S&T BANCORP INC
Form 10-K
March 01, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2005

Commission file number 1-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1434426**
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification No.)
43 South Ninth Street, Indiana, PA	**15701**
(Address of principal executive offices)	(Zip Code)

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

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

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

Common Stock, Par Value $2.50 per share

(Title of class)

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

Yes þ No ¨

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

Yes ¨ No þ

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 þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant as of June 30, 2005:

Common Stock, $2.50 par value $900,184,546

The number of shares outstanding of the issuer s classes of common stock as of February 9, 2006:

Common Stock, $2.50 par value 26,238,580 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held April 17, 2006

are incorporated by reference into Part III.

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Part I

Item 1. BUSINESS

General

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

As of December 31, 2005, S&T had approximately $3.2 billion in total assets, $352.4 million in total shareholder s equity and $2.4 billion in total deposits. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum extent provided by law.

S&T Bank is a full service bank with its Main Office at 43 South Ninth Street, Indiana, Pennsylvania, providing service to its customers through a branch network of 50 offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania.

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

Total wealth management assets were approximately $1.2 billion at December 31, 2005. Wealth Management Services include services as executor and trustee under wills and deeds, as guardian and custodian of employee benefit and other trusts and brokerage services.

S&T Bank has four wholly owned subsidiaries, S&T Insurance Group, LLC, S&T Bancholdings, Inc., S&T Professional Resources Group, LLC and Stewart Capital Advisors, LLC. In May 2002, S&T Professional Resources Group, LLC was formed to market software developed by S&T. In August 2002, S&T Bancholdings, Inc. was formed as an investment holding company. In August 2002, S&T Bank acquired Evergreen Insurance Associates, Inc., a multi-line insurance agency with a client base of approximately 2,000 customers in Pennsylvania, Maryland and West Virginia. Evergreen Insurance Associates, Inc. was merged into Evergreen Acquisition, LLC, with a resulting name change to Evergreen Insurance Associates, LLC (Evergreen), a wholly owned subsidiary of S&T Insurance Group, LLC. Evergreen provides insurance programs structured to the individual needs of its customers, and offers a full line of commercial property and casualty insurance, group life and health coverage, employee benefit solutions as well as personal insurance. In September 2005, Stewart Capital Advisors, LLC was formed as a registered investment advisor to provide financial planning and investment advisory services to high net worth customers.

Employees

As of December 31, 2005, S&T Bank and subsidiaries had 789 full-time equivalent employees. S&T provides a variety of employment benefits and considers its relationship with its employees to be good.

Access to United States Securities and Exchange Commission Filings

All reports filed electronically by S&T with the United States Securities and Exchange Commission (SEC), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and our annual proxy statements, as well as any amendments to those reports, are accessible at no cost on our website at www.stbancorp.com. These filings are also accessible on the SEC s website at www.sec.gov. You may also read and copy any material S&T files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Supervision and Regulation

General

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

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

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

S&T

S&T is a bank holding company subject to regulation under the BHCA, and the examination and reporting requirements of the Board of Governors of the Federal Reserve Board (the Federal Reserve Board). Under the BHCA a bank holding company may not directly or indirectly acquire ownership or control of more than five percent of the voting shares or substantially all of the assets of any additional bank, or merge or consolidate with another bank holding company, without the prior approval of the Federal Reserve Board. S&T has received such approvals from the Federal Reserve Board for the following passive ownership positions:

Name of Entity	% Approved	% of Outstanding Shares Owned by S&T
Allegheny Valley Bancorp, Inc.	14.0%	14.0%
CBT Financial Corp.	9.9%	5.4%
IBT Bancorp, Inc.	9.9%	7.9%

S&T also is subject to the supervision and regulation of the Pennsylvania Department of Banking (PADB). S&T became a financial holding company under BHCA as amended by the Gramm-Leach-Bliley Act of 1999 (GLB) in 2001. In order to maintain its status as a financial holding company, all depository institutions controlled by the bank holding company must be well capitalized and well managed, and have at least a satisfactory Community Reinvestment Act (CRA) rating. S&T and S&T Bank currently satisfy these criteria. No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The GLB defines financial in nature to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. Banks also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance

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company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating. The GLB also establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks financial subsidiaries, the SEC will regulate their securities activities and state insurance regulators will regulate their insurance activities. In addition, rules developed by the federal banking agencies pursuant to the GLB require disclosure of privacy policies to consumers and in some circumstances, allow consumers to prevent the disclosure of certain personal information to nonaffiliated third parties.

