

S&T BANCORP INC
Form 10-K
February 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2009

Commission file number 1-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation of organization)

25-1434426
(I.R.S. Employer Identification No.)

800 Philadelphia Street, Indiana, PA
(Address of principal executive offices)

15701
(Zip Code)

Registrant's telephone number, including area code (800) 325-2265

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$2.50 per share

Name of each exchange on which registered
The NASDAQ Stock Market LLC
(NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

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(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K.

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 (§ 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 smaller reporting company. See the definitions 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 Act).

Yes No

The aggregate estimated fair value of the voting and non-voting common equity held by nonaffiliates of the registrant as of June 30, 2009:

Common Stock, \$2.50 par value \$325,556,871

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The number of shares outstanding of the issuer's classes of common stock as of February 9, 2010:

Common Stock, \$2.50 par value 27,753,407 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held April 19, 2010 are incorporated by reference into Part III.

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PART I

Item 1. BUSINESS

General

S&T Bancorp, Inc. (S&T ; references to we or us refers to S&T, including on a consolidated basis with our subsidiaries where appropriate) was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has two wholly owned subsidiaries, S&T Bank and 9th Street Holdings, Inc. S&T also owns a one-half interest in Commonwealth Trust Credit Life Insurance Company (CTCLIC). S&T is registered as a financial holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (BHCA).

As of December 31, 2009, S&T had approximately \$4.2 billion in total assets, \$553.3 million in total shareholder s equity and \$3.3 billion in total deposits. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum extent provided by law.

S&T Bank is a full service bank with its Main Office at 800 Philadelphia Street, Indiana, Pennsylvania, providing services to its customers through a branch network of 55 offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania.

S&T Bank s services include accepting time and demand deposit accounts, originating commercial and consumer loans, providing letters of credit, offering discount brokerage services, personal financial planning, credit card services and insurance products. Management believes that S&T Bank has a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors (including federal, state and local governments). S&T Bank has not experienced significant fluctuations in deposits.

Total wealth management assets under management were approximately \$1.3 billion at December 31, 2009. Wealth management services include services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services.

S&T Bank has four wholly owned subsidiaries, S&T Insurance Group, LLC; S&T Bancholdings, Inc.; S&T Professional Resources Group, LLC; and Stewart Capital Advisors, LLC. S&T Insurance Group, LLC, through its subsidiaries, offers a variety of insurance products. S&T Professional Resources Group, LLC markets software developed by S&T Bank; S&T Bancholdings, Inc. is an investment holding company; and Stewart Capital Advisors, LLC, is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

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, having a liquidation amount per share equal to \$1,000, for a total price of \$108.7 million. The Series A Preferred Stock pays cumulative dividends at a rate of 5 percent per year for the first five years and thereafter at a rate of 9 percent per year. S&T calculated the estimated fair value of the preferred stock with a discounted cash flow model using a 10 percent discount rate 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. The Series A Preferred Stock is generally non-voting. 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,

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or \$27.2 million. The consent of the U.S. Treasury will be required for S&T to increase its common

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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.

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. The Warrant expires ten years from the issuance date. 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.

Employees

As of December 31, 2009, S&T and its subsidiaries had 937 full-time equivalent employees. S&T provides a variety of employment benefits and considers its relationship with its employees to be good.

Access to United States Securities and Exchange Commission Filings

All reports filed electronically by S&T with the United States Securities and Exchange Commission (SEC), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our annual proxy statements, as well as any amendments to those reports, are accessible at no cost on our website at www.stbancorp.com. These filings are also accessible on the SEC's website at www.sec.gov. You may read and copy any material S&T files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. S&T's charters of the Audit Committee, the Compensation and Benefits Committee, the Nominating and Corporate Governance Committee, the Shareholder Communications Policy and the General Code of Conduct are also available on S&T's website.

Supervision and Regulation

General

S&T and S&T Bank are each extensively regulated under federal and state law. The following describes certain aspects of that regulation and does not purport to be a complete description of all regulations that affect S&T and S&T Bank or all aspects of those regulations.

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To the extent statutory or regulatory provisions are described, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on S&T or S&T Bank is impossible to determine with any certainty.

Any change in applicable laws or regulations, or in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations and earnings.

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S&T

S&T is a bank holding company subject to regulation under the BHCA and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than 5 percent of the voting shares or substantially all of the assets of any additional bank, or merge or consolidate with another bank holding company, without the prior approval of the Federal Reserve Board. S&T has received such approvals from the Federal Reserve Board for passive ownership positions in Allegheny Valley Bancorp, Inc. (currently 14.78 percent) and CBT Financial Corporation (currently 5.37 percent).

As a bank holding company, S&T is expected under Federal Reserve Board regulation to serve as a source of financial and managerial strength to its subsidiary bank. A bank holding company is also expected to commit resources, including capital and other funds, to support its subsidiary bank in circumstances where it might not do so absent such a policy.

S&T elected to become a financial holding company under the BHCA in 2001 and thereby engage in a broader range of financial and other activities than are permissible for traditional bank holding companies. In order to qualify and maintain its status as a financial holding company, the depository institutions controlled by S&T must remain well capitalized and well managed (as defined in federal law) and have at least a satisfactory Community Reinvestment Act (CRA) rating. Refer to Item 8, Note 20 Regulatory Matters, for information concerning the current capital ratios of S&T and S&T Bank. No prior regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The BHCA identifies several activities as financial in nature including, among others, securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and sales agency; investment advisory activities; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking or a proper incident thereto. Banks may also engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating.

If S&T Bank ceases to be well capitalized or well managed, S&T will not be in compliance with the requirements of the BHCA regarding financial holding companies. If a financial holding company is notified by the Federal Reserve Bank of such a change in the ratings of any of its subsidiary banks, it must take certain corrective actions within specified time frames. Furthermore, if S&T Bank were to receive a CRA rating of less than satisfactory, then S&T would be prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations until the rating is raised to satisfactory or better.

S&T is presently engaged in nonbanking activities through the following six entities:

9th Street Holdings, Inc. was formed in June 1988 to hold and manage a group of investments previously owned by S&T Bank and to give S&T additional latitude to purchase other investments.

S&T Banc Holdings, Inc. was formed in August 2002 to hold and manage a group of investments previously owned by S&T Bank and to give S&T additional latitude to purchase other investments.

CTCLIC is a joint venture with another financial institution, acting as a reinsurer of credit life, accident and health insurance policies sold by S&T Bank and the other institution.

S&T Insurance Group, LLC distributes high-quality life insurance and long-term disability income insurance products. During 2001, S&T Insurance Group, LLC and Attorneys Abstract Company, Inc. entered into an agreement to form S&T Settlement Services, LLC (STSS), with respective ownership interests of 55 percent and 45 percent. STSS is a title insurance agency servicing

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commercial customers. During 2002, S&T Insurance Group, LLC expanded into the property and casualty insurance business with the acquisition of Evergreen Insurance Associates, LLC.

S&T Professional Resources Group, LLC markets software developed by S&T Bank.

Stewart Capital Advisors, LLC was formed in August 2005 and is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

S&T Bank

As a state-chartered, commercial bank, the deposits of which are insured by the FDIC, S&T Bank is subject to the supervision and regulation of the Pennsylvania Department of Banking (PADB) and the FDIC. S&T Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be granted and limits on the type of other activities in which S&T Bank may engage and the investments it may make.

