fair value of variable rate performing loans is based on carrying values adjusted for credit risk. The fair value of fixed rate 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 fair value of nonperforming loans is based on their carrying values less any specific reserve. The carrying amount of accrued interest approximates fair value.

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

The fair values disclosed for deposits without defined maturities (e.g., noninterest and interest-bearing demand, money market and savings accounts) are by definition equal to the amounts payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their fair values. 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 fair values.

Long-Term Borrowings

The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.

Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly and fair values are based on carrying values.

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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following tables present assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at September 30, 2011 and December 31, 2010. There were no transfers between Level 1 and Level 2 during the periods presented.

	September 30, 2011			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$ 0	$ 153,213	$ 0	$ 153,213
Collateralized mortgage obligations of U.S. government corporations and agencies	0	69,799	0	69,799
Mortgage-backed securities of U.S. government corporations and agencies	0	52,410	0	52,410
Obligations of states and political subdivisions	0	53,263	0	53,263
Marketable equity securities	2,438	7,337	1,663	11,438
Total securities available-for-sale	2,438	336,022	1,663	340,123
Trading securities held in a Rabbi Trust under a deferred compensation plan	1,697	0	0	1,697
Total securities	4,135	336,022	1,663	341,820
Derivative financial assets:				
Interest rate swaps	0	24,327	0	24,327
Interest rate lock commitments	0	370	0	370
Total Assets	**$ 4,135**	**$ 360,719**	**$ 1,663**	**$ 366,517**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$ 0	$ 24,217	$ 0	$ 24,217
Forward sale contracts	0	163	0	163
Total Liabilities	**$ 0**	**$ 24,380**	**$ 0**	**$ 24,380**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

(in thousands)	Level 1	Level 2	Level 3	Total
	December 31, 2010			
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$ 0	$ 125,675	$ 0	$ 125,675
Collateralized mortgage obligations of U.S. government corporations and agencies	0	41,491	0	41,491
Mortgage-backed securities of U.S. government corporations and agencies	0	43,991	0	43,991
Obligations of states and political subdivisions	0	65,772	0	65,772
Marketable equity securities	1,528	7,980	1,588	11,096
Total securities available-for-sale	1,528	284,909	1,588	288,025
Trading securities	2,089	0	0	2,089
Total securities	3,617	284,909	1,588	290,114
Derivative financial assets:				
Interest rate swaps	0	17,518	0	17,518
Interest rate lock commitments	0	217	0	217
Forward sale contracts	0	412	0	412
Total Assets	**$ 3,617**	**$ 303,056**	**$ 1,588**	**$ 308,261**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$ 0	$ 17,355	$ 0	$ 17,355
Total Liabilities	**$ 0**	**$ 17,355**	**$ 0**	**$ 17,355**

The following table presents the changes in assets classified as Level 3 in the fair value hierarchy that are measured at fair value on a recurring basis using significant unobservable inputs.

(in thousands)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Balance at beginning of period	$ 1,669	$ 1,628	$ 1,588	$ 1,138
Total (losses) gains included in other comprehensive income	(6)	(15)	75	(15)
Transfers into Level 3	0	0	0	490

Balance at end of period	**$ 1,663**	**$ 1,613**	**$ 1,663**	**$ 1,613**

Changes in the fair market value of available-for-sale securities are recorded in accumulated other comprehensive loss, while realized gains and losses from sales are recorded in securities (losses) gains, net in the Consolidated Statements of Income.

There were no purchases, sales, issuances, settlements, or transfers out of Level 3 financial instruments during the periods presented.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following tables present assets that are measured at fair value on a nonrecurring basis by fair value hierarchy level. There were no liabilities measured at fair value on a nonrecurring basis during the periods presented.

