NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
S&T Bancorp, Inc. and Subsidiaries

NOTE A
NATURE OF OPERATIONS

S&T Bancorp, Inc. ("S&T") was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has two wholly owned subsidiaries, S&T Bank and 9th Street Holdings, Inc. S&T owns a one-half interest in Commonwealth Trust Credit Life Insurance Company ("CTCLIC").

S&T is presently engaged in nonbanking activities through the following six entities: 9th Street Holdings, Inc., S&T Bancholdings, Inc., CTCLIC, S&T Insurance Group, LLC, S&T Professional Resources Group, LLC and Stewart Capital Advisors, LLC. 9th Street Holdings, Inc. was formed in June 1988 and S&T Bancholdings, Inc. was formed in August 2002 to hold and manage a group of investments previously owned by S&T Bank and to give S&T additional latitude to purchase other investments. CTCLIC, which is a joint venture with another financial institution, acts as a reinsurer of credit life, accident and health insurance policies sold by S&T Bank and the other institution. S&T Insurance Group, LLC distributes high-quality life insurance and long-term disability income insurance products through Evergreen Insurance Associates, LLC. S&T Professional Resources Group, LLC markets software developed by S&T. Stewart Capital Advisors, LLC was formed August 2005 to act as a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mutual Fund.

ACCOUNTING POLICIES

The financial statements of S&T Bancorp, Inc. and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods. Actual results could differ from those estimates. The more significant accounting policies are described below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of S&T and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent — 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting. S&T operates within one business segment, community banking, providing a full range of services to individual and corporate customers.

CASH FLOW INFORMATION

S&T considers cash and due from banks as cash and cash equivalents. For the years ended December 31, 2006, 2005 and 2004, interest paid was $92,006,000, $61,213,000 and $40,900,000, respectively. Income taxes paid during 2006 were $22,143,000 compared to $23,153,000 for 2005 and $20,808,000 for 2004. For the years ended December 31, 2006, 2005 and 2004, transfers of loans to other real estate owned was $523,000, $3,455,000 and $2,111,000, respectively.

SECURITIES

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and S&T has the ability, at the time of purchase, to hold securities until maturity, they are classified as held to maturity and are stated at cost and adjusted for amortization of premiums and accretion of discounts. Securities to be held for indefinite periods of time are classified as available for sale and are recorded at market value, and unrealized gains and losses on these securities, net of related deferred income taxes, are reported in accumulated other comprehensive income. Gains or losses on the disposition of securities are based on the specific identification method. S&T does not engage in any securities trading activity for its own account.

Management systematically evaluates securities for other-than-temporary declines in market value. Securities for which declines in market value are deemed to be other-than-temporary are written down to current market value and the resultant changes included in earnings as realized losses.

LOANS

Interest on loans is accrued and credited to operations based on the principal amount outstanding. Accretion of discounts and amortization of premiums on loans are included in interest income. Loan origination fees and direct loan origination costs are deferred and amortized as an adjustment of loan yield over the respective lives of the loans. Loans are placed on nonaccrual and interest is discontinued generally when interest and principal are 90 days or more past due.

Impaired loans are defined by management as commercial and commercial real estate loans which it is probable that S&T will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and underlying collateral value. All impaired loans are classified as substandard for risk classification purposes. Impaired loans are reserved, to the estimated value of collateral and/or cash flow associated with the loan, when management believes principal and interest will not be collected under the contractual terms of the loan. The accrual of interest on impaired loans is discontinued when the loan is 60 days past due or in management’s opinion the account should be placed on nonaccrual status (loans partially charged-off are generally immediately placed on nonaccrual status). When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income and/or the allowance for loan losses, as applicable. Interest income is subsequently recognized only to the extent that cash payments are received.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans considered to be uncollectible are charged against the allowance, and recoveries, if any, are credited to the allowance. The adequacy of the allowance for loan losses is determined by management through evaluation of the loss exposure on individual nonperforming, delinquent and high-dollar loans; review of various risk conditions and business trends; historical loss experience; and growth and composition of the loan portfolio, as well as other relevant risk factors.

A quantitative analysis is utilized to support the adequacy of the allowance for loan losses. This analysis includes review of the historical charge-off rates for loan categories, fluctuations and trends in the amount of classified loans and other risk factors. Factors consider the level of S&T’s historical charge-offs that have occurrence within the credits economic life cycle. Management also assesses subjective factors such as portfolio credit trends, unemployment trends, vacancy trends, loan growth and variable interest rate factors.

Significant to this analysis is the shift in loan portfolio composition to an increased mix of commercial loans. These loans are generally larger in size, and due to our continuing growth, many are new loan relationships. Management relies on its risk-rating process to monitor trends that may be occurring relative to commercial loans to assess potential weaknesses within the credit. Current factors and trends in risk ratings are considered in the determination and allocation of the allowance for loan losses.

S&T believes its quantitative and qualitative analysis and risk-rating process, which serves as the primary basis for assessing the adequacy of the allowance for loan losses, is sufficient to allow it to conclude that the total allowance for loan losses is adequate to absorb probable loan losses.

LOANS ORIGINATED FOR SALE AND HELD FOR SALE

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and carried at lower of cost or market, determined on an aggregate basis. Loans held for sale were $0.8 million and $1.6 million at December 31, 2006 and 2005, respectively. Gains and losses on sales of loans held for sale are included in other income in the consolidated statements of income. S&T manages its exposure to changes in the market value of loans from the date of commitment to the borrower and the loan's ultimate sale by entering into mandatory forward commitments to sell the loans. The extent to which S&T elects to cover its loan production with forward commitments varies based upon factors deemed by management to be appropriate in the circumstances. The market value related to the risk of the commitment is the hedged asset or liability on the balance sheet with a corresponding offset recorded in the income statement. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the market value of the derivative is recorded as a freestanding asset or liability.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred, while improvements which extend an asset's useful life are capitalized and depreciated over the estimated remaining life of the asset. Depreciation expense is computed generally by the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Useful lives range from three to 25 years for furniture and equipment; ten to 50 years for premises and two to 36 years for leasehold improvements. Leasehold improvements are amortized over the shorter of the asset's useful life or the remaining lease term, including renewal periods when reasonably assured pursuant to SFAS No. 13, "Accounting for Leases."

JOINT VENTURES

S&T has limited partnership investments in affordable housing and federal historic rehabilitation projects, for which it provides funding as a limited partner and receives tax credits and tax deductions for any losses incurred by the projects based on its partnership share. At December 31, 2006 and 2005, S&T had recorded investments in other assets on its balance sheet of approximately $15.7 million and $13.7 million, respectively, associated with these investments. Low-income housing relationships are accounted for on the equity basis and are periodically reviewed for impairment. Investments in partnerships for the purpose of rehabilitating historic structures are evaluated for impairment at the end of each reporting period and are recorded at their net realizable value. S&T determined that it is not the primary beneficiary of these partnerships and does not consolidate them.

OTHER REAL ESTATE

Other real estate is included in other assets and is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of a foreclosure. These properties are carried at the lower of cost or market value less estimated cost of resale. Loan losses arising from the acquisition of such property initially are charged against the allowance for loan losses. Gains or losses realized subsequent to acquisition are recorded in other expenses in the results of operations.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price over the cost of net assets purchased. Goodwill is not amortized, but is evaluated for impairment annually. In 2006, 2005 and 2004, S&T performed the required impairment tests of goodwill at the respective reporting unit level and no impairment existed as of the valuation date, as the market value of S&T's net assets exceeded their carrying value.