S&T Bank is also subject to federal laws that limit the amount of transactions between itself and S&T or S&T's nonbank subsidiaries. Under these provisions, transactions between a bank and its parent company or any single nonbank affiliate generally are limited to 10 percent of the bank subsidiary's capital and surplus, and with respect to all transactions with affiliates, are limited to 20 percent of the bank subsidiary's capital and surplus. Further, loans and extensions of credit from a bank to an affiliate generally are required to be secured by eligible collateral in specified amounts. Federal law also imposes similar restrictions on transactions between a bank and its financial subsidiaries. A bank, such as S&T Bank, also is prohibited from purchasing any low-quality asset from an affiliate. S&T Bank is in compliance with these provisions.

Insurance of Accounts; Depositor Preference

The deposits of S&T Bank are insured up to applicable limits per insured depositor by the FDIC. In October 2008, the FDIC increased FDIC deposit insurance coverage per separately insured depositor for all account types to \$250,000. While initially stipulated to be in effect through December 31, 2009, this increase has been subsequently extended through December 31, 2013 (at which point it will revert to \$100,000 thereafter for most accounts other than IRAs and certain other types of retirement accounts up to a maximum of \$250,000, if not extended by Congress). Also, in October 2008, the FDIC introduced the Temporary Liquidity Guarantee Program (TLGP), which is designed to improve the functions of the credit markets and to strengthen confidence in the financial system. The TLGP has two components (both of which involve participation fees to be paid by the participating institution): (i) a transaction account guarantee program, providing a full guaranty through June 2010 of noninterest-bearing deposit transaction accounts, such as business payroll accounts, regardless of the amount on deposit and (ii) a debt guarantee program, providing a guarantee of certain newly issued senior unsecured debt of the Bank. S&T has elected to participate in the transaction account guarantee program.

As an FDIC-insured bank, S&T Bank is also subject to FDIC insurance assessments, which are imposed based upon the risk the institution poses to the Deposit Insurance Fund (DIF). Under this assessment system, risk is defined and measured using an institution's supervisory ratings with certain other risk measures, including certain financial ratios. The annual rates for institutions in 2009 range from 12 basis points for well managed, well capitalized banks with the highest ratings, to 45 basis points for institutions posing the most risk to the DIF. The FDIC may raise or lower these assessment rates on a quarterly basis based on various factors to achieve a reserve ratio, which the FDIC currently has set at 1.25 percent of insured deposits. Due to recent bank failures and contingent loss reserves established by the FDIC against potential future bank failures, the reserve ratio is currently significantly below its target balance. Thus, in February 2009, the FDIC adopted a Final

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Rule on Assessments under which the quarterly initial base assessment rates increased substantially beginning in the second quarter of 2009. The FDIC then adopted a Final Rule on Special Assessment in May 2009, which imposed a 5 basis point special assessment on each institution's assets minus Tier 1 capital as reported on the report of condition as of June 30, 2009, but capped the special assessment at 10 basis points times the institution's assessment base for the second quarter 2009 risk-based assessment. On November 12, 2009, the FDIC Board of Directors adopted a final rule that required insured depository institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012, along with their quarterly risk-based assessment for the third quarter of 2009. The continued decline in the DIF balance may convince the FDIC to impose additional special emergency assessments in the future that could have a significant impact on S&T Bank's capital levels and earnings. During 2009, the increase in FDIC annual rates and the special assessment, at 10 basis points, impacted S&T's pretax earnings by \$6.0 million and \$2.0 million, respectively. The prepayment for S&T's quarterly assessments amounted to \$21.1 million and will be recognized as expense over a 3 year period.

In October 2008, in order to restore its reserve ratio and ensure that the DIF will be able to adequately cover losses from future bank failures, the FDIC proposed amendments to its deposit insurance rules to alter the way the assessment system differentiates risk among insured institutions and to change assessments rates, including base assessment rates. A uniform assessment increase for the first quarter of 2009 was adopted as a final rule in December 2008. The FDIC also proposed further base rate assessment adjustments effective April 1, 2009.

In addition to DIF assessments, the FDIC assesses all insured deposits a special assessment to fund the repayment of debt obligations of the Financing Corporation (FICO). FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation in the 1990s. As of January 1, 2010, the annualized rate established by the FDIC for the FICO assessment was 1.06 basis points per \$100 of insured deposits.

Under federal law, deposits and certain claims for administrative expenses and employee compensation against insured depository institutions are afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the liquidation or other resolution of such an institution by any receiver appointed by regulatory authorities. Such priority creditors would include the FDIC.

Capital

The Federal Reserve Board and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to banking organizations they supervise. Under the risk-based capital requirements, both S&T and S&T Bank generally are required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8.00 percent. At least half of the total capital must be comprised of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles, (Tier 1 capital). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, and a limited amount of the loan loss allowance (Tier 2 capital and, together with Tier 1 capital, Total capital). At December 31, 2009, S&T's Tier 1 capital and Total capital ratios were 12.10 percent and 15.43 percent, respectively, and the ratios of Tier 1 capital and Total capital for S&T Bank were 8.05 percent and 11.39 percent, respectively.

In addition, each of the federal bank regulatory agencies has established minimum leverage capital ratio requirements for banking organizations. These requirements provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets equal to 3.00 percent for bank and bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing significant growth or expansion. All other banks and bank holding

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companies generally are required to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. At December 31, 2009, S&T's leverage ratio was 10.26 percent and S&T Bank's leverage ratio was 6.81 percent.

Both the Federal Reserve Board and the FDIC's risk-based capital standards explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank's capital adequacy. The Federal Reserve Board has also issued additional capital guidelines for certain bank holding companies that engage in trading activities. S&T does not believe that consideration of these additional factors will affect the regulators' assessment of S&T or S&T Bank's capital position.

Federal regulators periodically propose amendments to the risk-based capital guidelines and the related regulatory framework and consider changes to the capital standards that could significantly increase the amount of capital needed to meet applicable standards. The timing of adoption, ultimate form and effect of any such proposed amendments cannot be predicted.

Payment of Dividends

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of S&T's revenues consist of dividend payments it receives from S&T Bank. S&T Bank, in turn, is subject to state laws and regulations that limit the amount of dividends it can pay to S&T. In addition, both S&T and S&T Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. Thus, under certain circumstances based upon S&T's financial condition, S&T's ability to declare and pay quarterly dividends may require consultation with the Federal Reserve and may be prohibited by applicable Federal Reserve regulations. If S&T were to pay a dividend in contravention of Federal Reserve regulations, the Federal Reserve could raise supervisory concerns. In addition, prior to January 16, 2012, unless 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, the consent of the U.S. Treasury is 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. During the year ended December 31, 2009, S&T Bank paid \$25.4 million in cash dividends to S&T for dividends paid to common shareholders.

Other Safety and Soundness Regulations

There are a number of obligations and restrictions imposed on bank holding companies such as S&T and its depository institution subsidiary by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event the depository institution becomes in danger of default or in default. Under current federal law for example, the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, as defined by the law. Under regulations established by the federal banking agencies, a well capitalized institution must have a Tier 1 capital ratio of at least 6.00 percent, a Total capital ratio of at least

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10.00 percent and a leverage ratio of at least 5.00 percent and must not be subject to a capital directive or order. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4.00 percent, a Total capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent. The most highly-rated financial institutions minimum requirement for the leverage ratio is 3.00 percent. As of December 31, 2009, S&T and S&T Bank were classified as well capitalized. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of any financial institution.