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. During 2002, S&T Insurance Group, LLC expanded into the property and casualty insurance business with the acquisition of Evergreen Insurance, LLC. S&T Professional Resources Group, LLC markets software developed by S&T. Stewart Capital Advisors, LLC was formed September 1, 2005 to act as a registered investment advisor.

There are a number of obligations and restrictions imposed on financial holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event the depository institution becomes in danger of default or in default. For example, under a policy of the Federal Reserve Board with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise.

S&T Bank

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

S&T Bank also is subject to federal laws that limit the amount of transactions between itself and S&T or S&T s nonbank subsidiaries. Under these provisions, transactions by a bank with its parent company or any nonbank affiliate generally are limited to 10 percent of the bank subsidiary s capital and surplus or 20 percent in the aggregate. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. The GLB imposes similar restrictions on transactions between a bank and its financial subsidiaries. A bank, such as S&T Bank is prohibited from purchasing any low quality asset from an affiliate. S&T Bank is in compliance with these provisions.

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Insurance of Accounts; Depositor Preference

The deposits of S&T Bank are insured up to applicable limits per insured depositor by the Bank Insurance Fund (BIF) of the FDIC. As an FDIC-insured bank, S&T Bank also is subject to FDIC insurance assessments. Currently, the amount of FDIC assessments paid by individual insured depository institutions ranges from zero to $0.27 per $100 of insured deposits, based on their relative risk to the deposit insurance funds, as measured by the institutions regulatory capital position and other supervisory factors. S&T Bank currently pays the lowest premium rate based upon this risk assessment. However, the FDIC retains the ability to increase regular assessments and to levy special additional assessments.

In addition to deposit insurance fund assessments, beginning in 1997, the FDIC assessed BIF-assessable and Savings Association Insurance Fund (SAIF)-assessable deposits to fund the repayment of debt obligations of the Financing Corporation (FICO). FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. At December 31, 2005, the current annualized rate established by the FDIC for both BIF-assessable and SAIF-assessable deposits was 1.34 basis points (hundredths of one percent).

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

On February 1, 2006, the FDIC Reform Act of 2005 was enacted by Congress. This legislation, among other changes, will merge the BIF and SAIF into one fund, increase insurance coverage for retirement accounts to $250,000 and index the deposit levels for inflation.

Capital

The Federal Reserve Board and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to banking organizations they supervise. Under the risk-based capital requirements, both S&T and S&T Bank generally are required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8.00 percent. At least half of the total capital must be composed of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles (Tier 1 capital). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, and a limited amount of the loan loss allowance (Tier 2 capital and, together with Tier 1 capital, Total capital). At December 31, 2005, S&T s Tier 1 and Total capital ratios were 10.52 percent and 12.09 percent, respectively, and the ratios of Tier 1 capital and Total capital to total risk-adjusted assets for S&T Bank were 9.57 percent and 10.89 percent, respectively.

In addition, each of the federal bank regulatory agencies has established minimum leverage capital ratio requirements for banking organizations. These requirements provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets equal to 3.00 percent for bank and bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing significant growth or expansion. All other banks and bank holding companies generally are required to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. At December 31, 2005, S&T s leverage ratio was 9.50 percent, and S&T Bank s leverage ratio was 8.61 percent.

