Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from To

Commission file number 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

800-325-2265

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value - 27,822,803 shares as of July 23, 2010

INDEX

S&T BANCORP, INC. AND SUBSIDIARIES

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share data)	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Cash and due from banks	$ 71,150	$ 69,152
Securities available-for-sale	316,195	354,860
Federal Home Loan Bank stock, at cost	23,542	23,542
Loans held for sale	3,836	6,073
Portfolio loans	3,392,893	3,398,334
Allowance for loan losses	53,968	59,580
Portfolio loans, net	3,338,925	3,338,754
Premises and equipment, net	39,703	40,990
Goodwill	165,273	165,167
Other intangibles, net	8,390	9,408
Bank owned life insurance	53,868	52,863
Other assets	118,356	109,666
Total Assets	**$ 4,139,238**	**$ 4,170,475**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 732,618	$ 712,120
Interest-bearing demand	260,301	260,554
Money market	250,924	289,367
Savings	743,427	752,130
Certificates of deposit	1,309,926	1,290,370
Total Deposits	**3,297,196**	**3,304,541**
Securities sold under repurchase agreements	44,496	44,935
Short-term borrowings	51,750	51,300
Long-term borrowings	40,328	85,894
Junior subordinated debt securities	90,619	90,619
Other liabilities	48,646	39,868
Total Liabilities	**3,573,035**	**3,617,157**
SHAREHOLDERS EQUITY		
Fixed rate cumulative perpetual preferred stock, series A, no par value, $1,000 per share liquidation preference Authorized 10,000,000 shares in 2010 and 2009 Issued and outstanding 108,676 in 2010 and 2009	105,749	105,370
Common stock ($2.50 par value) Authorized 50,000,000 shares in 2010 and 2009 Issued 29,714,038 shares in 2010 and 2009 Outstanding 27,819,757 shares at June 30, 2010 and 27,746,554 shares at December 31, 2009	74,285	74,285
Additional paid-in capital	51,271	51,158
Retained earnings	391,494	383,118
Accumulated other comprehensive loss	(4,222)	(6,214)
Treasury stock (1,894,281 shares at June 30, 2010 and 1,967,484 shares at December 31, 2009, at cost)	(52,374)	(54,399)
Total Shareholders Equity	**566,203**	**553,318**
Total Liabilities and Shareholders Equity	**$ 4,139,238**	**$ 4,170,475**

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(dollars and share data in thousands, except per share data)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
INTEREST INCOME				
Loans, including fees	$ 42,662	$ 45,212	$ 84,881	$ 91,336
Investment securities:				
Taxable	2,061	2,908	4,238	6,008
Tax-exempt	725	931	1,521	1,955
Dividends	113	175	245	351
Total Interest Income	**45,561**	**49,226**	**90,885**	**99,650**
INTEREST EXPENSE				
Deposits	7,440	9,815	15,047	20,896
Securities sold under repurchase agreements	43	46	87	94
Short-term borrowings	52	178	125	373
Long-term borrowings and junior subordinated debt securities	1,401	2,638	3,086	5,593
Total Interest Expense	**8,936**	**12,677**	**18,345**	**26,956**
NET INTEREST INCOME	**36,625**	**36,549**	**72,540**	**72,694**
Provision for loan losses	9,127	32,184	13,557	53,573
Net Interest Income After Provision for Loan Losses	**27,498**	**4,365**	**58,983**	**19,121**
NONINTEREST INCOME				
Security gains (losses), net	103	(1,296)	257	(2,542)
Service charges on deposit accounts	3,166	3,232	6,136	6,288
Wealth management fees	1,916	1,912	3,900	3,655
Insurance fees	1,964	1,985	4,332	3,847
Mortgage banking	166	1,148	577	1,792
Debit and credit card fees	2,283	1,668	3,664	3,206
Other	1,931	1,808	4,006	3,227
Total Noninterest Income	**11,529**	**10,457**	**22,872**	**19,473**
NONINTEREST EXPENSE				
Salaries and employee benefits	11,811	12,698	24,376	24,353
Occupancy, net	1,659	1,603	3,643	3,482
Furniture and equipment	1,328	1,421	2,417	2,624
Other taxes	942	984	1,887	1,801
Data processing	1,451	1,542	3,054	3,010
Amortization of intangibles	496	589	1,019	1,195
Legal	989	736	3,204	1,046
Joint venture amortization	709	2,514	1,337	3,168
FDIC assessment	1,398	3,447	2,699	5,388
Other	4,952	7,228	10,030	12,133
Total Noninterest Expense	**25,735**	**32,762**	**53,666**	**58,200**
Income (Loss) Before Taxes	**13,292**	**(17,940)**	**28,189**	**(19,606)**
Provision (Benefit) for Income Taxes	3,888	(9,284)	7,481	(9,108)
Net Income (Loss)	**9,404**	**(8,656)**	**20,708**	**(10,498)**