The federal banking agencies prompt corrective action powers (which increase depending upon the degree to which an institution is undercapitalized) can include, inter alia, requiring an insured depository institution to adopt a capital restoration plan which cannot be approved unless guaranteed by the institution's parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distributions without prior regulatory approval; and, ultimately, appointing a receiver for the institution. For example, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval.

The federal banking agencies have also adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage specified risks and exposures. The guidelines prohibit excessive compensation as an unsafe and unsound practice and characterize compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the agencies have adopted regulations that authorize, but do not require an agency to order an institution that has been given notice by an agency that it is not in compliance with any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions described above.

Regulatory Enforcement Authority

The enforcement powers available to federal banking agencies are substantial and include, among other things and in addition to other powers described herein, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banks and bank holding companies and institution affiliated parties, as defined in the Federal Deposit Insurance Act (FDIA). In general, these enforcement actions may be initiated for violations of laws and regulations, as well as engagement in unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

At the state level, the PADB also has broad enforcement powers over S&T Bank, including the power to impose fines and other civil and criminal penalties and to appoint a conservator or receiver.

Interstate Banking and Branching

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. S&T Bank has the ability, subject to certain restrictions, to acquire by acquisition or merger, branches of banks located outside of Pennsylvania, its home state. The establishment of de novo interstate branches is also possible in those states where expressly permitted. Once a bank has established branches in a state through an

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interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, S&T Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include, among other laws, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and the CRA. In addition, rules developed by the federal banking agencies pursuant to federal law require disclosure of privacy policies to consumers and in some circumstances, allow consumers to prevent the disclosure of certain personal information to nonaffiliated third parties.

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate-income neighborhoods. Furthermore, such assessment also is required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. In the case of a bank holding company (including a financial holding company) applying for approval to acquire a bank or bank holding company, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant bank holding company in considering the application. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve or unsatisfactory. S&T Bank was rated satisfactory in its most recent CRA evaluation.

Anti-Money Laundering Rules

S&T Bank is subject to the Bank Secrecy Act, its implementing regulations and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. Among other things, these laws and regulations require S&T Bank to take steps to prevent the use of S&T Bank to facilitate the flow of illegal or illicit money, to report large currency transactions and to file suspicious activity reports. S&T Bank is also required to develop and implement a comprehensive anti-money laundering compliance program. Banks must also have in place appropriate know your customer policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act of 2001 require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Government Actions and Legislation

The Emergency Economic Stabilization Act of 2008 (the EES Act), effective October 2008, allocated up to \$700 billion towards purchasing and insuring assets held by financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Pursuant to authority granted under the EES Act, the U.S. Treasury announced the CPP whereby the U.S. Treasury agreed to purchase senior preferred shares from qualifying U.S. financial institutions. Each participating institution may sell to the U.S. Treasury an amount of senior preferred shares ranging from 1.0 percent to 3.0 percent of its September 30, 2008 risk-weighted assets. The preferred shares are generally nonvoting and pay an initial dividend rate of 5.0 percent per year for the first five years, increasing to 9.0 percent per year after year five. As part of the consideration for the shares, the U.S. Treasury requires the receipt of Warrants to acquire common stock from the participating institution having an aggregate market price equal to 15.0 percent of the amount of capital invested by the U.S. Treasury in the senior preferred shares, at an exercise price equal to the average trailing 20-trading day market price of the institution's common stock at the time of issuance. Participating

institutions must agree to certain limitations on executive compensation, repurchases of junior preferred or

Item 1. BUSINESS continued

common stock and increases in common stock dividend payments. S&T applied to participate in the CPP and was approved to receive \$108.7 million in exchange for the U.S. Treasury purchase of S&T senior preferred stock. The transaction closed on January 16, 2009.

Subsequently, the ARRA, signed into law in February 2009, allowed financial institutions such as S&T to redeem Series A Preferred Stock issued in the CPP, plus any accrued and unpaid dividends, at any time, without increasing common equity, subject to approval by banking regulatory agencies. If S&T only redeems a portion of the CPP investment, it must pay a minimum of 25 percent of the issuance price, or \$27.2 million.

The government has also implemented the Homeowner Affordability and Stability Plan (HASP), a \$75 billion federal program intended to support recovery in the housing market and ensure that eligible homeowners are able to continue to fulfill their mortgage obligations. HASP includes the following initiatives: (i) a refinance option for homeowners that are current in their mortgage payments and whose mortgages are owned by Fannie Mae or Freddie Mac; (ii) a homeowner stability initiative to prevent foreclosures and help eligible borrowers stay in their homes by offering loan modifications that reduce mortgage payments to more sustainable levels; and (iii) an increase in U.S. Treasury funding to Fannie Mae and Freddie Mac to allow them to lower mortgage rates. HASP also offers monetary incentives to mortgage servicers and mortgage holders for certain modifications of at-risk loans and would establish an insurance fund designed to reduce foreclosures.

Regulation of the financial services industry could undergo substantial changes in the near future. Legislation has been passed in the U.S. House of Representatives (the House Bill), and the U.S. Senate is expected to consider its version of the financial reform legislation (the Senate Bill) shortly. Such legislation would further increase regulation and oversight of the financial services industry and impose restrictions on the ability of firms within the industry to conduct business consistent with historical practices. For example, under the House Bill, a Consumer Financial Protection Agency would be established to regulate any person engaged in a financial activity in connection with a consumer financial product or service, including those that process financial services products and services. Although it is unclear at this time whether the Senate Bill would provide for such an agency, it is expected that the Senate Bill would include some consumer protection measures. Federal and state regulatory agencies also consistently propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof, although enactment of the proposed legislation could affect how S&T and S&T Bank operate and could significantly increase costs, impede the efficiency of internal business processes, or limit our ability to pursue business opportunities in an efficient manner, any of which could materially and adversely affect our business, financial condition and results of operations.

Competition

S&T Bank competes with other local, regional and national financial service providers, such as other financial holding companies, commercial banks, savings associations, credit unions, finance companies and brokerage and insurance firms. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and bank holding companies, and are thus able to operate under lower cost structures. The financial service industry is likely to become more competitive as further technological advances enable more companies to provide financial services on a more efficient and convenient basis.

Item 1A. RISK FACTORS

Investments in S&T common stock involve risk. The following discussion highlights the risks management believe are material for our company, but do not necessarily include all risks that S&T may face.

Item 1A. RISK FACTORS continued

The market price of S&T common stock may fluctuate significantly in response to a number of factors.

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. economic environment and changes in the residential and commercial real estate market, any of which may cause our stock price to fluctuate. If our operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, as has occurred in the past, the price of our common stock could decline substantially. Such a stock price decline could occur, and has occurred in the past, even when we have met our publicly stated earnings guidance. Stock price volatility may make it more difficult for an investor to resell our common stock when desired and at attractive prices. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- changes in analysts' estimates of financial performance
- volatility of stock market prices and volumes
- changes in market valuations of similar companies
- changes in conditions in credit markets
- new products or services offered in the banking and/or financial services industries
- variations in quarterly or annual operating results
- new litigation
- changes in accounting policies or procedures as required by the Financial Accounting Standards Board (FASB) or other regulatory agencies
- new legislation and/or regulatory changes

Recent legislation enacted in response to market and economic conditions may significantly affect S&T's operations, financial condition and earnings.