If, for any future period, S&T determines that there has been impairment in the carrying value of its goodwill balances, S&T will record a charge to earnings, which could have a material adverse effect on S&T's net income.

Intangible assets consist of $3.8 million for the acquisition of core savings deposits ($2.0 million, net of accumulated amortization) and $1.5 million in cost for the acquisition of insurance contract relationships ($0.9 million, net of accumulated amortization), and are amortized over their estimated weighted average lives of 11 years. The estimated aggregate amortization expense for each of the five succeeding years will approximate $0.5 million.

dollars in thousands	Goodwill	Core Deposit Intangible
Balance at December 31, 2004	**$48,021**	**$ 3,507**
Additions	1,052	276
Amortization	—	(483)
Balance at December 31, 2005	**$49,073**	**$ 3,300**
Additions	882	111
Amortization	—	(494)
Balance at December 31, 2006	**$49,955**	**$ 2,917**

MORTGAGE LOAN SERVICING

Mortgage servicing assets are recognized as separate assets when servicing rights are acquired through loan originations when the underlying loan is sold. Upon sale, the mortgage servicing right is established, which represents the then current market value of future net cash flows expected to be realized for performing the servicing activities. The market value of the mortgage servicing rights are estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the value of mortgage servicing rights. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the market value of the mortgage servicing rights, mortgage interest rates, which are used to determine prepayment rates and discount rates, are held constant over the estimated life of the portfolio. Capitalized mortgage servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans.

Capitalized mortgage servicing rights are regularly evaluated for impairment based on the estimated market value of those rights. The mortgage servicing rights are stratified by certain risk characteristics, primarily loan term and note rate. If temporary impairment exists within a risk stratification tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the market value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced.

Mortgage servicing rights are also reviewed for other-than-temporary impairment. Other-than-temporary impairment exists when the recoverability of a recorded valuation allowance is determined to be remote, taking into consideration historical and projected interest rates and loan pay-off activity. When this situation occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the mortgage servicing rights. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the mortgage servicing rights and the valuation allowance, precluding subsequent recoveries.

For the year ended December 31, 2006 and 2005, the 1-4 family mortgage loans that were sold to Fannie Mae amounted to $18.8 million and $36.4 million, respectively. At December 31, 2006 and 2005, mortgage servicing rights were $2.1 million and $2.2 million, respectively. At December 31, 2006, 2005 and 2004, S&T's servicing portfolio totaled $180.8 million, $185.1 million and $175.9 million, respectively. The fair market value of mortgage servicing rights was $2.2 million and $2.4 million at December 31, 2006 and 2005, respectively.

Dollars in thousands	Servicing Rights	Valuation Allowance	Net Carrying Value
Balance at December 31, 2004	**$ 2,063**	**$ 389**	**$ 1,674**
Additions/(reductions)	421	(369)	790
Amortization	(286)	—	(286)
Balance at December 31, 2005	**2,198**	**20**	**2,178**
Additions/(reductions)	239	36	203
Amortization	(313)	—	(313)
Balance at December 31, 2006	**$ 2,124**	**$ 56**	**$ 2,068**

DERIVATIVE FINANCIAL INSTRUMENTS

S&T utilizes derivative instruments from time to time for asset/liability management. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations and payments are based. The notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Interest-rate swaps are contracts in which a series of interest-rate flows (fixed and floating) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged.

S&T has certain interest rate derivative positions that are not designated as hedging instruments. These derivative positions relate to transactions in which S&T enters into an interest-rate swap with a customer while at the same time entering into an offsetting interest-rate swap with another financial institution. In connection with each transaction, S&T agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a same notional amount at a fixed rate. At the same time, S&T agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows S&T's customer to effectively convert a variable rate loan to a fixed rate for the customer. Because S&T acts as an intermediary for its customer, changes in the market value of the underlying derivative contracts offset each other and do not impact S&T's results of operations.

S&T offers rate lock commitments to potential borrowers. The commitments are generally for 60 days and guarantee a specified interest rate for a loan if underwriting standards are met, but the commitment does not obligate the potential borrower to close on the loan. Accordingly, some commitments expire prior to becoming loans. S&T enters into such contracts in order to control interest rate risk under an asset/liability strategy that is meant to limit risk from holding longer-term mortgages. Whenever a customer desires these products, a mortgage originator quotes a secondary market rate, guaranteed for that day by the investor. The rate lock is executed between the mortgagee

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and S&T, and in turn a forward sales contract is executed between S&T and the investor. Both the rate lock commitment and the corresponding forward sales contract for each customer are considered derivatives. As such, changes in the fair value of the derivatives during the commitment period are recorded in current earnings and included in other income on the consolidated statements of income.

WEALTH MANAGEMENT ASSETS AND INCOME

Assets held in a fiduciary capacity by the subsidiary bank, S&T Bank, are not assets of S&T Bank and are therefore not included in the consolidated financial statements. Wealth management fee income is reported on the consolidated statement of income.

STOCK-BASED COMPENSATION

S&T has various stock-based employee compensation plans, which are described in Note O. S&T adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“SFAS”) No. 123(R), “Share Based Payment,” on January 1, 2006. S&T is applying the modified prospective method. SFAS No. 123(R) requires measurement of compensation expense of all stock-based awards at market value on the date of grant and recognition of compensation expense over the service period for all awards granted or not yet vested at the date of adoption. As a result of applying the provisions of SFAS No. 123(R), during 2006, S&T recognized compensation expense of $776,000, pretax and $505,000, net of tax. The effect of applying the provisions of SFAS No. 123(R) to both year-to-date basic earnings per share and diluted earnings per share was a decrease of $0.02.

Prior to the adoption of SFAS No. 123(R), S&T applied APB Opinion No. 25, “Accounting for Stock Issued to Employees,” in accounting for stock-based awards. No compensation expense was reflected in net income for 2005 and 2004. Results for prior periods have not been restated.

The following table illustrates the effect on net income and earnings per share if the market value method had been applied to all outstanding and unvested awards in each period.

(dollars in thousands, except per share data)	**2005**	**2004**
Net Income	$58,243	$54,358
Stock-based employee compensation cost determined if the market value method had been applied to all awards, net of tax	(2,173)	(1,324)
Proforma Net Income	**$56,070**	**$53,034**
Basic Earnings per Share		
As reported	$ 2.21	$ 2.05
Proforma	2.13	2.00
Diluted Earnings per Share		
As reported	$ 2.18	$ 2.03
Proforma	2.10	1.98

On June 20, 2005, the Board of Directors approved the accelerated vesting of the December 20, 2004 stock options awarded to eligible participants under the S&T Bancorp, Inc. 2003 Stock Incentive Plan (the “2003 Stock Plan”), which had an exercise price of $37.08. As a result of the acceleration, unvested options granted in 2004 to acquire approximately 381,000 shares of S&T’s common stock, which otherwise 50 percent would have vested on January 1, 2006 and the remaining shares on January 1, 2007, became immediately exercisable. The options were not “in the money” (i.e., the exercise price of the options were in excess of the price of S&T’s common stock) at the time of acceleration.

The Black-Scholes option valuation model was developed for use in estimating the market value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. S&T's employee stock options have characteristics significantly different from those of traded options, and changes in subjective input assumptions can materially affect the market value estimate. For the stock option grants awarded in 2006 and 2005, S&T followed the "short-cut approach," in developing the estimate of expected life. Under this approach, the expected life is presumed to be the mid point between the vesting date and the end of the contractual term.