Preferred stock dividends and amortization of discount		1,549		1,541		3,096		2,824
Net Income (Loss) Available to Common Shareholders	**$**	**7,855**	**$**	**(10,197)**	**$**	**17,612**	**$**	**(13,322)**
Earnings per common share basic	$	0.28	$	(0.37)	$	0.63	$	(0.48)
Earnings per common share diluted		0.28		(0.37)		0.63		(0.48)
Dividends declared and paid per common share		0.15		0.15		0.30		0.46
Average common shares outstanding basic		27,770		27,651		27,750		27,644
Average common shares outstanding diluted		27,797		27,651		27,780		27,644

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(dollars in thousands, except share and per share data)	Comprehensive (Loss) Income	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at January 1, 2009		**$ -**	**$ 74,285**	**$ 43,327**	**$ 402,608**	**$ (13,986)**	**$ (57,540)**	**$ 448,694**
Net loss for six months ended June 30, 2009	$ (10,498)				(10,498)			(10,498)
Other Comprehensive Income, Net of Tax								
Change in unrealized gains on securities of $1,859 net of reclassification adjustment for losses included in net loss of $2,542 and tax expense of $239	444					444		444
Adjustment to funded status of pension, net of tax expense $268	498					498		498
Comprehensive Income	**$ (9,556)**							
Preferred stock dividends and amortization of discount		334			(2,824)			(2,490)
Cash dividends declared on common stock ($0.46 per share)					(12,717)			(12,717)
Treasury stock issued for options exercised (21,602 shares)				(569)			597	28
Recognition of restricted stock compensation expense				228				228
Tax benefit from nonstatutory stock options exercised				4				4
Recognition of nonstatutory stock option compensation expense				227				227
Issuance of preferred stock [(1)]		104,664						104,664
Warrant for common stock issuance [(1)]				4,012				4,012
Balance at June 30, 2009		**$ 104,998**	**$ 74,285**	**$ 47,229**	**$ 376,569**	**$ (13,044)**	**$ (56,943)**	**$ 533,094**
Balance at January 1, 2010		**$ 105,370**	**$ 74,285**	**$ 51,158**	**$ 383,118**	**$ (6,214)**	**$ (54,399)**	**$ 553,318**
Net income for six months ended June 30, 2010	$ 20,708				20,708			20,708
Other Comprehensive Income, Net of Tax								
Change in unrealized gains on securities of $2,858 net of reclassification adjustment for gains included in net income of $257 and tax expense of $910	1,691					1,691		1,691
Adjustment to funded status of pension, net of tax expense $162	301					301		301
Comprehensive Income	**$ 22,700**							
Preferred stock dividends and amortization of discount		379			(3,096)			(2,717)
Cash dividends declared and paid ($0.30 per share)					(8,332)			(8,332)
Treasury stock issued (73,203 shares)					(904)		2,025	1,121
Recognition of restricted stock compensation expense				213				213
Tax benefit from nonstatutory stock options expensed				4				4
Forfeitures of nonstatutory stock options				(104)				(104)
Balance at June 30, 2010		**$ 105,749**	**$ 74,285**	**$ 51,271**	**$ 391,494**	**$ (4,222)**	**$ (52,374)**	**$ 566,203**