Disruptions in the financial system during 2009 have resulted in significantly reduced business activity throughout the global and U.S. economies, which have the potential to significantly affect financial institutions. The EES Act was enacted to respond to this financial crisis, giving the U.S. Treasury the authority to purchase up to \$700 billion of financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Several programs have since been initiated by the U.S. Treasury, the Federal Reserve Board and the FDIC to stabilize the financial system. The U.S. Treasury's Program was created to invest up to \$250 billion (of the \$700 billion) into banks and savings institutions of all sizes. The FDIC is also temporarily providing a 100 percent guarantee of the senior debt of all FDIC insured institutions, as well as deposits in noninterest-bearing transaction deposit accounts under its TLGP. The Federal Reserve is operating various asset-based secured loan programs to provide liquidity to various consumer and commercial credit markets. S&T and S&T Bank are participating in the U.S. Treasury's CPP and the FDIC's TLGP.

As noted previously, legislation recently passed in the U.S. House of Representatives and under consideration by the U.S. Senate would further increase regulation and oversight of the financial services industry, imposing restrictions on the ability of institutions within the industry to conduct business consistent with historical practices, including aspects such as compensation, consumer protection regulations and mortgage regulation, among others. While the House Bill differs from what is expected to be passed by the U.S. Senate, the House Bill, if enacted, would eliminate the federal savings association charter, merge the Office of Thrift Supervision (OTS) into the Office of the Comptroller of the Currency (OCC), create a Consumer Financial Protection Agency and result in other significant regulatory restructuring.

Item 1A. RISK FACTORS continued

It is not clear what impact the expected Congressional action will have on the financial markets or on the U.S. banking and financial services industries and the broader U.S. and global economies. These new laws, regulations and changes may increase our costs of regulatory compliance and of doing business and otherwise affect our operations. They may significantly affect the markets in which we do business, the markets for and value of our investments and our ongoing operations, costs and profitability.

Future governmental regulation and legislation could limit our growth.

S&T is subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of our operations. The regulations are primarily intended to protect depositors, customers and the banking system as a whole, and not for the protection of shareholders. Failure to comply with applicable regulations could lead to penalties and damage to our reputation. Furthermore, the regulatory environment is constantly undergoing change and the impact of changes to laws and regulations, the interpretation of such laws or regulations or other actions by regulatory agencies could make regulatory compliance more difficult or expensive, and thus could affect S&T's ability to deliver or expand services, or it could diminish the value of S&T's business. The ramifications and uncertainties of the recent increase in government intervention in the U.S. financial system could also adversely affect S&T. See "Supervision and Regulation" within Item 1 for additional information.

Increases in FDIC insurance premiums may adversely affect our earnings.

During 2008 and continuing in 2009, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the DIF. In addition, the FDIC instituted two temporary programs to further insure customer deposits at FDIC insured banks: deposit accounts are now insured up to \$250,000 per customer (up from \$100,000) and noninterest-bearing transactional accounts are currently fully insured (unlimited coverage). These programs have placed additional stress on the DIF.

In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions. In addition, on November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted insurance fund.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact our earnings.

We may experience increased delinquencies and credit losses.

Like other lenders, we face the risk that our customers will not repay their loans. Rising losses or leading indicators of rising losses (such as higher delinquencies, non-performing loans, or bankruptcy rates; lower collateral values; rising unemployment rates) may require us to increase our allowance for loan losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

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Missed payments. Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition. Our reported delinquency levels measure these trends. Customers are more likely to miss payments during an economic downturn. In addition, we face the risk that

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Item 1A. RISK FACTORS continued

consumer and commercial customer behavior may change (i.e. an increased unwillingness or inability to repay debt), causing a long-term rise in delinquencies and charge-offs.

Estimates of inherent losses. The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and inadequate allowance for loan losses. In addition, our estimate of inherent losses impacts the amount of allowances we build to account for those losses. The increase or release of allowances impacts our current financial results.

Underwriting. Our ability to assess the credit worthiness of our customers may diminish. If the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate), our credit losses and returns may deteriorate.

Business mix. Our business mix could change in ways that could adversely affect credit losses. We participate in a mix of businesses with a broad range of credit loss characteristics. Consequently, changes in our business mix may change our charge-off rate.

Charge-off recognition. The rules governing charge-off recognition could change. We record charge-offs according to accounting and regulatory guidelines and rules. These guidelines and rules, including the Federal Financial Institutions Examination Council (FFIEC) Account Management Guidance, could require changes in our account management or loss allowance practices and cause our charge-offs to increase for reasons unrelated to the underlying performance of our portfolio. Such changes could have an adverse impact on our financial condition or results of operation.

Industry practices. Our charge-off and delinquency rates may be negatively impacted by industry developments, including new regulations applicable to our industry.

Collateral. Collateral could be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from our customers. Particularly with respect to our commercial lending and mortgage activities, decreases in real estate values could adversely affect the value of property used as collateral for our loans and investments. Thus, the recovery of such property could be insufficient to compensate us for the value of these loans.

Western Pennsylvania concentration. Although our lending is geographically diversified, in general, our commercial loan portfolio is concentrated in western Pennsylvania. The regional economic conditions in the western Pennsylvania area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. A prolonged decline in the general economic conditions of the region in which we operate could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations.

Current levels of market volatility are unprecedented.

Dramatic declines in the U.S. housing market over the past two years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by other financial institutions, including government-sponsored enterprises, as well as major commercial

Item 1A. RISK FACTORS continued

and investment banks. Many lenders and institutional investors have reduced, and in some cases, ceased providing funding to borrowers, including other financial institutions, reflecting concern about the stability of financial markets, generally, and the strength of counterparties, specifically. This market turmoil and tightening of credit has led to an increased level of commercial and consumer delinquencies for financial institutions, a lack of confidence in the financial sector and increased volatility in the financial markets. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect S&T's business, financial condition and results of operations. Specifically, the difficult market conditions may result in, among other things, deterioration in credit quality and/or a reduced demand for credit, which may have a resultant effect on S&T's loan portfolio and allowance for loan losses.

Downturn in the local economies may adversely affect our business.

S&T's business is concentrated in the western Pennsylvania area. As a result, its financial condition, results of operations and cash flows are subject to changes if there are changes in the economic conditions in this geographic region. A prolonged period of economic recession or other adverse economic conditions in this area could have a negative impact on S&T. S&T can provide no assurance that conditions in its market area economies will not deteriorate further in the future and that such deterioration would not have a material adverse effect on S&T.

The securities purchase agreement between S&T and the U.S. Treasury limits our ability to pay dividends on and repurchase our common stock.

The securities purchase agreement between S&T and the U.S. Treasury provides that prior to the earlier of (i) January 16, 2012 or (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by S&T or transferred by the U.S. Treasury to third parties, we may not, without the consent of the U.S. Treasury: (a) increase the cash dividend on our common stock (above the dividend amount prior to the participation in the CPP), or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than the Series A Preferred Stock. In addition, we may only pay dividends on our common stock if we are current in our dividend payments on the Series A Preferred Stock. These restrictions, together with the potentially dilutive impact of the Warrant as described in the risk factor below, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as, and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future.

We may be required to raise capital in the future, but that capital may not be available or may not be on acceptable terms when it is needed.

We are required by federal regulatory authorities to maintain adequate capital levels to support operations. Our ability to raise additional capital is dependent on capital market conditions at that time and on our financial performance. Current market conditions have made it harder to access capital, due to both decreased stock prices and the general decrease in available credit. If we cannot raise additional capital when needed, our ability to further expand operations through internal growth, acquisitions and deposit gathering could be materially impaired.

