

S&T BANCORP INC  
Form 10-Q  
May 06, 2011  
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 March 31, 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 0-12508**

## **S&T BANCORP, INC.**

**(Exact name of registrant as specified in its charter)**

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

<b>Pennsylvania</b> (State or other jurisdiction of incorporation or organization)	<b>25-1434426</b> (IRS Employer Identification No.)
<b>800 Philadelphia Street, Indiana, PA</b> (Address of principal executive offices)	<b>15701</b> (zip code)
<b>800-325-2265</b> (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 - 28,055,914 shares as of April 30, 2011

**Table of Contents**

**INDEX**

**S&T BANCORP, INC. AND SUBSIDIARIES**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets</u> March 31, 2011 and December 31, 2010	3
<u>Consolidated Statements of Income</u> Three Months Ended March 31, 2011 and 2010	4
<u>Consolidated Statements of Changes in Shareholders' Equity</u> Three Months Ended March 31, 2011 and 2010	5
<u>Consolidated Statements of Cash Flows</u> Three Months Ended March 31, 2011 and 2010	6
<u>Notes to Consolidated Financial Statements</u>	7-28
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28-39
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40-41
Item 4. <u>Controls and Procedures</u>	41
<b><u>PART II. OTHER INFORMATION</u></b>	
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**

	March 31, 2011	December 31, 2010
	(Unaudited)	(Audited)
<i>(in thousands, except share and per share data)</i>		
<b>ASSETS</b>		
Cash and due from banks	\$ 50,185	\$ 46,936
Interest-bearing deposits with banks	58,670	61,260
Securities available-for-sale, at fair value	331,536	288,025
Federal Home Loan Bank stock, at cost	21,247	22,365
Loans held for sale	2,305	8,337
Portfolio loans	3,302,016	3,355,590
Allowance for loan losses	(61,663)	(51,387)
<b>Portfolio loans, net</b>	<b>3,240,353</b>	<b>3,304,203</b>
Premises and equipment, net	39,642	39,954
Goodwill	165,273	165,273
Other intangibles, net	7,002	7,465
Bank owned life insurance	55,427	54,924
Other assets	118,414	115,597
<b>Total Assets</b>	<b>\$ 4,090,054</b>	<b>\$ 4,114,339</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 802,748	\$ 765,812
Interest-bearing demand	286,111	295,246
Money market	240,375	262,683
Savings	755,311	753,813
Certificates of deposit	1,221,294	1,239,970
<b>Total Deposits</b>	<b>3,305,839</b>	<b>3,317,524</b>
Securities sold under repurchase agreements	38,270	40,653
Long-term borrowings	28,974	29,365
Junior subordinated debt securities	90,619	90,619
Other liabilities	46,237	57,513
<b>Total Liabilities</b>	<b>3,509,939</b>	<b>3,535,674</b>
<b>SHAREHOLDERS EQUITY</b>		
Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value	106,333	106,137
\$1,000 per share liquidation price		
10,000,000 shares authorized in 2011 and 2010		

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

108,676 shares issued and outstanding in 2011 and 2010

Common stock, \$2.50 par value

50,000,000 shares authorized in 2011 and 2010

29,714,038 shares issued in 2011 and 2010

28,033,757 shares and 27,951,689 shares outstanding at March 31, 2011 and December 31, 2010, respectively

Additional paid-in capital	74,285	74,285
Retained earnings	51,837	51,570
Accumulated other comprehensive loss	400,501	401,734
Treasury stock (1,680,281 and 1,762,349 shares in 2011 and 2010, respectively, at cost)	(6,389)	(6,334)
	(46,452)	(48,727)

<b>Total Shareholders Equity</b>	<b>580,115</b>	<b>578,665</b>
----------------------------------	----------------	----------------

<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 4,090,054</b>	<b>\$ 4,114,339</b>
--	---------------------	---------------------

See Notes to Consolidated Financial Statements

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

<i>(in thousands, except per share data)</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>INTEREST INCOME</b>		
Loans, including fees	\$ 39,649	\$ 42,219
Investment Securities:		
Taxable	1,812	2,177
Tax-exempt	598	796
Dividends	133	132
<b>Total Interest Income</b>	<b>42,192</b>	<b>45,324</b>
<b>INTEREST EXPENSE</b>		
Deposits	6,062	7,608
Securities sold under repurchase agreements	15	43
Long-term borrowings and junior subordinated debt securities	1,243	1,759
<b>Total Interest Expense</b>	<b>7,320</b>	<b>9,410</b>
<b>NET INTEREST INCOME</b>	<b>34,872</b>	<b>35,914</b>
Provision for loan losses	10,640	4,430
<b>Net Interest Income After Provision for Loan Losses</b>	<b>24,232</b>	<b>31,484</b>
<b>NONINTEREST INCOME</b>		
Securities gains, net	13	153
Service charges on deposit accounts	2,404	2,971
Wealth management fees	2,050	1,984
Letters of credit fees	254	353
Insurance fees	2,132	2,368
Mortgage banking	625	410
Debit and credit card fees	2,012	1,381
Other	1,536	1,723
<b>Total Noninterest Income</b>	<b>11,026</b>	<b>11,343</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	13,320	12,565
Occupancy, net	1,857	1,984
Furniture and equipment	1,191	1,088
Other taxes	902	945
Data processing	1,504	1,603
Amortization of intangible assets	463	524
Legal	466	2,216
Joint venture amortization	740	628
FDIC assessment	1,226	1,301

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

Other	5,780	5,076
<b>Total Noninterest Expense</b>	<b>27,449</b>	<b>27,930</b>
<b>Income Before Provision for Income Taxes</b>	<b>7,809</b>	<b>14,897</b>
Provision for income taxes	1,514	3,593
<b>Net Income</b>	<b>6,295</b>	<b>11,304</b>
Preferred stock dividends and amortization of discount	1,555	1,547
<b>Net Income Available to Common Shareholders</b>	<b>\$ 4,740</b>	<b>\$ 9,757</b>
Common earnings per share basic	\$ 0.17	\$ 0.35
Common earnings per share diluted	0.17	0.35
Dividends declared per common share	0.15	0.15
Average common shares outstanding basic	27,937	27,724
Average common shares outstanding diluted	27,957	27,753

See Notes to Consolidated Financial Statements

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

	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated		Total
						Comprehensive Loss	Treasury Stock	
<i>(in thousands, except per share data)</i>								
<b>Balance at January 1, 2010</b>		\$ 105,370	\$ 74,285	\$ 51,158	\$ 383,118	\$ (6,214)	\$ (54,399)	\$ 553,318
Net income for three months ended March 31, 2010	\$ 11,304				11,304			11,304
<b>Other Comprehensive Income, Net of Tax</b>								
Change in unrealized gains on securities of \$1,642 net of reclassification adjustment for gains included in net income of (\$153) and tax expense of (\$521)	968					968		968
Adjustment to funded status of employee benefit plans, net of tax expense \$81	151					151		151
<b>Total Comprehensive Income</b>	\$ 12,423							
Preferred stock dividends and amortization of discount		188			(1,547)			(1,359)
Cash dividends declared (\$0.15 per share)					(4,163)			(4,163)
Treasury stock issued (34,939 shares)					(421)		863	442
Recognition of restricted stock compensation expense				186				186
Forfeitures of nonstatutory stock options				(104)				(104)
<b>Balance at March 31, 2010</b>		\$ 105,558	\$ 74,285	\$ 51,240	\$ 388,291	\$ (5,095)	\$ (53,536)	\$ 560,743
<b>Balance at January 1, 2011</b>		\$ 106,137	\$ 74,285	\$ 51,570	\$ 401,734	\$ (6,334)	\$ (48,727)	\$ 578,665
Net income for three months ended March 31, 2011	\$ 6,295				6,295			6,295
<b>Other Comprehensive Income, Net of Tax</b>								
Change in unrealized gains on securities of (\$281) net of reclassification adjustment for gains included in net income of (\$13) and tax benefit of \$103	(191)					(191)		(191)
Adjustment to funded status of employee benefit plans, net of tax benefit \$73	136					136		136
<b>Total Comprehensive Income</b>	\$ 6,240							
Preferred stock dividends and amortization of discount		196			(1,555)			(1,359)
Cash dividends declared (\$0.15 per share)					(4,193)			(4,193)



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

Treasury stock issued (83,605 shares)		(1,780)		2,312		532
Recognition of restricted stock compensation expense		267				267
Forfeitures of restricted stock (1,537 shares)				(37)		(37)
<b>Balance at March 31, 2011</b>	<b>\$ 106,333</b>	<b>\$ 74,285</b>	<b>\$ 51,837</b>	<b>\$ 400,501</b>	<b>\$ (6,389)</b>	<b>\$ (46,452)</b>
						<b>\$ 580,115</b>

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>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 6,295	\$ 11,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,640	4,430
Provision for unfunded loan commitments	265	(240)
Depreciation and amortization	1,465	1,713
Net amortization (accretion) of discounts and premiums	318	184
Stock-based compensation expense	181	172
Securities gains, net	(13)	(153)
Deferred income taxes	(2,042)	(1,083)
Mortgage loans originated for sale	(23,109)	(21,524)
Proceeds from the sale of loans	29,510	24,488
Gain on the sale of loans, net	(369)	(244)
Net (increase) decrease in interest receivable	(54)	934
Net increase (decrease) in interest payable	160	(530)
Net decrease in other assets	753	1,785
Net (decrease) increase in other liabilities	(11,442)	6,006
<b>Net Cash Provided by Operating Activities</b>	<b>12,558</b>	<b>27,242</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities, prepayments and calls of securities available-for-sale	13,065	56,778
Proceeds from sales of securities available-for-sale	70	1,387
Purchases of securities available-for-sale	(56,127)	(30,576)
Net decrease in loans	50,965	1,063
Purchases of premises and equipment	(613)	(123)
Proceeds from the sale of premises and equipment	253	26
<b>Net Cash Provided by Investing Activities</b>	<b>7,613</b>	<b>28,555</b>
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in core deposits	6,991	(48,475)
Net (decrease) increase in certificates of deposit	(18,708)	89,713
Net decrease in short-term borrowings		(51,300)
Net (decrease) increase in securities sold under repurchase agreements	(2,384)	3,061
Repayments of long-term borrowings	(391)	(40,263)
Sale of treasury stock	532	442
Cash dividends paid to preferred shareholder	(1,359)	(1,359)
Cash dividends paid to common shareholders	(4,193)	(4,163)
<b>Net Cash Used in Financing Activities</b>	<b>(19,512)</b>	<b>(52,344)</b>
Net increase in cash and cash equivalents	659	3,453
Cash and cash equivalents at beginning of period	108,196	69,152

<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 108,855</b>	<b>\$ 72,605</b>
---	-------------------	------------------

**Supplemental Disclosures**

Transfers of other real estate owned and other repossessed assets	\$ 2,677	\$ 2,425
Interest paid	7,159	7,940

Income taxes paid <sup>(1)</sup>

*(1) There were no taxes paid during either of the quarters presented above due to the carryforward of prior year overpayments.*

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.

##### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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**

###### *Disclosures about Credit Quality and the Allowance for Credit Losses*

In July 2010, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update ( ASU ) that significantly increases disclosures about the credit quality of financing receivables and the allowance for credit losses, and requires additional information, such as aging information and credit quality indicators disaggregated by portfolio segment and class. The disaggregated information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Required disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010, while required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. Required disclosures specifically related to troubled debt restructurings were deferred in an ASU issued in January 2011. The effect of this update is included in the notes to the consolidated financial statements. The adoption of this ASU did not have a material impact on S&T 's consolidated financial statements.

###### *Fair Value Measurements*

In January 2010, the FASB issued an ASU requiring new disclosures on transfers into and out of Level 1 and 2 fair value measurements of the fair value hierarchy and requiring separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which was effective for fiscal years beginning after December 15, 2010. The additional Level 3 disclosures that are now required have been included in the notes to the consolidated financial statements. The adoption of this ASU did not have a material impact on S&T 's consolidated financial statements.

###### *Goodwill Impairment*

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

In December 2010, the FASB issued an ASU that 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 a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an 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, the amendments in this ASU are 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 consolidated financial position.

---

**Table of Contents**

**S&T BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**

**Recently Issued Accounting Standards Updates not yet Adopted**

***Troubled Debt Restructurings***

In April 2011, the FASB issued an ASU clarifying when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly-considered impaired receivables an entity should apply the guidance prospectively in the first interim period beginning on or after June 15, 2011. The disclosures relating to troubled debt restructurings will be required in the first interim period beginning on or after June 15, 2011. The adoption of this ASU is not expected to have a material impact on S&T's consolidated financial statements.

**Reclassification**

Certain prior period amounts 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 ( 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 ), 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.

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,

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

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:

## **Table of Contents**

### **S&T BANCORP, INC. AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**

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 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. All mortgage-backed securities are residential.

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. All marketable equity securities are in the financial services industry.

##### ***Trading Assets***

When available, S&T uses quoted market prices to determine the 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***



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

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. 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 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 carried at the lower of cost or fair value. Periodically, it may be necessary to record fair value adjustments under lower of cost or fair value. S&T determines 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.

---

**Table of Contents**

**S&T BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**

***Impaired Loans***

A loan is considered impaired when 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. S&T individually evaluates all substandard and doubtful commercial loans greater than \$0.5 million for impairment and any other commercial loans greater than \$0.5 million identified by management that show signs of impairment. 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 from approved, independent state certified appraisers. Fair value is determined as the recorded investment balance less any specific reserve.

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. 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 construction and commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at estimated fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of carrying value or current 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. OREO and other repossessed assets are classified as Level 2.

***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. As the valuation model includes significant unobservable inputs, MSR are classified as Level 3. If the carrying value of MSR exceeds fair value, they are considered impaired. As a result, they are carried at fair value and classified within Level 3 of 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 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***

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

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks and interest-bearing deposits with banks approximates fair value.

### *Loans*

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

**Table of Contents**

**S&T BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**

***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***

For the variable rate junior subordinated debt securities that reprice quarterly, 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, 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 assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at March 31, 2011 and December 31, 2010. There were no transfers between Level 1 and Level 2 during the periods presented.

<i>(in thousands)</i>	March 31, 2011			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$ -	\$ 124,719	\$ -	\$ 124,719
Collateralized mortgage obligations of U.S. government corporations and agencies	-	73,877	-	73,877
Mortgage-backed securities of U.S. government corporations and agencies	-	58,640	-	58,640
Obligations of states and political subdivisions	-	62,400	-	62,400
Marketable equity securities	2,004	8,240	1,656	11,900
<b>Total securities available-for-sale</b>	<b>2,004</b>	<b>327,876</b>	<b>1,656</b>	<b>331,536</b>
Trading securities held in a Rabbi Trust under a deferred compensation plan	2,050	-	-	2,050
<b>Total securities</b>	<b>4,054</b>	<b>327,876</b>	<b>1,656</b>	<b>333,586</b>
Derivative financial assets:				
Interest rate swaps	-	15,033	-	15,033
Interest rate lock commitments	-	244	-	244
<b>Total Assets</b>	<b>\$ 4,054</b>	<b>\$ 343,153</b>	<b>\$ 1,656</b>	<b>\$ 348,863</b>
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swaps	\$ -	\$ 14,970	\$ -	\$ 14,970
Forward sale contracts	-	48	-	48
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 15,018</b>	<b>\$ -</b>	<b>\$ 15,018</b>

<i>(in thousands)</i>	December 31, 2010			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$ -	\$ 125,675	\$ -	\$ 125,675
Collateralized mortgage obligations of U.S. government corporations and agencies	-	41,491	-	41,491
Mortgage-backed securities of U.S. government corporations and agencies	-	43,991	-	43,991
Obligations of states and political subdivisions	-	65,772	-	65,772
Marketable equity securities	1,528	7,980	1,588	11,096

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

Total securities available-for-sale	1,528	284,909	1,588	288,025
Trading securities held in a Rabbi Trust under a deferred compensation plan	2,089	-	-	2,089
<b>Total securities</b>	<b>3,617</b>	<b>284,909</b>	<b>1,588</b>	<b>290,114</b>
Derivative financial assets:				
Interest rate swaps	-	17,518	-	17,518
Interest rate lock commitments	-	217	-	217
Forward sale contracts	-	412	-	412
<b>Total Assets</b>	<b>\$ 3,617</b>	<b>\$ 303,056</b>	<b>\$ 1,588</b>	<b>\$ 308,261</b>
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swaps	\$ -	\$ 17,355	\$ -	\$ 17,355
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 17,355</b>	<b>\$ -</b>	<b>\$ 17,355</b>

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

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.

<i>(in thousands)</i>	March 31, 2011	March 31, 2010
Balance at beginning of period	\$ 1,588	\$ 1,138
Total gains (losses) included in other comprehensive loss	68	-
<b>Balance at end of period</b>	<b>\$ 1,656</b>	<b>\$ 1,138</b>

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

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

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.

<i>(in thousands)</i>	March 31, 2011			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Loans held for sale	\$ -	\$ 2,305	\$ -	\$ 2,305
Impaired loans	-	18,911	3,310	22,221
Other real estate owned	-	7,374	322	7,696
Mortgage servicing rights	-	-	2,869	2,869
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 28,590</b>	<b>\$ 6,501</b>	<b>\$ 35,091</b>

<i>(in thousands)</i>	December 31, 2010			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Loans held for sale	\$ -	\$ 8,337	\$ -	\$ 8,337
Impaired loans	-	10,968	1,478	12,446
Other real estate owned	-	5,820	-	5,820
Mortgage servicing rights	-	-	2,510	2,510

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

<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 25,125</b>	<b>\$ 3,988</b>	<b>\$ 29,113</b>
---------------------	-------------	------------------	-----------------	------------------

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.



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

The following table presents the estimated fair value of financial instruments as of:

<i>(in thousands)</i>	March 31, 2011		December 31, 2010	
	Fair Value	Carrying Value <sup>(1)</sup>	Fair Value	Carrying Value <sup>(1)</sup>
<b>ASSETS</b>				
Cash and due from banks and interest-bearing deposits with banks	\$ 108,855	\$ 108,855	\$ 108,196	\$ 108,196
Securities available-for-sale	331,536	331,536	288,025	288,025
Federal Home Loan Bank stock, at cost	21,247	21,247	22,365	22,365
Loans	3,264,323	3,304,321	3,336,421	3,363,927
Bank owned life insurance	55,427	55,427	54,924	54,924
Trading securities	2,050	2,050	2,089	2,089
Mortgage servicing rights	2,869	2,869	2,510	2,510
Interest rate swaps	15,033	15,033	17,518	17,518
Interest rate lock commitments	244	244	217	217
Forward sales contracts	-	-	412	412
<b>LIABILITIES</b>				
Deposits	\$ 3,319,035	\$ 3,305,839	\$ 3,328,864	\$ 3,317,524
Securities sold under repurchase agreements	38,270	38,270	40,653	40,653
Long-term borrowings	30,318	28,974	31,345	29,365
Junior subordinated debt securities	91,165	90,619	91,460	90,619
Interest rate swaps	14,970	14,970	17,355	17,355
Forward sales contracts	48	48	-	-

<sup>(1)</sup> 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 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

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

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 fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Income.

**Table of Contents****S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****Interest Rate Lock Commitments and Forward Sales 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 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.