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

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(dollars in thousands)	Six Months Ended June 30, 2010	2009
OPERATING ACTIVITIES		
Net income (loss)	$ 20,708	$ (10,498)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	13,557	53,573
Provision for unfunded loan commitment losses	(671)	3,306
Depreciation and amortization	3,366	3,342
Net amortization of investment security premiums	391	511
Recognition of stock-based compensation expense	163	(238)
Security (gains) losses, net	(257)	2,542
Deferred income taxes	(2,670)	(9,036)
Tax benefits from stock-based compensation	(4)	(4)
Mortgage loans originated for sale	(41,468)	(95,467)
Proceeds from the sale of loans	43,704	86,921
Gain on the sale of loans, net	(293)	(440)
Net decrease in interest receivable	1,582	4,036
Net decrease in interest payable	(827)	(1,037)
Net (increase) decrease in other assets	(8,290)	241
Net increase (decrease) in other liabilities	10,689	(9,362)
Net Cash Provided by Operating Activities	**39,680**	**28,390**
INVESTING ACTIVITIES		
Proceeds from maturities of securities available-for-sale	79,331	122,838
Proceeds from sales of securities available-for-sale	2,369	2,075
Purchases of securities available-for-sale	(40,568)	(60,038)
Net increase (decrease) in loans	(15,082)	78,660
Purchases of premises and equipment	(863)	(1,320)
Proceeds from the sale of premises and equipment	27	1,597
Net Cash Provided by Investing Activities	**25,214**	**143,812**
FINANCING ACTIVITIES		
Net decrease in core deposits	(26,901)	(134,065)
Net increase in certificates of deposit	19,484	61,501
Net increase (decrease) in short-term borrowings	450	(113,325)
Net decrease in securities sold under repurchase agreements	(439)	(16,806)
Proceeds from long-term borrowings	9,663	-
Repayments of long-term borrowings	(55,229)	(63,922)
Proceeds from issuance of preferred stock and common stock warrants	-	108,676
Sale of treasury stock	1,121	28
Preferred stock dividends	(2,717)	(1,797)
Cash dividends paid to common shareholders	(8,332)	(17,126)
Tax benefits from stock-based compensation	4	4
Net Cash Used in Financing Activities	**(62,896)**	**(176,832)**
Net increase (decrease) in cash and cash equivalents	1,998	(4,630)
Cash and cash equivalents at beginning of year	69,152	69,780
Cash and Cash Equivalents at End of Period	**$ 71,150**	**$ 65,150**
Supplemental Disclosures		
Transfers to other real estate owned and other repossessed assets	$ 130	$ 1,411

Interest paid	19,173	27,992
Income taxes paid	7,848	5,338

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Nature of Operations

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

S&T operates in three business segments, providing a full range of services to individual and corporate customers through Community Banking, Wealth Management and an Insurance Agency. The Consolidated Balance Sheet as of December 31, 2009 has been extracted from the audited financial statements included in S&T s 2009 annual report on Form 10-K. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the annual report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (SEC) on February 26, 2010.

Accounting Policies

The financial statements of S&T have been prepared in accordance with GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates.

Principals of Consolidation

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

Recently Issued and Effective Accounting Pronouncements

Accounting for Transfers of Financial Assets

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

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

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

Fair Value Measurements

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

Future Application of Accounting Pronouncements

Disclosures About Credit Quality and the Allowance for Credit Losses

Pursuant to the July 2010 FASB accounting standards update, further disclosures will be required about the credit quality of financing receivables and the allowance for credit losses. The disclosures will provide financial statement users with additional information about the nature of credit risks inherent in entities financing receivables, how credit risk is analyzed and assessed when determining

7

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

the allowance for credit losses and the reasons for the change in the allowance for credit losses. This requirement is effective for all periods ending on or after December 15, 2010, although certain disclosures will have a deferred effective date. The accounting standards update requires additional disclosure and will have no impact on the Consolidated Financial Statements.

Fair Value Measurements

Pursuant to the January 2010 FASB accounting standards update, further disclosures will be required for the activity within Level 3 of the fair value hierarchy regarding purchases, sales, issuances and settlements. This requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years, although early adoption is permitted. The accounting standards update requires additional disclosure and will have no impact on the Consolidated Financial Statements.

Reclassification

Certain amounts in prior years financial statements have been reclassed to conform to the current year s presentation. The reclassifications had no significant effect on S&T s financial condition or results of operations.