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The Series A Preferred Stock impacts net income available to our common shareholders and earnings per common share, and the Warrant we issued to the U.S. Treasury may be dilutive to holders of our common stock.

The dividends declared on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also

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Item 1A. RISK FACTORS continued

receive preferential treatment in the event of liquidation, dissolution or winding up of S&T. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the Warrant we issued to the U.S. Treasury in conjunction with the sale to the U.S. Treasury of the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 1.8 percent of the shares of our common stock outstanding as of February 9, 2010 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction.

If S&T does not adjust to changes in the financial services industry, its financial performance may suffer.

S&T's future financial performance will depend in part on its ability to adjust to the changes in the financial services industry that are expected as a result of the financial crisis. These adjustments may include expanding its scope of available financial services to its customers, and in adjusting products and services to meet current economic conditions, comply with new federal laws and regulations. In addition to other banks, competitors include security dealers, brokers, mortgage bankers, investment advisors, finance and insurance companies. The current environment is, in part, a result of the overall decline in economic activity, the absence of liquidity in the markets, changes in regulation, changes in technology and product delivery systems and continued consolidation among financial service providers.

Interest rate movements impact the earnings of S&T.

S&T is exposed to interest rate risk, through the operations of its banking subsidiary, since substantially all of S&T Bank's assets and liabilities are monetary in nature. Interest rate risk arises from market driven fluctuations in interest rates that affect cash flows, income, expense and value of financial instruments. S&T Bank's earnings, like that of most financial institutions, largely depend on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. In an increasing interest rate environment, the cost of funds sometimes increases more rapidly than the interest earned on the loans and securities because the primary source of funds are deposits with generally shorter maturities than the maturities on loans and investment securities. This could cause the net interest rate spread to compress and negatively impact S&T Bank's profitability.

S&T's business strategy includes growth plans through internal growth and acquisitions. Our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

S&T intends to continue pursuing a profitable growth strategy. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in growth stages of development. We cannot assure you that we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy. Also, if we grow more slowly than anticipated, our operating results could be materially adversely affected.

Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. There can be no assurance that growth opportunities will be available or that growth will be successfully managed.

Item 1B. UNRESOLVED STAFF COMMENTS

There were no unresolved comments received from the SEC regarding S&T's periodic or current reports within the last 180 days prior to December 31, 2009.

Item 2. PROPERTIES

S&T operates 55 banking offices in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania.

S&T owns land and banking offices at the following 39 locations:

133 Philadelphia Street Armagh, PA 15920	111 Resort Plaza Drive Blairsville, PA 15717	205 East Market Street Blairsville, PA 15717	456 Main Street Brockway, PA 15824
209 Allegheny Boulevard Brookville, PA 15825	256 Main Street Brookville, PA 15825	410 Main Street Clarion, PA 16214	650 Main Street Clarion, PA 16214
85 Greensburg Street Delmont, PA 15626	100 South Chestnut Street Derry, PA 15627	35 West Scribner Avenue DuBois, PA 15801	614 Liberty Boulevard DuBois, PA 15801
200 Patchway Road Duncansville, PA 16635	196 Industrial Park Ebensburg, PA 15931	420 Pleasantview Drive & Armstrong Street Ford City, PA 16226	920 Fifth Avenue Ford City, PA 16226
701 East Pittsburgh Street Greensburg, PA 15601	34 North Main Street Homer City, PA 15748	354 North Ave Indiana, PA 15701	355 North Fifth Street Indiana, PA 15701
501 Philadelphia Street Indiana, PA 15701	800 Philadelphia Street Indiana, PA 15701	2175 Route 286 South Indiana, PA 15701	4021 Route 130 Irwin, PA 15642
9350 Lincoln Highway Irwin, PA 15642	30 Towne Center Drive Leechburg, PA 15656	225 Lucerne Road Lucernemines, PA 15754	4385 Old Wm. Penn Hwy Monroeville, PA 15146
4251 Old Wm. Penn Hwy Murrysville, PA 15668	628 Broad Street New Bethlehem, PA 16242	301 Unity Center Road Pittsburgh, PA 15239	7660 Saltsburg Road Pittsburgh, PA 15239
12262 Frankstown Road Pittsburgh, PA 15235	232 North Hampton Avenue Punxsutawney, PA 15767	539 West Mahoning Street Punxsutawney, PA 15767	418 Main Street Reynoldsville, PA 15851
602 Salt Street	2190 Hulton Road Verona, PA 15147	100 South Fourth Street Youngwood, PA 15697	

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S&T leases land where S&T owns the banking offices and remote ATM buildings at the following 11 locations:

1100 Logan Boulevard
Altoona, PA 16602

220 New Castle Road
Butler, PA 16001

8th & Merle Street
Clarion, PA 16214

229 Westmoreland Drive,
Route 30 Greensburg,
PA 15601

835 Hospital Road
Indiana, PA 15701

1107 Wayne Avenue
Indiana, PA 15701

4580 Broadway Boulevard
Monroeville, PA 15146

1077 Freeport Road
Pittsburgh, PA 15238

2320 Route 286
Pittsburgh, PA 15239

12550 Perry Highway
Wexford, PA 15090

2003 Lincoln Way
White Oak, PA 15131

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Item 2. PROPERTIES continued

S&T leases land and banking offices at the following 15 locations:

Coral Reef & Crooked	DuBois Mall	20 North Pennsylvania Avenue	4589 Route 136 Greensburg, PA 15601
Island Roads DuBois, PA 15801	5522 Shaffer Road, Suite 99 DuBois, PA 15801	Greensburg, PA 15601	
2388 Route 286 Holiday Park, PA 15239	324 North Fourth Street Indiana, PA 15701	3100 Oakland Avenue Indiana, PA 15701	309 Main Street Irwin, PA 15642
2000 Penny Lane Jeannette, PA 15644	12 Hilltop Plaza Kittanning, PA 16201	3884 Route 30 East Latrobe, PA 15650	Two Gateway Center 603 Stanwix Street, Suite 125 Pittsburgh, PA 15222
Shadyside Village 820 South Aiken Avenue Pittsburgh, PA 15232	6306 Forbes Avenue Pittsburgh, PA 15217	2001 Lincoln Way White Oak, PA 15131	

Item 3. LEGAL PROCEEDINGS

The nature of our business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in management's opinion, there are no proceedings pending to which S&T is a party or to which our property is subject, which, if determined adversely to S&T, would be material in relation to our shareholders' equity or financial condition. In addition, no material proceedings are pending nor are known to be threatened or contemplated against us by governmental authorities or other parties.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters during the fourth quarter of the fiscal year covered by this report that were submitted to a vote of our shareholders through solicitation of proxies or otherwise.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**Stock Prices and Dividend Information**

S&T's common stock is listed on the NASDAQ Global Select Market System (NASDAQ) under the symbol STBA. The range of sale prices for the years 2009 and 2008 is set forth in the table below and is based upon information obtained from NASDAQ. As of the close of business on February 9, 2010, there were 3,177 shareholders of record of S&T. Dividends paid by S&T are primarily provided from S&T Bank's dividends to S&T. The payment of dividends by S&T Bank to S&T is subject to the restrictions described in Item 8, Note 14 Dividend and Loan Restrictions. The cash dividends declared shown below represent the historical per share amounts for S&T common stock.