The market value for nonstatutory stock options were estimated at the grant dates using a Black-Scholes option pricing model with the following weighted-average assumptions for 2006, 2005, and 2004, respectively: risk-free interest rates of 4.36 percent, 3.61 percent and 3.27 percent; a dividend yield of 3.0 percent, 2.9 percent and 3.3 percent; volatility of the expected market price of S&T's common stock of .27, .26, and .27; and a weighted-average expected life of seven years, five years and five years.

S&T maintains a Cash Appreciation Rights ("CARs") plan, which are treated as liability instruments under SFAS No. 123(R). The current market value must be determined at each reporting date. The Black-Scholes option valuation model was used to determine the market value of the CARs as of December 31, 2006. The assumptions used to value the CARs are as follows: a risk-free interest rate of 4.64 percent; a dividend yield of 3.53 percent; volatility of the expected market price of S&T's common stock of .26; and a weighted-average expected life of 5.98 years.

PENSIONS

Pension expense for S&T Bank's defined benefit pension plan is actuarially determined using the projected unit credit actuarial cost method. The funding policy for the plan is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus such additional amounts as may be appropriate, subject to federal income tax limitation.

INCOME TAXES

Income taxes are accounted for under the liability method whereby deferred income taxes are recognized for the difference between the financial reporting and tax bases of assets and liabilities.

TREASURY STOCK

The purchase of S&T common stock is recorded at cost. At the time of reissuance, the treasury stock account is reduced using the average cost method.

EARNINGS PER COMMON SHARE

Basic Earnings Per Share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Average shares outstanding for computing basic EPS were 25,735,295, 26,384,062 and 26,485,934 for 2006, 2005 and 2004, respectively. Potentially dilutive securities are excluded from the basic calculation, but are included in diluted EPS. Average shares outstanding for computing diluted EPS were 25,940,352, 26,688,148 and 26,799,451 for 2006, 2005 and 2004, respectively. In computing diluted EPS, average shares outstanding have been increased by the common stock equivalents relating to S&T's outstanding stock options.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." Under current generally accepted accounting principles, an entity that holds a financial instrument with an embedded derivative must bifurcate the financial instrument, resulting in the host and the embedded derivative being accounted for separately. SFAS No. 155 permits, but does not require, entities to account for certain financial instruments with an embedded derivative at fair value thereby eliminating the need to bifurcate the instrument into its host and the embedded derivative. This Statement will be effective for all financial instruments acquired or issued by S&T on or after January 1, 2007, and is not expected to have a significant impact on S&T's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets." This Statement amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. The Statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. This Statement will be effective as of January 1, 2007 and is not expected to have a significant impact on S&T's financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109, "Accounting for Income Taxes," to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. S&T will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings. Upon adoption, management estimates that the cumulative effect adjustment will be immaterial to retained earnings, which is subject to revision as management completes its analysis.

In September 2006, the FASB issued, SFAS No. 157, "Fair Value Measurements." This standard provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. S&T will be required to apply the new guidance effective January 1, 2008. S&T is in the process of determining the impact on S&T's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFASB No. 87, 88, 106 and 132(R)." SFAS No. 158 requires companies to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Statement improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. On December 31, 2006, S&T adopted the recognition and disclosure provisions of SFAS No. 158, which resulted in the recognition of the funded status of its pension and postretirement plans as either assets or liabilities on the consolidated balance sheet and recognition of unrecognized actuarial gains/losses and prior service costs of $3.0 million as a separate component of accumulated comprehensive income, net of tax. SFAS No. 158 did not have an effect on S&T's consolidated financial condition at December 31, 2005 or 2004. SFAS No. 158's provisions regarding the change in the measurement date of defined

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postretirement benefit plans are not applicable as S&T already uses a measurement date of December 31 for its pension plan. See Note N for further discussion of the effect of adopting SFAS No. 158 on S&T's consolidated financial statements.

RECLASSIFICATION

Certain amounts in prior years' financial statements have been reclassed to conform to the current year's presentation. The reclassifications had no effect on S&T's financial condition or results of operations.

NOTE B
Market Values of Financial Instruments

S&T utilizes quoted market values, where available, to assign market value to its financial instruments. In cases where quoted market values were not available, S&T uses present value methods to estimate the market value of its financial instruments. These estimates of market value are significantly affected by the assumptions made and, accordingly, do not necessarily indicate amounts that could be realized in a current market exchange.

The following methods and assumptions were used by S&T in estimating its market value disclosures for financial instruments:

CASH AND CASH EQUIVALENTS AND OTHER SHORT-TERM ASSETS

The carrying amounts reported in the consolidated balance sheet for cash and due from banks, interest-earning deposits with banks and federal funds sold approximate those assets' market values.

SECURITIES

Market values for investment securities and securities available for sale are based on quoted market prices.

LOANS

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

DEPOSITS

The market values disclosed for demand deposits (e.g., noninterest and interest-bearing demand, money market and savings accounts) are, by definition, equal to the amount payable on demand. The carrying amounts for variable-rate, fixed-term, and certificates of deposit approximate their market value at year-end. Market values for fixed-rate certificates of deposit and other time deposits are based on the discounted value of contractual cash flows, using interest rates currently offered for deposits of similar remaining maturities.

SHORT-TERM BORROWINGS AND OTHER BORROWED FUNDS

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

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LONG-TERM BORROWINGS

The market values disclosed for long-term borrowings are estimated using current interest rates for long-term borrowings of similar remaining maturities.

LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT

Estimates of the market 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 counter-parties. Also, unfunded loan commitments relate principally to variable-rate commercial loans, typically non-binding and fees are not normally assessed on these balances.

Estimates of market value have not been made for items that are not defined as financial instruments, including such items as S&T's core deposit intangibles and the value of its trust operation. S&T believes it is impractical to estimate a representational market value for these types of assets, which represent significant value to S&T.

The following table indicates the estimated market value of S&T's financial instruments as of December 31:

	2006		2005	
	Market Value	Carrying Value	Market Value	Carrying Value
(dollars in thousands)				
ASSETS				
Cash	$ 59,980	$ 59,980	$ 56,189	$ 56,189
Securities available for sale	432,045	432,045	481,257	481,257
Other investments	10,562	10,562	13,318	13,318
Loans	2,663,743	2,666,291	2,473,390	2,491,506
LIABILITIES				
Deposits	$ 2,561,929	$ 2,565,306	$ 2,412,412	$ 2,418,884
Securities sold under repurchase agreements & federal funds purchased	132,751	133,021	137,829	137,829
Short-term borrowings	55,000	55,000	150,000	150,000
Long-term borrowings	173,122	171,941	84,967	83,776
Junior subordinated debt securities	25,115	25,000	—	—
Interest-rate swaps	—	—	—	—

NOTE C
Restrictions on Cash and Due from Bank Accounts

The Board of Governors of the Federal Reserve System (the "Federal Reserve Board") imposes certain reserve requirements on all depository institutions. These reserves are maintained in the form of vault cash or as a noninterest-bearing balance with the Federal Reserve Board. Required reserves averaged $17,593,000 during 2006.