NOTE 2. CAPITAL PURCHASE PROGRAM

On January 16, 2009, S&T completed a $108.7 million capital raise as a participant in the U.S. Treasury Capital Purchase Program (the CPP). In conjunction with S&T s participation in the CPP, S&T issued to the U.S. Treasury 108,676 shares of S&T s Series A Preferred Stock. The Series A Preferred Stock pays cumulative dividends at a rate of five percent per year for the first five years and thereafter at a rate of nine percent per year. As part of its purchase of the Series A Preferred Stock, the U.S. Treasury received a Warrant to purchase 517,012 shares of S&T s common stock at an initial per share exercise price of $31.53. The Warrant provides for the adjustment of the exercise price and the number of shares of S&T s common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of S&T s common stock and upon certain issuances of S&T s common stock at or below a specified price relative to the initial exercise price.

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

The proceeds received in conjunction with the issuance of the Series A Preferred Stock and the Warrant were allocated to the preferred stock based on their relative fair values. Estimated fair value was determined using a discounted cash flow model with a 10 percent discount rate. The discount rate was determined by comparison to a group of similarly rated preferred securities in the banking sector. The level yield method is used to amortize the discount on the preferred stock over a period of five years. Management engaged an outside expert to calculate the estimated fair value of the common stock warrants issued by S&T on January 16, 2009. A binomial pricing model was used resulting in an estimated fair value of $4.0 million.

The assumptions used to calculate the estimated fair value of the warrants are summarized below:

Assumption	**Value**
Contractual term	10 years
Exercise price	$ 31.53
Estimated fair value of company stock	$ 29.14
Expected life	10 years
Risk-free rate over expected life of the warrant	2.36%
Expected volatility	28.4%
Expected dividend yield	3.85%

S&T utilized the average of daily and monthly historical volatility for purposes of this valuation. 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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS

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

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

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 the asset or liability, which is developed, based on market data obtained from sources independent of S&T. Unobservable inputs reflect S&T s estimate of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

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

S&T s collateralized mortgage obligations and mortgage-backed securities of U.S. government corporations and agencies are valued based on market data. The service provider utilizes evaluated pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs.

S&T s obligations of states and political subdivisions portfolio is valued using proprietary valuation matrices from the service provider. The market evaluation model includes a separate curve structure for the bank-qualified versus general market municipals. For the bank-qualified municipals, the source is the service provider s own trading desk. Securities are further broken down according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal curves.

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

Trading Assets

When available, S&T uses quoted market prices to determine the estimated fair value of trading assets. S&T s only trading asset is a Rabbi Trust for deferred compensation plans, which is invested in two readily quoted mutual funds. The Rabbi Trust is classified as Level 1.

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Derivative Financial Instruments

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

S&T incorporates credit valuation adjustments into the valuation models to appropriately reflect both its own non-performance risk and the respective counterparty s non-performance risk in the estimated fair value measurements. In adjusting the estimated fair value of its derivative contracts for the effect of non-performance 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 estimated fair value. Periodically, it may be necessary to record fair value adjustments under lower of cost or estimated fair value. S&T determines estimated fair value based on reference to quoted market prices for similar assets and liabilities. As a result, such estimates of fair value are classified as Level 2.

Impaired Loans

A loan is considered impaired if management determines that it is probable that S&T will not be able to collect all amounts due according to the contractual terms of the loan agreement of a construction, residential real estate, commercial real estate or commercial and industrial loan greater than $0.5 million. S&T calculates the estimated fair value of impaired loans based upon the present value of expected future cash flows available to pay the loan, or based upon the estimated 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.

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

OREO and Other Repossessed Assets

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

Mortgage Servicing Rights

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

Other Assets

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

Financial Instruments

In addition to financial instruments recorded at estimated fair value in S&T s financial statements, the fair value accounting pronouncement requires disclosure of estimated fair value of all of an entity s assets and liabilities considered to be financial

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

Cash and Cash Equivalents and Other Short-Term Assets

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

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, estimated fair values are based on carrying values. The estimated fair values for other loans are estimated using discounted cash flow analyses, utilizing interest rates currently being offered for loans with similar terms to borrowers as adjusted for net credit losses and the loss of interest income from nonaccrual loans. The carrying amount of accrued interest approximates its estimated fair value.