	September 30, 2011			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Impaired loans	$ 0	$ 31,891	$ 4,737	$ 36,628
OREO	0	5,379	0	5,379
Mortgage servicing rights	0	0	1,872	1,872
Total Assets	**$ 0**	**$ 37,270**	**$ 6,609**	**$ 43,879**

	December 31, 2010			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Loans held for sale	$ 0	$ 3,185	$ 0	$ 3,185
Impaired loans	0	10,968	1,478	12,446
OREO	0	5,820	0	5,820
Mortgage servicing rights	0	0	2,510	2,510
Total Assets	**$ 0**	**$ 19,973**	**$ 3,988**	**$ 23,961**

In addition to financial instruments recorded at fair value in S&T s financial statements, fair value accounting guidance requires disclosure of fair value of all of an entity s assets and liabilities considered to be financial instruments. For fair value disclosure purposes, S&T substantially utilized the 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 presents the estimated fair value of financial instruments as of:

	September 30, 2011		December 31, 2010	
(in thousands)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
ASSETS				
Cash and due from banks, including interest-bearing deposits	$ 262,406	$ 262,406	$ 108,196	$ 108,196
Securities available-for-sale	340,123	340,123	288,025	288,025
Federal Home Loan Bank stock	19,175	19,175	22,365	22,365
Portfolio loans	3,119,933	3,132,183	3,328,084	3,355,590
Loans held for sale	4,137	3,959	8,337	8,337

Bank owned life insurance	56,220	56,220	54,924	54,924
Trading securities	1,697	1,697	2,089	2,089
Mortgage servicing rights	1,872	1,872	2,510	2,510
Interest rate swaps	24,327	24,327	17,518	17,518
Interest rate lock commitments	370	370	217	217
Forward sale contracts	0	0	412	412
LIABILITIES				
Deposits	$ 3,280,824	$ 3,271,431	$ 3,328,864	$ 3,317,524
Securities sold under repurchase agreements	42,409	42,409	40,653	40,653
Long-term borrowings	34,760	32,319	31,345	29,365
Junior subordinated debt securities	90,619	90,619	91,460	90,619
Interest rate swaps	24,217	24,217	17,355	17,355
Forward sale contracts	163	163	0	0

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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 variable) 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 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. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Income.

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. Whenever a customer desires these products, a mortgage originator quotes a secondary market rate guaranteed for that day by the investor. 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. However, if the borrower accepts the guaranteed rate, 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. The rate lock is executed between the mortgagee and S&T, and generally these rate locks are bundled. A forward sale contract is then executed between S&T and the investor. Both the interest rate lock commitment bundle and the corresponding forward sale contract are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Income.

	Derivatives (included in Other Assets)		**Derivatives (included in Other Liabilities)**	
(in thousands)	**September 30, 2011**	**December 31, 2010**	**September 30, 2011**	**December 31, 2010**
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts - Commercial Loans				

Fair value	$ 24,327	$ 17,518	$ 24,217	$ 17,355
Notional amount	191,842	211,078	191,842	211,078
Collateral posted	0	0	19,698	13,928
Interest Rate Lock Commitments - Mortgage Loans				
Fair value	370	217	0	0
Notional amount	10,763	17,033	0	0
Forward Sale Contracts - Mortgage Loans				
Fair value	0	412	163	0
Notional amount	0	21,785	10,959	0

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

(in thousands)	Amount of Gain (Loss) Recognized in Income on Derivatives			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts - commercial loans	$ 13	$ 139	$ (53)	$ 136
Interest rate lock commitments - mortgage loans	132	712	153	886
Forward sale contracts - mortgage loans	(152)	8	(575)	(378)
Total Derivatives not Designated as Hedging Instruments	**$ (7)**	**$ 859**	**$ (475)**	**$ 644**

NOTE 5. SECURITIES AVAILABLE-FOR-SALE

The following tables present the amortized cost and fair value of available-for-sale securities for the periods shown:

(in thousands)	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and agencies	148,719	4,580	(86)	153,213
Collateralized mortgage obligations of U.S. government corporations and agencies	67,005	2,794	0	69,799
Mortgage-backed securities of U.S. government corporations and agencies	48,776	3,634	0	52,410
Obligations of states and political subdivisions	51,295	1,986	(18)	53,263
Total Debt Securities	**315,795**	**12,994**	**(104)**	**328,685**
Marketable equity securities	10,152	1,822	(536)	11,438
Total	**$325,947**	**$14,816**	**$(640)**	**$340,123**

(in thousands)	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and agencies	$ 123,812	$ 2,078	$ (215)	$ 125,675
	39,790	1,701	0	41,491

Collateralized mortgage obligations of U.S. government corporations and agencies				
Mortgage-backed securities of U.S. government corporations and agencies	41,373	2,618	0	43,991
Obligations of states and political subdivisions	64,651	1,357	(236)	65,772
Total Debt Securities	**269,626**	**7,754**	**(451)**	**276,929**
Marketable equity securities	10,347	1,010	(261)	11,096
Total	**$ 279,973**	**$ 8,764**	**$ (712)**	**$ 288,025**

There were no significant gross realized gains and $0.1 million and $0.1 million, respectively, in gross realized losses for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2010 there were $0.1 million and $0.4 million, respectively, in gross realized gains and $0.1 million in gross realized losses for both the three and nine month periods. Realized gains and losses on the sale of securities are determined using the specific-identification method.

