S&T BANCORP INC
Form 10-Q
November 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from To

Commission file number 000-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

800-325-2265

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value - 29,733,592 shares as of October 24, 2012

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	**September 30, 2012 (Unaudited)**	**December 31, 2011 (Audited)**
ASSETS		
Cash and due from banks, including interest-bearing deposits of $284,619 and $208,854 at September 30, 2012 and December 31, 2011, respectively	$ 347,076	$ 270,526
Securities available-for-sale, at fair value	415,429	357,596
Loans held for sale	3,188	2,850
Portfolio loans, net of unearned income of $188 and $715 at September 30, 2012 and December 31, 2011, respectively	3,279,157	3,129,759
Allowance for loan losses	(46,279)	(48,841)
Portfolio loans, net	3,232,878	3,080,918
Bank owned life insurance	58,097	56,755
Premises and equipment, net	39,273	37,755
Federal Home Loan Bank stock, at cost	16,628	18,216
Goodwill	175,733	165,273
Other intangibles, net	5,783	5,728
Other assets	128,173	124,377
Total Assets	**$ 4,422,258**	**$ 4,119,994**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 928,000	$ 818,686
Interest-bearing demand	321,785	283,611
Money market	316,673	278,092
Savings	949,521	802,942
Certificates of deposit	1,078,427	1,152,528
Total Deposits	**3,594,406**	**3,335,859**
Securities sold under repurchase agreements	49,261	30,370
Short-term borrowings	25,000	75,000
Long-term borrowings	40,669	31,874
Junior subordinated debt securities	90,619	90,619
Other liabilities	88,061	65,746
Total Liabilities	**3,888,016**	**3,629,468**
SHAREHOLDERS EQUITY		
Common stock ($2.50 par value) Authorized 50,000,000 shares Issued 31,197,365 shares at September 30, 2012 and 29,714,038 shares at December 31, 2011 Outstanding 29,733,592 shares at September 30, 2012 and 28,131,249 shares at December 31, 2011	77,993	74,285
Additional paid-in capital	77,230	52,637
Retained earnings	430,936	421,468

Accumulated other comprehensive income		(11,470)		(14,108)
Treasury stock (1,463,773 shares and 1,582,789 shares at September 30, 2012 and December 31, 2011, respectively, at cost)		(40,447)		(43,756)
Total Shareholders Equity		**534,242**		**490,526**
Total Liabilities and Shareholders Equity	**$**	**4,422,258**	**$**	**4,119,994**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
INTEREST INCOME				
Loans, including fees	$ 36,121	$ 38,103	$ 109,054	$ 116,720
Investment securities:				
Taxable	1,829	2,054	5,660	5,944
Tax-exempt	788	525	2,319	1,678
Dividends	82	163	297	478
Total Interest Income	**38,820**	**40,845**	**117,330**	**124,820**
INTEREST EXPENSE				
Deposits	3,958	5,745	13,184	17,764
Borrowings and junior subordinated debt securities	1,067	1,231	3,211	3,777
Total Interest Expense	**5,025**	**6,976**	**16,395**	**21,541**
NET INTEREST INCOME	**33,795**	**33,869**	**100,935**	**103,279**
Provision for loan losses	2,305	1,535	18,600	13,272
Net Interest Income After Provision for Loan Losses	**31,490**	**32,334**	**82,335**	**90,007**
NONINTEREST INCOME				
Debit and credit card fees	2,966	2,790	8,472	8,174
Service charges on deposit accounts	2,567	2,683	7,407	7,356
Insurance fees	2,402	2,192	6,725	6,505
Wealth management fees	2,397	1,965	7,393	6,159
Securities gains (losses), net	2,170	(81)	3,016	(124)
Mortgage banking	797	(447)	2,174	424
Other	1,447	1,241	5,160	3,989
Total Noninterest Income	**14,746**	**10,343**	**40,347**	**32,483**
NONINTEREST EXPENSE				
Salaries and employee benefits	14,819	11,741	45,933	37,632
Data processing	2,012	1,743	7,448	4,928
Net occupancy	1,978	1,653	5,594	5,248
Professional services and legal	1,440	1,173	4,548	4,058
Furniture and equipment	1,414	1,263	3,861	3,805
Other taxes	982	864	2,533	2,669
FDIC assessment	838	749	2,164	2,892

Marketing	759	747	2,156	2,055
Other	6,776	4,260	18,909	13,949
Total Noninterest Expense	**31,018**	**24,193**	**93,146**	**77,236**
Income Before Taxes	**15,218**	**18,484**	**29,536**	**45,254**
Provision for Income Taxes	2,623	4,681	4,861	10,246
Net Income	**12,595**	**13,803**	**24,675**	**35,008**
Preferred stock dividends and discount amortization		1,559		4,672
Net Income Available to Common Shareholders	**$ 12,595**	**$ 12,244**	**$ 24,675**	**$ 30,336**
Earnings per common share basic	$ 0. 43	$ 0.44	$ 0. 85	$ 1.08
Earnings per common share diluted	$ 0. 43	$ 0.44	$ 0. 85	$ 1.08
Dividends declared per common share	$ 0. 15	$ 0.15	$ 0. 45	$ 0.45
Comprehensive Income	**$ 14,514**	**$ 15,932**	**$ 27,313**	**$ 39,423**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except per share data)	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at January 1, 2011		**$ 106,137**	**$ 74,285**	**$ 51,570**	**$ 401,734**	**$ (6,334)**	**$ (48,727)**	**$ 578,665**
Net income for nine months ended September 30, 2011	$ 35,008				35,008			35,008
Other Comprehensive Income								
Change in unrealized gains on securities available-for-sale, net of tax of $2,100	3,901					3,901		3,901
Reclassification adjustment for net losses on securities available-for-sale included in net income, net of tax of $43	81					81		81
Adjustment to funded status of employee benefit plans, net of tax of $233	433					433		433
Total Comprehensive Income	**$ 39,423**							
Preferred stock dividends and discount amortization		596			(4,672)			(4,076)
Cash dividends declared ($0.45 per share)					(12,614)			(12,614)
Treasury stock issued (156,419 shares)				(10)	(2,840)		4,325	1,475
Recognition of restricted stock compensation expense				830				830
Forfeitures of restricted stock (1,657 shares)				10			(39)	(29)
Balance at September 30, 2011		**$ 106,733**	**$ 74,285**	**$ 52,400**	**$ 416,616**	**$ (1,919)**	**$ (44,441)**	**$ 603,674**
Balance at January 1, 2012		**$**	**$ 74,285**	**$ 52,637**	**$ 421,468**	**$ (14,108)**	**$ (43,756)**	**$ 490,526**
Net income for nine months ended September 30, 2012	$ 24,675				24,675			24,675
Other Comprehensive Income								
Change in unrealized gains on securities available-for-sale, net of tax of $1,815	3,373					3,373		3,373
Reclassification adjustment for net gains on securities available-for-sale included in net income, net of tax of $1,055	(1,960)					(1,960)		(1,960)
Adjustment to funded status of employee benefit plans, net of tax of $662	1,225					1,225		1,225
Total Comprehensive Income	**$ 27,313**							
Cash dividends declared ($0.45 per share)					(12,897)			(12,897)
Common stock issued in acquisition (1,483,327 shares)			3,708	23,902				27,610

Treasury stock issued (122,879 shares)				(2,348)		3,395	1,047
Recognition of restricted stock compensation expense			721				721
Tax expense from stock-based compensation			(30)				(30)
Forfeitures of restricted stock (3,863 shares)				38		(86)	(48)
Balance September 30, 2012	**$**	**$ 77,993**	**$ 77,230**	**$ 430,936**	**$ (11,470)**	**$ (40,447)**	**$ 534,242**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	**Nine Months Ended September 30, 2012**	**2011**
OPERATING ACTIVITIES		
Net income	$ 24,675	$ 35,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	18,600	13,272
Provision for unfunded loan commitments	1,956	(1,015)
Depreciation and amortization	5,306	4,858
Net amortization (accretion) of discounts and premiums	1,591	844
Stock-based compensation expense	683	636
Securities (gains) losses, net	(3,016)	124
Deferred income taxes	(1,799)	(142)
Tax expense (benefit) from stock-based compensation	30	
Mortgage loans originated for sale	(62,920)	(49,477)
Proceeds from the sale of loans	63,661	54,557
Gain on the sale of loans, net	(1,079)	(544)
Net decrease (increase) in interest receivable	51	1,216
Net (decrease) increase in interest payable	(1,251)	(179)
Net decrease (increase) in other assets	12,476	3,135
Net increase (decrease) in other liabilities	19,537	(3,941)
Net Cash Provided by Operating Activities	**78,501**	**58,352**
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(118,857)	(98,080)
Proceeds from maturities, prepayments and calls of securities available-for-sale	79,122	51,069
Proceeds from sales of securities available-for-sale	66,575	70
Proceeds from the redemption of Federal Home Loan Bank stock	3,557	3,190
Net decrease (increase) in loans	55,119	189,730
Proceeds from the sale of loans not originated for resale		8,595
Purchases of premises and equipment	(1,779)	(2,288)
Proceeds from the sale of premises and equipment	142	285
Net cash acquired from bank acquisitions	18,639	
Net Cash Provided by Investing Activities	**102,518**	**152,571**
FINANCING ACTIVITIES		
Net increase (decrease) in core deposits	119,088	59,401
Net (decrease) increase in certificates of deposit	(172,541)	(105,580)
Net increase (decrease) in securities sold under repurchase agreements	15,121	1,756
Net (decrease) increase in short-term borrowings	(50,000)	
Proceeds from long-term borrowings	4,311	4,192
Repayments of long-term borrowings	(8,520)	(1,238)
Purchase of treasury shares	(48)	(29)
Sale of treasury shares	1,047	1,475
Preferred stock dividends		(4,076)
Cash dividends paid to common shareholders	(12,897)	(12,614)
Tax (expense) benefit from stock-based compensation	(30)	

Net Cash Used in Financing Activities		**(104,469)**		**(56,713)**
Net increase in cash and cash equivalents		76,550		154,210
Cash and cash equivalents at beginning of period		270,526		108,196
Cash and Cash Equivalents at End of Period	**$**	**347,076**	**$**	**262,406**
Supplemental Disclosures				
Interest paid	$	17,575	$	21,720
Income taxes paid	$	1,394	$	9,900
Net assets (liabilities) from acquisitions, excluding cash and cash equivalents	$	(683)	$	
Transfers to other real estate owned and other repossessed assets	$	864	$	6,942

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principals of Consolidation

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

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission, or SEC, on February 29, 2012. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly S&T s financial position and results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

Certain amounts in the prior periods financial statements have been reclassified to conform to the current period s presentation. The reclassifications had no significant effect on our results of operations or financial condition.

Use of Estimates

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

Recently Adopted Accounting Standards Updates

Technical Amendments and Corrections to SEC Sections

In August 2012, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2012-03, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update), which were meant to codify various amendments and corrections included in these previously issued bulletins and releases. Since this is codification only of previously issued accounting guidance, it was adopted at September 30, 2012, and has not had an impact on our results of operations or financial position.

Presentation of Comprehensive Income

In December 2011, the FASB issued ASU No. 2011-12, which superseded certain pending paragraphs in ASU No. 2011-05. In June 2011, the FASB issued ASU No. 2011-05, the provisions of which allow an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an

item of other comprehensive income must be reclassified to net income. ASU 2011-05 permits companies to present in the annual period the comprehensive income components in a single continuous statement or two consecutive statements and to present in the interim periods only the total for comprehensive income in a single continuous statement or two consecutive statements. ASU No. 2011-12 effectively defers changes that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements. This amendment is effective at the same time as the amendments in ASU No. 2011-05. It should be applied retrospectively and is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have elected the option of a single continuous statement format for interim periods. ASU 2011-05 and ASU 2011-12 should be applied retrospectively and are effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of both ASU 2011-05 and 2011-12 has only impacted our presentation of comprehensive income and has not had an impact on our results of operations or financial position.

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1. BASIS OF PRESENTATION continued

Testing Goodwill for Impairment

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

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

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

Reconsideration of Effective Control for Repurchase Agreements

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

Recently Issued Accounting Standards Updates not yet Adopted

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued ASU No. 2012-02, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles Goodwill and Other General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity s financial statements for the most recent annual or interim period have not yet been issued. The adoption of this ASU is not expected to have a material impact on our results of operations or financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1. BASIS OF PRESENTATION continued

Disclosures About Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU, No. 2011-11, in conjunction with the issuance by the IASB, of amendments to Disclosures Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The disclosure requirements apply to recognized financial instruments and derivative instruments that are offset or subject to an enforceable master netting arrangement. An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial position, including the effect or potential effect of rights of setoff associated with recognized assets and recognized liabilities. While both the FASB and the IASB retained the existing offsetting models under U.S. GAAP and IFRS, the new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The adoption of this ASU is expected to impact only our disclosure requirements and is not expected to have a material impact on our results of operations or financial position.

NOTE 2. BUSINESS COMBINATIONS

On August 13, 2012, we completed the acquisition of 100 percent of the voting shares of Gateway Bank of Pennsylvania, or Gateway, located in McMurray, Pennsylvania. The acquisition expanded our market share and footprint into Washington County, Pennsylvania. Gateway shareholders were entitled to receive $3.08 in cash and 0.4657 shares of S&T common stock in exchange for one share of Gateway common stock.