Both the Federal Reserve Board s and the FDIC s risk-based capital standards explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution s ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution s overall capital adequacy. The capital guidelines also provide that an

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institution s exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank s capital adequacy. The Federal Reserve Board also has issued additional capital guidelines for certain bank holding companies that engage in trading activities. S&T does not believe that consideration of these additional factors will affect the regulators assessment of S&T s or S&T Bank s capital position.

Payment of Dividends

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of S&T s revenues consist of dividend payments it receives from S&T Bank. S&T Bank, in turn, is subject to state laws and regulations that limit the amount of dividends it can pay to S&T. In addition, both S&T and S&T Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (1) the organization s net income available to common shareholders over the past year has been sufficient to fund fully the dividends and (2) the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition. S&T does not expect that any of these laws, regulations or policies will materially influence S&T s or S&T Bank s ability to pay dividends. During the year ended December 31, 2005, S&T Bank paid $29.3 million in cash dividends to S&T.

Other Safety and Soundness Regulations

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized as defined by the law. Under regulations established by the federal banking agencies, a well capitalized institution must have a Tier 1 capital ratio of at least 6.00 percent, a Total capital ratio of at least 10.00 percent and a leverage ratio of at least 5.00 percent and not be subject to a capital directive order. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4.00 percent, a Total capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent, or 3.00 percent in some cases. As of December 31, 2005, S&T Bank was classified as well capitalized. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of any financial institution.

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

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

Regulatory Enforcement Authority

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

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

Interstate Banking and Branching

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nation-wide and state-imposed deposit concentration limits. S&T Bank has the ability, subject to certain restrictions, to acquire by acquisition or merger, branches of banks located outside of Pennsylvania, its home state. The establishment of de novo interstate branches is also possible in those states where expressly permitted. Once a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, S&T Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act and the Community Reinvestment Act (the CRA.)

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank s record in meeting the credit needs of the communities served by the bank, including low and moderate-income neighborhoods. Furthermore, such assessment also is required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. In the case of a bank holding company (including a financial holding company) applying for approval to acquire a bank or bank holding company, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant bank holding company in considering the application. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or unsatisfactory. S&T Bank was rated satisfactory in its most recent CRA evaluation.

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Anti-Money Laundering Legislation

S&T Bank is subject to the Bank Secrecy Act and its implementing regulations and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. Among other things, these laws and regulations require S&T Bank to take steps to prevent the use of S&T Bank to facilitate the flow of illegal or illicit money, to report large currency transactions and to file suspicious activity reports. S&T Bank also is required to develop and implement a comprehensive anti-money laundering compliance program. Banks also must have in place appropriate know your customer policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Competition

S&T Bank competes with other local, regional and national financial service providers, such as other financial holding companies, commercial banks, savings associations, credit unions, finance companies and brokerage and insurance firms. The financial service industry is likely to become more competitive as further technological advances enable more companies to provide financial services on a more efficient and convenient basis.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, accounting obligations and corporate reporting for companies, such as S&T, with equity or debt securities registered under the Securities Exchange Act of 1934 (the Exchange Act). In particular, the Sarbanes-Oxley Act established: (1) new requirements for audit committees, including independence, expertise, and responsibilities; (2) requirements with respect to the establishment and evaluation of disclosure controls and procedures and internal control over financial reporting, and the audit of internal control over financial reporting; (3) additional responsibilities for the Chief Executive Officer and Chief Financial Officer of the reporting company with respect to financial statements and other information included in Exchange Act reports; (4) new standards for auditors and regulation of audits; (5) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (6) new and increased civil and criminal penalties for violations of the securities laws.

Item 1A. RISK FACTORS

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

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

changes in securities analysts estimates of financial performance

volatility of stock market prices and volumes

changes in market valuations of similar companies

changes in interest rates since net interest income comprises the majority of our revenue and is significantly influenced by changes in interest rates

new products or services offered in the banking and/or financial services industries

variations in quarterly or annual operating results

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Item 1A. RISK FACTORS continued

- new litigation
- regulatory actions including new laws and regulations and continued compliance with existing laws and regulation
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies

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

S&T s ability to maintain its history of strong financial performance and return on investment to shareholders will depend in part on its ability to expand its scope of available financial services to its customers. In addition to other banks, competitors include security dealers, brokers, mortgage bankers, investment advisors, and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial service providers.