Net unrealized gains of $14.2 million, net of tax of $5.0 million and net unrealized gains of $8.0 million, net of tax of $2.8 million were included in accumulated other comprehensive loss at September 30, 2011 and December 31, 2010, respectively.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following tables present investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months:

	September 30, 2011					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$ 10,331	$ (86)	$ 0	$ 0	$ 10,331	$ (86)
Obligations of states and political subdivisions	924	(18)	0	0	924	(18)
Total Debt Securities	**11,255**	**(104)**	**0**	**0**	**11,255**	**(104)**
Marketable equity securities	5,079	(536)	0	0	5,079	(536)
Total Temporarily Impaired Securities	**$ 16,334**	**$ (640)**	**$ 0**	**$ 0**	**$ 16,334**	**$ (640)**

	December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$ 20,558	$ (215)	$ 0	$ 0	$ 20,558	$ (215)
Obligations of states and political subdivisions	13,167	(194)	917	(42)	14,084	(236)
Total Debt Securities	**33,725**	**(409)**	**917**	**(42)**	**34,642**	**(451)**
Marketable equity securities	2,068	(261)	0	0	2,068	(261)
Total Temporarily Impaired Securities	**$ 35,793**	**$ (670)**	**$ 917**	**$ (42)**	**$ 36,710**	**$ (712)**

S&T does not believe any individual unrealized loss as of September 30, 2011 represents an other-than-temporary impairment (OTTI). S&T performs a review of its securities for OTTI on a quarterly basis to identify securities that may indicate an OTTI. Generally, S&T records an impairment charge when an equity security within the marketable equity securities portfolio has been in a loss position for 12 consecutive months, unless facts and circumstances suggest the need for an OTTI prior to that time. S&T s policy for recording an OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the length of time and the extent to which 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 a security recovering from any decline in 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 security prior to it recovering.

As of September 30, 2011, the unrealized losses on three debt securities were primarily attributable to changes in interest rates. The unrealized losses on four marketable equity securities as of September 30, 2011 were attributable to temporary declines in fair 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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The amortized cost and fair value of available-for-sale securities at September 30, 2011, by contractual maturity, are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2011	
(in thousands)	Amortized Cost	Fair Value
Obligations of U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$ 12,245	$ 12,333
Due after one year through five years	143,865	147,863
Due after five years through ten years	18,872	20,148
Due after ten years	25,032	26,132
	200,014	**206,476**
Collateralized mortgage obligations of U.S. government corporations and agencies	67,005	69,799
Mortgage-backed securities of U.S. government corporations and agencies	48,776	52,410
Total Debt Securities	**315,795**	**328,685**
Marketable equity securities	10,152	11,438
Total	**$ 325,947**	**$ 340,123**

At September 30, 2011 and December 31, 2010, securities with principal amounts of $254.2 million and $209.3 million, respectively, were pledged to secure repurchase agreements, public funds, trust fund deposits and derivatives.

NOTE 6. LOANS AND LOANS HELD FOR SALE

The following table presents the composition of loans for the periods stated:

(in thousands)	September 30, 2011	December 31, 2010
Consumer:		
Home equity	$ 423,166	$ 441,096
Residential mortgage	350,619	359,536
Installment and other consumer	68,049	74,780
Consumer construction	3,111	4,019
Total Consumer Loans	**844,945**	**879,431**

Commercial:		
Commercial real estate	1,414,398	1,494,202
Commercial and industrial	681,866	722,359
Commercial construction	190,974	259,598
Total Commercial Loans	**2,287,238**	**2,476,159**
Total Portfolio Loans	**3,132,183**	**3,355,590**
Allowance for loan losses	(51,533)	(51,387)
Total Portfolio Loans, net	**3,080,650**	**3,304,203**
Loans held for sale	3,959	8,337
Total Loans, Net	**$ 3,084,609**	**$ 3,312,540**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