Gateway will operate as a separate wholly-owned subsidiary of S&T and all transactions since the acquisition date are consolidated in our financial statements. Cash paid to former Gateway shareholders was $5.2 million and the fair value of common shares issued was $13.3 million. We also settled outstanding equity awards for $1.0 million. As of September 30, 2012, S&T recognized Goodwill of $3.8 million from the Gateway acquisition.

On March 9, 2012, we completed the acquisition of 100 percent of the voting shares of Mainline Bancorp, Inc., or Mainline, located in Ebensburg, Pennsylvania, which was the sole shareholder of Mainline National Bank. The acquisition expanded our market share and footprint throughout Cambria and Blair Counties of Western Pennsylvania. Mainline shareholders were entitled to elect to receive for each share of Mainline common stock either $69.00 in cash or 3.6316 shares of S&T common stock. We also purchased Mainline s preferred stock issued under the U.S. Treasury Capital Purchase Program, or CPP, for $4.7 million on March 9, 2012. The preferred stock was purchased and retired as part of the merger transaction. The measurement period for the Mainline acquisition ends March 9, 2013. Based on new information received about facts and circumstances that existed as of the acquisition date one measurement period adjustment for $0.5 million was recorded relating to a contingent liability for an IRS proposed penalty for tax year 2010. Cash paid to former Mainline shareholders was $8.2 million and the fair value of common shares issued was to $14.8 million. As of September 30, 2012, S&T recognized Goodwill of $6.7 million from the Mainline acquisition.

Both acquisitions were accounted for under the acquisition method of accounting, and all transactions since the acquisition dates are included in our consolidated financial statements. The assets acquired and liabilities assumed were recorded at their respective fair values and represent management s estimates based on available information.

Goodwill was calculated as the excess of the consideration exchanged over the net identifiable assets acquired from each acquisition and will not be deductible for tax purposes. Goodwill from both acquisitions was assigned to our Community Banking segment.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 2. BUSINESS COMBINATIONS continued

The following table summarizes total consideration, assets acquired and liabilities assumed as of September 30, 2012 for both the Mainline and Gateway acquisitions:

(in thousands)	Mainline	Gateway	Combined
Consideration Paid			
Cash	$ 12,904	$ 6,238	$ 19,142
Common stock	14,786	13,284	28,070
Fair value of previously held equity interest	74	272	346
Fair Value of Total Consideration	**$ 27,764**	**$ 19,794**	**$ 47,558**
Fair Value of Assets Acquired			
Cash and cash equivalents	$ 17,763	$ 20,018	$ 37,781
Securities and other investments	73,328	9,564	82,892
Loans	129,501	99,090	228,591
Premises and other equipment	2,280	495	2,775
Core deposit intangible	900	431	1,331
Other assets	12,438	2,665	15,103
Total Assets Acquired	**$ 236,210**	**$ 132,263**	**$ 368,473**
Fair Value of Liabilities Assumed			
Deposits	205,989	105,400	311,389
Borrowings	6,997	9,777	16,774
Other liabilities	2,144	1,068	3,212
Total Liabilities Assumed	**$ 215,130**	**$ 116,245**	**$ 331,375**
Total Fair Value of Identifiable Net Assets	**21,080**	**16,018**	**37,098**
Goodwill	**$ 6,684**	**$ 3,776**	**$ 10,460**

Acquired loans were recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of the loans involved estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Loans acquired with evidence of credit quality deterioration were not significant. We acquired $231.9 million of gross loans and recognized a net combined yield and credit mark of $3.3 million.

Direct costs related to the acquisitions were expensed as incurred. As of September 30, 2012, we recognized a combined total of $5.3 million of one-time merger related expenses for both acquisitions.

For the nine months ended September 30, 2012, we recognized $0.8 million of one-time merger related expenses for the Gateway acquisition; consisting primarily of legal, professional and other expenses of $0.6 million and $0.2 million in change in control, severance and other employee costs.

For the Mainline acquisition, we recognized $4.5 million of one-time merger related expenses; including $1.8 million in change in control, severance and other employee costs, $1.9 million in data processing contract termination and conversion costs and $0.8 million in legal, professional and other expenses.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of basic earnings per share with that of diluted earnings per share for the periods presented:

(in thousands, except shares and per share data)	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Numerator for Earnings per Common Share Basic:				
Net income	$ 12,595	$ 13,803	$ 24,675	$ 35,008
Less: Preferred stock dividends and discount amortization		1,559		4,672
Less: Income allocated to participating shares	50	38	107	74
Net Income Allocated to Common Shareholders	**$ 12,545**	**$ 12,206**	**$ 24,568**	**$ 30,262**
Numerator for Earnings per Common Share Diluted:				
Net income	$ 12,595	$ 13,803	$ 24,675	$ 35,008
Less: Preferred stock dividends and discount amortization		1,559		4,672
Net Income Available to Common Shareholders	**$ 12,595**	**$ 12,244**	**$ 24,675**	**$ 30,336**
Denominators:				
Weighted Average Common Shares Outstanding Basic	**29,244,588**	**28,002,957**	**28,740,582**	**27,971,291**
Add: Dilutive potential common shares	32,644	22,462	33,614	19,619
Denominator for Treasury Stock Method Diluted	**29,277,232**	**28,025,419**	**28,774,196**	**27,990,910**
Weighted Average Common Shares Outstanding Basic	**29,244,588**	**28,002,957**	**28,740,582**	**27,971,291**
Add: Average participating shares outstanding	116,402	87,440	125,240	68,512
Denominator for Two-Class Method Diluted	**29,360,990**	**28,090,397**	**28,865,822**	**28,039,803**
Earnings per common share basic	$ 0. 43	$ 0.44	$ 0. 85	$ 1.08
Earnings per common share diluted	$ 0. 43	$ 0.44	$ 0. 85	$ 1.08
Warrants considered anti-dilutive excluded from dilutive potential common shares	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from dilutive potential common shares	748,964	902,722	751,492	902,722
Restricted stock considered anti-dilutive excluded from dilutive potential common shares	48,717	64,978	56,585	48,893

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, trading assets and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, mortgage servicing rights, or MSRs, and certain other assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which is developed, based on market data we have obtained from independent sources. Unobservable inputs reflect our estimate of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

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

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

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

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

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our policy is to recognize transfers between any of the fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

The following are descriptions of the valuation methodologies that we use for financial instruments recorded at fair value on either a recurring or nonrecurring basis.

Recurring Basis

Securities Available-for-Sale

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

We obtain estimated fair values for debt securities from a third-party pricing service, which utilizes several sources for valuing fixed-income securities. The market evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market

information. Generally, the methodologies include broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs.

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

Trading Assets

We use quoted market prices to determine the fair value of our trading assets. Our trading assets are held in a Rabbi Trust under a deferred compensation plan and are invested in readily quoted mutual funds. Accordingly, these assets are classified as Level 1. Trading assets are recorded in other assets in the Consolidated Balance Sheets.

Derivative Financial Instruments

We use derivative instruments including interest rate swaps for commercial loans with our customers, and we sell mortgage loans in the secondary market and enter into interest rate lock commitments. We calculate the fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity and uses observable market based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the principal or most advantageous market currently offered for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 3.

Impaired Loans

Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. We establish a specific reserve based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan s original effective interest rate, 2) the loan s observable market price or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent and we expect to liquidate the collateral. However, if repayment is expected to come from the operation of the collateral, rather than liquidation, then we do not consider estimated selling costs in determining the fair value of the collateral. Collateral values are generally based upon appraisals by approved, independent state certified appraisers.

Appraisals may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or our knowledge of the borrower and the borrower s business.

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us.

Mortgage Servicing Rights

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

Other Assets

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

Financial Instruments

In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity s assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

Cash and Cash Equivalents and Other Short-Term Assets

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

Loans

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

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

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

Loan Commitments and Standby Letters of Credit

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

Other

Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

The following tables present assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at September 30, 2012 and December 31, 2011. There were no transfers between Level 1 and Level 2 during the periods presented.

	September 30, 2012			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$	$ 192,612	$	$ 192,612
Collateralized mortgage obligations of U.S. government corporations and agencies		74,728		74,728
Mortgage-backed securities of U.S. government corporations and agencies		40,031		40,031
Obligations of states and political subdivisions		98,733		98,733
Marketable equity securities	138	8,082	1,105	9,325
Total securities available-for-sale	138	414,186	1,105	415,429
Trading securities held in a Rabbi Trust	2,682			2,682
Total securities	2,820	414,186	1,105	418,111
Derivative financial assets:				
Interest rate swaps		24,757		24,757
Interest rate lock commitments		873		873
Total Assets	**$ 2,820**	**$ 439,816**	**$ 1,105**	**$ 443,741**
LIABILITIES				
Derivative financial liabilities				
Interest rate swaps	$	$ 24,468	$	$ 24,468
Forward sale contracts		307		307
Total Liabilities	**$**	**$ 24,775**	**$**	**$ 24,775**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

	December 31, 2011			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$	$ 142,786	$	$ 142,786
Collateralized mortgage obligations of U.S. government corporations and agencies		65,395		65,395
Mortgage-backed securities of U.S. government corporations and agencies		48,752		48,752
Obligations of states and political subdivisions		88,805		88,805
Marketable equity securities	2,855	7,316	1,687	11,858
Total securities available-for-sale	2,855	353,054	1,687	357,596
Trading securities held in a Rabbi Trust	1,949			1,949
Total securities	4,804	353,054	1,687	359,545
Derivative financial assets:				
Interest rate swaps		23,764		23,764
Interest rate lock commitments		244		244
Total Assets	**$ 4,804**	**$ 377,062**	**$ 1,687**	**$ 383,553**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$	$ 23,639	$	$ 23,639
Forward sale contracts	$	$ 95	$	$ 95
Total Liabilities	**$**	**$ 23,734**	**$**	**$ 23,734**

We classify financial instruments in Level 3 when valuation models are used because significant inputs are not observable in the market. These valuation models are prepared by third-party pricing entities because these securities are not actively traded in the market. The following table presents the changes in assets measured at fair value on a recurring basis for which we have utilized Level 3 inputs to determine the fair value for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Balance at beginning of period	$ 1,341	$ 1,669	$ 1,687	$ 1,588
Total (losses) gains included in other comprehensive income	(9)	(6)	(375)	75

Net purchases, sales, issuances and settlements	(227)		(207)	
Transfers out of Level 3				
Balance at end of period	**$ 1,105**	**$ 1,663**	**$ 1,105**	**$ 1,663**

For the three and nine months ended September 30, 2012, net purchases, sales, issuances and settlements represent equity securities acquired, net of equity securities retired from acquisitions. Additionally, there were no transfers of financial instruments into or out of Level 3 during the periods presented. Level 3 financial instruments measured on a recurring basis accounted for less than one percent of our assets measured at fair value on a recurring basis at both September 30, 2012 and December 31, 2011. There were no Level 3 liabilities measured at fair value on a recurring basis for either period.

We may be required to measure certain assets and liabilities on a nonrecurring basis. The following tables present our assets that are measured at estimated fair value on a nonrecurring basis by the fair value hierarchy level at September 30, 2012 and December 31, 2011. There were no liabilities measured at estimated fair value on a nonrecurring basis during these periods. At September 30, 2012 and December 31, 2011, we had no loans held for sale that were recorded at fair value.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

	September 30, 2012			
(in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Impaired loans	$	$	$ 51,503	$ 51,503
Other real estate owned			1,252	1,252
Mortgage servicing rights			1,949	1,949
Total Assets	**$**	**$**	**$ 54,704**	**$ 54,704**

	December 31, 2011			
(in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Impaired loans	$	$	$ 36,500	$ 36,500
Other real estate owned			3,739	3,739
Mortgage servicing rights			2,153	2,153
Total Assets	**$**	**$**	**$ 42,392**	**$ 42,392**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. FAIR VALUE MEASUREMENTS continued

The carrying values and fair values of our financial instruments at September 30, 2012 and December 31, 2011 are presented in the following tables:

		Fair Value Measurements at September 30, 2012			
(in thousands)	Carrying Value[1]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 347,076	$ 347,076	$ 347,076	$	$
Securities available-for-sale	415,429	415,429	138	414,186	1,105
Loans held for sale	3,188	3,188			3,188
Portfolio loans	3,279,157	3,273,876			3,273,876
Federal Home Loan Bank stock, at cost	16,628	16,628			16,628
Bank owned life insurance	58,097	58,097		58,097	
Trading securities held in a Rabbi Trust	2,682	2,682	2,682		
Mortgage servicing rights	1,949	1,949			1,949
Interest rate swaps	24,757	24,757		24,757	
Interest rate lock commitments	873	873		873	
LIABILITIES					
Deposits	$ 3,594,406	$ 3,601,053	$	$	$ 3,594,406
Securities sold under repurchase agreements	49,261	49,261			49,261
Short-term borrowings	25,000	25,000			25,000
Long-term borrowings	40,669	40,669			40,669
Junior subordinated debt securities	90,619	90,619			90,619
Interest rate swaps	24,468	24,468		24,468	
Forward sale contracts	307	307		307	

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

		Fair Value Measurements at December 31, 2011			
(in thousands)	Carrying Value[1]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 270,526	$ 270,526	$ 270,526	$	$
Securities available-for-sale	357,596	357,596	2,855	353,054	1,687
Loans held for sale	2,850	2,958			2,958
Portfolio loans	3,129,759	3,120,352			3,120,352
Federal Home Loan Bank stock, at cost	18,216	18,216			18,216
Bank owned life insurance	56,755	56,755		56,755	