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NOTE D
Securities

The following table indicates the composition of the securities portfolio at December 31:

2006	Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
(dollars in thousands)				
Obligations of U.S. government corporations and agencies	$ 183,161	$ 16	$ (3,174)	$ 180,003
Collateralized mortgage obligations of U.S. government corporations and agencies	61,087	—	(997)	60,090
Mortgage-backed securities	32,856	15	(1,078)	31,793
Obligations of states and political subdivisions	82,733	37	(1,098)	81,672
Debt securities available for sale	**359,837**	**68**	**(6,347)**	**353,558**
Marketable equity securities	39,268	16,126	(45)	55,349
Other securities	23,138	—	—	23,138
Total	**$ 422,243**	**$ 16,194**	**$ (6,392)**	**$ 432,045**

2005	Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
(dollars in thousands)				
Obligations of U.S. government corporations and agencies	$ 224,325	$ 399	$ (3,687)	$ 221,037
Collateralized mortgage obligations of U.S. government corporations and agencies	64,480	6	(847)	63,639
Mortgage-backed securities	39,321	46	(951)	38,416
U.S. treasury securities	499	—	—	499
Obligations of states and political subdivisions	84,998	38	(1,225)	83,811
Debt securities available for sale	**413,623**	**489**	**(6,710)**	**407,402**
Marketable equity securities	45,421	20,084	(391)	65,114
Other securities	8,741	—	—	8,741
Total	**$ 467,785**	**$ 20,573**	**$ (7,101)**	**$ 481,257**

There were $6,069,000, $5,337,000 and $6,348,000 in gross realized gains and $588,000, $329,000 and $1,004,000 in gross realized losses in 2006, 2005 and 2004, in each case respectively, relative to securities available for sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

The following table presents the age of gross unrealized losses and market value by investment category:

2006 (dollars in thousands)	Less Than 12 Months Market Value	Less Than 12 Months Unrealized Losses	12 Months or More Market Value	12 Months or More Unrealized Losses	Total Market Value	Total Unrealized Losses
Obligations of U.S. government corporations and agencies	$ —	$ —	$ 175,041	$ (3,174)	$ 175,041	$ (3,174)
Collateralized mortgage obligations of U.S. government corporations and agencies	9,515	(29)	50,575	(968)	60,090	(997)
Mortgage-backed securities	—	—	30,535	(1,078)	30,535	(1,078)
Obligations of states and political subdivisions	9,948	(24)	65,731	(1,074)	75,679	(1,098)
Debt securities available for sale	**19,463**	**(53)**	**321,882**	**(6,294)**	**341,345**	**(6,347)**
Marketable equity securities	989	(45)	—	—	989	(45)
Total Temporarily Impaired Securities	**$ 20,452**	**$ (98)**	**$ 321,882**	**$ (6,294)**	**$ 342,334**	**$ (6,392)**

2005 (dollars in thousands)	Less Than 12 Months Market Value	Less Than 12 Months Unrealized Losses	12 Months or More Market Value	12 Months or More Unrealized Losses	Total Market Value	Total Unrealized Losses
Obligations of U.S. government corporations and agencies	$ 142,892	$ (2,553)	$ 32,825	$ (1,134)	$ 175,717	$ (3,687)
Collateralized mortgage obligations of U.S. government corporations and agencies	58,696	(847)	—	—	58,696	(847)
Mortgage-backed securities	21,450	(360)	14,466	(591)	35,916	(951)
Obligations of states and political subdivisions	58,898	(753)	14,412	(472)	73,310	(1,225)
Debt securities available for sale	**281,936**	**(4,513)**	**61,703**	**(2,197)**	**343,639**	**(6,710)**
Marketable equity securities	3,052	(245)	2,857	(146)	5,909	(391)
Total Temporarily Impaired Securities	**$ 284,988**	**$ (4,758)**	**$ 64,560**	**$ (2,343)**	**$ 349,548**	**$ (7,101)**

During 2006, S&T recognized other-than-temporary impairments totaling $0.3 million on three equity investment securities. S&T recognized an other-than-temporary impairment totaling $0.3 million on one equity security during 2005 and zero during 2004. S&T does not believe any individual unrealized loss as of December 31, 2006 represents an other-than-temporary impairment. S&T performs a review on the entire securities portfolio on a quarterly basis to identify securities that may

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indicate an other-than-temporary impairment. S&T management considers the length of time and the extent to which the market value has been less than cost and the financial condition of the issuer. The unrealized losses on 180 debt securities are primarily attributable to changes in interest rates. The unrealized losses on three marketable equity securities are attributable to temporary declines in market value. S&T has both the intent and the ability to hold the securities contained in the previous table for a time necessary to recover the amortized cost or until maturity.

The amortized cost and estimated market value of debt securities at December 31, 2006, by effective maturity, is included in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

For purposes of the maturity table, mortgage-backed securities and collateralized mortgage obligations, which are not due at a single maturity date, have been allocated over maturity groupings based upon the current estimated prepayment rates. The mortgage-backed securities and collateralized mortgage obligations may mature earlier or later than their estimated maturities because of principal prepayment optionality.

Available for Sale *(dollars in thousands)*	Amortized Cost	Market Value
Due in one year or less	$ 56,649	$ 56,057
Due after one year through five years	261,752	256,911
Due after five years through ten years	38,630	37,855
Due after ten years	2,806	2,735
Total Debt Securities Available for Sale	**$ 359,837**	**$ 353,558**

At December 31, 2006 and 2005, securities with principal amounts of $287,994,000 and $274,399,000, respectively, were pledged to secure repurchase agreements, public funds and trust fund deposits.

NOTE E
Loans

The following table indicates the composition of the loan portfolio at December 31:

(dollars in thousands)	2006	2005
Real estate—construction	$ 346,173	$ 332,930
Real estate—mortgages:		
Residential	570,304	523,745
Commercial	973,015	920,349
Commercial and industrial	702,833	644,686
Consumer installment	73,140	68,216
Gross Portfolio Loans	**2,665,465**	**2,489,926**
Allowance for loan losses	(33,220)	(36,572)
Total Portfolio Loans	**2,632,245**	**2,453,354**
Loans held for sale	826	1,580
Total Loans	**$ 2,633,071**	**$ 2,454,934**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

The following table presents changes in the allowance for loan losses for the year ended December 31:

(dollars in thousands)	2006	2005	2004
Balance at beginning of year	$ 36,572	$34,262	$31,478
Charge-offs	(14,038)	(3,929)	(7,175)
Recoveries	1,306	2,208	5,559
Net charge-offs	**(12,732)**	**(1,721)**	**(1,616)**
Provision for loan losses	9,380	5,000	4,400
Reclassification of allowance for lending-related commitments *(1)*	—	(969)	—
Balance at end of year	**$ 33,220**	**$36,572**	**$34,262**

(1) During the second quarter of 2005, S&T reclassified $969,000 of its allowance for loan losses to a separate allowance for probable credit losses inherent in lending-related commitments. Net income and prior period balances were not affected by this reclassification. The separate allowance is included in other liabilities.

S&T Bank has granted loans to certain officers and directors of S&T as well as to certain affiliates of the officers and directors in the ordinary course of business. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than normal risk of collectability. The aggregate dollar amounts of these loans were $32,714,000 and $32,136,000 at December 31, 2006 and 2005, respectively. During 2006, $15,196,000 of new loans were funded and repayments totaled $14,618,000.

The principal balances of loans on nonaccrual status were $19,852,000 and $11,166,000 at December 31, 2006 and 2005, respectively. Other real estate owned which is included in other assets, was $523,000 at December 31, 2006 and $3,712,000 at December 31, 2005.

S&T attempts to limit its exposure to concentrations of credit risk by diversifying its loan portfolio. S&T monitors concentrations of credit risk. At December 31, 2006 and 2005, S&T had no concentrations of credit risk by industry or group. Geographic concentrations exist because S&T provides a full range of banking services, including commercial, consumer and mortgage loans to individuals and corporate customers in its ten-county market areas in western Pennsylvania. Management believes these risks are mitigated by underwriting guidelines and ongoing review by loan administration.