Future governmental regulation and legislation could limit our growth.

S&T is subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of our operations. Changes to these laws could affect our ability to deliver or expand our services and diminish the value of our business. See Supervision and Regulation for additional information.

Changes in interest rates could reduce income and cash flow.

S&T s income and cash flow depends to a great extent on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. Interest rates are beyond our control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits. Although increases in interest rates would result in additional interest income from each new loan made or serviced, the number of new loans is likely to decrease as interest rates rise. Any revenue reductions from fewer loans and increased interest expense paid in connection with borrowed funds and deposits may not be offset by the higher income as a result of increased interest rates.

Item 1B. UNRESOLVED STAFF COMMENTS

There were no comments received from the Securities and Exchange Commission regarding S&T s periodic or current reports within the last 180 days prior to December 31, 2005.

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Item 2. PROPERTIES

S&T operates 50 banking offices in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, Westmoreland and surrounding counties in Pennsylvania.

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

133 Philadelphia Street Armagh, PA 15920	205 East Market Street Blairsville, PA 15717	111 Resort Plaza Drive Blairsville, PA 15717	456 Main Street Brockway, PA 15824
256 Main Street Brookville, PA 15825	209 Allegheny Boulevard Brookville, PA 15825	100 South Chestnut Street Derry, PA 15627	410 Main Street Clarion, PA 16214
650 Main Street Clarion, PA 16214	85 Greensburg Street Delmont, PA 15626	200 Patchway Road Duncansville, PA 16635	614 Liberty Boulevard DuBois, PA 15801
Coral Reef & Crooked Island Roads DuBois, PA 15801	35 West Scribner Avenue DuBois, PA 15801	34 North Main Street Homer City, PA 15748	420 Pleasantview Drive & Armstrong Street Ford City, PA 16226
920 Fifth Avenue Ford City, PA 16226	701 East Pittsburgh Street Greensburg, PA 15601	Route 119 and Lucerne Road Lucernemines, PA 15754	2175 Route 286 South Indiana, PA 15701
100 South Fourth Street Youngwood, PA 15697	501 Philadelphia Street Indiana, PA 15701	2190 Hulton Road Verona, PA 15147	4385 Old Wm. Penn Hwy Monroeville, PA 15146
4251 Old Wm. Penn Hwy Murrysville, PA 15668	628 Broad Street New Bethlehem, PA 16242	539 West Mahoning Street Punxsutawney, PA 15767	12262 Frankstown Road Pittsburgh, PA 15235
301 Unity Center Road Pittsburgh, PA 15239	7660 Saltsburg Road Pittsburgh, PA 15239	30 Towne Center Drive Leechburg, PA 15656	232 Hampton Avenue Punxsutawney, PA 15767
418 Main Street Reynoldsville, PA 15851	602 Salt Street Saltsburg, PA 15681		

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

8th & Merle Street Clarion, PA 16214	2320 Route 286 Pittsburgh, PA 15239	523 Franklin Avenue Vandergrift, PA 15690	435 South Seventh Street Indiana, PA 15701
1107 Wayne Avenue Indiana, PA 15701	1176 Grant Street Indiana, PA 15701	229 Westmoreland Drive, Route 30 Greensburg, PA 15601	220 New Castle Road Butler, PA 16001

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Item 2. PROPERTIES continued