Trading securities held in a Rabbi Trust	1,949	1,949	1,949		
Mortgage servicing rights	2,153	2,153			2,153
Interest rate swaps	23,764	23,764		23,764	
Interest rate lock commitments	244	244		244	
LIABILITIES					
Deposits	$ 3,335,859	$ 3,343,889	$	$	$ 3,343,889
Securities sold under repurchase agreements	30,370	30,370			30,370
Short-term borrowings	75,000	75,000			75,000
Long-term borrowings	31,874	34,171			34,171
Junior subordinated debt securities	90,619	90,619			90,619
Interest rate swaps	23,639	23,639		23,639	
Forward sale contracts	95	95		95	

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. SECURITIES AVAILABLE-FOR-SALE

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

	September 30, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and agencies	$187,347	$ 5,267	$ (2)	$192,612
Collateralized mortgage obligations of U.S. government corporations and agencies	72,884	1,844		74,728
Mortgage-backed securities of U.S. government corporations and agencies	36,552	3,479		40,031
Obligations of states and political subdivisions	93,091	5,643	(1)	98,733
Debt Securities	**389,874**	**16,233**	**(3)**	**406,104**
Marketable equity securities	8,502	830	(7)	9,325
Total	**$398,376**	**$ 17,063**	**$ (10)**	**$415,429**

	December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and agencies	$138,386	$ 4,400	$	$142,786
Collateralized mortgage obligations of U.S. government corporations and agencies	63,202	2,193		65,395
Mortgage-backed securities of U.S. government corporations and agencies	45,289	3,463		48,752
Obligations of states and political subdivisions	85,689	3,128	(12)	88,805
Debt Securities	**332,566**	**13,184**	**(12)**	**345,738**
Marketable equity securities	10,152	2,179	(473)	11,858
Total	**$342,718**	**$ 15,363**	**$ (485)**	**$357,596**

There were $2.2 million in gross realized gains and no gross realized losses for the three month period ending September 30, 2012. We had $3.0 million in gross realized gains and no significant gross realized losses for the nine month period ending September 30, 2012. There were no significant gross realized gains and $0.1 million and $0.1 million, respectively, in gross realized losses for the three and nine month periods ending September 30, 2011. Realized gains and losses on the sale of securities are determined using the specific-identification method.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. SECURITIES AVAILABLE-FOR-SALE continued

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

	September 30, 2012					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$ 1,016	$ (2)	$	$	$ 1,016	$ (2)
Collateralized mortgage obligations	60				60	
Obligations of states and political subdivisions	989	(1)			989	(1)
Debt Securities	**2,065**	**(3)**			**2,065**	**(3)**
Marketable equity securities	138	(7)			138	(7)
Total Temporarily Impaired Securities	**$ 2,203**	**$ (10)**	**$**	**$**	**$ 2,203**	**$ (10)**

	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$	$	$	$	$	$
Collateralized mortgage obligations						
Obligations of states and political subdivisions	502	(8)	414	(4)	916	(12)
Debt Securities	**502**	**(8)**	**414**	**(4)**	**916**	**(12)**
Marketable equity securities	5,143	(473)			5,143	(473)
Total Temporarily Impaired Securities	**$ 5,645**	**$ (481)**	**$ 414**	**$ (4)**	**$ 6,059**	**$ (485)**

S&T does not believe any individual unrealized loss as of September 30, 2012 represents an other-than-temporary impairment, or OTTI. S&T performs a review of its securities for OTTI on a quarterly basis to identify securities that may indicate an OTTI. Generally, S&T records an impairment charge when an equity security within the marketable equity securities portfolio has been in a loss position for 12 consecutive months, unless facts and circumstances suggest the need for an OTTI prior to that time. S&T s policy for recording an OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the length of time and the extent to which fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of a security recovering from any decline in fair value and whether management intends to sell the security or if it is more likely than not that management

will be required to sell the security prior to it recovering from the decline in fair value.

As of September 30, 2012, the unrealized losses on four debt securities were primarily attributable to changes in interest rates. The unrealized loss on one marketable equity security as of September 30, 2012 was attributable to temporary declines in fair value. S&T does not intend to sell and it is not likely that S&T will be required to sell any of the securities referenced in the table above in an unrealized loss position before recovery of its amortized cost.

Net unrealized gains of $11.1 million and $9.7 million were included in accumulated other comprehensive loss, net of tax, at September 30, 2012 and December 31, 2011, respectively. Gross unrealized gains, net of taxes, of $11.1 million were netted against gross unrealized losses, net of taxes, of a nominal amount at September 30, 2012. Gross unrealized gains, net of taxes, of $10.0 million were netted against gross unrealized losses, net of taxes, of $0.3 million at December 31, 2011.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. SECURITIES AVAILABLE-FOR-SALE continued

The amortized cost and fair value of available-for-sale securities at September 30, 2012 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2012	
(in thousands)	**Amortized Cost**	**Fair Value**
Obligations of U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$ 27,938	$ 28,380
Due after one year through five years	120,227	123,949
Due after five years through ten years	60,854	62,873
Due after ten years	71,419	76,143
	280,438	**291,345**
Collateralized mortgage obligations of U.S. government corporations and agencies	72,884	74,728
Mortgage-backed securities of U.S. government corporations and agencies	36,552	40,031
Debt Securities	**389,874**	**406,104**
Marketable equity securities	8,502	9,325
Total	**$ 398,376**	**$ 415,429**

At September 30, 2012 and December 31, 2011, securities of $300.0 million and $233.9 million, respectively, were pledged to secure repurchase agreements, public funds, trust fund deposits and commercial loan interest rate swap contracts.

NOTE 6. LOANS AND LOANS HELD FOR SALE

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

(in thousands)	**September 30, 2012**	**December 31, 2011**
Commercial:		
Commercial real estate	$ 1,438,526	$ 1,415,333
Commercial and industrial	748,569	685,753
Commercial construction	157,717	188,852

Total Commercial Loans	**2,344,812**	**2,289,938**
Consumer:		
Home equity	447,123	411,404
Residential mortgage	409,967	358,846
Installment and other consumer	75,157	67,131
Consumer construction	2,098	2,440
Total Consumer Loans	**934,345**	**839,821**
Total Portfolio Loans	**3,279,157**	**3,129,759**
Allowance for loan losses	(46,279)	(48,841)
Total Portfolio Loans, Net	**3,232,878**	**3,080,918**
Loans held for sale	3,188	2,850
Total Loans, Net	**$ 3,236,066**	**$ 3,083,768**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. LOANS AND LOANS HELD FOR SALE continued

The table above includes loans that were acquired from two bank acquisitions. Approximately $99.1 million of loans were acquired from the Gateway acquisition on August 13, 2012 which consisted of $24.9 million of consumer loans and $74.2 million of commercial loans. Additionally, on March 9, 2012, we acquired Mainline which added $129.5 million of loans including $71.8 million of commercial and $57.7 million of consumer loans.

We attempt to limit our exposure to credit risk by diversifying our loan portfolio and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these classes. Total commercial loans represent 72 percent and 73 percent of total portfolio loans at September 30, 2012 and December 31, 2011, respectively. Within the commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprise 68 percent of total commercial loans and 49 percent of total portfolio loans at September 30, 2012 and 70 percent of total commercial loans and 51 percent of total portfolio loans at December 31, 2011. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of nine percent of total loans. The majority of both commercial and consumer loans are made to businesses and individuals in our Western Pennsylvania market, resulting in a geographic concentration. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Only the CRE and commercial construction portfolios combined have any significant out-of-state exposure, with 18 percent of the combined portfolio and nine percent of total loans being out-of-state loans at September 30, 2012 and 19 percent of the combined portfolio and 10 percent of total loans being out-of-state loans at December 31, 2011. Management believes underwriting guidelines and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio.

In situations where, for economic or legal reasons related to a borrower s financial difficulties, we may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the related loan is classified as a troubled debt restructuring, or TDR. We strive to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms generally include reductions in contractual interest rates, principal deferment and extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics. These modifications are generally for longer term periods that would not be considered insignificant. While unusual, there may be instances of loan principal forgiveness. We individually evaluate all substandard commercial loans that experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan.

All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. We did not return any TDRs to accruing status during the three and nine months ended September 30, 2012.

The following table summarizes the restructured loans for the periods presented:

	September 30, 2012			December 31, 2011		
(in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs

Commercial real estate	$ 15,312	$	7,756	$ 23,068	$ 22,284	$	10,871	$ 33,155
Commercial and industrial	8,365		746	9,111	6,180			6,180
Commercial construction	11,933		11,613	23,546	19,682		2,943	22,625
Home equity			6	6				
Residential mortgage	1,500		3,293	4,793	1,570		4,370	5,940
Total	**$ 37,110**	**$**	**23,414**	**$ 60,524**	**$ 49,716**	**$**	**18,184**	**$ 67,900**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. LOANS AND LOANS HELD FOR SALE continued

The following tables present the restructured loans for the three and nine month periods ending September 30, 2012:

	Three Months Ended September 30, 2012			
(in thousands, except number of loans)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial construction				
Maturity date extension	7	$ 2,905	$ 2,257	$ (648)
Residential mortgage				
Maturity date extension	1	35	35	
Interest rate reduction	1	32	32	
Total by Concession Type				
Maturity date extension	8	2,940	2,292	(648)
Interest rate reduction	1	32	32	
Total	**9**	**$ 2,972**	**$ 2,324**	**$ (648)**

[1] Excludes loans that were paid off or charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. LOANS AND LOANS HELD FOR SALE continued

	Nine Months Ended September 30, 2012			
(in thousands, except number of loans)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate				
Maturity date extension	1	$ 160	$ 157	$ (3)
Interest rate reduction	1	575	565	(10)
Commercial and industrial				
Maturity date extension	2	2,576	2,430	(146)
Commercial construction				
Maturity date extension	7	2,905	2,257	(648)
Residential mortgage				
Maturity date extension	1	475	460	(15)
Interest rate reduction	2	67	67	0
Total by Concession Type				
Maturity date extension	11	6,116	5,304	(812)
Interest rate reduction	3	642	632	(10)
Total	**14**	**$ 6,758**	**$ 5,936**	**$ (822)**

[1] Excludes loans that were paid off or charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

The following tables present the restructured loans for the three and nine month periods ending September 30, 2011:

	Three Months Ended September 30, 2011			
	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment

(in thousands, except number of loans)

Commercial construction						
Maturity date extension	1	$	1,297	$	1,297	$
Residential mortgage						
Maturity date extension	5		3,994		3,994	
Total by Concession Type						
Maturity date extension	6		5,291		5,291	
Total	**6**	**$**	**5,291**	**$**	**5,291**	**$**

[1] Excludes loans that were paid off or charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. LOANS AND LOANS HELD FOR SALE continued

	Nine Months Ended September 30, 2011			
(in thousands, except number of loans)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate				
Maturity date extension	1	$ 2,123	$ 2,623	$ 500
Interest rate reduction	2	682	682	
Other	1	1,302	1,302	
Commercial and industrial				
Maturity date extension	2	921	921	
Commercial construction				
Maturity date extension	2	1,776	1,776	
Residential mortgage				
Maturity date extension	5	3,994	3,994	
Interest rate reduction	2	336	336	
Total by Concession Type				
Maturity date extension	10	8,814	9,314	500
Interest rate reduction	4	1,018	1,018	
Other	1	1,302	1,302	
Total	**15**	**$ 11,134**	**$ 11,634**	**$ 500**

[1] *Excludes loans that were paid off or charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.*

During the third quarter of 2012, we modified two commercial and industrial loans totaling $3.1 million, one commercial construction loan totaling $1.2 million and one commercial real estate loan totaling $0.3 million for financially troubled borrowers that were not considered to be TDRs bringing the year to date totals to $6.1 million, $1.2 million and $1.8 million respectively. Modifications primarily represented insignificant delays in the timing of payments that were not considered to be concessions or we have been adequately compensated for the concession through principal paydowns or additional collateral. As of September 30, 2012 we have no commitments to lend additional funds on any TDRs.

The following table is a summary of TDRs which defaulted during the three and nine month periods ended September 30, 2012 that had been restructured within the last twelve months prior to September 30, 2012:

	Defaulted TDRs			
	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2012	
(in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	1	$ 270	2	$ 329
Commercial construction			3	2,659
Residential mortgage			3	2,359
Total	**1**	**$ 270**	**8**	**$ 5,347**

None of the loans restructured prior to September 30, 2011 had defaulted during the three and nine month periods ending September 30, 2011.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. LOANS AND LOANS HELD FOR SALE continued

The following table is a summary of nonperforming assets for the periods presented:

(in thousands)	September 30, 2012	December 31, 2011
Nonperforming Assets		
Nonaccrual loans	$ 42,702	$ 37,931
Nonaccrual TDRs	23,414	18,184
Total nonperforming loans	66,116	56,115
OREO	1,468	3,967
Total Nonperforming Assets	**$ 67,584**	**$ 60,082**

Other real estate owned, or OREO which is included in other assets in the Consolidated Balance Sheets consists of 13 properties with one property comprising $0.7 million or 49 percent of the balance. It is our policy to obtain OREO appraisals on an annual basis.