The following table represents S&T's investment in loans considered to be impaired and related information on those impaired loans:

(dollars in thousands)	2006	2005	2004
Recorded investment in loans considered to be impaired	$ 26,152	$ 29,745	$ 10,458
Recorded investment in impaired loans with no related allowance for loan losses	19,698	7,741	1,388
Loans considered to be impaired that were on a nonaccrual basis	8,617	5,507	2,138
Allowance for loan losses related to loans considered to be impaired	2,627	9,937	5,712
Average recorded investment in impaired loans	31,426	16,325	13,762
Total interest income per contractual terms on impaired loans	2,675	2,115	684
Interest income on impaired loans recognized on a cash basis	1,867	1,854	571

NOTE F
Premises and Equipment

The following table is a summary of the premises and equipment accounts at December 31:

(dollars in thousands)	Estimated Useful Life	2006	2005
Land	Indefinite	$ 4,738	$ 4,530
Premises	10-50 years	35,746	29,949
Furniture and equipment	3-25 years	24,704	21,957
Leasehold improvements	2-36 years	3,376	3,944
		68,564	**60,380**
Accumulated depreciation		(32,864)	(31,257)
Total		**$ 35,700**	**$ 29,123**

Depreciation related to premises and equipment was $2,922,000, $2,863,000 and $2,485,000 in 2006, 2005 and 2004, respectively.

Certain banking facilities are leased under short-term lease arrangements expiring at various dates to the year 2051. All such leases are accounted for as operating leases. Rental expense for premises and equipment amounted to $2,555,000, $2,229,000 and $1,963,000 in 2006, 2005 and 2004, respectively. Minimum annual rentals and renewal options for each of the years 2007-2011 are approximately $1,089,000, $1,060,000, $1,019,000, $1,003,000, and $993,000, respectively, and $15,004,000 for the years thereafter. Included in the above are leases entered into with three directors for which rental expense totaled $557,000, $611,000 and $575,000 in 2006, 2005 and 2004, respectively.

NOTE G
Deposits

The following table indicates the composition of deposits at December 31:

	2006		2005	
(dollars in thousands)	Balance	Expense	Balance	Expense
Noninterest-bearing demand	$ 448,453	$ —	$ 435,672	$ —
Interest-bearing demand	150,568	60	155,191	21
Money market	163,105	3,736	242,228	3,812
Savings	881,967	32,787	652,685	11,263
Time deposits	921,213	36,946	933,108	29,728
Total	**$ 2,565,306**	**$ 73,529**	**$ 2,418,884**	**$ 44,824**

The aggregate of all time deposits over $100,000 amounted to $261,646,000 and $206,666,000 for December 31, 2006 and 2005, respectively.

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The following table indicates the scheduled maturities of time deposits at December 31:

(dollars in thousands)	2006	2005
Due in one year	$ 659,530	$ 548,150
Due in one to two years	161,689	198,753
Due in two to three years	55,100	102,937
Due in three to four years	15,440	38,479
Due in four to five years	20,117	21,200
Due after five years	9,337	23,589
Total	**$ 921,213**	**$ 933,108**

NOTE H
Short-Term Borrowings

Short-term borrowings are for terms under one year and were comprised of retail repurchase agreements (“REPOs”), wholesale REPOs, federal funds purchased and FHLB advances. S&T defines repurchase agreements with its local retail customers as retail REPOs; short-term wholesale REPOs are those transacted with other banks and brokerage firms. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral provided to a third party is continually monitored, and additional collateral is obtained or requested to be returned as appropriate. Federal funds purchased are unsecured overnight borrowings with other financial institutions; overnight and FHLB advances are for various terms secured by a blanket lien on securities, residential mortgages and other loans with the FHLB of Pittsburgh.

Securities Sold Under Repurchase Agreements and Federal Funds Purchased (dollars in thousands)	2006	2005	2004
Balance at December 31:	$133,021	$137,829	$ 98,384
Average balance during the year	114,544	132,406	164,645
Average interest rate during the year	4.51%	2.98%	1.16%
Maximum month-end balance during the year	$156,471	$174,467	$199,538
Average interest rate at year-end	4.83%	3.80%	1.77%

Federal Home Loan Bank (FHLB) Advances (dollars in thousands)	2006	2005	2004
Balance at December 31:	$ 55,000	$150,000	$225,000
Average balance during the year	88,342	221,918	293,391
Average interest rate during the year	5.01%	3.21%	1.47%
Maximum month-end balance during the year	$150,000	$315,000	$380,000
Average interest rate at year-end	5.44%	4.34%	2.20%

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NOTE I
Long-Term Borrowings

The following table is a summary of long-term borrowings with the FHLB:

	2006		2005	
(dollars in thousands)	Balance	Average Rate	Balance	Average Rate
Due in one year	$ 20,920	5.39%	$45,344	3.79%
Due in one to two years	50,965	5.05%	10,362	5.70%
Due in two to three years	84,429	5.49%	379	4.88%
Due in three to four years	5,760	6.41%	13,638	6.08%
Due in four to five years	564	4.89%	4,929	6.67%
Due after five years	9,303	5.26%	9,124	4.86%
Total	**$171,941**	**5.36%**	**$83,776**	**4.69%**

The purpose of these borrowings is to match-fund selected new loan originations, to mitigate interest-rate sensitivity risks and to take advantage of discounted borrowing rates through the FHLB for community investment projects.

S&T pledged securities and all 1-4 family and multi-family mortgage loans as collateral for any current or future FHLB borrowings. The total carrying amount of these pledged loans was $443,734,000 at December 31, 2006. At December 31, 2006, S&T had availability with the FHLB of $516,518,000.

At December 31, 2006, S&T had long-term repurchase agreement borrowings totaling $50.0 million at a weighted average fixed-rate of 5.52 percent, which matures within one year. At December 31, 2005, S&T had no long-term repurchase agreement borrowings outstanding. The purpose of these borrowings was to lock in fixed-rate fundings to mitigate interest-rate risk.

On September 21, 2006, S&T Bank issued $25.0 million of junior subordinated debt through a pooled transaction at an initial fixed rate of 6.78%. On September 15, 2011 and quarterly thereafter, S&T Bank has the option to redeem the subordinated debt, subject to a 30 day written notice and prior approval by the FDIC. If S&T Bank chooses not to exercise the option for early redemption on September 15, 2011 or subsequent quarters, the subordinated debt will convert to a variable rate of 3-month LIBOR plus 160 basis points. The subordinated debt qualifies as Tier 2 capital under regulatory guidelines and will mature on December 15, 2036.

NOTE J
Dividend and Loan Restrictions

Certain restrictions exist regarding the ability of S&T Bank to transfer funds to S&T in the form of dividends and loans. The amount of dividends that may be paid to S&T is restricted by regulatory guidelines concerning minimum capital requirements. S&T Bank could pay dividends of approximately $18.5 million without affecting its well-capitalized position at December 31, 2006.

Federal law prohibits S&T from borrowing from S&T Bank unless such loans are collateralized by specific obligations. Further, such loans are limited to 10 percent of S&T Bank's capital and additional paid-in capital, as defined.

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NOTE K
Litigation

S&T, in the normal course of business, is subject to various legal proceedings in which claims for monetary damages are asserted. No material losses are anticipated by S&T as a result of these legal proceedings.

NOTE L
Guarantees

S&T, in the normal course of business, commits to extend credit and issue standby letters of credit. The obligations are not recorded in S&T's financial statements. Loan commitments and standby letters of credit are subject to S&T's normal credit underwriting policies and procedures and generally require collateral based upon management's evaluation of each customer's financial condition and ability to satisfy completely the terms of the agreement. S&T's exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the notional amount of the obligation less the value of any collateral. Unfunded commercial loan commitments totaled $686,204,000 and $635,809,000 at December 31, 2006 and 2005, respectively. Unfunded other loan commitments totaled $157,863,000 and $144,694,000 at December 31, 2006 and 2005, respectively; and obligations under standby letters of credit totaled $220,494,000 and $206,249,000 at December 31, 2006 and 2005, respectively.