S&T attempts to limit its exposure to credit risk by diversifying its loan portfolio and actively managing concentrations. When concentrations exist in certain classes, S&T mitigates this risk by monitoring relevant economic indicators and internal risk rating trends, and through stress testing of the loans in those classes. Commercial loans represent 73 percent and 74 percent of total portfolio loans at September 30, 2011 and December 31, 2010, respectively. Within the commercial portfolio, the commercial real estate (CRE) and commercial construction portfolios combined comprise 70 percent of commercial loans and 51 percent of total loans and 71 percent of commercial loans and 53 percent of total loans at September 30, 2011 and December 31, 2010, respectively. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of nine percent of total loans.

The vast majority of both commercial and consumer loans are made to businesses and individuals in S&T s western Pennsylvania market, resulting in a geographic concentration. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Only the CRE and commercial construction portfolios combined have any significant out-of-state exposure, with 19 percent of the combined portfolio and ten percent of total loans being out-of-state loans at September 30, 2011 and 21 percent of the combined portfolio and 11 percent of total loans being out of state loans at December 31, 2010. Management believes underwriting guidelines and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio.

The following table presents a summary of nonperforming assets for the periods stated:

(in thousands)	**September 30, 2011**	**December 31, 2010**
Nonperforming loans	$ 59,239	$ 63,883
OREO	5,992	5,820
Total Nonperforming Assets	**$ 65,231**	**$ 69,703**

OREO and other repossessed assets, which are included in other assets in the Consolidated Balance Sheets consists of 27 properties, with three properties comprising $4.2 million or 70 percent of the balance.

In situations where, for economic or legal reasons related to a borrower s financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. S&T individually evaluates all substandard commercial loans that experienced a forbearance or change in terms, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan. Once a loan is classified as a TDR, it retains both TDR and impaired loan status for the life of the loan, whether or not is has resumed accrual status, unless the restructuring was done at a market rate.

The following table presents restructured loans for the periods presented:

	September 30, 2011			**December 31, 2010**		
(in thousands)	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**
Commercial real estate	$ 19,057	$ 14,585	$ 33,642	$ 1,194	$ 29,636	$ 30,830

Commercial and industrial	783	0	783	37	1,000	1,037
Commercial construction	480	3,460	3,940	0	2,143	2,143
Residential mortgage	1,140	4,079	5,219	908	0	908
Ending Balance	**$ 21,460**	**$ 22,124**	**$ 43,584**	**$ 2,139**	**$ 32,779**	**$ 34,918**

19

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following tables include the number of TDRs, as well as both the pre-restructuring and post-restructuring recorded investments, by loan class, of those loans restructured during the three and nine months ended September 30, 2011.

	Nine Months Ended September 30, 2011			
(in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Total Difference in Recorded Investment
Commercial real estate	4	$ 4,107	$ 4,607	$ 500
Commercial and industrial	2	921	921	0
Commercial construction	2	1,776	1,776	0
Residential mortgage	7	4,330	4,330	0
Total	**15**	**$ 11,134**	**$ 11,634**	**$ 500**

	Three Months Ended September 30, 2011			
(in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Total Difference in Recorded Investment
Commercial real estate	1	$ 1,297	$ 1,297	$ 0
Residential mortgage	5	3,994	3,994	0
Total	**6**	**$ 5,291**	**$ 5,291**	**$ 0**

The concessions granted included reductions in interest rates and payment extensions. Note 7 includes the methodology to determine the allowance for these TDRs. During the nine months ended September 30, 2011, there were no previously restructured loans that defaulted.

NOTE 7. ALLOWANCE FOR LOAN LOSSES

S&T maintains an allowance for loan losses (ALL) at a level determined to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. S&T develops and documents a systematic ALL methodology based on the following portfolio classes: 1) CRE, 2) Commercial and Industrial (C&I), 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer. The following discusses the key risks associated with each portfolio class:

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

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

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

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

Management further assesses risk within each portfolio class using the key inherent risk differentiators. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Impaired loans are considered in the ALL model separately and are individually evaluated for impairment. As mentioned in Note 6, TDR s are included in the impaired category of loans, and are therefore evaluated individually. S&T s internal risk rating system is consistent with definitions found in current regulatory guidelines. A simplified data migration technique is used to calculate the historic average losses over the defined loss emergence period.