	Price Range of Common Stock		Cash Dividends Declared
	Low	High	
2009			
Fourth quarter	\$ 12.15	\$ 17.82	\$ 0.00 ⁽¹⁾
Third quarter	10.49	18.25	0.15
Second quarter	11.62	25.24	0.15
First quarter	17.55	35.54	0.31
2008			
Fourth quarter	\$ 25.37	\$ 38.22	\$ 0.31
Third quarter	25.00	47.09	0.31
Second quarter	29.04	35.58	0.31
First quarter	25.78	34.09	0.31

⁽¹⁾ S&T's Board of Directors (the Board) approved a change in timing of the declaration and payment of dividends to provide better alignment with quarterly earnings beginning in the fourth quarter 2009. The Board declared a \$0.15 per common share cash dividend at its meeting held January 18, 2010. The dividend is payable February 25, 2010 to common shareholders of record on February 1, 2010.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES continued
Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on S&T common stock with the cumulative total shareholder return of the NASDAQ Composite Index and NASDAQ Bank Index⁽¹⁾ assuming a \$100 investment in each on December 31, 2004.

	2004	2005	2006	2007	2008	2009
STBA	\$ 100	\$ 101	\$ 98	\$ 81	\$ 108	\$ 54
Nasdaq Composite Index	100	101	111	122	72	104
Nasdaq Bank Index	100	96	106	83	63	51

⁽¹⁾ The NASDAQ Bank Index contains securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as Banks. These companies include banks providing a broad range of financial services, including retail banking, loans and money transmissions.

During 2009 and 2008, S&T's Board did not authorize any additional buyback programs. On June 18, 2007, S&T's Board authorized a buyback program of one million shares until June 30, 2008. During 2007, S&T repurchased 971,400 shares at an average cost of \$32.74 per share. During 2009, S&T reissued 113,626 shares primarily through restricted stock awards and shares sold for the dividend reinvestment and thrift plans. During 2008, S&T reissued 2,751,749 shares to the former IBT shareholders and issued 330,092 shares through the exercise of employee stock options.

Item 6. SELECTED FINANCIAL DATA

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31	2009	2008	2007	2006	2005
<i>(dollars in thousands, except per share data)</i>					
Interest income	\$ 195,087	\$ 216,118	\$ 215,605	\$ 204,702	\$ 172,122
Interest expense	49,105	72,171	99,167	91,584	59,514
Provision for loan losses	72,354	12,878	5,812	9,380	5,000
Net Interest Income After Provision for Loan Losses	73,628	131,069	110,626	103,738	107,608
Noninterest income	38,580	37,452	40,605	40,390	37,386
Noninterest expense	108,126	83,801	73,460	69,279	62,464
Income Before Taxes	4,082	84,720	77,771	74,849	82,530
(Benefit) provision for income taxes	(3,869)	24,517	21,627	21,513	24,287
Net Income	7,951	60,203	56,144	53,336	58,243
Preferred stock dividends and amortization of discount	5,913				
Net Income Available to Common Shareholders	\$ 2,038	\$ 60,203	\$ 56,144	\$ 53,336	\$ 58,243

Per Share Data

Common earnings per share basic	\$ 0.07	\$ 2.30	\$ 2.27	\$ 2.07	\$ 2.21
Common earnings per share diluted	0.07	2.28	2.26	2.06	2.18
Dividends declared per common share	0.61	1.24	1.21	1.17	1.13
Common book value	16.14	16.24	13.75	13.37	13.41

CONSOLIDATED BALANCE SHEETS

December 31	2009	2008	2007	2006	2005
<i>(dollars in thousands)</i>					
Total assets	\$ 4,170,475	\$ 4,438,368	\$ 3,407,621	\$ 3,338,543	\$ 3,194,979
Securities available-for-sale	354,860	452,713	358,822	432,045	481,257
Goodwill	165,167	163,546	50,087	49,955	49,073
Net loans	3,344,827	3,526,027	2,762,594	2,633,071	2,454,934
Total deposits	3,304,541	3,228,416	2,621,825	2,565,306	2,418,884
Securities sold under repurchase agreements and federal funds purchased	44,935	113,419	100,258	133,021	137,829
Short-term borrowings	51,300	308,475	80,000	55,000	150,000
Long-term borrowings	85,894	180,331	201,021	171,941	83,776
Junior subordinated debt securities	90,619	90,619	25,000	25,000	
Total shareholders equity	553,318	448,694	337,560	339,051	352,421

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis represents an overview of the consolidated results of operations and financial condition of S&T. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes presented in Item 8 of this Report. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future periods.

IMPORTANT NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 the statements, as they are subject to risks and uncertainties, including but not limited to, those described in this Form 10-K 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 then actually known to us. 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;
- credit losses;
- sources of liquidity;
- legislation affecting the financial services industry as a whole and/or S&T and its subsidiaries individually or collectively;
- regulatory supervision and oversight, including required capital levels;
- 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;
- the mix of products and services;
- containing costs and expenses;
- governmental and public policy changes, including environmental regulations;
- reliance on large customers;
- technological, implementation and cost and financial risks in large, multi-year contracts;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing;
- financial resources in the amounts, at the times and on the terms required to support our future businesses;
- changes in the local economy in the western Pennsylvania area;
- managing our internal growth and acquisitions;

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continued

general economic or business conditions, either nationally or regionally, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;

a decline in market capitalization to common book value which could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a charge to net income; and

a continuation of recent turbulence in significant portions of the global financial and real estate markets could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally;

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

CRITICAL ACCOUNTING POLICIES AND JUDGMENTS

S&T's Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies followed by S&T are presented in Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, which is included in Item 8 of the Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how significant assets and liabilities are valued in the Consolidated Financial Statements and how those values are determined.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the Consolidated Financial Statements. Management currently views the determination of the securities valuation, allowance for loan losses, goodwill and other intangible assets and income taxes to be critical accounting policies.

Securities Valuation

Management determines the appropriate classification of securities at the time of purchase. All securities, including both debt and equity securities, are classified as available-for-sale securities. Such securities are carried at estimated fair value with net unrealized gains and losses deemed to be temporary reported separately as a component of other comprehensive income, net of tax. Realized gains and losses on the sale of available-for-sale securities and other-than-temporary impairment (OTTI) charges are recorded within noninterest income in the Consolidated Statements of Income. Realized gains and losses on the sale of securities are determined using the specific-identification method.

Management systematically evaluates securities for OTTI on a quarterly basis. S&T's policy for OTTI within the marketable equity securities portfolio generally 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 an OTTI prior to that time. S&T's policy for OTTI within the debt securities

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continued

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, whether management intends to sell the security and it is more likely than not that management will be required to sell the investment security prior to the security recovery. If the financial markets continue to experience deterioration, additional charges to income could occur in future periods.

Allowance for Loan Losses

The allowance for loan losses addresses credit losses inherent in the existing loan portfolio and is presented as a reserve against loans on the Consolidated Balance Sheets. The liability for loss on loan commitments represents management's estimate of probable losses associated with future advances against loan commitments. Determination of an adequate allowance for loan losses and liability for loss on loan commitments is inherently subjective, as it requires estimations of occurrence of future events, as well as timing of such events.

The allowance is increased by a provision charged to expense and reduced by charge-offs, net of recoveries. S&T's periodic evaluation of the adequacy of the allowance for loan losses is determined by management through evaluation of the loss exposure on individual impaired, nonperforming, delinquent and high-dollar loans; review of risk conditions and business trends; historical loss experience and; growth and composition of the loan portfolio, as well as other relevant factors.