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

20001 Route 19 Suite B Cranberry Township, PA 16066	6700 Hollywood Blvd. Delmont, PA 15626	5522 Shaffer Road Suite 99 DuBois Mall DuBois, PA 15801	206 East High Street Ebensburg, PA 15931
Lawruk Plaza 208 West Plank Road Altoona, PA 16602	324 North Fourth Street Indiana, PA 15701	835 Hospital Road Indiana, PA 15701	3884 Route 30 East Latrobe, PA 15650
Southtowne Plaza 3100 Oakland Avenue Indiana, PA 15701	Route 268 Hilltop Plaza Kittanning, PA 16201	100 Colony Lane Suite B Latrobe, PA 15650	196 Industrial Park Ebensburg, PA 15931
2388 Route 286 Holiday Park, PA 15239	Shadyside Village 820 South Aiken Avenue Pittsburgh, PA 15232	908 Caroline Street Nanty Glo, PA 15943	Two Gateway Center 603 Stanwix Street, Suite 125 Pittsburgh, PA 15222

Item 3. LEGAL PROCEEDINGS

The nature of our business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in management s opinion, there are no proceedings pending to which S&T is a party or to which our property is subject, which, if determined adversely to S&T, would be material in relation to our shareholders equity or financial condition. In addition, no material proceedings are pending nor are known to be threatened or contemplated against us by governmental authorities or other parties.

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

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

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

STOCK PRICES AND DIVIDEND INFORMATION

S&T s common stock is listed on the NASDAQ National Market System (NASDAQ) under the symbol STBA. The range of sale prices for the years 2005 and 2004 are as follows and is based upon information obtained from NASDAQ. As of the close of business February 9, 2006, there were 3,113 shareholders of record of S&T. Dividends paid by S&T are primarily provided from S&T Bank s dividends to S&T. The payment of dividends by S&T Bank to S&T is subject to the restrictions described in Note J to the Consolidated Financial Statements. The cash dividends declared shown below represent the historical per share amounts for S&T Common Stock.

	Price Range of Common Stock		Cash Dividends Declared
2005	**Low**	**High**	
Fourth Quarter	$ 33.95	$ 39.24	$ 0.29
Third Quarter	35.77	40.52	0.28
Second Quarter	33.23	37.46	0.28
First Quarter	34.95	38.39	0.28
2004			
Fourth Quarter	$ 35.50	$ 38.60	$ 0.27
Third Quarter	31.18	36.90	0.27
Second Quarter	27.85	32.14	0.27
First Quarter	29.16	31.65	0.26

During 2005, S&T repurchased 660,400 shares of its common stock at an average price of $35.09 per share. The impact of the repurchased shares is insignificant to earnings per share. The remaining shares authorized under this program expired at December 31, 2005. S&T reissued 330,735 shares primarily through the exercise of employee stock options. In December 2005, our Board of Directors authorized a plan for our repurchase of up to one million shares or approximately 4 percent of shares outstanding during the period January 1, 2006 through December 31, 2006.

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Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER

MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES continued

The following information describes the activity that has taken place during 2005 with respect to S&T s share repurchase plan:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that Can be Purchased Under the Plan
01/01/2005	01/31/2005 (1)(2)(3)				1,000,000
02/01/2005	02/28/2005				1,000,000
03/01/2005	03/31/2005	115,000	$ 36.21	115,000	885,000
04/01/2005	04/30/2005	129,100	33.83	129,100	755,900
05/01/2005	05/31/2005	194,500	34.90	194,500	561,400
06/01/2005	06/30/2005	79,900	35.41	79,900	481,500
07/01/2005	07/31/2005				481,500
08/01/2005	08/31/2005				481,500
09/01/2005	09/30/2005	4,000	36.96	4,000	477,500
10/01/2005	10/31/2005	126,900	35.24	126,900	350,600
11/01/2005	11/30/2005				350,600
12/01/2005	12/31/2005	11,000	36.94	11,000	339,600
Total		**660,400**	**$ 35.09**	**660,400**	**339,600**

(1) The plan was announced on December 20, 2004.

(2) The plan was approved by the S&T Board of Directors for the repurchase of up to one million shares.

(3) The expiration date of the plan is December 31, 2005.