NOTE 7. ALLOWANCE FOR LOAN LOSSES

We maintain an allowance for loan losses, or ALL, at a level determined to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. We develop and document a systematic ALL methodology based on the following portfolio segments: 1) CRE, 2) Commercial & Industrial, or C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer. The following are key risks within each portfolio segment:

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

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral. Home equity and residential mortgage loans are pooled by first or second lien positions and loan to value. Historical loss rates are applied to these loan pools to determine the component of the reserve for loans collectively evaluated for impairment of the ALL. Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

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

	September 30, 2012					
(in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Non-performing**	**Total Past Due**	**Total Loans**
Commercial real estate	$ 1,401,196	$ 3,446	$ 1,056	$ 32,828	$ 37,330	$ 1,438,526
Commercial and industrial	736,276	1,404	4,038	6,851	12,293	748,569
Commercial construction	142,231		1,075	14,411	15,486	157,717
Home equity	440,618	1,442	1,069	3,994	6,505	447,123
Residential mortgage	399,016	1,067	2,300	7,584	10,951	409,967
Installment and other consumer	74,406	580	122	49	751	75,157
Consumer construction	1,699			399	399	2,098
Totals	**$ 3,195,442**	**$ 7,939**	**$ 9,660**	**$ 66,116**	**$ 83,715**	**$ 3,279,157**

	December 31, 2011					
(in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Non-performing**	**Total Past Due**	**Total Loans**
Commercial real estate	$ 1,374,580	$ 7,657	$ 1,448	$ 31,648	$ 40,753	$ 1,415,333
Commercial and industrial	672,899	3,583	1,701	7,570	12,854	685,753
Commercial construction	182,305			6,547	6,547	188,852
Home equity	405,578	2,199	691	2,936	5,826	411,404
Residential mortgage	349,214	1,240	1,163	7,229	9,632	358,846
Installment and other consumer	66,675	382	70	4	456	67,131
Consumer construction	2,259			181	181	2,440
Totals	**$ 3,053,510**	**$ 15,061**	**$ 5,073**	**$ 56,115**	**$ 76,249**	**$ 3,129,759**

We continually monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans within the pass rating generally

have a lower risk of loss than loans risk rated as special mention and substandard, which generally have an increasing risk of loss.

Our risk ratings are consistent with regulatory guidance and are as follows:

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

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

	September 30, 2012							
(in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 1,251,422	87.0%	$ 674,819	90.1%	$ 105,684	67.0%	$ 2,031,925	86.7%
Special mention	92,544	6.4%	32,952	4.4%	23,043	14.6%	148,539	6.3%
Substandard	94,560	6.6%	40,798	5.5%	28,990	18.4%	164,348	7.0%
Total	**$ 1,438,526**	**100.0%**	**$ 748,569**	**100.0%**	**$ 157,717**	**100.0%**	**$ 2,344,812**	**100.0%**

	December 31, 2011							
(in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 1,229,005	86.8%	$ 600,895	87.6%	$ 136,270	72.1%	$ 1,966,170	85.9%
Special mention	84,400	6.0%	33,135	4.8%	17,106	9.1%	134,641	5.9%
Substandard	101,928	7.2%	51,723	7.6%	35,476	18.8%	189,127	8.2%
Total	**$ 1,415,333**	**100.0%**	**$ 685,753**	**100.0%**	**$ 188,852**	**100.0%**	**$ 2,289,938**	**100.0%**

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

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

	September 30, 2012				
(in thousands)	Home Equity	Residential Mortgage	Installment and other consumer	Consumer Construction	Totals
Performing	$ 443,129	$ 402,383	$ 75,108	$ 1,699	$ 922,319
Nonperforming	3,994	7,584	49	399	12,026

Total	**$ 447,123**	**$ 409,967**	**$ 75,157**	**$ 2,098**	**$ 934,345**

			December 31, 2011		
(in thousands)	**Home Equity**	**Residential Mortgage**	**Installment and other consumer**	**Consumer Construction**	**Totals**
Performing	$ 408,468	$ 351,617	$ 67,127	$ 2,259	$ 829,471
Nonperforming	2,936	7,229	4	181	10,350
Total	**$ 411,404**	**$ 358,846**	**$ 67,131**	**$ 2,440**	**$ 839,821**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. All TDRs are considered to be impaired loans and will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. Any subsequent default of a TDR does not have a significant impact on the ALLL as all TDRs are individually evaluated under the specific reserve methodology.

The following tables present investments in loans considered to be impaired and related information on those impaired loans for the periods presented:

	September 30, 2012			September 30, 2012			
				Three Months Ended		Nine Months Ended	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:							
Commercial real estate	$ 6,373	$ 6,884	$ 644	$ 6,430	$ 15	$ 5,629	$ 209
Commercial and industrial	784	784	204	784	(9)	1,813	
Commercial construction	4,063	5,964	2,095	4,236	19	5,661	49
Consumer real estate							
Total with a related allowance recorded	**11,220**	**13,632**	**2,943**	**11,450**	**25**	**13,103**	**258**
Without a related allowance recorded:							
Commercial real estate	36,625	48,821		38,962	268	43,332	915
Commercial and industrial	12,737	14,433		13,238	101	11,725	265
Commercial construction	22,280	29,382		23,349	113	22,926	450
Consumer real estate	5,667	6,324		5,729	9	6,489	70
Total without a related allowance recorded	**77,309**	**98,960**		**81,278**	**491**	**84,472**	**1,700**
Total:							
Commercial real estate	42,998	55,705	644	45,392	283	48,961	1,124
Commercial and industrial	13,521	15,217	204	14,022	92	13,538	265
Commercial construction	26,343	35,346	2,095	27,585	132	28,587	499
Consumer real estate	5,667	6,324		5,729	9	6,489	70

Total	**$ 88,529**	**$ 112,592**	**$ 2,943**	**$ 92,728**	**$ 516**	**$ 97,575**	**$ 1,958**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

	December 31, 2011			Year Ended December 31, 2011	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial real estate	$ 9,049	$ 9,276	$ 3,487	$ 12,045	$ 320
Commercial and industrial	4,207	4,207	1,116	3,497	77
Commercial construction	1,975	1,975	942	3,326	4
Consumer real estate				173	
Total with a Related Allowance Recorded	**15,231**	**15,458**	**5,545**	**19,041**	**401**
Without a related allowance recorded:					
Commercial real estate	41,058	47,874		34,965	1,415
Commercial and industrial	7,784	7,784		4,128	132
Commercial construction	24,024	24,375		8,856	496
Consumer real estate	5,939	6,545		2,617	195
Total without a Related Allowance Recorded	**78,805**	**86,578**		**50,566**	**2,238**
Total:					
Commercial real estate	50,107	57,150	3,487	47,010	1,735
Commercial and industrial	11,991	11,991	1,116	7,625	209
Commercial construction	25,999	26,350	942	12,182	500
Consumer real estate	5,939	6,545		2,790	195
Total	**$ 94,036**	**$ 102,036**	**$ 5,545**	**$ 69,607**	**$ 2,639**

As of September 30, 2012, commercial real estate loans of $43.0 million comprised 49 percent of the total impaired loans of $88.5 million. These impaired loans are collateralized primarily by commercial real estate properties such as retail or strip malls, office buildings, hotels and various other types of commercial purpose properties. These loans are generally considered collateral dependent and charge-offs are recorded when a confirmed loss exists. Approximately $13.2 million of charge-offs have been recorded relating to these commercial real estate loans over the life of these loans. It is our policy to order appraisals on an annual basis on impaired loans or sooner if facts and circumstances warrant otherwise. As of September 30, 2012, an estimated fair value less cost to sell of approximately $49.9 million existed for commercial real estate impaired loans. We have current appraisals on all but $7.6 million of the $43.0 million of impaired commercial real estate loans. These $7.6 million of loans do not have updated appraisals primarily as a result of bankruptcy proceedings that we are awaiting resolution or because a current letter of intent or a sales agreement exists for the collateral. Appraisals outdated greater than 16 months are generally discounted an additional 10 percent to estimate the impact of the aged appraisal, unless management is aware of other facts and circumstances that would imply a different discount should be applied. In determining this discount, management considers the market area of the collateral, the condition of the collateral and any other relevant factors that could impact the collateral value.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

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

	Three Months Ended September 30, 2012					
(in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 24,696	$ 11,874	$ 5,938	$ 3,401	$ 780	$ 46,689
Charge-offs	(2,344)	(520)	(970)	(268)	(278)	(4,380)
Recoveries	570	609	395	18	73	1,665
Net (Charge-offs)/ Recoveries	**(1,774)**	**89**	**(575)**	**(250)**	**(205)**	**(2,715)**
Provision for loan losses	1,283	(3,216)	3,162	752	324	2,305
Balance at End of Period	**$ 24,205**	**$ 8,747**	**$ 8,525**	**$ 3,903**	**$ 899**	**$ 46,279**

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

	Nine Months Ended September 30, 2012					
(in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans

Balance at beginning of period	$ 29,804	$ 11,274	$ 3,703	$ 3,166	$ 894	$ 48,841
Charge-offs	(7,918)	(4,488)	(9,261)	(1,228)	(756)	(23,651)
Recoveries	748	857	494	127	263	2,489
Net (Charge-offs)/ Recoveries	**$ (7,170)**	**$ (3,631)**	**$ (8,767)**	**$ (1,101)**	**$ (493)**	**$ (21,162)**
Provision for loan losses	1,571	1,104	13,589	1,838	498	18,600
Balance at End of Period	**$ 24,205**	**$ 8,747**	**$ 8,525**	**$ 3,903**	**$ 899**	**$ 46,279**

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES continued

The following tables present the ALL and recorded investments in loans by category for the periods presented:

	September 30, 2012					
	Allowance for Loan Losses			Portfolio Loans		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 644	$ 23,561	$ 24,205	$ 42,998	$ 1,395,528	$ 1,438,526
Commercial and industrial	204	8,543	8,747	13,521	735,048	748,569
Commercial construction	2,095	6,430	8,525	26,343	131,374	157,717
Consumer real estate		3,903	3,903	5,667	853,521	859,188
Other consumer		899	899		75,157	75,157
Total	**$ 2,943**	**$ 43,336**	**$ 46,279**	**$ 88,529**	**$ 3,190,628**	**$ 3,279,157**

	December 31, 2011					
	Allowance for Loan Losses			Portfolio Loans		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 3,487	$ 26,317	$ 29,804	$ 50,107	$ 1,365,226	$ 1,415,333
Commercial and industrial	1,116	10,158	11,274	11,991	673,762	685,753
Commercial construction	942	2,761	3,703	25,999	162,853	188,852
Consumer real estate		3,166	3,166	5,939	766,751	772,690
Other consumer		894	894		67,131	67,131
Total	**$ 5,545**	**$ 43,296**	**$ 48,841**	**$ 94,036**	**$ 3,035,723**	**$ 3,129,759**

NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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

pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate loan and we receive a variable yield. These agreements could have floors or caps on the contracted interest rates.

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

Interest Rate Lock Commitments and Forward Sale Contracts

In the normal course of business, we sell originated mortgage loans into the secondary mortgage loan market. We offer interest rate lock commitments to potential borrowers. Whenever a customer desires these products, a mortgage originator quotes a secondary

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES continued

market rate guaranteed for that day by the investor. The commitments are generally for 60 days and guarantee a specified interest rate for a loan if underwriting standards are met, but the commitment does not obligate the potential borrower to close on the loan. Accordingly, some commitments expire prior to becoming loans. However, if the borrower accepts the guaranteed rate, we can encounter pricing risk if interest rates increase significantly before the loan can be closed and sold. We may utilize forward sale contracts in order to mitigate this pricing risk. The rate lock is executed between the mortgagee and us, and generally these rate locks are bundled. A forward sale contract is then executed between us and the investor. Both the interest rate lock commitment bundle and the corresponding forward sale contract are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Income.

The following table indicates the amounts representing the value of derivative assets and derivative liabilities for the periods presented:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(in thousands)	**September 30, 2012**	**December 31, 2011**	**September 30, 2012**	**December 31, 2011**
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts-Commercial Loans				
Fair value	$ 24,757	$ 23,764	$ 24,468	$ 23,639
Notional amount	199,519	189,868	199,519	189,868
Collateral posted			19,747	20,273
Interest Rate Lock Commitments-Mortgage Loans				
Fair value	873	244		
Notional amount	19,207	7,093		
Forward Sale Contracts-Mortgage Loans				
Fair value			307	95
Notional amount			15,493	7,729

The following table indicates the gain or loss recognized in income on derivatives for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts commercial loans	$ (19)	$ 13	$ 164	$ (53)
Interest rate lock commitments mortgage loans	257	132	629	153
Forward sale contracts mortgage loans	(101)	(152)	(212)	(575)
Total Derivative Gain (Loss)	**$ 137**	**$ (7)**	**$ 581**	**$ (475)**

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 9. BORROWINGS

Our short-term borrowings are for terms under one year and are comprised of retail and wholesale repurchase agreements, or REPOs, federal funds purchased and Federal Home Loan Bank, or FHLB, advances. Retail repurchase agreements are with our local retail customers and wholesale REPOs are agreements with other financial institutions. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Federal funds purchased are unsecured overnight borrowings with other financial institutions. FHLB advances are for various terms secured by a blanket lien on residential mortgages and other real estate secured loans.

The following is a summary of short-term borrowings for the periods presented:

(in thousands)	September 30, 2012	December 31, 2011
Securities sold under repurchase agreements, retail	$ 49,261	$ 30,370
Federal Home Loan Bank advances	25,000	75,000
Total	**$ 74,261**	**$ 105,370**

In addition, we had a $5.0 million line of credit with S&T Bank secured by investments of another subsidiary of S&T. The line of credit had a variable rate based upon prime and was payable on demand. There were no funds drawn from this line of credit as of April 23, 2012 when the line of credit closed.