Loans in the consumer classes are not individually risk rated; therefore, the most important indicators of risk are the existence of collateral, the type of collateral, and for consumer real estate loans, whether the bank has a first or second lien position. A simplified data migration technique is used to calculate the historic average losses over the defined loss emergence period.

Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

The following tables present the age analysis of past due loans segregated by class of loans for the periods stated:

	September 30, 2011					
(in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Non-performing**	**Total Past Due**	**Total Loans**
Commercial real estate	$ 1,374,747	$ 4,019	$ 1,109	$ 34,523	$ 39,651	$ 1,414,398
Commercial and industrial	672,538	1,948	1,377	6,003	9,328	681,866
Commercial construction	181,371	900	0	8,703	9,603	190,974
Home equity	417,893	1,734	444	3,095	5,273	423,166
Residential mortgage	341,299	1,239	1,362	6,719	9,320	350,619
Installment and other consumer	67,468	451	115	15	581	68,049
Consumer construction	2,930	0	0	181	181	3,111
Totals	**$ 3,058,246**	**$ 10,291**	**$ 4,407**	**$ 59,239**	**$ 73,937**	**$ 3,132,183**

	December 31, 2010					
(in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Non-performing**	**Total Past Due**	**Total Loans**
Commercial real estate	$ 1,445,521	$ 3,135	$ 1,236	$ 44,310	$ 48,681	$ 1,494,202
Commercial and industrial	717,078	975	739	3,567	5,281	722,359
Commercial construction	250,776	99	736	7,987	8,822	259,598
Home equity	437,212	1,744	707	1,433	3,884	441,096

Residential mortgage	352,194	930	416	5,996	7,342	359,536
Installment and other consumer	74,373	275	67	65	407	74,780
Consumer construction	3,494	0	0	525	525	4,019
Totals	**$ 3,280,648**	**$ 7,158**	**$ 3,901**	**$ 63,883**	**$ 74,942**	**$ 3,355,590**

Management continually monitors the commercial loan portfolio through its internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower. Loan risk ratings are reviewed on an ongoing basis according to internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention and substandard, which generally have an increasing risk of loss.

S&T s risk ratings are consistent with regulatory guidance and are as follows:

Pass The loan is currently performing and is of high quality.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Special Mention A special mention loan has potential weaknesses that warrant management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the institution s credit position at some future date. Economic and market conditions, beyond the customer s control, may in the future necessitate this classification.

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

The following tables present the recorded investment in commercial loan classes by internally assigned risk ratings for the periods presented:

	September 30, 2011			
(in thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Commercial Construction**	**Totals**
Pass	$ 1,201,955	$ 601,552	$ 148,084	$ 1,951,591
Special mention	89,164	19,450	10,432	119,046
Substandard	123,279	60,864	32,458	216,601
Total	**$ 1,414,398**	**$ 681,866**	**$ 190,974**	**$ 2,287,238**

	December 31, 2010			
(in thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Commercial Construction**	**Totals**
Pass	$ 1,297,242	$ 619,011	$ 221,492	$ 2,137,745
Special mention	86,653	76,158	16,308	179,119
Substandard	110,307	27,190	21,798	159,295
Total	**$ 1,494,202**	**$ 722,359**	**$ 259,598**	**$ 2,476,159**

Management monitors the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower s financial condition exists. The risk of loss is generally highest for nonperforming loans.

The following tables present the recorded investment in consumer loan classes by performing and nonperforming status for the periods stated:

	September 30, 2011				
(in thousands)	**Home Equity**	**Residential Mortgage**	**Installment and other consumer**	**Consumer Construction**	**Totals**

Performing	$ 420,071	$ 343,900	$ 68,034	$ 2,930	$ 834,935
Nonperforming	3,095	6,719	15	181	10,010
Total	**$ 423,166**	**$ 350,619**	**$ 68,049**	**$ 3,111**	**$ 844,945**

	December 31, 2010				
(in thousands)	**Home Equity**	**Residential Mortgage**	**Installment and other consumer**	**Consumer Construction**	**Totals**
Performing	$ 439,663	$ 353,540	$ 74,715	$ 3,494	$ 871,412
Nonperforming	1,433	5,996	65	525	8,019
Total	**$ 441,096**	**$ 359,536**	**$ 74,780**	**$ 4,019**	**$ 879,431**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

S&T individually evaluates all substandard commercial loans greater than $0.5 million for impairment as well as all TDRs, whether in accrual or nonaccrual status. Loans are considered to be impaired when based upon current information and events it is probable that S&T will be unable to collect all interest and principal payments due according to the original contractual terms of the loan agreement.