A quantitative analysis is utilized to support the adequacy of the allowance for loan losses. This analysis includes a review of the historical charge-offs that have occurred within segmented portfolios over the last five years. Management also assesses qualitative factors such as unemployment, non-accrual, loan growth, vacancy, classified loan, bank loss/recovery, delinquency and out of state risk trends. The allowance established for individual impaired loans reflects expected losses resulting from analyses developed through specific credit allocations for individual loans. The specific credit allocations are based on regular analysis of all loans over a fixed dollar amount, where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, current estimated fair value of the loan and collateral values. The evaluation of these components of the allowance requires considerable judgment in order to estimate inherent loss exposures. Current risk factors, trends in risk ratings and historical charge-off experiences are considered in the determination of the allowance for loan losses.

The allowance for loan losses at December 31, 2009 includes \$50.8 million or 85 percent of the allowance allocated to commercial and industrial and commercial real estate loans. These loans are generally larger in size and more vulnerable to an economic slowdown. The ability for customers to repay commercial loans is more dependent upon the success of their business, continuing income and general economic conditions. Accordingly, the risk of loss is higher on such loans than on residential real estate loans, which generally incur lower losses in the event of foreclosure as the collateral value typically exceeds the loan amounts.

There are many factors affecting the allowance for loan losses; some are quantitative, while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses could be required and could adversely affect S&T's earnings or financial position in future periods.

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Goodwill and Other Intangible Assets

As of December 31, 2009, S&T had \$9.4 million of core deposit and other intangible assets subject to amortization. S&T determined the amount of identifiable intangible assets at the time of acquisition based upon independent core deposit and insurance contract analyses. Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No triggering events occurred during the years ended December 31, 2009, 2008 and 2007, requiring an impairment analysis.

S&T's goodwill relates to value inherent in the banking and insurance businesses and the value is dependent upon S&T's ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of S&T's services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could adversely impact earnings in future periods.

The carrying value of goodwill is tested annually for impairment each October 1 or more frequently if indicators of impairment are present. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. S&T has three reporting units including: a Community Bank, Wealth Management and an Insurance Agency. At December 31, 2009, S&T had goodwill of \$165.2 million, including \$161.1 million at the Community Bank, representing 98 percent of total goodwill and \$4.1 million at the Insurance Agency, representing 2 percent of total goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed and could result in an impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied goodwill value of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. During the year, and on October 1, management's analysis concluded that the estimated fair value exceeded the carrying value. As such, no goodwill impairment was recorded.

The current economic climate significantly impacted S&T's business beginning in the first quarter of 2009. S&T reported an unprecedented net loss, primarily due to a significant deterioration in our loan portfolio. Concurrently, S&T experienced a significant decline in our market capitalization and our stock traded below common book value. Such events triggered a need to perform a step 1 valuation of goodwill impairment. Accordingly, S&T engaged a qualified third party valuation expert to perform a valuation of S&T's Community Bank reporting unit as of April 30, 2009.

The third party expert utilized a valuation methodology consistent with current accounting literature to determine the estimated fair value of the reporting units. The valuation used both a market and income approach. The methodology consisted of techniques using comparable transactions, comparable peer analysis and a discounted future earnings analysis. The discounted future earnings analysis considered the costs of equity and weighted-average costs of capital to determine an appropriate discount rate. Further, the model assumed estimates of future growth rates that if not achieved could significantly impact the valuation. The valuation model is based upon estimates and is highly judgmental. The valuation resulted in the fair value of the Community Banking reporting unit exceeding carrying value by approximately 51 percent.

During the fourth quarter, management engaged the third party valuation expert to update the previous valuation model as our market capitalization was 3.5 percent above our carrying value. Further, certain assumptions used in the previous report may have changed, including the financial

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forecast and the overall economic climate. The valuation techniques used were consistent with those described above and resulted in the estimated fair value of the Community Bank reporting unit exceeding its carrying value by approximately 10 percent. As such, no goodwill impairment was recorded.

The financial services industry and securities markets continue to be adversely affected by declining values of nearly all asset classes. If current economic conditions continue to result in a prolonged period of economic weakness, S&T's business segments, including the Community Banking segment, may be adversely affected. This may result in impairment of goodwill and other intangible assets in the future. Any resulting impairment loss could have a material adverse impact on S&T's financial condition and its results of operations.

Income Taxes

S&T estimates income tax expense based on amounts expected to be owed to the tax jurisdictions where S&T conducts business. On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current estimate of the amount and components of net income, tax credits and the applicable statutory tax rates expected for the full year.

Deferred income tax assets and liabilities are determined using the asset and liability method and are reported in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities and recognizes enacted changes in tax rate and laws. Deferred tax assets are recognized to the extent they exist and are subject to a valuation allowance based on management's judgment that realization is more likely than not.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other liabilities in the Consolidated Balance Sheets. S&T evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, as well as the current period's income tax expense and can be significant to the operating results of S&T.

Tax positions are recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 1 Summary of Significant Accounting Policies, Recently Issued Accounting Pronouncements in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by S&T and the expected impact of accounting pronouncements recently issued or proposed, but not yet required to be adopted.

EXECUTIVE OVERVIEW

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S&T is a financial holding company with its headquarters located in Indiana, Pennsylvania with assets of approximately \$4.2 billion at December 31, 2009. S&T provides a full range of financial services through a branch network of 55 offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania. S&T provides full

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service retail and commercial banking products as well as cash management services; insurance; estate planning and administration; employee benefit investment management and administration; corporate services; and other fiduciary services. S&T earns revenue primarily from interest on loans, security investments and fees charged for financial services provided to our customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses as well as other operating costs such as: salaries and employee benefits, occupancy, data processing expenses and tax expense. S&T's strategic plan to deliver profitable growth to our shareholders includes: increasing loans and core deposits with sufficient interest rate spreads, controlling loan delinquency and loan losses, controlling operating expenses and expanding the business through new de novo branching, mergers and acquisitions, introduction of new products and services and expansion of our products and services provided to our existing customers. S&T's common stock trades on the Nasdaq Global Select Market under the symbol STBA.

Recent turbulence in significant portions of the global financial and real estate markets has adversely impacted our performance, primarily due to higher provision for loan losses, which resulted from the significant increase in loan charge-offs and the general deterioration of the credit quality of the loan portfolio. The area of commercial loans has been and continues to be the subject of considerable management focus and review. During 2009, S&T implemented or enhanced various new policies and procedures including: monitoring, funding, risk ratings, stress testing and compliance for the area of commercial loans. Nonperforming assets totaled \$95.4 million or 2.29 percent of total assets at December 31, 2009 as compared to \$43.3 million or 0.98 percent at December 31, 2008.

Earnings assets have decreased \$262.2 million over the past 12 months, driven by a \$164.3 million decrease in loans and \$97.9 million decrease in investment securities. The loan decrease is primarily due to reduced demand for commercial real estate financing and development in the market and less credit demand and utilization by businesses responding to the recessionary economic environment. A significant portion of maturing investment securities were not replaced in 2009 as the risk and reward for leveraging activities was significantly reduced in a volatile interest rate environment.