Bank Owned Life Insurance

The estimated fair value represents the net cash surrender value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

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

Loan Commitments and Standby Letters of Credit

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

Other

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following tables present S&T s assets and liabilities that are measured at estimated fair value on a recurring basis by the fair value hierarchy level at June 30, 2010 and December 31, 2009. There were no transfers between Level 1 and Level 2 for items of a recurring basis during the periods presented.

	June 30, 2010			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Obligations of U.S. government corporations and agencies	$ -	$ 124,024	$ -	$ 124,024
Collateralized mortgage obligations of U.S. government corporations and agencies	-	49,732	-	49,732
Mortgage-backed securities of U.S. government corporations and agencies	-	54,070	-	54,070
Obligations of states and political subdivisions	-	77,381	-	77,381
Marketable equity securities	1,703	7,657	1,628	10,988
Trading account assets	1,902	-	-	1,902
Interest rate swaps	-	20,375	-	20,375
Interest rate lock commitments	-	300	-	300
Total Assets	**$ 3,605**	**$ 333,539**	**$ 1,628**	**$ 338,772**
LIABILITIES				
Interest rate swaps	$ -	$ 20,034	$ -	$ 20,034
Forward sale contracts	-	194	-	194
Total Liabilities	**$ -**	**$ 20,228**	**$ -**	**$ 20,228**

	December 31, 2009			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Obligations of U.S. government corporations and agencies	$ -	$ 127,971	$ -	$ 127,971
Collateralized mortgage obligations of U.S. government corporations and agencies	-	60,229	-	60,229
Mortgage-backed securities of U.S. government corporations and agencies	-	61,521	-	61,521
Obligations of states and political subdivisions	-	92,928	-	92,928
Marketable equity securities	3,607	7,466	1,138	12,211
Trading account assets	3,090	-	-	3,090
Interest rate swaps	-	11,661	-	11,661
Interest rate lock commitments	-	126	-	126
Forward sale contracts	-	192	-	192
Total Assets	**$ 6,697**	**$ 362,094**	**$ 1,138**	**$ 369,929**
LIABILITIES				
Interest rate swaps	$ -	$ 11,594	$ -	$ 11,594
Total Liabilities	**$ -**	**$ 11,594**	**$ -**	**$ 11,594**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

	Three Months Ended June 30, 2010	**Six Months Ended June 30, 2010**
	Marketable Equity Securities [1]	
(dollars in thousands)		
Balance at beginning of period	$ 1,138	$ 1,138
Principal transactions	-	-
Total gains (losses)		
Included in earnings	-	-
Included in other comprehensive income	-	-
Transfers into Level 3	490	490
Transfers out of Level 3	-	-
Ending Balance at June 30, 2010	**$ 1,628**	**$ 1,628**

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

	Three Months Ended June 30, 2009	**Six Months Ended June 30, 2009**
	Marketable Equity Securities [1]	
(dollars in thousands)		
Balance at beginning of period	$ 1,050	$ 1,050
Principal transactions	-	-
Total gains (losses)		
Included in earnings	-	-
Included in other comprehensive income	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Ending Balance at June 30, 2009	**$ 1,050**	**$ 1,050**

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

S&T may be required to measure certain assets and liabilities on a nonrecurring basis. The following tables present S&T s assets that are measured at estimated fair value on a nonrecurring basis by the fair value hierarchy level at June 30, 2010 and December 31, 2009. There were no liabilities measured at estimated fair value on a nonrecurring basis during these periods.

	June 30, 2010							
	Level 1		Level 2		Level 3		Total	
(dollars in thousands)								
ASSETS								
Loans held for sale	$	-	$	3,836	$	-	$	3,836
Impaired loans		-		44,873		20,415		65,288
Other real estate owned		-		4,737		-		4,737
Mortgage servicing rights		-		-		2,042		2,042
Total Assets	**$**	**-**	**$**	**53,446**	**$**	**22,457**	**$**	**75,903**

13

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

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

The following table indicates the estimated fair value of S&T s financial instruments as of:

(dollars in thousands)	June 30, 2010 Estimated Fair Value	June 30, 2010 Carrying Value [(1)]	December 31, 2009 Estimated Fair Value	December 31, 2009 Carrying Value [(1)]
ASSETS				
Cash and due from banks	$ 71,150	$ 71,150	$ 69,152	$ 69,152
Securities available-for-sale	316,195	316,195	354,860	354,860
Federal Home Loan Bank stock, at cost	23,542	23,542	23,542	23,542
Gross loans	3,425,440	3,396,729	3,380,070	3,404,407
Bank owned life insurance	53,868	53,868	52,863	52,863
Trading account assets	1,902	1,902	3,090	3,090
Mortgage servicing rights	2,042	2,025	2,263	2,100
Interest rate swaps	20,375	20,375	11,661	11,661
Interest rate lock commitments	300	300	126	126
Forward sales contracts	-	-	192	192
LIABILITIES				
Deposits	$ 3,312,347	$ 3,297,196	$ 3,324,377	$ 3,304,541
Securities sold under repurchase agreements	44,496	44,496	44,935	44,935
Short-term borrowings	51,750	51,750	51,300	51,300
Long-term borrowings	42,094	40,328	87,817	85,894
Junior subordinated debt securities	91,940	90,619	92,296	90,619
Interest rate swaps	20,034	20,034	11,594	11,594
Forward sale contracts	194	194	-	-

[(1)] *As reported in the Consolidated Balance Sheets*

NOTE 4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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

14

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

customer to effectively convert a variable rate loan to a fixed rate loan with S&T receiving a variable yield. These agreements could have floors or caps on the contracted interest rates.

Pursuant to S&T s agreements with various financial institutions, S&T may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of swap transactions. Based upon S&T s current positions and related future collateral requirements relating to them, S&T believes any affect on its cash flow or liquidity position to be immaterial. Derivatives contain an element of credit risk, the possibility that S&T will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by S&T s Asset and Liability Committee (ALCO) and derivatives with customers may only be executed with customers within credit exposure limits approved by S&T s Board of Directors Loan Committee.

Interest Rate Lock Commitments and Forward Sale Contracts

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

	Derivatives (included in Other Assets)		**Derivatives (included in Other Liabilities)**	
(dollars in thousands)	**June 30, 2010**	**December 31, 2009**	**June 30, 2010**	**December 31, 2009**
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts - Commercial Loans				
Estimated fair value	$ 20,375	$ 11,661	$ 20,034	$ 11,594
Notional amount	211,410	227,203	211,410	227,203
Collateral posted	-	-	12,760	10,935
Interest Rate Lock Commitments - Mortgage Loans				
Estimated fair value	300	126	-	-
Notional amount	10,077	10,672	-	-
Forward Sale Contracts - Mortgage Loans				
Estimated fair value	-	192	194	-
Notional amount	-	15,012	10,170	-

	Amount of Gain (Loss) Recognized in Income on Derivatives (included in Other Noninterest Income)	
	Three Months Ended June 30,	**Six Months Ended June 30,**

(dollars in thousands)	2010	2009	2010	2009
Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts - commercial loans	$ 170	$ (105)	$ 275	$110
Interest rate lock commitments - mortgage loans	128	(307)	174	100
Forward sale contracts - mortgage loans	(186)	367	(386)	173

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. SECURITIES AVAILABLE-FOR-SALE

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

	Available-for-Sale			
June 30, 2010 *(dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Obligations of U.S. government corporations and agencies	$ 121,858	$ 2,166	$ -	$ 124,024
Collateralized mortgage obligations of U.S. government corporations and agencies	47,571	2,161	-	49,732
Mortgage-backed securities of U.S. government corporations and agencies	50,678	3,392	-	54,070
Obligations of states and political subdivisions	75,317	2,181	(117)	77,381
Debt Securities Available-for-Sale	**295,424**	**9,900**	**(117)**	**305,207**
Marketable equity securities	10,540	765	(317)	10,988
Total	**$ 305,964**	**$ 10,665**	**$ (434)**	**$ 316,195**

	Available-for-Sale			
December 31, 2009 *(dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Obligations of U.S. government corporations and agencies	$ 126,588	$ 1,461	$ (78)	$ 127,971
Collateralized mortgage obligations of U.S. government corporations and agencies	58,010	2,219	-	60,229
Mortgage-backed securities of U.S. government corporations and agencies	58,834	2,687	-	61,521
Obligations of states and political subdivisions	91,146	2,013	(231)	92,928
Debt Securities Available-for-Sale	**334,578**	**8,380**	**(309)**	**342,649**
Marketable equity securities	12,652	741	(1,182)	12,211
Total	**$ 347,230**	**$ 9,121**	**$ (1,491)**	**$ 354,860**

There were $0.1 million and $0.3 million in gross realized gains and no significant gross realized losses for the three and six months ended June 30, 2010. For the three and six months ended June 30, 2009 there was $0.2 million in gross realized gains and $1.5 million and $2.7 million in gross realized losses. Realized gains and losses on the sale of securities are determined using the specific-identification method.