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

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

(in thousands)	September 30, 2012	December 31, 2011
Long-term borrowings	$ 40,669	$ 31,874
Junior subordinated debt securities	90,619	90,619
Total	**$ 131,288**	**$ 122,493**

We had total long-term borrowings outstanding of $37.3 million at a fixed rate and $93.7 million at a variable rate at September 30, 2012, excluding a capital lease of $0.2 million which is included in long-term borrowings.

We had total borrowings at September 30, 2012 and December 31, 2011 at the FHLB of Pittsburgh of $65.4 million and $106.6 million, respectively. This consisted of $40.4 million in long term borrowings and $25.0 million in short-term borrowings at September 30, 2012. At

September 30, 2012, we had a maximum borrowing capacity of $1.3 billion, with a remaining borrowing capacity of $1.2 billion with the FHLB of Pittsburgh.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event a customer does not satisfy the terms of their agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled $3.1 million at September 30, 2012 and $1.2 million at December 31, 2011. The allowance for unfunded commitments increased due to increased volume and elevated asset quality metrics, primarily related to our commercial construction commitments. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 10. COMMITMENTS AND CONTINGENCIES continued

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

(in thousands)	September 30, 2012	December 31, 2011
Commitments to extend credit	$ 901,912	$ 816,160
Standby letters of credit	108,596	119,576
Total	**$ 1,010,508**	**$ 935,736**

Litigation

In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that the outcome of such proceedings or claims will not have a material adverse effect on our consolidated financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 11. EMPLOYEE BENEFITS

We maintain a defined benefit pension plan, or Plan, covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee s compensation for the highest five consecutive years in the last ten years of employment. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. At this time, we are not required to make a cash contribution to the Plan in 2012; however, we contributed $5.0 million to the Plan in December 2011. The expected long-term rate of return on Plan assets is 8.00 percent. Changes to the Plan were approved and implemented January 1, 2012. These changes include a lump sum distribution option for active participants and the eventual elimination of the Pension Purchase Option.

The following table summarizes the components of net periodic pension cost and other changes in Plan assets and benefit obligation recognized in other comprehensive gain/loss for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Service cost benefits earned during the period	$ 636	$ 470	$ 2,090	$ 1,778
Interest cost on projected benefit obligation	1,117	1,035	3,269	3,121
Expected return on plan assets	(1,364)	(1,344)	(4,172)	(4,033)
Amortization of prior service cost (credit)	(34)	(2)	(99)	(5)
Recognized net actuarial loss	711	207	1,852	580
Net Periodic Pension Expense	**$ 1,066**	**$ 366**	**$ 2,940**	**$ 1,441**

NOTE 12. CAPITAL PURCHASE PROGRAM

On December 7, 2011 we redeemed all of the $108.7 million, or 108,676 shares, of Series A Preferred Stock issued on January 16, 2009 in conjunction with our participation in the CPP. Upon redemption, a one-time non-cash reduction to net income available to common shareholders of $1.8 million, or $0.06 per common share, was recorded for the remaining unamortized discount of the preferred stock.

As part of its original purchase of the Series A Preferred Stock, the U.S. Treasury received a warrant to purchase 517,012 shares of our 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 our common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon splits or distributions of securities or other assets to holders of our common stock and upon certain issuances of our common stock at or below a specified price relative to the initial exercise price.

The U.S. Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant. We did not repurchase the warrant at the time of the Series A Preferred Stock redemption. The warrant expires on January 16, 2019.

NOTE 13. SEGMENTS

We have three reportable operating segments including Community Banking, Insurance and Wealth Management.

- Our Community Banking segment offers services which include accepting time and demand deposit accounts, originating commercial and consumer loans and providing letters of credit and credit card services.
- Our Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.
- Our Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

The following represents total assets by reportable segment:

(in thousands)	**September 30, 2012**	**December 31, 2011**
Community Banking	$ 4,411,742	$ 4,110,462
Insurance	9,316	8,192
Wealth Management	1,200	1,340
Total Assets	**$ 4,422,258**	**$ 4,119,994**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 13. SEGMENTS continued

The following tables provide financial information for our three segments for the three month and nine month periods ending September 30, 2012 and 2011. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business performance measurement. Shared services include expenses such as employee benefits, occupancy expense, computer support and other corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments financial condition and results of operations as if they existed as independent entities. The information provided under the caption Eliminations represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments, which are necessary for purposes of reconciling to the Consolidated Financial Statements.

	Three Months Ended September 30, 2012				
(in thousands)	**Community Banking**	**Insurance**	**Wealth Management**	**Eliminations**	**Consolidated**
Interest income	$ 38,715	$	$ 119	$ (14)	$ 38,820
Interest expense	5,340			(315)	5,025
Net interest income (expense)	33,375		119	301	33,795
Provision for loan losses	2,305				2,305
Noninterest income	10,731	1,481	2,394	140	14,746
Noninterest expense	24,586	1,398	2,401	1,228	29,613
Depreciation expense	968	12	8		988
Amortization of intangible assets	391	13	13		417
Provision (benefit) for income taxes	3,333	21	56	(787)	2,623
Net Income (Loss)	**$ 12,523**	**$ 37**	**$ 35**	**$**	**$ 12,595**

	Three Months Ended September 30, 2011				
(in thousands)	**Community Banking**	**Insurance**	**Wealth Management**	**Eliminations**	**Consolidated**
Interest income	$ 40,782	$	$ 66	$ (3)	$ 40,845
Interest expense	6,955	73		(52)	6,976
Net interest income (expense)	33,827	(73)	66	49	33,869
Provision for loan losses	1,535				1,535
Noninterest income	7,158	1,444	2,003	(262)	10,343
Noninterest expense	19,435	1,427	1,785	55	22,702
Depreciation expense	1,056	14	7		1,077
Amortization of intangible assets	385	13	16		414

Provision (benefit) for income taxes	4,884	(29)	94	(268)	4,681
Net Income (Loss)	**$ 13,690**	**$ (54)**	**$ 167**	**$**	**$ 13,803**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 13. SEGMENTS continued

	Nine Months Ended September 30, 2012				
(in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$ 116,968	$ 1	$ 325	$ 36	$ 117,330
Interest expense	17,244			(849)	16,395
Net interest income (expense)	99,724	1	325	885	100,935
Provision for loan losses	18,600				18,600
Noninterest income	28,230	4,196	7,375	546	40,347
Noninterest expense	73,850	4,119	7,037	3,917	88,923
Depreciation expense	2,887	37	23		2,947
Amortization of intangible assets	1,193	39	44		1,276
Provision (benefit) for income taxes	7,057	1	289	(2,486)	4,861
Net Income (Loss)	**$ 24,367**	**$ 1**	**$ 307**	**$**	**$ 24,675**

	Nine Months Ended September 30, 2011				
(in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$ 124,630	$	$ 225	$ (35)	$ 124,820
Interest expense	21,505	218		(182)	21,541
Net interest income (expense)	103,125	(218)	225	147	103,279
Provision for loan losses	13,272				13,272
Noninterest income	22,041	4,171	6,271		32,483
Noninterest expense	60,985	3,931	5,220	2,485	72,621
Depreciation expense	3,225	43	24		3,292
Amortization of intangible assets	1,234	39	50		1,323
Provision (benefit) for income taxes	12,146	(21)	459	(2,338)	10,246
Net Income (Loss)	**$ 34,304**	**$ (39)**	**$ 743**	**$**	**$ 35,008**

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

Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three month and nine month periods ended September 30, 2012 and 2011. Our MD&A should be read in conjunction with our Consolidated

Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates statements that we believe are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to our 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-Q or the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are based on current expectations, estimates and projections about our business, management s beliefs and assumptions made by management. These Future Factors are not guarantees of our future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements.

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

Future Factors include:

- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, the shape of the yield curve and interest rate sensitivity;
- a prolonged period of low interest rates;
- credit losses;
- access to capital in the amounts, at the times and on the terms required to support our future businesses;
- legislation affecting the financial services industry as a whole, and/or S&T in particular, including the effects of the Dodd-Frank Act;
- regulatory supervision and oversight, including required capital levels, and public policy changes, including environmental regulations;
- increasing price and product/service competition, 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;
- deterioration of the housing market and reduced demand for mortgages;
- containing costs and expenses;
- reliance on large customers;
- the outcome of pending and future litigation and governmental proceedings;
- managing our internal growth and acquisitions;
- the possibility that the anticipated benefits from our recently completed acquisitions of Mainline Bancorp, or Mainline, and Gateway Bank of Pennsylvania, or Gateway, cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
- general economic or business conditions, either nationally or regionally in Western Pennsylvania, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- a decline in market capitalization to common book value, which could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; and
- a continuation of recent turbulence in significant portions of the global financial and real estate markets could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally.

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

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of September 30, 2012 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2011 under the section Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania, with assets of approximately $4.4 billion at September 30, 2012. We provide a full range of financial services through offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, Washington and Westmoreland counties of Western Pennsylvania. We provide full service retail and commercial banking products as well as cash management services, insurance, estate planning and administration, employee benefit plan investment management and administration and corporate and other fiduciary services. Our common stock trades on the Nasdaq Global Select Market under the symbol STBA.

We earn revenue primarily from interest on loans, securities 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 and other operating costs such as: salaries

and employee benefits, occupancy, data processing expenses and tax expense.

Our mission is to become the financial services provider of choice in Western Pennsylvania by delivering exceptional service and value, one customer at a time. Our strategic plan is market based and focuses on satisfying our customers transaction, credit, investment and insurance needs through each of our delivery channels.

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

We expanded our business through completion of two acquisitions during the nine months ended September 30, 2012, as described below:

Gateway Bank of Pennsylvania

On August 13, 2012, we completed our acquisition of Gateway Bank of Pennsylvania, based in McMurray, Pennsylvania, a bank with approximately $132.3 million in assets and two offices in Washington and Butler Counties of Western Pennsylvania. The transaction, which was valued at $19.8 million, added $99.1 million in loans and $105.4 million in deposits to our Consolidated Balance Sheet. Gateway Bank is currently a subsidiary of S&T and will merge into S&T Bank in the first quarter of 2013. The acquisition expanded our existing footprint further into the northern and southern suburbs of Pittsburgh. The three months ended September 30, 2012 included one-time merger related expenses of $0.6 million and the nine months ended September 30, 2012 included $0.8 million.

Mainline Bancorp, Inc.

On March 9, 2012, we completed our acquisition of Mainline and the operations conversion of the bank holding company and its bank subsidiary, which was headquartered in Ebensburg, Pennsylvania. The Mainline acquisition, with the addition of eight branches, expands our market share and footprint throughout Cambria and Blair Counties of Western Pennsylvania. The transaction, valued at $27.8 million, added total assets of $236.2 million, including $129.5 million in loans and $206.0 million in deposits. The three months ended September 30, 2012 included one-time merger related expenses of $0.2 million and the nine months ended September 30, 2012 included $4.5 million.

Earnings Summary

Net income available to common shareholders for the quarter ended September 30, 2012 was $12.6 million resulting in diluted earnings per common share of $0.43 compared to net income of $12.2 million and $0.44 diluted earnings per common share in the third quarter of 2011. Net income available to common shareholders for the nine months ended September 30, 2012 was $24.7 million resulting in diluted earnings per common share of $0.85 compared to net income of $30.3 million and $1.08 diluted earnings per common share for the same period in 2011.

Our performance continues to be significantly impacted by our asset quality and the related provision for loan losses. For the three months ended September 30, 2012, our provision for losses increased $0.8 million to $2.3 million compared to $1.5 million for the three months ended September 30, 2011. The provision for the nine months ended September 30, 2012 was $18.6 million compared to $13.3 million for the nine months ended September 30, 2011. Our net interest income declined $0.1 million to $33.8 million compared to $33.9 million in the third quarter of 2011 and by $2.4 million to $100.9 million for the nine months ended September 30, 2012 compared to $103.3 million for the nine months ended September 30, 2011. Total interest-earning assets increased in 2012 compared to 2011, however, we experienced an unfavorable shift in our asset mix from loans to lower yielding securities and interest-bearing deposits. Noninterest income increased $4.4 million compared to the third quarter of 2011, and increased by $7.9 million compared to the nine month period ending September 30, 2011. Higher fee income is primarily due to increased fees in our mortgage banking and wealth management businesses. Our mortgage banking business has benefited from attractive interest rates and customer demand, and our wealth management business is seeing results from increased sales efforts. Further increasing noninterest income were realized gains on equity positions of $2.2 million for the three months ended September 30, 2012 and $3.0 million for the nine months ended September 30, 2012. Noninterest expense increased $6.8 million for the quarter ended September 30, 2012 and $15.9 million for the nine month period ended September 30, 2012, related to $0.8 million and $5.3 million in one-time merger related expenses incurred with the acquisitions of Gateway and Mainline, and higher employee costs.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis and operating

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

revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and its business and performance trends as they facilitate comparisons with the performance of other companies in the financial services industry. Although management believes that these non-GAAP financial measures enhance investors understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP measures.

We believe the presentation of net interest income on a fully taxable equivalent basis, or FTE, ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Income is reconciled to net interest income adjusted to a FTE basis below for the three and nine month periods ended September 30, 2012 and 2011.

Operating revenue is the sum of net interest income and noninterest income less securities gains. In order to understand the significance of net interest income to our business and operating results, we believe it is appropriate to evaluate the significance of net interest income as a component of operating revenue.