NOTE M
Income Taxes

Income tax expense (credits) for the years ended December 31 are comprised of:

(dollars in thousands)	2006	2005	2004
Current	$ 19,711	$ 23,288	$ 24,613
Deferred	1,802	999	(1,612)
Total	**$ 21,513**	**$ 24,287**	**$ 23,001**

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes. The statutory to effective tax rate reconciliation for the years ended December 31 is as follows:

	2006	2005	2004
Statutory tax rate	35.0%	35.0%	35.0%
Tax-exempt interest income	(2.8)	(2.3)	(2.2)
Dividend exclusion	(0.5)	(0.7)	(0.7)
Low income housing tax credits	(1.9)	(1.6)	(1.5)
Other	(1.1)	(1.0)	(0.9)
Effective tax rate	**$28.7%**	**29.4%**	**29.7%**

Income taxes applicable to security gains were $1,918,000 in 2006, $1,753,000 in 2005 and $1,870,000 in 2004.

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Significant components of S&T's temporary differences were as follows at December 31:

(dollars in thousands)	2006	2005
Deferred tax liabilities:		
Net unrealized holding gains on securities available for sale	$ (3,796)	$ (4,939)
Prepaid pension in other employee benefits	(5,816)	(3,997)
Deferred loan income	(1,949)	(2,476)
Purchase accounting	(3,855)	(4,783)
Other	(1,232)	(778)
Total deferred tax liabilities	**(16,648)**	**(16,973)**
Deferred tax assets:		
Allowance for loan losses	12,059	13,090
Loan fees	905	1,152
Net adjustment to apply SFAS No. 158	1,635	—
State taxes NOL carryforwards	325	274
Other	3,016	2,722
Gross deferred tax assets	**17,940**	**17,238**
Less:		
Valuation allowance	(325)	(274)
Total deferred tax assets	**17,615**	**16,964**
Net deferred tax asset (liability)	**$ 967**	**$ (9)**

S&T establishes a valuation allowance when it is more likely than not that S&T will not be able to realize the benefit of the deferred tax assets, i.e., when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessments of realizable deferred tax assets. Gross deferred tax assets as of December 31, 2006 and 2005 were reduced by a valuation allowance of $0.3 million, related to state income tax net operating losses generated by certain subsidiaries, as utilization of these losses is not likely. These operating loss carryforwards total $5.0 million and will expire in the years 2020-2025.

The period change in deferred taxes is recorded both directly to capital and as a part of the income tax expense and can be summarized as follows at December 31:

(dollars in thousands)	2006	2005
Deferred tax changes reflected in other comprehensive income	$(2,778)	$(6,301)
Deferred tax changes reflected in federal income tax expense	1,802	999
Net change in deferred taxes	**$ (976)**	**$(5,302)**

NOTE N
Employee Benefits

S&T Bank maintains a defined benefit pension plan (the "Plan") covering substantially all employees. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

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

(dollars in thousands)	2006	2005	2004
Service cost—benefits earned during the period	$ 1,989	$ 1,725	$ 1,535
Interest cost on projected benefit obligation	2,763	2,583	2,313
Expected return on plan assets	(4,135)	(3,435)	(2,978)
Net amortization and deferral	185	43	19
Net periodic pension expense	**$ 802**	**$ 916**	**$ 889**

The following tables summarize the activity in the benefit obligation and Plan assets:

(dollars in thousands)	2006	2005
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	$48,440	$43,070
Service cost	1,989	1,725
Interest cost	2,763	2,583
Plan participants' contributions	318	294
Actuarial gain	(1,260)	2,619
Benefits paid	(1,934)	(1,851)
Projected benefit obligation at end of year	**$50,316**	**$48,440**
CHANGE IN PLAN ASSETS		
Market value of plan assets at beginning of year	$52,620	$42,145
Actual return on plan assets	5,586	2,829
Employer contribution	6,000	9,203
Plan participants' contributions	318	294
Benefits paid	(1,934)	(1,851)
Market value of plan assets at end of year	**$62,590**	**$52,620**

The following table sets forth the Plan's funded status and the accrued pension cost in the consolidated balance sheets at December 31:

(dollars in thousands)	2006	2005
Projected benefit obligation at end of year	$(50,316)	$(48,440)
Market value of plan assets at end of year	62,590	52,620
Funded status	**12,274**	**4,180**
Unrecognized net loss	4,225	7,105
Unamortized prior service cost	118	134
Prepaid pension cost included in other assets	**$ 16,617**	**$ 11,419**

On December 31, 2006, S&T adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 requires an employer to recognize the funded status of any defined benefit pension plan or postretirement benefit plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. For the Plan, the adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial loss and unamortized prior service cost which were previously netted against the plan's funded status in S&T's statement of financial position pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to S&T's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income upon adoption of SFAS No. 158.

The incremental effect of adopting the provisions of SFAS No. 158 on S&T's statement of financial position at December 31, 2006 is presented in the following table. The adoption of SFAS No. 158 had no effect on S&T's consolidated statement of income for the year ended December 31, 2006, or for any prior periods presented, and will not effect S&T's operating results in future periods.

RETIREMENT PLAN OF S&T BANK *(dollars in thousands)*	2006
Amounts Recognized in the Statement of Financial Position and in Retained Earnings Consist of:	
Prior to adoption of SFAS No. 158:	
Prepaid benefit cost	$ 16,617
Accrued benefit liability	—
Intangible asset	—
Accumulated other comprehensive income	—
Net amount recognized in retained earnings	**$ 16,617**
After adoption of SFAS No. 158:	
Net amount recognized in statement of financial position	**$ 12,274**
Amounts recognized in accumulated other comprehensive income consist of:	
Prior service cost	$ 118
Net actuarial loss	4,225
Total (before tax effects)	$ 4,343
Change in accumulated other comprehensive income due to adoption of SFAS No. 158 (before tax effects)	**$ 4,343**

Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $118,000 ($77,000, net of tax) and unrecognized actuarial losses of $4,225,000 ($2,746,000, net of tax). The prior service cost and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the year ended December 31, 2007 is $16,000 ($10,000, net of tax) and $0, respectively.

The accumulated benefit obligation for the Plan was $43,049,000 at December 31, 2006 and $41,370,000 at December 31, 2005.

Below are actuarial assumptions used in accounting for the Plan at December 31:

	2006	2005	2004
Weighted-average discount rate	5.75%	6.00%	6.00%
Rate of increase in future compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%

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S&T considers many factors when setting the assumed rate of return on Plan assets. As a general guideline the assumed rate of return is equal to the weighted average of the expected returns for each asset category and is estimated based on historical returns as well as expected future returns.

The Plan's weighted-average asset allocations by asset category are as follows:

	Plan Assets at December 31	
Asset Category	**2006**	**2005**
Equity Securities	55%	59%
Debt Securities	33%	26%
Other	12%	15%
Total	**100%**	**100%**

S&T Bank's Retirement Plan Committee determines the investment policy for the Plan. In general, the targeted asset allocation is 50 percent-70 percent equities and 30 percent-50 percent fixed-income. A strategic allocation within each asset class is employed based on the Plan's time horizon, risk tolerances, performance expectations and asset class preferences. Investment managers have discretion to invest in any equity or fixed-income asset class, subject to the securities guidelines of the Plan's Investment Policy Statement.