<i>(in thousands)</i>	Derivatives		Derivatives	
	(included in Other Assets)		(included in Other Liabilities)	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
<b>Derivatives not Designated as Hedging Instruments</b>				
<b>Interest Rate Swap Contracts - Commercial Loans</b>				
Fair value	\$ 15,033	\$ 17,518	\$ 14,970	\$ 17,355
Notional amount	209,100	211,078	209,100	211,078
Collateral posted	-	-	13,795	13,928
<b>Interest Rate Lock Commitments - Mortgage Loans</b>				
Fair value	244	217	-	-
Notional amount	8,296	17,033	-	-
<b>Forward Sale Contracts - Mortgage Loans</b>				
Fair value	-	412	48	-
Notional amount	-	21,785	7,850	-

<i>(in thousands)</i>	Amount of (Loss) Gain Recognized in Income on Derivatives	
	March 31, 2011	March 31, 2010
	<b>Derivatives not Designated as Hedging Instruments</b>	
Interest rate swap contracts - commercial loans	\$(100)	\$ 105
Interest rate lock commitments - mortgage loans	27	47
Forward sale contracts - mortgage loans	(460)	(200)
<b>Total Derivatives not Designated as Hedging Instruments</b>	<b>\$(533)</b>	<b>\$ (48)</b>



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

<i>(in thousands)</i>	Amortized Cost	March 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligations of U.S. government corporations and agencies	\$ 123,509	\$ 1,512	\$ (302)	\$ 124,719
Collateralized mortgage obligations of U.S. government corporations and agencies	72,878	1,479	(480)	73,877
Mortgage-backed securities of U.S. government corporations and agencies	56,127	2,513	-	58,640
Obligations of states and political subdivisions	60,974	1,489	(63)	62,400
<b>Debt Securities</b>	<b>313,488</b>	<b>6,993</b>	<b>(845)</b>	<b>319,636</b>
Marketable equity securities	10,290	1,758	(148)	11,900
<b>Total</b>	<b>\$ 323,778</b>	<b>\$ 8,751</b>	<b>\$ (993)</b>	<b>\$ 331,536</b>

<i>(in thousands)</i>	Amortized Cost	December 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligations of U.S. government corporations and agencies	\$ 123,812	\$ 2,078	\$ (215)	\$ 125,675
Collateralized mortgage obligations of U.S. government corporations and agencies	39,790	1,701	-	41,491
Mortgage-backed securities of U.S. government corporations and agencies	41,373	2,618	-	43,991
Obligations of states and political subdivisions	64,651	1,357	(236)	65,772
<b>Debt Securities</b>	<b>269,626</b>	<b>7,754</b>	<b>(451)</b>	<b>276,929</b>
Marketable equity securities	10,347	1,010	(261)	11,096
<b>Total</b>	<b>\$ 279,973</b>	<b>\$ 8,764</b>	<b>\$ (712)</b>	<b>\$ 288,025</b>

There were no significant gross realized gains or losses for the three months ended March 31, 2011. There were \$0.2 million in gross realized gains and no significant gross realized losses for the three months ended March 31, 2010. Realized gains and losses on the sale of securities are determined using the specific-identification method.

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

Net unrealized gains of \$5.0 million and \$5.2 million were included in accumulated other comprehensive loss, net of tax, at March 31, 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:

<i>(in thousands)</i>	Less than 12 Months		March 31, 2011 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	\$ 31,589	\$ (302)	\$ -	\$ -	\$ 31,589	\$ (302)
Collateralized mortgage obligations of U.S. government corporations and agencies	37,435	(480)	-	-	37,435	(480)
Obligations of states and political subdivisions	7,503	(46)	941	(17)	8,444	(63)
<b>Debt Securities Available-for-Sale</b>	<b>76,527</b>	<b>(828)</b>	<b>941</b>	<b>(17)</b>	<b>77,468</b>	<b>(845)</b>
Marketable equity securities	657	(148)	-	-	657	(148)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 77,184</b>	<b>\$ (976)</b>	<b>\$ 941</b>	<b>\$ (17)</b>	<b>\$ 78,125</b>	<b>\$ (993)</b>

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

S&T does not believe any individual unrealized loss as of March 31, 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 the it recovering.

As of March 31, 2011, the unrealized losses on 30 debt securities were primarily attributable to changes in interest rates. The unrealized losses on 7 marketable equity securities as of March 31, 2011 were attributable to temporary declines in fair value. S&T does not intend to sell and it is

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

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 March 31, 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.

<i>(in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 14,096	\$ 14,412
Due after one year through five years	132,345	133,992
Due after five years through ten years	9,934	10,126
Due after ten years	28,108	28,589
	<b>184,483</b>	<b>187,119</b>
Collateralized mortgage obligations of U.S. government corporations and agencies	72,878	73,877
Mortgage-backed securities of U.S. government corporations and agencies	56,127	58,640
<b>Total Debt Securities</b>	<b>313,488</b>	<b>319,636</b>
Marketable equity securities	10,290	11,900
<b>Total</b>	<b>\$ 323,778</b>	<b>\$ 331,536</b>

At March 31, 2011 and December 31, 2010, securities with principal amounts of \$218.6 million and \$209.3 million, respectively, were pledged to secure repurchase agreements, public funds and trust fund deposits.

**NOTE 6. RESTRICTED INVESTMENT IN BANK STOCK**

S&T is a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh. The FHLB requires member banks to purchase and hold FHLB stock based on their Member Asset Value, as defined and calculated by the FHLB on an annual basis, and their level of activity with the FHLB, including, among other things, advances and letters of credit. 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, FHLB stock does not provide its holders with an opportunity for capital appreciation because, by regulation, it can only be purchased, redeemed and transferred at par value.

At March 31, 2011 and December 31, 2010, S&T's FHLB stock totaled \$21.2 million and \$22.4 million, respectively. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

In December 2008 the FHLB suspended the payment of dividends and the repurchase of excess capital stock until further notice. On October 28, 2010 the FHLB announced that it would partially lift its suspension on the repurchase of excess capital stock and would review future excess capital stock repurchases on a quarterly basis. Management reviewed the FHLB's Form 10-K for the period ended December 31, 2010 filed with the SEC on March 18, 2011 to support their conclusion around OTTI of FHLB stock.

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

S&T believes its holdings in the stock are ultimately recoverable at par value as of March 31, 2011 and, therefore, determined that the FHLB stock was not OTTI. In addition, S&T has sufficient liquidity and does not require redemption of its FHLB stock in the foreseeable future. On October 29, 2010, S&T received \$1.2 million from the FHLB to redeem 11,771 shares of capital stock, \$1.1 million for the redemption of 11,183 shares on February 24, 2011 and an additional \$1.1 million for the redemption of 10,624 shares on April 29, 2011.

**Table of Contents****S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 7. LOANS AND LOANS HELD FOR SALE**

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

<i>(in thousands)</i>	March 31, 2011	December 31, 2010
<b>Consumer:</b>		
Home equity	\$ 436,357	\$ 441,096
Residential mortgage	342,904	359,536
Installment and other consumer	70,573	74,780
Consumer construction	4,322	4,019
<b>Total Consumer Loans</b>	<b>854,156</b>	<b>879,431</b>
<b>Commercial:</b>		
Commercial real estate	1,488,700	1,494,202
Commercial and industrial	713,683	722,359
Commercial construction	245,477	259,598
<b>Total Commercial Loans</b>	<b>2,447,860</b>	<b>2,476,159</b>
<b>Total Portfolio Loans</b>	<b>3,302,016</b>	<b>3,355,590</b>
Allowance for loan losses	(61,663)	(51,387)
<b>Total Portfolio Loans, net</b>	<b>3,240,353</b>	<b>3,304,203</b>
Loans held for sale	2,305	8,337
<b>Total Loans</b>	<b>\$ 3,242,658</b>	<b>\$ 3,312,540</b>

S&T attempts to limit its exposure to credit risk by diversifying its loan portfolio and actively managing concentrations. When concentrations exist in certain segments, S&T mitigates this risk by monitoring relevant economic indicators and internal risk rating trends, and through stress testing of the loans in those segments. Since S&T is primarily a lender to businesses in western Pennsylvania, there is a concentration in commercial loans as well as a geographic loan concentration in Pennsylvania. Commercial loans represent 74 percent of total portfolio loans at both March 31, 2011 and December 31, 2010. Within the commercial portfolio, the commercial real estate ( CRE ) and commercial construction portfolios combined comprise 71 percent of commercial loans and 53 percent of total loans at both March 31, 2011 and December 31, 2010. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of 9 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 21 percent of the combined portfolio or 11 percent of total loans at both March 31, 2011 and December 31, 2010 being

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

out of state. Management believes underwriting guidelines and ongoing review by loan administration mitigate the concentration risk present in the loan portfolio.

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

<i>(in thousands)</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Nonperforming loans	\$ 80,846	\$ 63,883
OREO	7,696	5,820
<b>Total Nonperforming Assets</b>	<b>\$ 88,542</b>	<b>\$ 69,703</b>

OREO and other repossessed assets, which are included in other assets in the Consolidated Balance Sheets consists of 28 properties with three properties comprising \$4.6 million or 59 percent of the balance.

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

The following table presents restructured loans for the periods presented:

<i>(in thousands)</i>	March 31, 2011			December 31, 2010		
	Performing Restructured Loans	Nonperforming Restructured Loans	Total Restructured Loans	Performing Restructured Loans	Nonperforming Restructured Loans	Total Restructured Loans
Commercial real estate	\$ 1,806	\$ 29,470	\$ 31,276	\$ 1,194	\$ 29,636	\$ 30,830
Commercial and industrial	903	940	1,843	37	1,000	1,037
Commercial construction	-	4,103	4,103	-	2,143	2,143
Home equity	-	-	-	-	-	-
Residential mortgage	601	430	1,031	908	-	908
Installment and other consumer	-	-	-	-	-	-
Consumer construction	-	-	-	-	-	-
<b>Ending Balance</b>	<b>\$ 3,310</b>	<b>\$ 34,943</b>	<b>\$ 38,253</b>	<b>\$ 2,139</b>	<b>\$ 32,779</b>	<b>\$ 34,918</b>

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: a reduction of contractual interest rates below the market interest rate for new debt with similar characteristics, acceptance of other assets or an equity interest in the debtor in partial satisfaction of the debt, a reduction or forgiveness of principal, a 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.