RESULTS OF OPERATIONS

Three Months and Nine Months Ended September 30, 2012 Compared to

Three Months and Nine Months Ended September 30, 2011

Net Interest Income

Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 73 percent of operating revenue (net interest income plus noninterest income, excluding securities gains) for both the three and nine month periods ending September 30, 2012 and 76 percent of operating revenue for both the three and nine month periods ending September 30, 2011. Refer to Explanation of Use of Non-GAAP Financial Measures above for a discussion of operating revenue as a non-GAAP financial measure. The level and mix of interest-earning assets and interest-bearing liabilities are monitored by our Asset Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet.

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

(in thousands)	**Three months ended September 30, 2012**	**2011**	**Nine months ended September 30, 2012**	**2011**
Interest income per Consolidated Statements of Income	$ 38,820	$ 40,845	$ 117,330	$ 124,820
Adjustment to fully taxable-equivalent basis	1,119	1,002	3,378	3,054
Interest Income adjusted to Fully Taxable Equivalent Basis	39,939	41,847	120,708	127,874
Interest expense per Consolidated Statements of Income	5,025	6,976	16,395	21,541
Net Interest Income adjusted to Fully Taxable Equivalent Basis (non-GAAP)	**$ 34,914**	**$ 34,871**	**$ 104,313**	**$ 106,333**

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

Average Balance Sheets and Net Interest Income Analyses

The following tables provide information regarding the average balances, interest and yields earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the three month and nine month periods ended September 30, 2012 and September 30, 2011:

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
(in thousands)	Balance	Income	Rate	Balance	Income	Rate
ASSETS						
Loans [1]	$ 3,226,219	$ 36,783	4.52%	$ 3,171,379	$ 38,790	4.85%
Interest-bearing deposits with banks	329,985	229	0.28%	150,833	79	0.21%
Securities [1]	404,881	2,927	2.89%	359,742	2,978	3.31%
Total Interest-earning Assets	**3,961,085**	**39,939**	**4.00%**	**3,681,954**	**41,847**	**4.51%**
Noninterest-earning assets	411,528			376,077		
Total Assets	**$ 4,372,613**			**$ 4,058,031**		
LIABILITIES AND SHAREHOLDERS EQUITY						
NOW/money market/savings	$ 1,567,005	$ 831	0.21%	$ 1,287,489	$ 445	0.14%
Certificates of deposit	1,079,894	3,127	1.15%	1,159,557	5,300	1.81%
Borrowed funds < 1 year	94,789	55	0.23%	41,257	12	0.12%
Borrowed funds > 1 year	125,511	1,012	3.20%	123,103	1,219	3.93%
Total Interest-bearing Liabilities	**2,867,199**	**5,025**	**0.70%**	**2,611,406**	**6,976**	**1.06%**
Noninterest-bearing liabilities:						
Demand deposits	903,949			799,247		
Shareholders equity/other	601,465			647,378		
Total Liabilities and Shareholders Equity	**$ 4,372,613**			**$ 4,058,031**		
Net Interest Income[1]		**$ 34,914**			**$ 34,871**	
Net Yield on Interest-earning Assets[1]			**3.50%**			**3.76%**

[1] The yield on interest-earning assets and the net interest margin are presented on a FTE and annualized basis. Net interest income is presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period presented. We believe this measure to be the preferred industry measurement that provides a relevant comparison between taxable and non-taxable amounts.

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	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
(in thousands)	**Balance**	**Income**	**Rate**	**Balance**	**Income**	**Rate**
ASSETS						
Loans [(1)]	$ 3,188,500	$ 111,071	4.64%	$ 3,247,432	$ 118,753	4.89%
Interest-bearing deposits with banks	297,410	526	0.24%	101,469	168	0.22%
Securities [(1)]	391,295	9,111	3.10%	350,356	8,953	3.41%
Total Interest-earning Assets	**3,877,205**	**120,708**	**4.15%**	**3,699,257**	**127,874**	**4.62%**
Noninterest-earning assets	403,034			374,278		
Total Assets	**$ 4,280,239**			**$ 4,073,535**		
LIABILITIES AND SHAREHOLDERS EQUITY						
NOW/money market/savings	$ 1,486,421	$ 2,252	0.20%	$ 1,283,571	$ 1,521	0.16%
Certificates of deposit	1,119,692	10,932	1.30%	1,197,426	16,243	1.81%
Borrowed funds < 1 year	109,692	180	0.22%	42,430	43	0.14%
Borrowed funds > 1 year	124,297	3,031	3.25%	122,139	3,734	4.09%
Total Interest-bearing Liabilities	**2,840,102**	**16,395**	**0.77%**	**2,645,566**	**21,541**	**1.09%**
Noninterest-bearing liabilities:						
Demand deposits	859,446			790,459		
Shareholders equity/other	580,691			637,510		
Total Liabilities and Shareholders Equity	**$ 4,280,239**			**$ 4,073,535**		
Net Interest Income[(1)]		**$ 104,313**			**$ 106,333**	
Net Yield on Interest-earning Assets[(1)]			**3.58%**			**3.84%**

[(1)] The yield on interest-earning assets and the net interest margin are presented on a FTE and annualized basis. Net interest income is presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period presented. We believe this measure to be the preferred industry measurement that provides a relevant comparison between taxable and non-taxable amounts.

When comparing the quarter and year to date ended September 30, 2012 to the same periods of 2011 on a FTE basis, net interest income was essentially unchanged for the third quarter comparison and decreased by $2.0 million for the year to date, with decreases of 26 basis points in net interest margin for both periods. The decline in the net interest margin is a result of loan replacement volume at lower interest rates and an unfavorable shift in asset mix from loans to lower yielding interest-bearing deposits with banks and securities. This decline was offset in part by lower offered rates on maturing certificates of deposit, or CDs.

Average loans increased by $54.8 million in the third quarter of 2012 compared to 2011 as a result of the Gateway and Mainline acquisitions. The increases in loan volume through acquisition were offset by loan pay downs resulting in the year to date decrease in average loans. The FTE yield on loans decreased by 33 basis points and 25 basis points for the quarter and year to date periods ended September 30, 2012.

Interest-bearing deposits with banks increased by $179.2 million and $195.9 million and securities increased by $45.1 million and $40.9 million for the quarter and year to date periods ended September 30, 2012 as compared to the same periods in 2011. Overall, the FTE yield on interest-earning assets decreased 51 basis points to 4.00 percent from 4.51 percent for the third quarter of 2012 compared to the third quarter of 2011 and 47 basis points to 4.15 percent from 4.62 percent for the nine month period ending September 30, 2012, as compared to the prior year.

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

Average interest-bearing deposits increased by $199.9 million and $125.1 million due to increases of $ 279.5 million and $202.9 million in NOW/money market/savings deposits, offset by decreases of $79.7 million and $77.7 million in CDs for the three and nine month periods ended September 30, 2012 compared to the three and nine month periods ended September 30, 2011. We had an increase in our customer deposits primarily due to the addition of $206.0 million in deposits from the Mainline acquisition in March 2012 and $105.4 million in deposits from the Gateway acquisition in August 2012. The cost of interest-bearing deposits for the three and nine month periods ended September 30, 2012 was 0.60 percent and 0.67 percent, a decrease of 34 and 28 basis points from the previous year due to lower rates paid on CDs and a shift from CDs to core deposits. Average borrowings increased by $55.9 million and $69.4 million and the yield decreased by 106 basis points and 123 basis points for the quarter and year to date periods ending September 30, 2012 as compared to the same periods in the prior year. The increase in average borrowings for the quarter and year to date periods is mainly due to short term funding utilized as a partial replacement for the Capital Purchase Program, or CPP, redemption on December 7, 2011. The decrease in the yield of average borrowings is due to the increase in lower cost short term funding and the repricing of $25.0 million of subordinated debt in September of 2011. Overall, the yield on interest-bearing liabilities decreased 36 basis points to 0.70 percent for the three months ended September 30, 2012 and 32 basis points to 0.77 percent for the nine months ended September 30, 2012.

Net interest income was positively impacted during the third quarter by an increase of $23.3 million and negatively impacted for the year to date by a decrease of $16.6 million in average net free funds, when compared to the same periods in the prior year. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders equity over noninterest-earning assets. The increase in net free funds in the third quarter was due to the net impact of a $104.7 million increase in noninterest-bearing demand deposits, the redemption of $108.7 million of preferred stock from the CPP in the fourth quarter of 2011 and various changes to the balance sheet resulting from the recent acquisitions of Gateway and Mainline. The year to date decrease in net free funds was due to the net impact of the $108.7 million redemption of preferred stock from the CPP, as well as a $69.0 million increase in noninterest-bearing demand deposits and other changes to assets, liabilities and equity resulting from both acquisitions. Noninterest-bearing demand deposits increased as a result of the low interest rate environment, marketing efforts for new demand accounts, corporate cash management services and the unlimited FDIC deposit insurance protection provided by the Dodd-Frank Act.

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

	Three Months Ended September 30, 2012 Compared to September 30, 2011[2]			Nine Months Ended September 30, 2012 Compared to September 30, 2011[2]		
(in thousands)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest earned on:						
Loans [1]	$ 671	$ (2,678)	$ (2,007)	$ (2,155)	$ (5,527)	$ (7,682)
Interest-bearing deposits with banks	93	57	150	324	34	358
Securities [1]	374	(425)	(51)	1,046	(888)	158
Total Interest-earning Assets	**1,138**	**(3,046)**	**(1,908)**	**(785)**	**(6,381)**	**(7,166)**
LIABILITIES AND SHAREHOLDERS EQUITY						
NOW/money market/savings	96	290	386	240	491	731
Certificates of deposit	(364)	(1,809)	(2,173)	(1,054)	(4,257)	(5,311)
Borrowed funds < 1 year	16	27	43	68	69	137
Borrowed funds > 1 year	24	(231)	(207)	66	(769)	(703)

Total Interest-bearing Liabilities		**(228)**		**(1,723)**		**(1,951)**		**(680)**		**(4,466)**	**(5,146)**
Net Interest Income [1]	**$**	**1,365**	**$**	**(1,322)**	**$**	**43**	**$**	**(105)**	**$**	**(1,915)**	**$ (2,020)**

[1] Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2012 and 2011.

[2] The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision for Loan Losses

The provision for loan losses is the amount to be added to the allowance for loan losses, or ALL, after adjusting for charge-offs and recoveries to bring the ALL to a level considered by management appropriate to absorb probable losses inherent in the loan portfolio at September 30, 2012. The provision for loan losses increased $0.8 million in the third quarter and $5.3 million in the first nine months of 2012 as compared to the same periods in 2011.

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Net charge-offs for the third quarter of 2012 were $2.7 million down from $8.0 million during the same period of 2011. For the nine months ended September 30, 2012, we had net charge-offs of $21.2 million compared to $13.1 million in the same period of 2011. Included in the $21.2 million of charges are $8.8 million related to our commercial construction portfolio and $7.2 million in our commercial real estate portfolio. Projects in the commercial construction and commercial real estate portfolios have slowed due to the economic environment and as a result, appraisals are coming in at lower values. The ALL was 1.41 percent of total loans at September 30, 2012 compared to 1.64 percent at September 30, 2011. Refer to Allowance for Loan Losses later in this MD&A for additional discussion.

Noninterest Income

	Three Months Ended September 30			Nine Months Ended September 30		
(in thousands)	**2012**	**2011**	**$ Change**	**2012**	**2011**	**$ Change**
Debit and credit card fees	$ 2,966	$ 2,790	$ 176	$ 8,472	$ 8,174	$ 298
Service charges on deposit accounts	2,567	2,683	(116)	7,407	7,356	51
Insurance fees	2,402	2,192	210	6,725	6,505	220
Wealth management fees	2,397	1,965	432	7,393	6,159	1,234
Securities gains (losses), net	2,170	(81)	2,251	3,016	(124)	3,140
Mortgage banking	797	(447)	1,244	2,174	424	1,750
Other	1,447	1,241	206	5,160	3,989	1,171
Total Noninterest Income	**$ 14,746**	**$ 10,343**	**$ 4,403**	**$ 40,347**	**$ 32,483**	**$ 7,864**

Noninterest income increased $4.4 million to $14.7 million in the third quarter of 2012 compared to the third quarter of 2011, and $7.9 million to $40.3 million in the year to date period as compared to the same period in 2011, with increases for both periods in almost all noninterest income categories. The primary drivers were gains on sales of securities, and increases in mortgage banking and wealth management fees in both the three and nine month periods ending September 30, 2012. The $2.3 million and $3.1 million increase in securities gains for the quarter and year to date ending September 30, 2012 relates to the sales of one equity position during the first quarter and one equity position during the third quarter as a result of increases in value after merger announcements. Mortgage interest rates remain at very attractive levels and strong customer demand resulted in increases in mortgage banking activity of $1.2 million and $1.8 million respectively in both the three months and nine months ended September 30, 2012, as compared with the same periods in the prior year. Wealth management fees increased $0.4 million and $1.2 million for the three and nine month periods respectively. Our wealth management fees have increased as a result of adding resources and increased volume in our brokerage business. Other noninterest income has increased $0.2 million for the three months ended September 30, 2012 and $1.2 million for the nine months ended September 30, 2012 primarily as a result of fees associated with derivatives and interest rate swap agreements with our customers, as well as a valuation increase in our rabbi trust.