S&T Bank contributed $7.2 million to the Plan in 2005 for 2006. S&T Bank also contributed $6.0 million to the Plan in 2006 for 2007. This contribution comprised the majority of the other asset category (e.g., money market account) at December 31, 2006. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Plan for each of the years 2007-2011 and are $1,981,000, $2,107,000, $2,270,000, $2,468,000, $2,663,000, respectively, and $16,382,000 for the five years thereafter.

S&T also has a supplemental executive retirement plan ("SERP") for certain key employees. The SERP is unfunded. The balances of the actuarial present values of projected benefit obligations related to the SERP were $3,389,000 and $3,304,000 at December 31, 2006 and 2005, respectively. Accrued pension costs related to the SERP were $2,835,000 and $2,904,000 at December 31, 2006 and 2005, respectively. In accordance with SFAS No. 158, $485,000 before tax was reflected in accumulated other comprehensive income at December 31, 2006 in relation to the SERP. In addition, S&T pays the post-retirement health care for a limited number of retirees. The SFAS No. 158 adjustment of ($156,000), before tax was reflected in accumulated other comprehensive income at December 31, 2006, in relation to post-retirement medical benefits. Net periodic pension cost related to the SERP was $340,000, $317,000 and $279,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The actuarial assumptions are the same as those used for the Plan.

S&T maintains a Thrift Plan, a qualified defined contribution plan, in which substantially all employees are eligible to participate. S&T makes matching contributions to the Thrift Plan up to 3 percent of participants' eligible compensation and may make additional profit-sharing contributions as provided by the Thrift Plan. Expense related to these contributions amounted to $1,452,000, $1,963,000 and $1,428,000 in 2006, 2005 and 2004, respectively.

NOTE O
Incentive and Restricted Stock Plan and Dividend Reinvestment Plan

S&T adopted an Incentive Stock Plan in 1992 ("1992 Stock Plan") that provides for granting incentive stock options, nonstatutory stock options, restricted stock and appreciation rights. On October 17, 1994, the 1992 Stock Plan was amended to include outside directors. The 1992 Stock Plan covers a maximum of 3.2 million shares of S&T common stock and expires ten years from the date of board

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

approval. At December 31, 2002, 3,180,822 nonstatutory stock options and 35,600 restricted stock awards had been granted under the 1992 Stock Plan. No further awards will be made under the 1992 Stock Plan.

S&T adopted the 2003 Stock Plan in 2003 that provides for granting incentive stock options, nonstatutory stock options, restricted stock and appreciation rights. The 2003 Stock Plan covers a maximum of 1.5 million shares of S&T common stock and expires ten years from the date of board approval. The 2003 Stock Plan is similar to the 1992 Stock Plan, which the 2003 Stock Plan replaced. As of December 31, 2006, 937,500 nonstatutory stock options have been granted under the 2003 Stock Plan and 642,750 are currently exercisable.

S&T granted nonstatutory stock options in 2006 under the 2003 Stock Plan at an exercise price determined by the S&T Bancorp, Inc. Board of Directors Compensation Benefits Committee on the date of grant. S&T granted nonstatutory stock options in 2005 under the 2003 Stock Plan at an exercise price equal to the market value of S&T common stock on the date of grant. Nonstatutory stock options granted in 2006 and 2005 have a four-year vesting period and a ten-year life, with 25 percent vesting each year on January 1 of the succeeding year. Stock options granted in 2004 under the 2003 Stock Plan and have a ten-year life. There were 4,000 shares of nonstatutory stock options issued in 2006 and 202,500 shares of nonstatutory stock options issued in 2005 at a price of $37.86. The total compensation expense related to the 2006 grant will approximate $19,000, net of tax over the next three years. The total compensation expense related to the 2005 grant will approximate $857,000 net of tax over the next three years.

During 2006, total proceeds from the 122,200 shares of nonstatutory stock options exercised totaled $2,755,000 and resulted in a tax benefit of $502,000. During 2005, total proceeds for the 330,735 shares exercised totaled $7,906,000 and resulted in a tax benefit of $1,660,000. During 2004, total proceeds for the 490,525 shares exercised totaled $10,347,000 and resulted in a tax benefit of $2,098,000.

Below is activity for nonstatutory stock options for the years ending December 31:

	2006		2005		2004	
	Number of Shares	Weighted Average Option Price	Number of Shares	Weighted Average Option Price	Number of Shares	Weighted Average Option Price
Outstanding at beginning of year	1,775,762	$ 29.05	1,919,697	$ 27.25	2,041,572	$ 26.34
Granted	4,000	37.86	202,500	37.86	380,700	37.08
Exercised	(122,200)	22.54	(330,735)	23.90	(490,525)	21.09
Forfeited	(7,200)	35.04	(15,700)	30.81	(12,050)	28.13
Outstanding at end of year	**1,650,362**	**29.52**	**1,775,762**	**29.05**	**1,919,697**	**27.25**
Exercisable at end of year	**1,443,862**	**$ 28.33**	**1,422,312**	**$ 27.70**	**1,110,922**	**$ 23.08**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

The following table summarizes the total shares outstanding and the range and weighted average of exercise prices and remaining contractual lives at December 31:

	2006			2005			2004		
	Shares Outstanding	Exercise Price	Contractual Remaining Life (Years)	Shares Outstanding	Exercise Price	Contractual Remaining Life (Years)	Shares Outstanding	Exercise Price	Contractual Remaining Life (Years)
1995	—	$ —	—	—	$ —	—	23,000	$ 13.13	1
1996	—	—	—	25,500	15.44	1	62,500	15.44	2
1997	87,462	20.38	1	113,062	20.38	2	143,822	20.38	3
1998	145,900	27.75	2	162,700	27.75	3	217,300	27.75	4
1999	123,100	22.88	3	128,900	22.88	4	152,600	22.88	5
2000	137,300	19.81	4	147,800	19.81	5	163,500	19.81	6
2001	202,700	24.40	5	219,600	24.40	6	266,525	24.40	7
2002	104,650	26.60	6	110,500	26.60	7	163,350	26.60	8
2003	284,550	29.97	7	300,800	29.97	8	346,400	29.97	9
2004	358,200	37.08	8	364,400	37.08	9	380,700	37.08	10
2005	202,500	37.86	9	202,500	37.86	10	—	—	—
2006	4,000	37.86	9	—	—	—	—	—	—
Total	**1,650,362**	**$ 29.52**	**5.9**	**1,775,762**	**$ 29.05**	**6.6**	**1,919,697**	**$ 27.25**	**6.9**

The weighted-average remaining contractual term of shares currently exercisable at December 31, 2006 is 5.4 years.

S&T also maintains a Cash Appreciation Rights (“CARs”) plan under which CARs are granted. CARs are rights to appreciation of the market value of S&T’s common stock over the exercise price as of the date of grant. The CARs are settled in cash. There were no CARs granted in 2006 and 2004. CARs granted in 2005 have a four-year vesting period and a ten-year life, with 25 percent vesting each year on January 1 of the succeeding year. There were CARs with respect to 206,900 shares of S&T common stock issued in 2005 at a price of $37.86. During 2006, CARs with respect to 7,200 shares have been forfeited. The total compensation expense related to the 2005 grant will approximate $633,000, net of tax over the next three years.