The following table presents S&T s investment in loans considered to be impaired and related information on those impaired loans for the periods presented:

	September 30, 2011			September 30, 2011 Nine Months Ended		September 30, 2011 Three Months Ended	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:							
Commercial real estate	$ 7,123	$ 7,431	$ 1,537	$ 13,043	$ 112	$7,123	$ 40
Commercial and industrial	213	213	213	3,261	0	213	0
Commercial construction	4,053	4,053	1,008	3,776	7	4,053	7
Consumer real estate	692	692	120	231	4	692	2
Total with a related allowance recorded	**12,081**	**12,389**	**2,878**	**20,311**	**123**	**12,081**	**49**
Without a related allowance recorded:							
Commercial real estate	43,472	49,583	0	32,935	576	43,472	165
Commercial and industrial	4,549	4,549	0	2,909	1	4,549	0
Commercial construction	4,338	4,795	0	3,800	15	4,338	9
Consumer real estate	4,527	4,778	0	1,509	51	4,527	38
Total without a related allowance recorded	**56,886**	**63,705**	**0**	**41,153**	**643**	**56,886**	**212**
Total:							
Commercial real estate	50,595	57,014	$ 1,537	45,978	688	50,595	205
Commercial and industrial	4,762	4,762	213	6,170	1	4,762	0
Commercial construction	8,391	8,848	1,008	7,576	22	8,391	16
Consumer real estate	5,219	5,470	120	1,740	55	5,219	40
Total	**$ 68,967**	**$ 76,094**	**2,878**	**$ 61,464**	**$ 766**	**$68,967**	**$261**

	December 31, 2010			Year Ended December 31, 2010	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial real estate	$ 10,152	$ 11,466	$ 1,992	$ 21,023	$ 489
Commercial and industrial	1,263	1,263	337	1,623	22
Commercial construction	4,662	4,662	1,302	7,165	0

Total with a related allowance recorded	**16,077**	**17,391**	**3,631**	**29,811**	**511**
Without a related allowance recorded:					
Commercial real estate	29,788	37,567	0	28,074	442
Commercial and industrial	1,491	3,280	0	1,370	0
Commercial construction	3,325	4,853	0	7,202	20
Total without a related allowance recorded	**34,604**	**45,700**	**0**	**36,646**	**462**
Total:					
Commercial real estate	39,940	49,033	1,992	49,097	931
Commercial and industrial	2,754	4,543	337	2,993	22
Commercial construction	7,987	9,515	1,302	14,367	20
Total	**$ 50,681**	**$ 63,091**	**$ 3,631**	**$ 66,457**	**$ 973**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

	Three Months Ended September 30, 2011						Three Months Ended September 30, 2010
(in thousands)	Commercial Real Estate	Commercial & Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans	Total Loans
Beginning at July 1:	$ 36,041	$ 12,956	$ 4,759	$ 3,275	$ 973	$ 58,004	$ 53,968
Charge-offs	(1,532)	(6,651)	0	(175)	(218)	(8,576)	(6,889)
Recoveries	172	109	116	87	86	570	924
Net (Charge-offs) /Recoveries	**(1,360)**	**(6,542)**	**116**	**(88)**	**(132)**	**(8,006)**	**(5,965)**
Provision for loan losses	(2,665)	4,110	(211)	237	64	1,535	8,278
Balance at End of Period	**$ 32,016**	**$ 10,524**	**$ 4,664**	**$ 3,424**	**$ 905**	**$ 51,533**	**$ 56,281**

	Nine Months Ended September 30, 2011						Nine Months Ended September 30, 2010
(in thousands)	Commercial Real Estate	Commercial & Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans	Total Loans
Beginning at January 1:	$ 30,425	$ 9,777	$ 5,904	$ 3,962	$ 1,319	$ 51,387	$ 59,580
Charge-offs	(5,989)	(8,390)	(878)	(1,805)	(697)	(17,759)	(27,553)
Recoveries	750	232	2,463	912	276	4,633	2,419
Net (Charge-offs) /Recoveries	**(5,239)**	**(8,158)**	**1,585**	**(893)**	**(421)**	**(13,126)**	**(25,134)**
Provision for loan losses	6,830	8,905	(2,825)	355	7	13,272	21,835
Balance at End of Period	**$ 32,016**	**$ 10,524**	**$ 4,664**	**$ 3,424**	**$ 905**	**$ 51,533**	**$ 56,281**