Item 6. SELECTED FINANCIAL DATA

Year Ended December 31: *(dollars in thousands, except per share data)*	**2005**	**2004**	**2003**	**2002**	**2001**
INCOME STATEMENTS					
Interest income	$ 172,122	$ 148,638	$ 151,460	$ 151,160	$ 166,702
Interest expense	59,514	40,890	47,066	56,300	76,713
Provision for loan losses	5,000	4,400	7,300	7,800	5,000
Net interest income after provision for loan losses	107,608	103,348	97,094	87,060	84,989
Noninterest income	37,568	34,202	36,204	32,680	31,230
Noninterest expense	62,646	60,191	60,658	51,766	49,875
Income before taxes	**82,530**	**77,359**	**72,640**	**67,974**	**66,344**
Applicable income taxes	24,287	23,001	20,863	19,370	19,046
Net income	**$ 58,243**	**$ 54,358**	**$ 51,777**	**$ 48,604**	**$ 47,298**
PER SHARE DATA					
Net income Basic	$ 2.21	$ 2.05	$ 1.96	$ 1.83	$ 1.76
Net income Diluted	2.18	2.03	1.94	1.81	1.75
Dividends declared	$ 1.13	$ 1.07	$ 1.02	$ 0.97	$ 0.92
Book Value	13.41	13.12	12.48	11.51	11.01

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Item 6. SELECTED FINANCIAL DATA continued

SELECTED FINANCIAL DATA

BALANCE SHEET TOTALS (PERIOD END):

Year Ended December 31: *(dollars in thousands)*	**2005**	**2004**	**2003**	**2002**	**2001**
Total assets	$ 3,194,979	$ 2,989,034	$ 2,900,272	$ 2,823,867	$ 2,357,874
Securities	494,575	518,171	611,083	641,164	585,265
Net loans	2,454,934	2,253,089	2,069,142	1,968,755	1,615,842
Total deposits	2,418,884	2,176,263	1,962,253	1,926,119	1,611,317
Securities sold under repurchase agreements and federal funds purchased	137,829	98,384	182,020	194,388	152,282
Short-term borrowings	150,000	225,000	250,000	125,000	
Long-term borrowings	83,776	86,325	116,933	211,693	251,256
Total shareholders equity	352,421	349,129	332,718	306,114	293,327

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

OVERVIEW

S&T is a financial holding company with its headquarters located in Indiana, Pennsylvania with assets of approximately $3.2 billion at December 31, 2005. S&T provides a full range of financial services through a branch network of 50 offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties of Pennsylvania. S&T provides full service retail and commercial banking products as well as cash management services; insurance; estate planning and administration; employee benefit investment management and administration; corporate services; and other fiduciary services. S&T earns revenue primarily from interest on loans, security investments and fees charged for financial services provided to our customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses as well as other operating costs such as: salaries and employee benefits, occupancy, data processing expenses and tax expense. Balance sheet growth in 2005 included a 10 percent increase in commercial lending activities and with an 11 percent increase in deposits primarily attributable to our Green Plan savings account. S&T s strategic plan to deliver profitable growth to our shareholders includes: increasing loans and core deposits with sufficient interest rate spreads, controlling loan delinquency and loan losses, controlling operating expenses and to expand the business through new de novo branching, merger and acquisitions, introduction of new products and services, and expansion of our products and services provided to our existing customers.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

FINANCIAL CONDITION

Average earning assets grew by $89.5 million in 2005 primarily as a result of growth in commercial lending activities. During 2005, average loan balances increased by $145.6 million, and average securities and federal funds sold decreased $56.0 million. The funding for this loan growth was primarily provided by a $217.7 million increase in average deposits, and an increase of $13.3 million in noninterest earning assets, offset by a $129.2 million decrease in average borrowings.