As of December 31, 2006, there were 8,900 shares of unvested restricted stock awards granted related to a previous grant. There were no restricted stock awards granted in 2006 and 2005. These shares vest 25 percent per year with the first vesting, which occurred on January 1, 2004. During the restricted period, the recipient receives dividends and can vote the shares. Generally, if the recipient leaves S&T before the end of the restricted period, the shares will be forfeited. Compensation expense for the restricted stock is ratably recognized over the period of service, generally the restricted period, based on the market value of the stock on the date of grant. As of December 31, 2006 there were 8,900 shares of restricted stock remaining to vest on January 1, 2007.

S&T also sponsors a dividend reinvestment plan (“Dividend Plan”) whereby shareholders may purchase shares of S&T common stock at market value with reinvested dividends and voluntary cash contributions. American Stock Transfer and Trust Company, the plan administrator and transfer agent, purchases the shares on the open market to fulfill the Dividend Plan’s needs.

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NOTE P
S&T Bancorp, Inc. (parent company only)
Condensed Financial Information

BALANCE SHEETS AT DECEMBER 31: *(dollars in thousands)*	2006	2005
ASSETS		
Cash	$ 83	$ 54
Investments in:		
Bank subsidiary	295,780	308,732
Nonbank subsidiaries	36,678	33,384
Other assets	17,490	17,864
Total Assets	**$ 350,031**	**$ 360,034**
LIABILITIES		
Dividends payable	$ 7,615	$ 7,613
Other liabilities	3,365	—
Total Liabilities	**10,980**	**7,613**
Total Shareholders’ Equity	**339,051**	**352,421**
Total Liabilities and Shareholders’ Equity	**$ 350,031**	**$ 360,034**

STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31: *(dollars in thousands)*	2006	2005	2004
Dividends from subsidiaries	$ 63,745	$ 44,733	$ 34,025
Investment income	67	16	29
Other Expenses	818	802	774
Income before equity in undistributed net income of subsidiaries	62,994	43,947	33,280
(Distribution in excess of net income) equity in undistributed net income of:			
Bank subsidiary	(13,448)	9,899	15,195
Nonbank subsidiaries	3,790	4,397	5,883
Net Income	**$ 53,336**	**$ 58,243**	**$ 54,358**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31: *(dollars in thousands)*	2006	2005	2004
OPERATING ACTIVITIES			
Net Income	$ 53,336	$ 58,243	$ 54,358
Equity in undistributed net income of subsidiaries	9,658	(14,296)	(21,078)
Tax benefit from nonstatutory stock options exercised	1,049	1,795	2,098
Other	(1,748)	(1,137)	(1,664)
Total Provided by Operating Activities	**62,295**	**44,605**	**33,714**
FINANCING ACTIVITIES			
Dividends	(30,046)	(29,342)	(28,101)
Net treasury stock activity	(32,514)	(15,269)	(5,620)
Excess tax benefits from stock-based compensation	294	—	—
Total Used by Financing Activities	(62,266)	(44,611)	(33,721)
Increase (decrease) in Cash	29	(6)	(7)
Cash at Beginning of Year	54	60	67
Cash at End of Year	**$ 83**	**$ 54**	**$ 60**

NOTE Q
Regulatory Matters

S&T is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on S&T's financial statements. Under capital guidelines and the regulatory framework for prompt corrective action, S&T must meet specific capital guidelines that involve quantitative measures of S&T's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. S&T's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require S&T to maintain minimum amounts and ratios of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. As of December 31, 2006 and 2005, S&T meets all capital adequacy requirements to which it is subject.

To be classified as well capitalized, S&T must maintain minimum Tier 1 risk-based, Total risk-based and Tier 1 leverage ratios as set forth in the table below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk Weighted Assets)	$ 347,487	11.93%	$ 233,085	8.00%	$ 291,356	10.00%
Tier 1 Capital (to Risk Weighted Assets)	282,030	9.68%	116,543	4.00%	174,814	6.00%
Tier 1 Capital (to Average Assets)	282,030	8.84%	95,755	3.00%	159,591	5.00%
As of December 31, 2005						
Total Capital (to Risk Weighted Assets)	$ 333,945	12.09%	$ 220,973	8.00%	$ 276,216	10.00%
Tier 1 Capital (to Risk Weighted Assets)	290,531	10.52%	110,486	4.00%	165,729	6.00%
Tier 1 Capital (to Average Assets)	290,531	9.50%	91,766	3.00%	152,943	5.00%

The most recent notifications from the Federal Reserve Bank and the FDIC categorized S&T and S&T Bank, respectively, as well capitalized under the regulatory framework for corrective action. There have been no conditions or events that management believes have changed S&T or S&T Bank's ranking during 2006 and 2005.

At December 31, 2006, S&T Bank's Tier 1 and Total capital ratios were 8.54 percent and 10.64 percent, respectively, and Tier 1 capital to average assets was 7.74 percent. At December 31, 2005, S&T Bank's Tier 1 and Total capital ratios were 9.57 percent and 10.89 percent, respectively, and Tier 1 capital to average assets was 8.61 percent.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

NOTE R
Selected Financial Data

(unaudited)

	2006				2005			
(dollars in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
SUMMARY OF OPERATIONS								
Income Statements:								
Interest income	$ 52,833	$ 53,028	$ 50,957	$ 47,884	$ 46,476	$ 44,035	$ 42,145	$ 39,466
Interest expense	24,758	24,186	22,830	19,810	17,991	15,595	13,780	12,148
Provision for loan losses	828	1,352	5,700	1,500	1,500	3,000	(300)	800
Net interest income after provision for loan losses	27,247	27,490	22,427	26,574	26,985	25,440	28,665	26,518
Security gains, net	1,218	1,210	1,244	1,809	1,239	1,300	801	1,668
Noninterest income	8,434	8,711	9,090	8,674	8,462	8,107	8,385	7,423
Noninterest expense	18,727	16,339	17,273	16,939	16,237	14,662	15,486	16,078
Income before taxes	18,172	21,072	15,488	20,118	20,449	20,185	22,365	19,531
Applicable income taxes	4,973	6,408	4,251	5,881	5,886	5,818	6,872	5,711
Net income	**$ 13,199**	**$ 14,664**	**$ 11,237**	**$ 14,237**	**$ 14,563**	**$ 14,367**	**$ 15,493**	**$ 13,820**
PER SHARE DATA								
Net income-Diluted	$ 0.52	$ 0.57	$ 0.43	$ 0.54	$ 0.55	$ 0.54	$ 0.58	$ 0.51
Dividends declared	0.30	0.29	0.29	0.29	0.29	0.28	0.28	0.28
Book value	13.37	13.24	13.14	13.41	13.41	13.35	13.09	13.06
AVERAGE BALANCE SHEET TOTALS								
Total assets	$ 3,270,151	$ 3,285,807	$ 3,282,972	$ 3,205,843	$ 3,141,728	$ 3,090,488	$ 3,061,157	$ 2,998,237
Securities	428,556	453,128	469,472	485,935	495,676	504,806	516,704	518,872
Net loans	2,585,787	2,579,072	2,563,889	2,476,748	2,415,587	2,346,862	2,317,945	2,259,300
Total deposits	2,572,123	2,518,761	2,494,841	2,424,946	2,348,991	2,269,085	2,188,288	2,157,201
Securities sold under repurchase agreements and federal funds purchased	99,661	104,441	116,497	138,111	162,718	141,494	127,901	96,687
Short-term borrowings	21,685	86,359	117,637	128,889	146,957	197,337	282,912	262,000
Long-term borrowings	163,161	182,790	161,422	108,817	83,813	82,174	68,352	79,248
Subordinated debt	25,000	2,717	—	—	—	—	—	—
Total shareholders’ equity	342,303	343,176	346,351	356,341	353,373	351,432	348,871	353,472