**NOTE 8. 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 segments: 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 segment:

**CRE** Loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. 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

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

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 1st and 2nd 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 segment. The state of the local housing market can also have a significant impact on this portfolio since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

**Other Consumer** Loans made to individuals that may be secured by assets other than 1-4 family residences as well as unsecured loans. This segment includes auto loans, unsecured 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 segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

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

Management further assesses risk within each portfolio segment using the key inherent risk differentiators. For the commercial loan segments, 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. 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 segments 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 1st or 2nd 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:

<i>(in thousands)</i>	Current	March 31, 2011			Total Past Due	Total Loans
		30-59 Days Past Due	60-89 Days Past Due	Non-performing		
Commercial real estate	\$ 1,423,351	\$ 4,726	\$ 3,434	\$ 57,189	\$ 65,349	\$ 1,488,700
Commercial and industrial	695,782	7,815	1,005	9,081	17,901	713,683
Commercial construction	236,622	1,297	202	7,356	8,855	245,477
Home equity	431,411	2,165	923	1,858	4,946	436,357
Residential mortgage	332,489	4,199	879	5,337	10,415	342,904
Installment and other consumer	70,219	297	32	25	354	70,573
Consumer construction	4,322	-	-	-	-	4,322
<b>Totals</b>	<b>\$ 3,194,196</b>	<b>\$ 20,499</b>	<b>\$ 6,475</b>	<b>\$ 80,846</b>	<b>\$ 107,820</b>	<b>\$ 3,302,016</b>

<i>(in thousands)</i>	Current	December 31, 2010			Total Past Due	Total Loans
		30-59 Days Past Due	60-89 Days Past Due	Non-performing		
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	-	-	525	525	4,019

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

<b>Totals</b>	<b>\$ 3,280,648</b>	<b>\$ 7,158</b>	<b>\$ 3,901</b>	<b>\$ 63,883</b>	<b>\$ 74,942</b>	<b>\$ 3,355,590</b>
---------------	---------------------	-----------------	-----------------	------------------	------------------	---------------------

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.

**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.



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

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

<i>(in thousands)</i>	<b>Commercial Real Estate</b>	<b>March 31, 2011 Commercial &amp; Industrial</b>	<b>Commercial Construction</b>
Pass	\$ 1,250,149	\$ 610,750	\$ 201,984
Special mention	98,780	57,460	10,534
Substandard	139,771	45,473	32,959
<b>Total</b>	<b>\$ 1,488,700</b>	<b>\$ 713,683</b>	<b>\$ 245,477</b>

<i>(in thousands)</i>	<b>Commercial Real Estate</b>	<b>December 31, 2010 Commercial &amp; Industrial</b>	<b>Commercial Construction</b>
Pass	\$ 1,297,242	\$ 619,011	\$ 221,492
Special mention	86,653	76,158	16,308
Substandard	110,307	27,190	21,798
<b>Total</b>	<b>\$ 1,494,202</b>	<b>\$ 722,359</b>	<b>\$ 259,598</b>

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:

<i>(in thousands)</i>	<b>Home Equity</b>	<b>Residential Mortgage</b>	<b>March 31, 2011 Installment and other consumer</b>	<b>Consumer Construction</b>
Performing	\$ 434,499	\$ 337,567	\$ 70,548	\$ 4,322
Nonperforming	1,858	5,337	25	-
<b>Total</b>	<b>\$ 436,357</b>	<b>\$ 342,904</b>	<b>\$ 70,573</b>	<b>\$ 4,322</b>

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

<i>(in thousands)</i>	December 31, 2010			
	Home Equity	Residential Mortgage	Installment and other consumer	Consumer Construction
Performing	\$ 439,663	\$ 353,540	\$ 74,715	\$ 3,494
Nonperforming	1,433	5,996	65	525
<b>Total</b>	<b>\$ 441,096</b>	<b>\$ 359,536</b>	<b>\$ 74,780</b>	<b>\$ 4,019</b>

**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 and any other commercial loans greater than \$0.5 million identified by management that show signs of impairment. 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:

<i>(in thousands)</i>	Recorded Investment	Unpaid Principal Balance	March 31, 2011		Interest Income Recognized
			Related Allowance	Average Recorded Investment	
With a related allowance recorded:					
Commercial real estate	\$ 22,839	\$ 24,250	\$ 5,266	\$ 16,041	\$ 69
Commercial and industrial	3,998	3,998	2,907	2,377	-
Commercial construction	3,938	3,938	381	5,569	-
<b>Total with a related allowance recorded</b>	<b>30,775</b>	<b>32,186</b>	<b>8,554</b>	<b>23,987</b>	<b>69</b>
Without a related allowance recorded:					
Commercial real estate	30,511	35,593	-	30,029	154
Commercial and industrial	3,934	5,719	-	2,240	22
Commercial construction	3,309	4,828	-	5,388	4
<b>Total without a related allowance recorded</b>	<b>37,754</b>	<b>46,140</b>	<b>-</b>	<b>37,657</b>	<b>180</b>
Total:					
Commercial real estate	53,350	59,843	5,266	46,070	223
Commercial and industrial	7,932	9,717	2,907	4,617	22
Commercial construction	7,247	8,766	381	10,957	4
<b>Total</b>	<b>\$ 68,529</b>	<b>\$ 78,326</b>	<b>\$ 8,554</b>	<b>\$ 61,644</b>	<b>\$ 249</b>

<i>(in thousands)</i>	Recorded Investment	Unpaid Principal Balance	December 31, 2010		Interest Income Recognized
			Related Allowance	Average Recorded Investment	
With a related allowance recorded:					
Commercial real estate	\$ 10,152	\$ 11,466	\$ 1,992	\$ 21,023	\$ 489

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

Commercial and industrial	1,263	1,263	337	1,623	22
Commercial construction	4,662	4,662	1,302	7,165	-
<b>Total with a related allowance recorded</b>	<b>16,077</b>	<b>17,391</b>	<b>3,631</b>	<b>29,811</b>	<b>511</b>
Without a related allowance recorded:					
Commercial real estate	29,788	37,567	-	28,074	442
Commercial and industrial	1,491	3,280	-	1,370	-
Commercial construction	3,325	4,853	-	7,202	20
<b>Total without a related allowance recorded</b>	<b>34,604</b>	<b>45,700</b>	<b>-</b>	<b>36,646</b>	<b>462</b>
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
<b>Total</b>	<b>\$ 50,681</b>	<b>\$ 63,091</b>	<b>\$ 3,631</b>	<b>\$ 66,457</b>	<b>\$ 973</b>

**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:

<i>(in thousands)</i>	March 31, 2011					March 31, 2010	
	Commercial Real Estate	Commercial & Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans	Total Loans
Allowance for loan losses:							
Beginning at January 1	\$ 30,425	\$ 9,777	\$ 5,904	\$ 3,962	\$ 1,319	\$ 51,387	\$ 59,580
Charge-offs	(464)	(272)	(673)	(924)	(207)	(2,540)	(2,140)
Recoveries	524	95	711	746	100	2,176	1,153
<b>Net Charge-offs</b>	<b>60</b>	<b>(177)</b>	<b>38</b>	<b>(178)</b>	<b>(107)</b>	<b>(364)</b>	<b>(987)</b>
Provision for loan losses	9,201	1,091	922	(558)	(16)	10,640	4,430
<b>Balance at End of Period</b>	<b>\$ 39,686</b>	<b>\$ 10,691</b>	<b>\$ 6,864</b>	<b>\$ 3,226</b>	<b>\$ 1,196</b>	<b>\$ 61,663</b>	<b>\$ 63,023</b>
Allowance for credit losses:							
For Loans individually evaluated for impairment	5,266	2,907	381	-	-	8,554	20,252
For Loans collectively evaluated for impairment	34,420	7,784	6,483	3,226	1,196	53,109	42,771
<b>Total Allowance for Loan Losses</b>	<b>39,686</b>	<b>10,691</b>	<b>6,864</b>	<b>3,226</b>	<b>1,196</b>	<b>61,663</b>	<b>63,023</b>
Portfolio Loans:							
Individually evaluated for impairment	53,350	7,932	7,247	-	-	68,529	87,774
Collectively evaluated for impairment	1,435,350	705,751	238,230	783,583	70,573	3,233,487	3,307,520
<b>Total Portfolio Loans</b>	<b>\$ 1,488,700</b>	<b>\$ 713,683</b>	<b>\$ 245,477</b>	<b>\$ 783,583</b>	<b>\$ 70,573</b>	<b>\$ 3,302,016</b>	<b>\$ 3,395,294</b>

**NOTE 9. 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 MSR, 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 MSR is determined by calculating the present value of estimated future net servicing cash flows, considering expected prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rates of prepayments are the most significant factor driving the value of MSR. Increases in prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the estimated fair value of 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 are reported in other assets in the Consolidated Balance Sheets and are

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

amortized into mortgage banking in the Consolidated Statements of Income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans.

MSR are regularly evaluated for impairment based on the estimated fair value of those rights. MSR are 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.

MSR 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 MSR. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent recoveries.

For the three months ended March 31, 2011 and 2010, 1-4 family mortgage loans that were sold to Fannie Mae amounted to \$26.4 million and \$22.2 million, respectively. At March 31, 2011 and 2010, S&T's servicing portfolio totaled \$331.5 million and \$270.9 million, respectively.