	2005		2004	
Loans *(dollars in millions)*	**Average Loan Balance**	**Average Loan Balance Percentage**	**Average Loan Balance**	**Average Loan Balance Percentage**
Commercial, mortgage and industrial	$ 1,809.5	76%	$ 1,664.1	75%
Residential real estate mortgage	492.7	21%	489.3	22%
Installment	68.7	3%	71.9	3%
Total	**$ 2,370.9**	**100%**	**$ 2,225.3**	**100%**

LENDING ACTIVITY

Average loans for the year ended December 31, 2005 (2005) were $2.4 billion, a $145.6 million or 7 percent increase from the year ended December 31, 2004 (2004). The increase in average loans for 2004 compared to the year ended 2003 (2003) was $190.6 million. Changes in the composition of the average loan portfolio during 2005 included increases of $145.4 million in commercial loans and $3.4 million in residential mortgage loans, offset by a decrease of $3.2 million in installment loans. Changes in the composition of the average loan portfolio during 2004 included increases of $229.8 million in commercial loans, offset by decreases of $25.7 million in residential mortgages and $13.5 million in installment loans. Total loans at December 31, 2005 increased $204.1 million from December 31, 2004. The increase is primarily attributable to $174.7 million of loan growth within the commercial loan category, $34.7 million in home equity loans, offset by a $5.3 million decrease in consumer loan balances due to paydowns and sales into the secondary mortgage market. Total loans at December 31, 2004 increased $186.7 million from December 31, 2003. The increase is primarily attributable to $208.4 million of loan growth within the commercial loan category, offset by a $21.7 million decrease in consumer loan balances due to paydowns and sales into the secondary mortgage market.

Average real estate construction and commercial loans, including mortgage and industrial, comprised 76 percent of the loan portfolio in 2005 compared to 75 percent in 2004. Commercial loans continued to be an area of strategic growth during 2005 and 2004. Although commercial loans can be an area of higher risk, management believes these risks are mitigated by limiting concentrations and applying rigorous underwriting review by loan administration. At December 31, 2005, variable-rate commercial loans were 55 percent of the commercial loan portfolio as compared to 57 percent at December 31, 2004.

Average residential mortgage loans comprised 21 percent of the loan portfolio in 2005 compared to 22 percent in 2004. Residential mortgage lending continued to be a strategic focus during 2005 through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. Management believes that if a downturn in the local residential real estate market occurs, the impact of declining values on the real estate loan portfolio will be mitigated because of S&T s conservative mortgage lending policies for portfolio loans, which generally require a maximum term of 20 years for fixed-rate mortgages, a maximum term of 30 years for adjustable-rate mortgages and private mortgage insurance for loans

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

with less than a 20 percent down payment. Adjustable-rate mortgages with repricing terms of one, three and five years comprised 13 percent of the residential mortgage portfolio in 2005 and 15 percent in 2004. Home equity loans increased $34.7 million during 2005 and $11.3 million in 2004 and totaled $227.5 million at December 31, 2005 and $192.8 million at December 31, 2004, respectively. The increase in home equity loans is primarily attributable to successful marketing programs during 2005 and 2004.

Most of the decline in residential loans during 2005 was due to active participation in the secondary mortgage markets. S&T periodically designates specific loan originations, generally longer-term, lower-yielding 1 4 family mortgages, as held for sale and sells them to Fannie Mae. The intent of these sales is to mitigate interest-rate risk associated with holding long-term residential mortgages in the loan portfolio, generate fee revenue from servicing, and maintain the primary customer relationship. During 2005, S&T sold $36.4 million of 1 4 family mortgages to Fannie Mae and currently services $185.1 million of secondary market loans. Fees and gains from mortgage servicing activities were $1.5 million in 2005 and 2004. Management intends to continue to sell longer-term loans to Fannie Mae in the future on a selective basis, especially during periods of lower interest rates.

Average consumer installment loans comprised 3 percent of the loan portfolio in 2005 and 2004. Installment loan decreases during 2005 were primarily the result of lower origination volumes. The balance of consumer installment loans at December 31, 2005 was $68.2 million compared to $69.2 million at December 31, 2004.