Noninterest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
(in thousands)	**2012**	**2011**	**$ Change**	**2012**	**2011**	**$ Change**
Salaries and employee benefits *(1)*	$ 14,643	$ 11,741	$ 2,902	$ 43,960	$ 37,632	$ 6,328
Data processing *(1)*	1,990	1,743	247	5,475	4,928	547
Net occupancy*(1)*	1,972	1,653	319	5,576	5,248	328

Furniture and equipment	1,414	1,263	151	3,861	3,805	56
Joint venture amortization	1,082	839	243	3,147	2,428	719
Professional services and legal [1]	988	1,173	(185)	3,545	4,058	(513)
Other taxes	982	864	118	2,533	2,669	(136)
FDIC assessment	838	749	89	2,164	2,892	(728)
Marketing[1]	718	747	(29)	2,068	2,055	13
Merger related expense	764		764	5,274		5,274
Other noninterest expense [1]	5,627	3,421	2,206	15,543	11,521	4,022
Total Noninterest Expense	**$ 31,018**	**$ 24,193**	**$ 6,825**	**$ 93,146**	**$ 77,236**	**$ 15,910**

[1] *Excludes one-time merger related expense*

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

Noninterest expense increased $6.8 million in the third quarter and $15.9 million in the first nine months of 2012 as compared to the same periods in 2011. The most significant drivers include salaries and employee benefit costs and merger related expenses as a result of our acquisition of Mainline and Gateway Banks.

We incurred $0.6 million and $0.8 million of one-time merger related expenses, respectively, for the quarter and year to date ending September 30, 2012, related to the Gateway acquisition. Included in the year to date costs were $0.6 million for legal and consultant fees and $0.2 million for change in control, severance and other employee costs. We expect to incur an additional $1.4 million in one-time merger related costs through the first quarter of 2013 relating to the merger of Gateway into S&T Bank, including $0.7 million related to change in control agreements and $0.7 million of data conversion costs. We incurred $0.2 million and $4.5 million of merger related expenses, respectively, for the quarter and year to date ending September 30, 2012 pertaining to the acquisition of Mainline. The year to date Mainline one-time merger related expenses include $1.8 million in change in control, severance and other employee costs, $2.0 million in data processing contract termination and conversion costs and $0.7 million in legal, professional and other expenses.

In addition to the merger related expenses, we experienced other increases in expenses for both the three and nine month periods ended September 30, 2012. Salaries and employee benefits increased in both periods as a result of the addition of employees from both Mainline and Gateway and annual merit increases that were effective January 1, 2012. Our pension expense increased $0.7 million and $1.5 million for the quarter and year to date periods, respectively, due to an increase in our pension liability as a result of a significant decrease in the discount rate from the prior year. Other noninterest expense increased in both the three and nine month periods primarily due to an increase in our reserve for unfunded commitments as a result of increased volume and higher expected loss rates on our construction commitments. We invest in partnerships that provide federal income tax benefits through tax credits. The partnerships are amortized over the life of the expected tax credits. Joint venture amortization increased $0.2 million and $0.7 million for the three and nine month periods ending September 30, 2012 as compared to the same periods in 2011 due to four new projects going into service during 2012. Further, we recorded an impairment charge of $0.3 million during the second quarter on a low income housing joint venture where the benefit of the tax credits had been fully utilized and no future benefits were expected to be realized. Data processing expense increased $0.2 million and $0.5 million in the three and nine month periods ending September 30, 2012 as compared to the same periods in 2011 primarily related to the increased customer base following the acquisitions, as well as additional costs as our Wealth Management Department upgrades their data processing system. Occupancy expense increased by $0.3 million during the third quarter and year to date period compared to the prior year, primarily due to the addition of the eight Mainline branches in March and the two Gateway branches in August. These increases are partially offset with decreases of $0.2 million and $0.5 million in professional services and legal expense during the quarter and year to date periods ending September 30, 2012, respectively, compared to the same periods in 2011. We benefited year to date from a lower FDIC assessment as a result of a change in methodology by the FDIC that went into effect April 1, 2011.

Provision for Income Taxes

The provision for income taxes decreased $2.1 million to $2.6 million for the third quarter of 2012 and $5.3 million to $4.9 million for the nine months ending September 30, 2012, as compared to $4.7 million for the third quarter and $10.2 million in the year to date period during the prior year. Income before taxes decreased by $3.3 million and $15.9 million for the quarter and year to date periods respectively. The year to date effective tax rate declined from 22.6 percent in 2011 to 16.5 percent in 2012 because tax-exempt income remained relatively constant and tax credits increased on a declining pretax income. Included in year to date tax expense were discrete items of tax of $0.3 million related to tax payable on the disposition of certain bank owned life insurance policies acquired in connection with the acquisition of Mainline, and $0.2 million related to adjustments to unrecognized tax benefits for an IRS examination that is in progress. Discrete items in the nine months ended September 30, 2011 were not material.

Financial Condition

September 30, 2012

Our total assets increased by $302.3 million to $4.4 billion at September 30, 2012 as compared to $4.1 billion at December 31, 2011. This increase was a result of the acquisitions of Mainline and Gateway, which added total assets of $368.5 million. Despite soft demand, loan pay

downs and planned run-off to reduce risk, our loan portfolio has increased by $149.4 million since December 31, 2011, or 4.8%, primarily due to our acquisitions which added $231.9 million of gross loans. Our deposits increased $258.5 million, from December 31, 2011 due to the acquisitions of Mainline and Gateway, which added $311.4 million to our deposit base.

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Securities Activity

(in thousands)	September 30, 2012	December 31, 2011	$ Change
Obligations of U.S. government corporations and agencies	$ 192,612	$ 142,786	$ 49,826
Collateralized mortgage obligations of U.S. government corporations and agencies	74,728	65,395	9,333
Mortgage-backed securities of U.S. government corporations and agencies	40,031	48,752	(8,721)
Obligations of states and political subdivisions	98,733	88,805	9,928
Debt Securities Available-for-Sale	**406,104**	**345,738**	**60,366**
Marketable equity securities	9,325	11,858	(2,533)
Total Securities Available-for-Sale	**$ 415,429**	**$ 357,596**	**$ 57,833**

We invest in various securities in order to provide a source of liquidity, to satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to us. Risks associated with various securities are managed in accordance with investment policies approved annually by our Board of Directors and administered through ALCO and our treasury function. The securities portfolio increased $57.8 million, or 16.2%, from December 31, 2011. The increase in securities is a result of excess cash being utilized to purchase securities due to slow loan growth. Additionally, we sold $5.6 million of equity securities since December 31, 2011 for a gain of $3.0 million.

On a quarterly basis, management evaluates securities for other than temporary impairment, or OTTI, in accordance with the applicable accounting guidance for investments reported at fair value. There were no significant impairment charges during the first nine months of 2012.

Loan Composition

	September 30, 2012		December 31, 2011	
(in thousands)	Amount	% of Loans	Amount	% of Loans
Commercial				
Commercial real estate	$ 1,438,526	43.9%	$ 1,415,333	45.2%
Commercial and industrial	748,569	22.8%	685,753	21.9%
Construction	157,717	4.8%	188,852	6.1%
Total Commercial Loans	**2,344,812**	**71.5%**	**2,289,938**	**73.2%**
Consumer				
Home equity	447,123	13.6%	$ 411,404	13.1%
Residential mortgage	409,967	12.5%	358,846	11.5%
Installment and other consumer	75,157	2.3%	67,131	2.1%
Construction	2,098	0.1%	2,440	0.1%

Total Consumer Loans	**934,345**	**28.5%**	**839,821**	**26.8%**
Total Portfolio Loan	**3,279,157**	**100.0%**	**3,129,759**	**100.0%**
Allowance for loan losses	(46,279)		(48,841)	
Total Portfolio Loans, net	**3,232,878**		**3,080,918**	
Loans Held for Sale	3,188		2,850	
Total Loans	**$ 3,236,066**		**$ 3,083,768**	

The loan portfolio represents the most significant source of interest income for us. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Conditions such as the overall economic climate can significantly impact a borrower s

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

ability to pay. In order to mitigate such risk, our loan underwriting standards are established by a formal policy and are subject to periodic review and approval by our Board of Directors.

Portfolio loans increased by $149.4 million between December 31, 2011 and September 30, 2012, in large part due to the addition of $129.5 million and $99.1 million of loans from our acquisitions of Mainline and Gateway, respectively. Our growth from acquisitions has been offset by loan pay downs. We are, however, seeing benefits in our new market areas as a result of the two acquisitions, in particular our most recent acquisition of Gateway which is in a growing market. We are committed to growing our commercial loan sales team through expanding our lending staff.

Although commercial loans, including CRE, C&I and construction, can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, underwriting and continuous review. The loan-to-value policy guidelines for real estate secured commercial loans are generally 65-85 percent.

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

Management believes the downturn we experienced in the local residential real estate market and the impact of declining values on the real estate loan portfolio will be mitigated because of our conservative mortgage lending policies for portfolio loans, which require a maximum term of 20 years for fixed rate mortgages. Balloon mortgages are also offered in the portfolio. The maximum balloon term is 15 years with a maximum amortization term of 30 years. Balloon mortgages with terms of 10 years or less may have a maximum amortization term for up to 40 years. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available to creditworthy borrowers. Our residential mortgage portfolio has grown by $51.1 million since December 31, 2011, including $18.1 million of residential loans we acquired from Mainline in March. We designate specific loan originations, generally longer-term, lower-yielding 1-4 family mortgages, as held for sale and sell them to Fannie Mae. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the first half of 2011, we began to retain within the loan portfolio 10 and 15 year mortgages that had been priced and underwritten for sale in the secondary market. During the nine months ended September 30, 2012 and 2011, we sold $62.0 million and $52.3 million, respectively, of 1-4 family mortgages and currently service $330.5 million of secondary market mortgage loans sold to Fannie Mae at September 30, 2012. We intend to continue to sell longer-term loans to Fannie Mae. However, management recently decided that, in an effort to grow the loan portfolio, starting in the fourth quarter 2012, we will retain 20 year mortgages as well, selling only 30 year mortgages to Fannie Mae.

Our home equity and consumer installment loans are up by $43.7 million or 9.1% at September 30, 2012 as compared to December 31, 2011, including the addition of $23.1 million and $0.5 million in home equity and consumer installment loans respectively, in the August 2012 acquisition of Gateway and $28.3 million and $21.0 million in home equity and consumer installment loans respectively, in the March acquisition of Mainline.

We determine loans to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. TDRs, whether on accrual or nonaccrual status, are classified as impaired loans.

Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower s financial difficulties, grant a concession to the borrower that we would not otherwise grant. Modifications to loans classified as TDRs may include reductions in contractual interest rates, principal deferment and extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, or any combination of these concessions and others. Generally these concessions are for a period of at least nine months. While unusual, there may be instances of loan principal forgiveness.

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expected that the remaining principal and interest will be collected according to the restructured agreement. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status. As an example consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate is not increased to correspond with the current credit risk of the borrower, and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted. The loan will be reported as nonaccrual status and as an impaired loan and a TDR. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists.

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

If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan since the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with the comparable risk of a longer term. As of September 30, 2012, we had $60.5 million in TDRs of which $37.1 million were accruing and $23.4 million were in nonaccrual status. During the third quarter of 2012, there were $2.3 million of additions to TDRs, and $5.9 million in additions during the year to date, including $1.7 million from the Mainline acquisition in the first quarter, of which $1.2 million remains. During the first nine months of 2012, no TDRs met the above requirements for being placed back into accrual status.

Nonperforming assets consist of nonaccrual loans, nonaccrual TDRs and OREO. The following table summarizes nonperforming assets for the periods presented:

(in thousands)	**September 30, 2012**	**December 31, 2011**	**$ Change**
Nonaccrual Loans			
Commercial real estate	$ 25,072	$ 20,777	$ 4,295
Commercial and industrial	6,105	7,570	(1,465)
Commercial construction	2,798	3,604	(806)
Home equity	3,988	2,936	1,052
Residential mortgage	4,291	2,859	1,432
Installment and other consumer	49	4	45
Consumer construction	399	181	218
Total Nonaccrual Loans	**42,702**	**37,931**	**4,771**
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	7,756	10,871	(3,115)
Commercial and industrial	746		746
Commercial construction	11,613	2,943	8,670
Home equity	6		6
Residential mortgage	3,293	4,370	(1,077)
Total Nonaccrual Troubled Debt Restructurings	**23,414**	**18,184**	**5,230**
Total Nonperforming Loans	**66,116**	**56,115**	**10,001**
OREO	1,468	3,967	(2,499)
Total Nonperforming Assets	**$ 67,584**	**$ 60,082**	**$ 7,502**
Asset Quality Ratios:			
Nonperforming loans as a percent of total loans	2.01%	1.79%	

Nonperforming assets as a percent of total loans plus OREO	2.06%	1.92%

Our policy is to place loans in all categories on nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at September 30, 2012 or December 31, 2011. Total nonperforming assets increased $7.5 million from December 31, 2011 due to new nonperforming loans of $35.2 million in 2012 offset by net loan charge-offs of $21.2 million and paydowns.

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

Consumer unsecured loans and secured loans that are not real estate secured are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell. Consumer loans secured by real estate are evaluated for charge-off after the loan balance becomes 90 days past due and are charged down to the estimated fair value of the collateral less cost to sell.

The charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off in the month the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists

sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

- The status of a bankruptcy proceeding
- The value of collateral and probability of successful liquidation
- The status of adverse proceedings or litigation that may result in collection

Allowance for Loan Losses

We maintain an allowance for loan losses, or ALL, at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date. Determination of an adequate ALL is subjective, as it requires estimations of the occurrence of future events, as well as the timing of such events. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation of certain groups of homogeneous loans with similar risk characteristics.