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

The following tables present MSR and the net carrying values for the three months ended March 31, 2011 and 2010:

<i>(in thousands)</i>	Servicing Rights	Valuation Allowance	Net Carrying Value
Balance at beginning of period	\$ 3,292	\$ (825)	\$ 2,467
Additions/(reductions)	256	270	526
Amortization	(124)	-	(124)
<b>Ending Balance at March 31, 2011</b>	<b>\$ 3,424</b>	<b>\$ (555)</b>	<b>\$ 2,869</b>

<i>(in thousands)</i>	Servicing Rights	Valuation Allowance	Net Carrying Value
Balance at beginning of period	\$ 2,692	\$ (592)	\$ 2,100
Additions/(reductions)	232	(9)	223
Amortization	(118)	-	(118)
<b>Ending Balance at March 31, 2010</b>	<b>\$ 2,806</b>	<b>\$ (601)</b>	<b>\$ 2,205</b>

**NOTE 10. 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 March 31, 2011 and December 31, 2010, the only short-term borrowings that S&T had outstanding were comprised of REPOs totaling \$38.3 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:

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

<i>(in thousands)</i>	March 31, 2011	December 31, 2010
Long-term borrowings	\$ 28,974	\$ 29,365
Junior subordinated debt securities	90,619	90,619
<b>Total</b>	<b>\$ 119,593</b>	<b>\$ 119,984</b>

S&T had total long-term debt outstanding of \$50.6 million at a fixed rate and \$68.7 million at a variable rate at March 31, 2011. Included in long-term borrowings is a capital lease of \$0.3 million.

S&T had total borrowings at March 31, 2011 and December 31, 2010 at the FHLB of Pittsburgh of \$28.7 million and \$29.1 million, respectively. There were no short-term borrowings at the end of the current period. At March 31, 2011, S&T had a maximum borrowing capacity of \$1.3 billion with the FHLB of Pittsburgh.

**NOTE 11. 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.



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

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

<i>(in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Service cost benefits earned during the period	\$ 654	\$ 614
Interest cost on projected benefit obligation	1,043	1,016
Expected return on plan assets	(1,344)	(1,200)
Amortization of prior service cost	(2)	(2)
Recognized net actuarial loss	187	220
<b>Net Periodic Pension Expense</b>	<b>\$ 538</b>	<b>\$ 648</b>

**NOTE 12. 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. 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 totaled \$2.9 million at March 31, 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:

<i>(in thousands)</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Commitments to extend credit	\$ 860,710	\$ 836,042
Standby letters of credit	130,508	135,489
<b>Total</b>	<b>\$ 991,218</b>	<b>\$ 971,531</b>

**Litigation**

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

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.

**Table of Contents****S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 13. EARNINGS PER COMMON SHARE**

Basic earnings per common share ( EPS ) is calculated by dividing net income available 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 anti-dilutive stock options of 746,435 and 1,082,706 shares and anti-dilutive restricted stock of 11,954 and 3,557 shares for the three months ended March 31, 2011 and 2010, respectively. Further 517,012 common stock warrants were anti-dilutive at both March 31, 2011 and 2010.

The following table reconciles the weighted average common shares outstanding used to calculate basic EPS to the weighted average common shares used to calculate diluted EPS:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Weighted average common shares outstanding (basic)	27,936,723	27,724,495
Effect of dilutive stock options and restricted stock	20,279	28,889
<b>Weighted Average Common Shares Outstanding (Diluted)</b>	<b>27,957,002</b>	<b>27,753,384</b>

**NOTE 14. SEGMENTS**

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, savings, money market, certificates of deposit, and 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 benefit plan assets 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:

<i>(in thousands)</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Community Banking	\$ 4,081,027	\$ 4,103,898

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

Insurance	7,658	8,461
Wealth Management	1,369	1,980
<b>Total Assets</b>	<b>\$ 4,090,054</b>	<b>\$ 4,114,339</b>

The following tables provide financial information for S&T's three operating segments. 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.

<i>(in thousands)</i>	Three Months Ended March 31, 2011				
	Community Banking	Wealth Management	Insurance	Eliminations	Consolidated
Interest income	\$ 42,141	\$ 92	\$ -	\$ (41)	\$ 42,192
Interest expense	7,325	-	73	(78)	7,320
Net interest income (expense)	34,816	92	(73)	37	34,872
Provision for loan losses	10,640	-	-	-	10,640
Noninterest income	7,382	2,086	1,333	225	11,026
Noninterest expense	21,516	1,726	1,263	1,384	25,889
Depreciation expense	1,074	9	14	-	1,097
Amortization of intangible assets	431	18	14	-	463
Provision for income taxes	2,480	167	(11)	(1,122)	1,514
<b>Net Income (Loss)</b>	<b>\$ 6,057</b>	<b>\$ 258</b>	<b>\$ (20)</b>	<b>\$ -</b>	<b>\$ 6,295</b>

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

<i>(in thousands)</i>	Three Months Ended March 31, 2010					Consolidated
	Community	Wealth	Insurance	Eliminations		
	Banking	Management				
Interest income	\$ 45,300	\$ 132	\$ -	\$ (108)	\$ 45,324	
Interest expense	9,453	-	73	(116)	9,410	
Net interest income (expense)	35,847	132	(73)	8	35,914	
Provision for loan losses	4,430	-	-	-	4,430	
Noninterest income	7,490	2,019	1,525	309	11,343	
Noninterest expense	22,013	1,591	1,154	1,577	26,335	
Depreciation expense	1,039	9	24	-	1,072	
Amortization of intangible assets	489	20	14	-	523	
Provision for income taxes	4,555	205	93	(1,260)	3,593	
<b>Net Income</b>	<b>\$ 10,811</b>	<b>\$ 326</b>	<b>\$ 167</b>	<b>\$ -</b>	<b>\$ 11,304</b>	

**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 in its financial condition and results of operations at and for the three months ended March 31, 2011 and 2010. MD&A should be read in conjunction with the consolidated financial statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

**Important Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains or incorporates statements that 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:

- 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;

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

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;  
continued deterioration of the housing market and reduced demand for mortgages;  
containing costs and expenses;

---

**Table of Contents**

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

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 Estimates**

S&T's critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of March 31, 2011 have remained unchanged from the disclosures presented in S&T's Annual Report on Form 10-K for the year ended December 31, 2010 under the section Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Overview**

S&T is a bank holding company headquartered in Indiana, Pennsylvania with assets of \$4.1 billion at March 31, 2011. S&T provides a full range of financial services through 51 branch offices located in Allegheny, Armstrong, Blair, Butler, 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 plan investment management and administration, corporate services, and other fiduciary services.

S&T earns revenue primarily from interest on loans, securities investments and fees charged for financial services provided to its customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses and other operating costs such as: salaries and employee benefits, occupancy, data processing expenses and tax expense. S&T's strategic plan to deliver profitable growth to its shareholders includes: increasing loans and core deposits with sufficient interest rate spreads, controlling loan delinquency and loan losses, controlling operating expenses, expanding the business through organic growth and acquisitions, introducing new products and services and expanding the products and services provided to its 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 quarter of 2011 was \$4.7 million resulting in diluted earnings per common share of \$0.17 compared to net income of \$9.8 million and \$0.35 diluted earnings per share in the first quarter of 2010. The decrease in net income was primarily driven by an increase in the provision for loan losses. During the first quarter of 2011, a provision of \$10.6 million was recorded compared to \$4.4 million in the first quarter of 2010. The provision increased primarily due to an increase in the general reserve as a result of an increase in substandard loans, all of which were downgraded in response to an updated evaluation of each credit based on receipt of recently available financial information. Net interest margin declined to 3.92 percent for the first quarter of 2011 compared to 4.00 percent in the same period in the prior year.

Asset quality will continue to be a primary driver of our results for the remainder of fiscal 2011. 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.

**Explanation of Use of Non-GAAP Financial Measures**

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

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



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued**

Management believes 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 is reconciled to net interest income adjusted to a fully taxable equivalent basis in the table below for the three months ended March 31, 2011 and 2010.

Operating revenue is the sum of net interest income and noninterest income less securities gains. In order to understand the significance of net interest income to S&T's business and operating results, 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 March 31, 2011 Compared to****Three Months Ended March 31, 2010****Net Income**

Net income available to common shareholders was \$4.7 million or \$0.17 diluted earnings per share for the first quarter of 2011 compared to \$9.8 million or \$0.35 diluted earnings per share for the same period in 2010. The decrease in net income was principally driven by a \$1.0 million decline in net interest income and a \$6.2 million increase in the provision for loan losses, partially offset by a \$2.1 million decrease in the provision for income taxes, resulting from the decline in pretax income. The common return on average assets was 0.47 percent for the three months ended March 31, 2011, compared to 0.96 percent for the three months ended March 31, 2010. The common return on average common equity was 3.31 percent for the three months ended March 31, 2011 compared to 7.12 percent for the same period in 2010.

**Net Interest Income**

Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to S&T's financial performance because net interest income comprised 76 percent of operating revenue (net interest income plus noninterest income, excluding securities gains) in the first quarters of 2011 and 2010. The level and mix of interest-earning assets and interest-bearing liabilities are continually monitored by S&T's Asset and Liability Committee (ALCO), in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were successfully implemented, within prescribed ALCO risk parameters, to maintain an acceptable net yield on interest-earning assets (net interest margin) given the challenges of the current interest rate environment.