	September 30, 2011						December 30, 2010
(in thousands)	Commercial Real Estate	Commercial & Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans	Total Loans
Allowance for loan losses							
For Loans individually evaluated for impairment	$ 1,537	$ 213	$ 1,008	$ 120	$ 0	$ 2,878	$ 3,631
	30,479	10,311	3,656	3,304	905	48,655	47,756

For Loans collectively evaluated for impairment														
Total Allowance for Loan Losses	$	32,016	$	10,524	$	4,664	$	3,424	$	905	$	51,533	$	51,387
Portfolio Loans:														
Individually evaluated for impairment	$	50,595	$	4,762	$	8,391	$	5,219	$	0	$	68,967	$	50,681
Collectively evaluated for impairment		1,363,803		677,104		182,583		771,677		68,049		3,063,216		3,304,909
Total Portfolio Loans	**$**	**1,414,398**	**$**	**681,866**	**$**	**190,974**	**$**	**776,896**	**$**	**68,049**	**$**	**3,132,183**	**$**	**3,355,590**

24

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 8. 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 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 repledged 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. 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.

At September 30, 2011 and December 31, 2010, the only short-term borrowings that S&T had outstanding were comprised of REPOs totaling $42.4 million and $40.7 million, respectively.

Long-term debt instruments are for original terms greater than one year and may be comprised of wholesale REPOs, FHLB advances and junior subordinated debt securities. Long-term REPOs and FHLB advances have the same collateral requirements as their short-term equivalents.

The following is a summary of long-term debt for the periods presented:

(in thousands)	September 30, 2011	December 31, 2010
Long-term borrowings	$ 32,319	$ 29,365
Junior subordinated debt securities	90,619	90,619
Total	**$ 122,938**	**$ 119,984**

S&T had total long-term debt outstanding of $29.0 million at a fixed rate and $93.7 million at a variable rate at September 30, 2011. Included in long-term borrowings is a capital lease of $0.2 million.

S&T had total borrowings at September 30, 2011 and December 31, 2010 at the FHLB of Pittsburgh of $32.1 million and $29.1 million, respectively, all of which were long-term borrowings. As of September 30, 2011 there were no short-term borrowings at the FHLB of Pittsburgh. At September 30, 2011, S&T had a maximum borrowing capacity of $1.1 billion with the FHLB of Pittsburgh.

NOTE 9. EMPLOYEE BENEFITS

S&T Bank maintains a defined benefit pension plan (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 2010 and no contributions are required to be made for 2011 at this time. The expected long-term rate of return on plan assets is 8.00 percent. Changes to the Plan have been approved and will be implemented beginning January 1, 2012. These changes include a lump sum distribution option for active participants and the eventual elimination of the Pension Purchase Option.

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

(in thousands)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Service cost benefits earned during the period	$ 470	$ 456	$ 1,778	$ 1,684
Interest cost on projected benefit obligation	1,035	979	3,121	3,013
Expected return on plan assets	(1,344)	(1,261)	(4,033)	(3,661)
Amortization of prior service cost	(2)	(2)	(5)	(5)
Recognized net actuarial loss	207	179	580	617
Net Periodic Pension Expense	**$ 366**	**$ 351**	**$ 1,441**	**$ 1,648**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 10. 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 a customer does not satisfy the terms of their 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. Because 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 totaled $1.6 million at September 30, 2011 and $2.7 million at December 31, 2010. 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.

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

(in thousands)		**September 30, 2011**		**December 31, 2010**
Commitments to extend credit	$	826,316	$	836,042
Standby letters of credit		121,947		135,489
Total	**$**	**948,263**	**$**	**971,531**

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 will not have a material adverse effect on its consolidated financial position.

NOTE 11. EARNINGS PER COMMON SHARE

The following table reconciles the numerator and denominator of basic earnings per share with that of diluted earnings per share:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands, except shares and per share data)	**2011**	**2010**	**2011**	**2010**