An inherent risk to the loan portfolio as a whole is the condition of the local economy. In addition, each loan segment carries with it risks specific to the segment. The following is a discussion of the key risks by portfolio segment that management assesses in determining the ALL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Individual project cash flows, as well as global cash flows, are generally the sources of repayment for these loans. Besides cash flow risks, CRE loans have collateral risk and risks based upon the business prospects of the lessee, if the project is not owner occupied.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Cash flow from the operations of the company is the primary source of repayment for these loans and the cash flow depends not only on the economy as a whole, but also on the health of the company s industry.

Commercial construction loans are made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. While the risk is generally confined to the construction and absorption periods, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal. There are also various risks depending on the type of project and the experience and resources of the developer.

Consumer real estate loans are secured by 1-4 family residences, including purchase money mortgages, first and second lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The unemployment rate, as well as the state of the local housing market, has a significant impact on the risk determination, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

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

Significant to our ALL is a higher mix of commercial loans. At September 30, 2012, approximately 90 percent of the ALL related to the commercial loan portfolio, while commercial loans comprise only 72 percent of our loan portfolio. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their business, continuing income and general economic conditions.

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

The following tables summarize the ALL and recorded investments in loans by segment as of the dates presented:

	September 30, 2012					
	Allowance for Loan Losses			Portfolio Loans		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 644	$ 23,561	$ 24,205	$ 42,998	$ 1,395,528	$ 1,438,526
Commercial and industrial	204	8,543	8,747	13,521	735,048	748,569
Commercial construction	2,095	6,430	8,525	26,343	131,374	157,717
Consumer real estate		3,903	3,903	5,667	853,521	859,188
Other consumer		899	899		75,157	75,157
Total	**$ 2,943**	**$ 43,336**	**$ 46,279**	**$ 88,529**	**$ 3,190,628**	**$ 3,279,157**

	December 31, 2011					
	Allowance for Loan Losses			Portfolio Loans		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 3,487	$ 26,317	$ 29,804	$ 50,107	$ 1,365,226	$ 1,415,333
Commercial and industrial	1,116	10,158	11,274	11,991	673,762	685,753
Commercial construction	942	2,761	3,703	25,999	162,853	188,852
Consumer real estate		3,166	3,166	5,939	766,751	772,690
Other consumer		894	894		67,131	67,131
Total	**$ 5,545**	**$ 43,296**	**$ 48,841**	**$ 94,036**	**$ 3,035,723**	**$ 3,129,759**

	September 30, 2012	December 31, 2011
Ratio of net charge-offs to average loans outstanding *(annualized)*	0.89%	0.56%
Allowance for loan losses to total loans	1.41%	1.56%
Allowance for loan losses to nonperforming loans	70%	87%

The balance in the ALL decreased $2.5 million to $46.3 million or 1.41 percent of total loans at September 30, 2012 as compared to $48.8 million or 1.56 percent of total loans at December 31, 2011. The total ALL has decreased from December 31, 2011 primarily due a decrease of $2.6 million in specific reserves associated with loans individually evaluated for impairment. Asset quality metrics have remained elevated in the first three quarters of 2012 resulting in our reserve for loans collectively evaluated for impairment of $43.3 million remaining flat when compared with the reserve at December 31, 2011. We have experienced stress in our commercial construction portfolio in the nine months ended September 30, 2012 with net charge-offs of $8.8 million compared to net recoveries of $1.6 million for the same time period in 2011. The losses

are primarily related to land development and construction projects that have slowed in the current environment, resulting in significant reductions in the appraised values. Many of these loans have been extended resulting in the loan becoming a TDR, and consequently an impaired loan. As a result of these losses the reserve allocated to commercial construction loans has increased $4.8 million to $8.5 million at September 30, 2012 compared to $3.7 million at December 31, 2011. The allowances for both the commercial real estate and the C&I portfolios have decreased as loans evaluated individually for impairment and substandard loans have declined. Further, we have seen a decline in historic loss rates in these portfolios. The commercial real estate reserve decreased $5.6 million from $29.8 million at December 31, 2011 to $24.2 million at September 30, 2012, while the C&I reserve decreased $2.6 million, from $11.3 million to $8.7 million over the same period.

Our allowance for lending-related commitments is calculated using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The balance in the allowance for lending-related commitments increased to $3.1 million at September 30, 2012 as compared to $1.2 million at December 31, 2011. The change is due to increased volume, primarily in our construction commitments and elevated asset quality metrics, specifically related to our commercial construction and commercial real estate commitments. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

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

Deposits

(in thousands)	September 30, 2012	December 31, 2011	$ Change
Noninterest-bearing demand	$ 928,000	$ 818,686	$ 109,314
Interest-bearing demand	321,785	283,611	38,174
Money market	316,673	278,092	38,581
Savings	949,521	802,942	146,579
Certificates of deposit	1,078,427	1,152,528	(74,101)
Total Deposits	**$ 3,594,406**	**$ 3,335,859**	**$ 258,547**

Deposits are a primary source of funds for us. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Total deposits at the end of the third quarter of 2012 were up $258.5 million, due primarily to the addition of $56.7 million in noninterest-bearing deposits and $254.7 million in

interest-bearing deposits from the Mainline and Gateway acquisitions. Noninterest-bearing demand deposit accounts increased due to the low interest rate environment, our marketing efforts for new demand accounts, corporate cash management services and the unlimited FDIC deposit insurance protection provided by the Dodd-Frank Act. Our overall deposit mix has been influenced by promotional efforts on new products, resulting in a shift from CDs to Savings. Also impacting our CDs was the maturity of $53.9 million in CDARS One-Way Buys, discussed below. CDs of $100,000 and over were 11 percent of total deposits at September 30, 2012 and at December 31, 2011, and primarily represent deposit relationships with local customers in our market area.

We participate in the Certificate of Deposit Account Registry Services, or CDARS, reciprocal and One-Way Buy, or OWB programs. The issuance of brokered retail CDs and participation in the CDARS program is an ALCO strategy to increase and diversify funding sources. The reciprocal program allows our customers to receive expanded FDIC coverage by placing multiple CDs at other CDARS member banks. We maintain deposits by accepting CDs from customers of CDARS member banks in the exact amount as our customers placed. Reciprocal deposits provide a stable and cost- effective source of funds with rates generally lower than traditional brokered deposits. Although reciprocal deposits are considered brokered under existing law, they tend to act more like customer CDs, since we retain the customer relationships. We had $13.5 million and $15.0 million in CDARS reciprocal deposits at September 30, 2012 and December 31, 2011, respectively. We can also access the CDARS network to accept brokered CDs that are a part of the OWB program, which allows us to obtain large blocks of wholesale funding, while maintaining control over pricing. Through the OWB program, funding is effectively purchased from insured depository institutions that are members of the CDARS deposit placement service. As of September 30, 2012 and December 31, 2011, we had $1.9 million and $55.8 million respectively in the CDARS OWB program. Most of this funding was purchased in December, 2011 as part of the replacement of CPP funds. The OWB maturities occurred during the first half of 2012 and were not replaced.

Borrowings

(in thousands)	September 30, 2012	December 31, 2011	$ Change
Securities sold under repurchase agreements, retail	$ 49,261	$ 30,370	$ 18,891
Short-term borrowings	25,000	75,000	(50,000)

Long-term borrowings	40,669	31,874	8,795
Junior subordinated debt securities	90,619	90,619	
Total Borrowings	**$ 205,549**	**$ 227,863**	**$ (22,314)**

Borrowings are an additional source of funding for S&T. Following redemption on December 7, 2011 of our preferred stock issued in connection with our participation in the CPP, we increased borrowings as part of our funding and liquidity strategy. Borrowings are down by $22.3 million from December 31, 2011 as our funding needs have decreased.

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

Liquidity and Capital Resources

Liquidity is defined as a financial institution s ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. Liquidity risk management involves monitoring and maintaining sufficient levels of a diverse set of funding sources that are available for normal operations and for unanticipated stress events. In order to manage liquidity risk our Board of Directors has delegated authority to the Asset Liability Committee, or ALCO, for formulation, implementation and oversight of liquidity risk management. ALCO s goal is to maintain adequate levels of liquidity to meet our funding needs in both a normal operating environment and for potential liquidity stress events.

Our primary funding and liquidity source is a stable deposit base. We believe that the bank has the ability to retain existing and attract new deposits, mitigating a funding dependency on other more volatile sources. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. These funding sources include a cushion of highly liquid assets, borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered certificates of deposit market including CDARs.

Since the beginning of the financial industry crisis in 2008, monitoring and maintaining appropriate liquidity levels has become a focus of regulators, bankers and investors. ALCO has enhanced the measurement, monitoring and reporting systems for liquidity risk management for potential liquidity stress events. Specific focus has been on maintaining an adequate level of asset liquidity, performing short-term and long-term stress tests and developing a more detailed contingency funding plan. We also work to ensure access to various wholesale funding sources is available, even in a stress event.

ALCO uses a variety of ratios and reports to monitor our liquidity position. ALCO monitors an asset liquidity ratio, which is defined as the sum of interest-bearing deposits with banks, unpledged securities and loans held for sale to total assets. In addition to the asset liquidity ratio, ALCO reviews cash flow projections, a liquidity coverage ratio and various balance sheet liquidity ratios. ALCO policy guidelines are in place for each ratio that defines graduated risk tolerance levels. If a ratio moves to high risk, specific actions are defined, such as increased monitoring or the development of an action plan to reduce the risk position.

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

(in thousands)	Adequately Capitalized [1]	Well-Capitalized [2]	September 30, 2012 Amount	September 30, 2012 Ratio	December 31, 2011 Amount	December 31, 2011 Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00%	5.00%	$ 386,982	9.27%	$ 356,484	9.17%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	386,982	12.01%	356,484	11.63%
Total capital to risk-weighted assets	8.00%	10.00%	497,732	15.45%	465,702	15.20%
S&T Bank						
Tier 1 leverage	4.00%	5.00%	$ 339,135	8.29%	$ 321,352	8.30%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	339,135	10.95%	321,352	10.55%
Total capital to risk-weighted assets	8.00%	10.00%	447,967	14.47%	429,837	14.11%

[1] *At September 30, 2012, and December 31, 2011 S&T exceeded all regulatory capital guideline requirements listed above to qualify as adequately capitalized.*

[(2)] *At September 30, 2012 and December 31, 2011, S&T exceeded all regulatory capital guideline requirements listed above to qualify as well capitalized.*

In September 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC for the issuance of up to $300 million of a variety of securities including debt and capital securities, preferred and common stock and Warrants.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution s earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposure to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a bank s future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can threaten banks earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movement is monitored by ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE analysis and simulations in order to avoid unacceptable earnings and market value fluctuations due to changes in interest rates.

Rate shock analyses are performed on a static balance sheet to estimate the effect that specific interest rate changes would have on 12 months of pretax net interest income. Rate shock analyses assume an immediate parallel shift in market interest rates. Assumptions are modified in the decreasing rate shock analyses due to the very low level of interest rates. Rate shock analyses also incorporate management assumptions regarding the level of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of fixed rate loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks up to 300 basis points. Policy guidelines define the percent change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. The table below reflects the rate shock analyses results, which are in the minimal risk tolerance level.

In order to monitor interest rate risk beyond the 12 month time horizon of rate shocks, we also perform EVE analysis. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. As with rate shock analysis, EVE incorporates management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and core deposit behavior and value. S&T policy guidelines limit the change in EVE given changes in rates of up to 300 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate and high. The table below reflects the EVE results, which are in the minimal risk tolerance level.

	September 30, 2012		December 31, 2011	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	13.3	28.3	11.3	20.9
+200	8.6	20.6	7.3	15.9
+100	4.1	11.2	3.5	9.1
- 100	(2.6)	(9.4)	(3.9)	(12.9)
- 200	(5.4)	(7.4)	(6.9)	(15.2)
- 300	(7.2)	(7.1)	(8.9)	(15.1)

In addition to rate shocks and EVE, simulations are performed periodically to assess the sensitivity of scenario assumptions on pretax net interest income. Simulation analyses most often test for sensitivity to yield curve shape and slope changes, severe rate shocks, changes in prepayment assumptions and significant balance mix changes.

The results from the analyses performed on pretax net interest income, EVE and sensitivity analysis were consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive position will differ depending upon the change in market interest rates. For example, with an asset sensitive position in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive position in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income.

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Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T s Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, (its principal executive officer and principal financial officer, respectively) management has evaluated the effectiveness of the design and operation of S&T s disclosure controls and procedures as of September 30, 2012. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T s management, including our CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2012, there were no changes made to S&T s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T s internal control over financial reporting.

S&T BANCORP, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this item is set forth in Note 10 of the Notes to Consolidated Financial Statements included in Item 1 of this report and incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 29, 2012.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

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Item 6. Exhibits

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

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

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

101 The following financial information from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2012 and 2011, (iii) Unaudited Consolidated Statements of Changes in Shareholders Equity for the Nine Months ended September 30, 2012 and 2011 and (iv) Unaudited Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2012 and 2011 and (v) Notes to Consolidated Financial Statements.*

* This exhibit is furnished and will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act, or Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

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SIGNATURES

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

S&T Bancorp, Inc.

(Registrant)

Date: November 1, 2012

/s/ Mark Kochvar
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)