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

<i>(in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Interest income	\$ 42.2	\$ 45.3
Taxable equivalent adjustment to interest income	1.0	1.2
<b>Interest Income on a Fully Taxable Equivalent Basis</b>	<b>43.2</b>	<b>46.5</b>
Interest expense	7.3	9.4

<b>Net Interest Income on a Fully Taxable Equivalent Basis</b>	<b>\$ 35.9</b>	<b>\$ 37.1</b>
--	----------------	----------------

**Table of Contents****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 March 31, 2011			Three Months Ended March 31, 2010		
	Balance	Income	Rate	Balance	Income	Rate
<i>(in millions)</i>						
<b>ASSETS</b>						
Loans <sup>(1)</sup>	\$ 3,324.6	\$ 40.3	4.92%	\$ 3,404.1	\$ 43.0	5.12%
Securities/other <sup>(1)</sup>	384.8	2.9	3.02%	352.9	3.5	4.06%
<b>Total Interest-earning Assets</b>	<b>3,709.4</b>	<b>43.2</b>	<b>4.72%</b>	<b>3,757.0</b>	<b>46.5</b>	<b>5.02%</b>
Noninterest-earning assets	378.0			380.5		
<b>TOTAL</b>	<b>\$ 4,087.4</b>			<b>\$ 4,137.5</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
NOW/money market/savings	\$ 1,295.2	\$ 0.6	0.18%	\$ 1,249.9	\$ 0.9	0.29%
Certificates of deposit	1,231.2	5.5	1.81%	1,316.7	6.7	2.08%
Borrowed funds < 1 year	42.6	-	0.14%	132.3	0.1	0.28%
Borrowed funds > 1 year	119.7	1.2	4.21%	157.4	1.7	4.34%
<b>Total Interest-bearing Liabilities</b>	<b>2,688.7</b>	<b>7.3</b>	<b>1.10%</b>	<b>2,856.3</b>	<b>9.4</b>	<b>1.34%</b>
Noninterest-bearing liabilities:						
Demand deposits	767.6			684.0		
Shareholders' equity/other	631.1			597.2		
<b>TOTAL</b>	<b>\$ 4,087.4</b>			<b>\$ 4,137.5</b>		
<b>Net Yield on Interest-earning Assets<sup>(1)</sup></b>			<b>3.92%</b>			<b>4.00%</b>
<b>Net Interest Income<sup>(1)</sup></b>		<b>\$ 35.9</b>			<b>\$ 37.1</b>	

<sup>(1)</sup> 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.

When comparing the first quarter of 2011 to the first quarter of 2010 on a fully taxable-equivalent basis, net interest income and net interest margin decreased by \$1.2 million and 8 basis points, respectively. The decline in the net interest margin is a result of loan repricing and replacement volume at lower rates and an unfavorable shift in asset mix, offset by a better funding mix between deposits, including

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

noninterest-bearing demand deposits and borrowings.

Average securities increased by \$31.9 million and the fully taxable-equivalent yield decreased by 104 basis points. The average securities balance and yield were impacted by securities maturities, lower rates on new securities, and an increase in excess funds held at the Federal Reserve. Average loans decreased by \$79.5 million and the fully taxable-equivalent yield decreased by 20 basis points. Overall, the fully taxable-equivalent yield on interest-earning assets decreased 30 basis points to 4.72 percent.

Average interest-bearing deposits decreased by \$40.2 million mainly due to a \$33.9 million decrease in brokered certificates of deposit. The cost of deposits was 0.97 percent, a decrease of 24 basis points due to lower rates paid on deposits. Average borrowings decreased by \$127.4 million and 65 basis points. Overall, the yield on interest-bearing liabilities decreased 24 basis points to 1.10 percent.

Net interest income was positively impacted by a \$120.0 million increase in average net free funds. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders' equity over noninterest-earning assets. The largest driver of the increase in net free funds was noninterest-bearing demand deposits. Noninterest-bearing demand deposits increased as a result of the low interest rate environment, marketing efforts for new demand accounts, corporate cash management services and the unlimited FDIC deposit insurance protection provided by the Dodd-Frank Act.

**Table of Contents****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:

<i>(in millions)</i>	<b>Three Months Ended March 31, 2011</b>		
	<b>Compared to March 31, 2010<sup>(2)</sup></b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
<b>Interest earned on:</b>			
Loans <sup>(1)</sup>	\$ (1.0)	\$ (1.7)	\$ (2.7)
Securities/other <sup>(1)</sup>	0.3	(0.9)	(0.6)
<b>Total Interest-earning Assets</b>	<b>(0.7)</b>	<b>(2.6)</b>	<b>(3.3)</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
NOW/money market/savings	-	(0.3)	(0.3)
Certificates of deposit	(0.4)	(0.8)	(1.2)
Borrowed funds < 1 year	(0.1)	-	(0.1)
Borrowed funds > 1 year	(0.5)	-	(0.5)
<b>Total Interest-bearing Liabilities</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>(2.1)</b>
<b>Net Interest Income <sup>(1)</sup></b>	<b>\$ 0.3</b>	<b>\$ (1.5)</b>	<b>\$ (1.2)</b>

<sup>(1)</sup> Tax-exempt income is on a fully taxable equivalent basis using the statutory federal corporate income tax rate of 35 percent for 2011 and 2010.

<sup>(2)</sup> 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 the amount to be added to the ALL after adjusting for charge-offs and recoveries to bring the allowance to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses increased \$6.2 million to \$10.6 million at the end of the first quarter of 2011 compared to \$4.4 million at the end of the first quarter of 2010. This increase was primarily driven by an increase in the general reserve resulting from the downgrade of several loans, all of which were downgraded in response to an updated evaluation of each credit based on receipt of recently available financial information.

Charge-offs totaled \$2.6 million and \$2.2 million in the first quarter of 2011 and 2010, respectively and were partially offset by recoveries of \$2.2 million and \$1.2 million, respectively. The specific reserve for impaired loans decreased \$11.7 million to \$8.6 million at March 31, 2011 compared to \$20.3 million at March 31, 2010. Through December 31, 2010 the majority of the loans associated with the \$20.3 million reserve recorded at March 31, 2010 were charged off leaving a specific reserve of \$3.6 million at year end. During the first quarter of 2011, the specific reserve increased \$5.0 million primarily due to the addition of two large relationships. The allowance for loans losses was 1.87 percent of total loans at March 31, 2011 compared to 1.85 percent at March 31, 2010.

**Noninterest Income**

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

(in thousands)	Three Months Ended March 31		
	2011	2010	\$ Change
Securities gains (losses), net	\$ 13	\$ 153	\$ (140)
Service charges on deposit accounts	2,404	2,971	(567)
Wealth management fees	2,050	1,984	66
Letter of credit fees	254	353	(99)
Insurance fees	2,132	2,368	(236)
Mortgage banking	625	410	215
Debit and credit card fees	2,012	1,381	631
Other	1,536	1,723	(187)
<b>Total Noninterest Income</b>	<b>\$ 11,026</b>	<b>\$ 11,343</b>	<b>\$ (317)</b>

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued**

Noninterest income decreased \$0.3 million to \$11.0 million in the first quarter of 2011 compared to the first quarter of 2010. Service charges on deposits, primarily overdraft fees, decreased \$0.6 million due to a regulatory change ( Regulation E ), which was implemented on August 15, 2010. Under Regulation E customers with existing accounts are required to opt in for overdraft coverage on certain types of electronic banking activities. Many customers have not opted to continue the coverage resulting in a decrease in customer overdraft fees. The decrease in insurance fees of \$0.2 million is primarily driven by a decline in annual bonus commission income, which is based on insurance customer's annual loss rates. Prior year annual bonus commissions were unusually high and the current year has returned to more normalized levels. Mortgage banking increased \$0.2 million primarily due to an increase in the fair value of mortgage servicing rights resulting from an increase in the volume of loans being serviced and a projected decrease in prepayment speeds given the current low interest rate environment. Debit and credit card fees increased primarily due to S&T switching from multiple debit card service providers to a single provider that contracted with the bank at higher rates. The \$0.2 million decrease in other noninterest income is due to a decline in derivative fee income and change in the mark-to-market swap valuation from a gain in the first quarter of the prior year to a loss in the quarter ended March 31, 2011, all of which were partially offset by an increase in ATM interchange fees.

**Noninterest Expense**

(in thousands)	Three Months Ended March 31		
	2011	2010	\$ Change
Salaries and employee benefits	\$ 13,320	\$ 12,565	\$ 755
Occupancy, net	1,857	1,984	(127)
Furniture and equipment	1,191	1,088	103
Other taxes	902	945	(43)
Data processing	1,504	1,603	(99)
Amortization of intangibles	463	524	(61)
Legal	466	2,216	(1,750)
Joint venture amortization	740	628	112
FDIC assessment	1,226	1,301	(75)
Other noninterest expense	5,780	5,076	704
<b>Total Noninterest Expense</b>	<b>\$ 27,449</b>	<b>\$ 27,930</b>	<b>\$ (481)</b>

Noninterest expense decreased \$0.5 million in the first quarter of 2011 compared to the first quarter of 2010. The decrease was driven primarily by a \$1.8 million decrease in legal expense, that was partially offset by a \$0.8 million increase in salaries and employee benefits and \$0.7 million increase in other noninterest expense. The decrease in legal expense is attributable to the incurrence of legal expenses in the first quarter of 2010 that did not recur in the first quarter of 2011. The increase in salaries and employee benefits reflects a salary increase that impacted the first quarter of 2011 but not the first quarter of 2010 since the increase was not effective until June 2010. Additionally, payroll taxes and certain other benefits increased as a result of the increase in base salaries. These increases were partially offset by a reduction in the level of incentive compensation accrued in the first quarter of 2011 compared to the first quarter of 2010. Other noninterest expense increased primarily due to an increase in the reserve for unfunded loan commitments.