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

	Less than 12 Months	12 Months or More	Total

June 30, 2010 *(dollars in thousands)*	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$ -	$ -	$ -	$ -	$ -	$ -
Collateralized mortgage obligations of U.S. government corporations and agencies	-	-	-	-	-	-
Mortgage-backed securities of U.S. government corporations and agencies	-	-	-	-	-	-
Obligations of states and political subdivisions	367	(11)	5,927	(106)	6,294	(117)
Debt Securities Available-for-Sale	**367**	**(11)**	**5,927**	**(106)**	**6,294**	**(117)**
Marketable equity securities	7,224	(317)	-	-	7,224	(317)
Total Temporarily Impaired Securities	**$ 7,591**	**$ (328)**	**$ 5,927**	**$ (106)**	**$ 13,518**	**$ (434)**

16

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

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

The unrealized losses on 15 debt securities at June 30, 2010 were attributable to changes in interest rates. The unrealized losses on marketable equity securities at June 30, 2010 were not significant and were attributable to temporary declines in market value. S&T does not intend to sell and it is not likely that S&T will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of its amortized cost.

The amount of the net unrealized gains on available-for-sale securities as of June 30, 2010 and December 31, 2009 that have been included in accumulated other comprehensive income were $10.2 million and $7.6 million, respectively. For the three months ended June 30, 2010, approximately $0.1 million of unrealized gains were reclassified out of accumulated other comprehensive income into earnings, totaling $0.3 million for the six month period.

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

Available-for-Sale *(dollars in thousands)*	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 28,751	$ 29,024
Due after one year through five years	132,536	135,633
Due after five years through ten years	42,379	44,597
Due after ten years	91,758	95,953
Total Debt Securities Available-for-Sale	**$ 295,424**	**$ 305,207**

At June 30, 2010 and December 31, 2009, securities with principal amounts of $207.8 million and $251.4 million, respectively, were pledged to secure repurchase agreements, public funds and trust fund deposits.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. RESTRICTED INVESTMENT IN BANK STOCK

S&T is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon their level and availability of borrowings and participation in other programs offered by the FHLB. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Both cash and stock dividends are reported as income in taxable investment securities in the Consolidated Statements of Income (Loss). The FHLB has currently suspended the payment of dividends.

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

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

At June 30, 2010 and December 31, 2009, S&T s FHLB stock totaled $23.5 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

S&T was notified in December 2008 by the FHLB that they have suspended the payment of dividends and the repurchase of excess capital stock until further notice. S&T management reviewed and evaluated the FHLB capital stock for OTTI at June 30, 2010. Management reviewed the FHLB s Form 10-Q for the period ended March 31, 2010 filed with the SEC on May 10, 2010.

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

- Ability of the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB. The FHLB is meeting their debt obligations. Although the responsibility to repay debt may be shared among FHLB s in the event that one FHLB cannot pay, to date, a FHLB has never been required to pay the consolidated obligation of another FHLB.
- Impact of legislative and regulatory changes on the institution and, accordingly, on the customer base of the FHLB. With the exception of the Housing Act, enacted July 20, 2008, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, enacted on July 21, 2010 (including regulations promulgated pursuant to the Housing Act and Dodd-Frank Act), there are no pending legislative or regulatory changes that would impact the customer base of the FHLB.
- Liquidity position of the FHLB.

S&T believes its holdings in the FHLB stock are ultimately recoverable at par value as of June 30, 2010 and, therefore, determined that the FHLB stock was not OTTI. In addition, S&T has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

NOTE 7. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	**June 30, 2010**	**December 31, 2009**
Consumer		

Home equity	$	451,274	$	458,643
Residential mortgage		359,824		357,393
Consumer installment		76,755		