Investment security losses for 2009 were \$5.1 million compared to \$1.7 million of losses during 2008. Included in the 2009 results is \$5.3 million of OTTI charges on 17 bank equity holdings. The equity securities portfolio currently has an estimated fair value of \$12.2 million at December 31, 2009, as compared to \$14.9 million at December 31, 2008. During the past two years, S&T has implemented a strategy to methodically sell holdings in this portfolio and only retain strategic positions in bank holding companies within our market area.

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). See Item 1. Business, Capital Purchase Program for additional information.

During 2009, S&T has reduced borrowings since participation in the CPP provided increased liquidity. The decrease in borrowings is also the result of decreased loan demand as consumers and businesses react to the economic slowdown, as well as maturing investment securities that were not replaced as an S&T Asset Liability Committee (ALCO) strategy to mitigate interest rate and liquidity risk. As a result, total assets at December 31, 2009 decreased from total assets at December 31, 2008 from \$4.4 billion to \$4.2 billion. S&T plans to obtain regulatory approval for repayment of these funds once a positive direction in the economy becomes clearer and S&T returns to more normalized earnings levels.

There are many uncertainties regarding the economy as S&T enters 2010. 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 continually assesses our balance sheet, capital, liquidity and operation infrastructures in order to be positioned to take advantage of internal or acquisition growth

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opportunities. During 2009 liquidity improved due to participation in the CPP, decreases in loan and security balances, stable deposit levels and a larger borrowing capacity at the FHLB which resulted from reduced borrowings. At December 31, 2009, S&T is in an asset sensitive position which will well position us for any potential increase in interest rates in the future.

There are many factors that could influence our results, both positively and negatively, in 2010. Because the majority of our revenue comes from net interest income, internally generated loan and deposit growth and the mix of that growth are major factors on our operations and financial condition. S&T has directed a fair amount of focus and resources in planning for 2010 to improve our generation and retention of low cost core deposits. On the other hand, a continuation of the economic slowdown, regionally or nationally, could cause deterioration in the asset quality measurements. S&T recognizes that our shift to a greater dependence on commercial loans in recent years exposes us to larger credit risks and greater swings in nonperforming loans and loan charge-offs when problems do occur.

RESULTS OF OPERATIONS
Year Ended December 31, 2009
Net Income

S&T had net income available to common shareholders of \$2.0 million or \$0.07 diluted earnings per share for 2009 as compared to net income available to common shareholders of \$60.2 million or \$2.28 diluted earnings per share for 2008. The decrease in net income for 2009 compared to 2008 was primarily the result of higher provision for loan losses, which was necessitated by the significant increase in loan charge-offs and the general deterioration of the credit quality in the loan portfolio, increased Federal Deposit Insurance Corporation (FDIC) premiums and surcharges and OTTI for equity investments.

Return on Equity and Assets

The table below presents consolidated operating and capital ratios of S&T for each of the last three years:

	Years Ended December 31		
	2009	2008	2007
Common return on average assets	0.05%	1.52%	1.68%
Common return on average equity	0.37%	14.77%	16.97%
Dividend payout ratio	12.48%	53.66%	53.06%
Common equity to asset ratio	10.74%	10.11%	9.91%

Net Interest Income

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	Years Ended December 31		
	2009	2008	2007
<i>(dollars in thousands)</i>			
Interest income per Consolidated Statements of Income	\$ 195,087	\$ 216,118	\$ 215,605
Adjustment to fully taxable-equivalent basis	5,202	5,147	4,727
Interest income adjusted to fully taxable-equivalent basis	200,289	221,265	220,332
Interest expense	49,105	72,171	99,167
Net Interest Income Adjusted to Fully Taxable-equivalent Basis	\$ 151,184	\$ 149,094	\$ 121,165

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Average Balance Sheet and Net Interest Income Analysis

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

	2009			December 31 2008			2007		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<i>(dollars in thousands)</i>									
ASSETS									
Loans ⁽¹⁾⁽²⁾	\$ 3,473,169	\$ 182,767	5.26%	\$ 3,230,791	\$ 201,547	6.24%	\$ 2,731,807	\$ 202,032	7.40%
Taxable investment securities	286,295	11,897	4.16%	303,442	13,651	4.50%	301,115	13,576	4.51%
Tax-exempt investment securities ⁽²⁾	103,832	5,624	5.42%	105,781	5,429	5.13%	81,200	4,001	4.93%
Federal Home Loan Bank	23,542		%	20,733	636	3.07%	12,144	687	5.66%
Federal funds sold	258	1	0.25%	124	2	1.90%	728	36	4.92%
Total Interest-earning Assets⁽³⁾	3,887,096	200,289	5.15%	3,660,871	221,265	6.04%	3,126,994	220,332	7.05%
Noninterest-earning assets:									
Cash and due from banks	67,405			60,636			53,702		
Premises and equipment, net	41,915			41,702			36,320		
Other assets	320,857			246,895			154,158		
Less allowance for loan losses	(57,985)			(39,102)			(35,072)		
Total	\$ 4,259,288			\$ 3,971,002			\$ 3,336,102		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
NOW/Money market accounts	\$ 485,742	\$ 1,616	0.33%	\$ 395,629	\$ 3,022	0.76%	\$ 295,099	\$ 3,524	1.19%
Savings deposits	758,216	3,465	0.46%	865,839	11,692	1.35%	922,333	33,956	3.68%
Certificates of deposit	1,367,372	33,358	2.44%	1,102,717	37,650	3.41%	934,673	42,106	4.51%
Federal funds purchased	115	1	0.79%	4,886	122	2.52%	14,485	786	5.42%
Securities sold under repurchase agreements	86,616	140	0.16%	124,005	1,627	1.31%	81,686	3,446	4.22%
Short-term borrowings	104,217	544	0.52%	227,918	4,263	1.87%	44,214	2,325	5.26%
Long-term borrowings	127,045	5,568	4.38%	196,901	9,416	4.78%	211,347	11,329	5.36%
Subordinated debt	90,619	4,413	4.87%	69,872	4,379	6.27%	25,000	1,695	6.78%
Total Interest-bearing Liabilities⁽³⁾	3,019,942	49,105	1.63%	2,987,767	72,171	2.42%	2,528,837	99,167	3.92%
Noninterest-bearing liabilities:									
Demand deposits	637,434			533,096			441,647		
Other	57,377			42,478			34,866		
Shareholders' equity	544,535			407,661			330,752		
Total	\$ 4,259,288			\$ 3,971,002			\$ 3,336,102		
Net interest income		\$ 151,184			\$ 149,094			\$ 121,165	
Net yield on interest-earning assets			3.89%			4.07%			3.87%

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

(2) Tax-exempt income is on a fully taxable-equivalent basis, including the dividend-received deduction for equity securities, using the statutory federal corporate income tax rate of 35 percent for 2009, 2008 and 2007.

(3) Yields are calculated using historical cost basis.

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The following tables present a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	2009 Compared to 2008			2008 Compared to 2007		
	Increase (Decrease) Due to ⁽¹⁾			Increase (Decrease) Due to ⁽¹⁾		
	Volume	Rate	Net	Volume	Rate	Net
<i>(dollars in thousands)</i>						
Interest earned on:						
Loans ⁽²⁾	\$ 15,120	\$ (33,900)	\$ (18,780)	\$ 36,903	\$ (37,388)	\$ (485)
Taxable investment securities	(771)	(983)	(1,754)	105	(30)	75
Tax-exempt investment securities ⁽²⁾	(100)	295	195	1,211	217	1,428
Other investments	86	(722)	(636)	486	(537)	(51)
Federal funds sold	3	(4)	(1)			