**Provision for Income Taxes**

The provision for income taxes decreased \$2.1 million to \$1.5 million for the first quarter of 2011 compared to \$3.6 million for the same period in the prior year, primarily due to a decrease in pre-tax income. The year-to-date 2011 effective tax rate decreased to 19.4 percent as compared to 24.1 percent in 2010 due to recognition of nonrecurring tax return adjustments related to previously filed tax returns, an increase in low-income housing credits, partially offset by a lower level of tax-exempt income expected for the current year.

**Financial Condition**

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

Total assets decreased slightly in first quarter of 2011 compared to December 31, 2010. Continuing weak loan demand, coupled with higher than expected pay downs resulted in a slight decrease in the net loan portfolio. Consistent with management's strategic initiative to further strengthen overall liquidity, funds generated from loan pay downs and the sale of loans held for sale were reinvested in securities, resulting in an increase in the securities available-for-sale portfolio. There was a small decline in total deposits due to minor decreases in interest-bearing demand deposits, money market accounts and certificates of deposit, which for the most part were offset by an increase in noninterest bearing deposit accounts. Additionally, brokered certificates of deposit experienced a significant decrease in the first quarter of 2011.



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
continued**Securities Activity**

<i>(in thousands)</i>	March 31, 2011	December 31, 2010	\$ Change
Obligations of U.S. government corporations and agencies	\$ 124,719	\$ 125,675	\$ (956)
Collateralized mortgage obligations of U.S. government corporations and agencies	73,877	41,491	32,386
Mortgage-backed securities of U.S. government corporations and agencies	58,640	43,991	14,649
Obligations of states and political subdivisions	62,400	65,772	(3,372)
<b>Debt Securities Available-for-Sale</b>	<b>319,636</b>	<b>276,929</b>	<b>42,707</b>
Marketable equity securities (primarily bank stocks)	11,900	11,096	804
<b>Total Securities Available-for-Sale, at Fair Value</b>	<b>\$ 331,536</b>	<b>\$ 288,025</b>	<b>\$ 43,511</b>

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 approved annually by S&T's Board of Directors and administered by ALCO and the Treasury function of S&T Bank. The net increase in securities of \$43.5 million resulted from the redeployment of funds received from loan pay downs in light of current and expected slow loan growth and management's strategic initiative to further strengthen overall liquidity and reduce asset sensitivity.

On a quarterly basis, management evaluates the securities portfolios for OTTI in accordance with the applicable accounting guidance for investments reported at fair value. No impairment charges were recorded in the first quarter of 2011.

**Loan Composition**

<i>(in thousands)</i>	March 31, 2011		December 31, 2010	
	Amount	% of Loans	Amount	% of Loans
<b>Consumer</b>				
Home equity	\$ 436,357	13.2%	\$ 441,096	13.2%
Residential mortgage	342,904	10.4%	359,536	10.7%
Installment and other consumer	70,573	2.2%	74,780	2.2%
Construction	4,322	0.1%	4,019	0.1%
<b>Total Consumer Loans</b>	<b>854,156</b>	<b>25.9%</b>	<b>879,431</b>	<b>26.2%</b>
<b>Commercial</b>				
Commercial real estate	1,488,700	45.1%	1,494,202	44.5%
Commercial and industrial	713,683	21.6%	722,359	21.5%
Construction	245,477	7.4%	259,598	7.8%

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

<b>Total Commercial Loans</b>	<b>2,447,860</b>	<b>74.1%</b>	<b>2,476,159</b>	<b>73.8%</b>
<b>Total Portfolio Loans</b>	<b>3,302,016</b>	<b>100.0%</b>	<b>3,355,590</b>	<b>100.0%</b>
Allowance for loan losses	(61,663)		(51,387)	
<b>Total Portfolio Loans, net</b>	<b>3,240,353</b>		<b>3,304,203</b>	
Loans Held for Sale	2,305		8,337	
<b>Total Loans</b>	<b>\$ 3,242,658</b>		<b>\$ 3,312,540</b>	

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 a 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 S&T's Board of Directors.

Loans decreased by \$59.6 million between December 31, 2010 and March 31, 2011. There were slight declines in both the consumer and commercial loan portfolios, primarily due to loan prepayments and reduced demand. Given the current economic environment loan growth is expected to remain a challenge throughout the remainder of 2011.

---

**Table of Contents**

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

Although commercial loans, including commercial real estate ( CRE ), commercial and industrial ( C&I ) and construction, 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 CRE loans are generally 65-85 percent.

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 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 consist of a residential first mortgage and a 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 three months ended March 31, 2011 and 2010, S&T sold \$26.4 million and \$22.2 million, respectively, of 1-4 family mortgages and currently services \$331.5 million of secondary market mortgage loans to Fannie Mae at March 31, 2011. S&T intends to continue to sell longer-term loans to Fannie Mae in the future, especially during periods of lower interest rates.

S&T offers a variety of unsecured and secured consumer loans and credit card products.

**Allowance for Loan Losses**

S&T maintains an 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. The methodology used is based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer.

The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL. CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Individual project cash flows, as well as global cash flows, are generally the sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

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

Commercial Construction loans are made to finance 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 are secured by 1-4 family residences, including purchase money mortgages, 1st and 2nd lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also

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

have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

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

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued**

Significant to the ALL is 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 loan review process to ensure the integrity of loan risk ratings and 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 ALL.

Consumer unsecured loans and secured loans that are not real estate secured are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell. If the collateral is repossessed and remains unsold for 120 days, the carrying value will be completely charged-off. Consumer loans secured by real estate are evaluated for charge-off after the loan balance becomes 90 days past due and are charged down to the estimated fair value of the collateral less 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. S&T may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

The status of a bankruptcy proceeding

The value of collateral and probability of successful liquidation

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

The following tables summarize the changes in the ALL for the three months ended March 31:

<i>(in thousands)</i>	March 31, 2011					December 31, 2010	
	Commercial Real Estate	Commercial & Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans	Total Loans
<b>Allowance for loan losses:</b>							
Beginning at January 1	\$ 30,425	\$ 9,777	\$ 5,904	\$ 3,962	\$ 1,319	\$ 51,387	\$ 59,580
Charge-offs	(464)	(272)	(673)	(924)	(207)	(2,540)	(41,027)
Recoveries	524	95	711	746	100	2,176	3,323
<b>Net Charge-offs</b>	<b>60</b>	<b>(177)</b>	<b>38</b>	<b>(178)</b>	<b>(107)</b>	<b>(364)</b>	<b>(37,704)</b>
Provision for loan losses	9,201	1,091	922	(558)	(16)	10,640	29,511
<b>Balance at End of Period</b>	<b>\$ 39,686</b>	<b>\$ 10,691</b>	<b>\$ 6,864</b>	<b>\$ 3,226</b>	<b>\$ 1,196</b>	<b>\$ 61,663</b>	<b>\$ 51,387</b>
<b>Allowance for credit losses:</b>							
For Loans individually evaluated for impairment	5,266	2,907	381	-	-	8,554	3,631
For Loans collectively evaluated for impairment	34,420	7,784	6,483	3,226	1,196	53,109	47,756
<b>Total Allowance for Loan Losses</b>	<b>39,686</b>	<b>10,691</b>	<b>6,864</b>	<b>3,226</b>	<b>1,196</b>	<b>61,663</b>	<b>51,387</b>
<b>Portfolio Loans:</b>							
Individually evaluated for impairment	53,350	7,932	7,247	-	-	68,529	50,681
	1,435,350	705,751	238,230	783,583	70,573	3,233,487	3,304,909

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

Collectively evaluated for  
impairment

<b>Total Portfolio Loans</b>	<b>\$ 1,488,700</b>	<b>\$ 713,683</b>	<b>\$ 245,477</b>	<b>\$ 783,583</b>	<b>\$ 70,573</b>	<b>\$ 3,302,016</b>	<b>\$ 3,355,590</b>
------------------------------	---------------------	-------------------	-------------------	-------------------	------------------	---------------------	---------------------

	March 31, 2011	December 31, 2010
Ratio of net charge-offs to average loans outstanding ( <i>annualized</i> )	0.04%	1.11%
Allowance for loan losses to total loans	1.87%	1.53%
Allowance for loan losses to nonperforming loans	76%	80%

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued**

The ALL at March 31, 2011 was \$61.7 million, an increase of \$10.3 million from December 31, 2010. The general reserve increased \$5.4 million in the first quarter of 2011 due to a significant number of downgrades, primarily in the CRE portfolio, resulting from an updated evaluation of each credit based on receipt of recently available financial information. Specific reserves totaling \$8.6 million were included in the ALL at March 31, 2011, an increase of \$4.9 million over the amount included in the ALL at December 31, 2010. The increase in specific reserves is primarily attributable to two large relationships totaling \$18.8 million for which specific reserves totaling \$6.0 million were recorded in the first quarter of 2011, offset by net charge-offs of \$0.4 million and a \$0.7 million reduction in the specific reserve for a single credit that was resolved.

S&T's allowance for lending-related commitments is computed using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments through a charge to current earnings through noninterest expense. The balance in the allowance for lending-related commitments decreased to \$2.9 million at March 31, 2011 as compared to \$4.0 million at March 31, 2010 due to a significant decrease in the volume of commitments in 2011. The decrease relates to a 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.

Nonperforming assets consist of nonaccrual and restructured loans and OREO. The following table represents nonperforming assets for the periods presented:

<i>(in thousands)</i>	March 31, 2011	December 31, 2010	\$ Change
Commercial real estate	\$ 27,719	\$ 14,674	\$ 13,045
Commercial and industrial	8,141	2,567	5,574
Commercial construction	3,253	5,844	(2,591)
Home equity	1,858	1,433	425
Residential mortgage	4,907	5,996	(1,089)
Installment and other consumer	25	65	(40)
Consumer construction	-	525	(525)
<b>Total Nonaccrual Loans</b>	<b>45,903</b>	<b>31,104</b>	<b>14,799</b>
Commercial real estate	29,470	29,636	(166)
Commercial and industrial	940	1,000	(60)
Commercial construction	4,103	2,143	1,960
Residential mortgage	430	-	430
<b>Total Nonaccrual Restructured Loans</b>	<b>34,943</b>	<b>32,779</b>	<b>2,164</b>
<b>Total Nonperforming Loans</b>	<b>80,846</b>	<b>63,883</b>	<b>16,963</b>
OREO	7,696	5,820	1,876
<b>Total Nonperforming Assets</b>	<b>\$ 88,542</b>	<b>\$ 69,703</b>	<b>\$ 18,839</b>

**Asset Quality Ratios:**

Nonperforming loans as a percent of total loans	2.45%	1.90%
---	-------	-------

Nonperforming assets as a percent of total loans + OREO	2.67%	2.07%
---	-------	-------



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued**

Nonperforming assets include nonaccrual and nonperforming 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.

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: a reduction of contractual interest rates below the market interest rate for new debt with similar characteristics, acceptance of other assets or an equity interest in the debtor in partial satisfaction of the debt, a reduction or forgiveness of principal, a 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**

<i>(in thousands)</i>	March 31, 2011	December 31, 2010	\$ Change
Noninterest-bearing demand	\$ 802,748	\$ 765,812	\$ 36,936
Interest-bearing demand	286,111	295,246	(9,135)
Money market	240,375	262,683	(22,308)
Savings	755,311	753,813	1,498
Certificates of deposit	1,221,294	1,239,970	(18,676)
<b>Total Deposits</b>	<b>\$ 3,305,839</b>	<b>\$ 3,317,524</b>	<b>\$ (11,685)</b>

Deposits are a primary source of funds for S&T. Management believes that S&T's deposit base is stable and that it has the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. While total deposits at the end of the first quarter of 2011 were down slightly compared to the first quarter of 2010, S&T's core deposit base remained stable with the decline being driven primarily by a decline in brokered certificates of deposit. Non-brokered certificates of deposit of \$100,000 and over were 12 percent of total deposits at both March 31, 2011 and December 31, 2010, and primarily represent deposit relationships with local customers in our market area. S&T had \$40.3 million and \$63.0 million of brokered retail certificates of deposit outstanding at March 31, 2011 and December 31, 2010, 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 March 31, 2011, the CDARS certificates of deposit were primarily reciprocal totaling \$38.4 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**

<i>(in thousands)</i>	March 31, 2011	December 31, 2010	\$ Change
Securities sold under repurchase agreements	\$ 38,270	\$ 40,653	\$ (2,383)
Long-term borrowings	28,974	29,365	(391)
Junior subordinated debt securities	90,619	90,619	-

<b>Total Borrowings</b>	<b>\$ 157,863</b>	<b>\$ 160,637</b>	<b>\$ (2,774)</b>
-------------------------	-------------------	-------------------	-------------------

Borrowings are an additional source of funding for S&T. Total borrowings decreased \$2.8 million from December 31, 2010 due to the lower balances in REPO. Overall, borrowings decreased as a result of stable deposits and a reduction in earning assets.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued****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. A stable core and certificates of deposit base provided by S&T customers is an important source of liquidity. A stable deposit base is achieved by maintaining a strong capital position and the protection provided by FDIC insurance. 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.

Liquidity improved during the first quarter of 2011 as compared to December 31, 2010 due to stable deposit levels and an increase in borrowing capacity at the FHLB. The increase in borrowing capacity at the FHLB is due to reduced borrowings as a result of lower loan and securities balances.

Shareholders' equity was \$580.1 million and increased \$1.4 million at March 31, 2011 compared to \$578.7 million at December 31, 2010. S&T had net income available to common shareholders of \$4.7 million and dividends paid to common shareholders were \$4.2 million for the three months ended March 31, 2011. Also affecting shareholders' equity was an increase of \$0.5 million due to the issuance of treasury stock, offset by preferred dividends and amortization of \$1.6 million and a decrease of \$0.2 million in unrealized gains on securities available-for-sale, net of tax, which is included in other comprehensive income.

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.

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

(in thousands)	Adequately	Well-	March 31, 2011		December 31, 2010	
	Capitalized <sup>(1)</sup>	Capitalized <sup>(2)</sup>	Amount	Ratio	Amount	Ratio
<b>S&amp;T Bancorp, Inc.</b>						
Tier 1 leverage	4.00%	5.00%	\$ 437,556	11.19%	\$ 435,823	11.07%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	437,556	13.54%	435,823	13.28%
Total capital to risk-weighted assets	8.00%	10.00%	548,969	16.99%	547,336	16.68%
<b>S&amp;T Bank</b>						
Tier 1 leverage	4.00%	5.00%	\$ 297,295	7.64%	\$ 294,113	7.50%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	297,295	9.25%	294,113	9.02%
Total capital to risk-weighted assets	8.00%	10.00%	407,754	12.69%	405,049	12.42%

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

- <sup>(1)</sup> *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 March 31, 2011, S&T exceeded those requirements.*
- <sup>(2)</sup> *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 March 31, 2011, 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 its 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 March 31, 2011, S&T had not issued any securities pursuant to the shelf registration statement.

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

ALCO monitors and manages interest-rate sensitivity through gap, rate shock analyses, simulations and economic value of equity (EVE) 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, collateralized mortgage obligations, and mortgage-backed securities 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 specific 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 March 31, 2011.

<i>(in thousands)</i>	<b>GAP</b>			
	<b>1-6 Months</b>	<b>7-12 Months</b>	<b>13-24 Months</b>	<b>&gt;2 Years</b>
<b>Repricing Assets:</b>				
Cash and due from banks and interest-bearing deposits with banks	\$ 58,670	\$	\$	\$ 50,185
Securities available-for-sale	31,553	28,262	58,641	213,080
Federal Home Loan Bank stock, at cost				21,247
Loans, net	1,607,451	278,605	453,917	902,685
Other assets				385,758
<b>Total Assets</b>	<b>\$ 1,697,674</b>	<b>\$ 306,867</b>	<b>\$ 512,558</b>	<b>\$ 1,572,955</b>
<b>Repricing Liabilities:</b>				
Noninterest-bearing demand	\$	\$	\$	802,748
Interest-bearing demand	35,764	35,764	71,528	143,055
Money market	240,375			
Savings	497,348	36,852	73,704	147,407
Certificates of deposit	476,278	214,866	328,783	201,367
Securities sold under repurchase agreements and short-term borrowings	38,270			
Long-term borrowings and junior subordinated debt securities	94,414	708	11,457	13,014
Other liabilities and shareholders' equity				626,352
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,382,449</b>	<b>288,190</b>	<b>485,472</b>	<b>1,933,943</b>
<b>GAP</b>	<b>315,225</b>	<b>18,677</b>	<b>27,086</b>	<b>(360,988)</b>
<b>Cumulative GAP</b>	<b>\$ 315,225</b>	<b>\$ 333,902</b>	<b>\$ 360,988</b>	<b>\$</b>

<b>Rate Sensitive Assets / Rate Sensitive Liabilities</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Cumulative 6 Months	1.23	1.25
Cumulative 12 Months	1.20	1.18

S&T's one-year repricing gap at March 31, 2011 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 a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in interest rate spreads, net interest income and operating income. Conversely, with an asset sensitive position in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in interest rate spreads, net interest income and operating income.

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

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 (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of fixed rate loans and securities with optionality. Inclusion of these assumptions makes rate shock analyses more useful than gap analysis alone. S&T's policy is to limit the change in pretax net interest income over a one-year horizon to -20 percent given changes in rates using shocks up to +/- 300 basis points.

**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.

	+300 bps	-300 bps
March 31, 2011	11.38%	(11.30)%
December 31, 2010	11.67%	(10.76)%

The impact to pretax net interest income in the +/-300 basis point rate shocks for March 31, 2011 is consistent with having an asset sensitive balance sheet. When comparing the +/-300 basis point rate shock results in March 31, 2011 to December 31, 2010, the percent change to net interest income is relatively unchanged. When comparing the -300 basis point rate shock results in March 31, 2011 to December 31, 2010, the percent change to net interest income has declined because the balance sheet has become more asset sensitive.

**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 March 31, 2011. 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 March 31, 2011, 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**

As disclosed in Item 9A of S&T's Annual Report on Form 10-K for the year ended December 31, 2010, management identified a material weakness in S&T's internal control over financial reporting as of December 31, 2010 relating to the approval and recording of loan charge-offs. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In order to remediate the material weakness, management implemented changes to S&T's internal control over financial reporting during the quarter ended March 31, 2011. S&T dedicated additional resources to the identification and recording of loan charge-offs. Management also established an internal task force, comprised of members of senior management, including the Chief Financial Officer and the Chief Credit Officer and various members of their respective teams that strengthened our internal process of reviewing and analyzing loan information that may result in a loan charge-off. Based on the recommendations of the task force, management implemented additional processes to strengthen our internal control over financial reporting, including establishing a Managed Asset Committee, comprised of Senior Management in Credit Administration and Finance, to monitor all impaired loans. The task force also implemented and strengthened monitoring procedures by the Credit Administration Department, completed a review of all impaired loans to verify that all charge-offs were recorded and implemented additional charge-off reconciliation procedures. During the quarter ended March 31, 2011, management concluded that the material weakness described above and in S&T's Annual Report on Form 10-K for the year ended December 31, 2010 has been remediated as of March 31, 2011.

Except for the actions described above to remediate the material weakness described above and in S&T's Annual Report on Form 10-K for the year ended December 31, 2010, 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 March 31, 2011 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, 2010, as filed with the SEC on March 16, 2011.

**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.

S&T Bancorp, Inc.

(Registrant)

Date: May 5, 2011

/s/ Mark Kochvar  
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)