Loan underwriting standards for S&T are established by a formal policy administered by the S&T Bank Credit Administration Department, and are subject to the periodic review and approval by our Board of Directors.

Rates and terms for commercial real estate, equipment loans and commercial lines of credit normally are negotiated, subject to such variables as financial condition of the borrower, economic conditions, marketability of collateral, credit history of the borrower and future cash flows. The loan to value policy guideline for commercial real estate loans is generally 75 80 percent.

The loan to value policy guideline for residential, first lien, mortgage loans is 80 percent. Higher loan to value loans may be approved with the appropriate private mortgage insurance coverage. Second lien positions are sometimes assumed with home equity loans, but normally only to the extent that the combined credit exposure for both first and second liens does not exceed 100 percent of the value of the mortgage property.

We offer a variety of unsecured and secured installment loan and credit card products. Loan to value guidelines for direct loans are 90 100 percent of invoice for new automobiles and 80 90 percent of National Automobile Dealer Association (NADA) value for used automobiles.

The following table shows S&T s loan distribution at the end of each of the last five years:

	December 31				
(dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Domestic Loans:					
Commercial, mortgage and industrial	$ 1,565,035	$ 1,455,932	$ 1,328,378	$ 1,169,138	$ 1,016,113
Real estate construction	339,179	274,783	193,874	191,927	115,825
Real estate mortgage	519,076	487,445	499,661	541,102	430,261
Installment	68,216	69,191	78,707	96,726	80,569
TOTAL LOANS	**$ 2,491,506**	**$ 2,287,351**	**$ 2,100,620**	**$ 1,998,893**	**$ 1,642,768**

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The following table shows the maturity of loans (excluding residential mortgages of 1-4 family residences and installment loans) outstanding as of December 31, 2005. Also provided are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing			
(dollars in thousands)	**Within One Year**	**After One But Within Five Years**	**After Five Years**	**Total**
Commercial, mortgage and industrial	$ 448,389	$ 471,318	$ 645,328	$ 1,565,035
Real estate construction	109,243	148,487	81,449	339,179
TOTAL	**$ 557,632**	**$ 619,805**	**$ 726,777**	**$ 1,904,214**
Fixed interest rates		$ 120,783	$ 104,355	
Variable interest rates		499,022	622,422	
TOTAL		**$ 619,805**	**$ 726,777**	

SECURITIES ACTIVITY

Average securities decreased $57.7 million in 2005 and decreased $72.7 million in 2004. The largest components of the 2005 decrease included $67.5 million in U.S. government agency securities, $8.6 million of corporate securities, $2.9 million in Federal Home Loan Bank (FHLB) stock and $2.1 million in treasury securities. The decrease in securities is partially attributable to an S&T Asset Liability Committee (ALCO) strategy to reduce balances in both securities and borrowings to mitigate the interest rate risk of a flattening yield curve. Offsetting these decreases were average increases of $13.2 million of mortgage backed securities and $10.2 million of states and political subdivisions. The FHLB capital stock is a membership and borrowing requirement and is acquired and sold at stated value. The amount of S&T s investment in FHLB stock depends upon S&T s borrowing availability and level from the FHLB. The largest components of the 2004 decrease included $45.7 million in U.S. government agency securities, $12.8 million of corporate securities, $26.8 million in mortgage-backed securities, $0.5 million in treasury securities and $0.4 million in corporate stocks. The decrease in securities is partially attributable to an ALCO strategy to reduce balances in both securities and borrowings to mitigate the interest rate risk of declining rates on a flattening yield curve. Offsetting these decreases were average increases of $11.9 million of states and political subdivisions and $1.6 million of FHLB stock.

Our equity securities portfolio is primarily comprised of bank holding companies. At December 31, 2005, our equity portfolio had a total market value of $65.1 million and net unrealized gains of $19.7 million. The equity security portfolio consists of securities traded on the various stock markets and is subject to changes in market value.

S&T s policy for security classification includes U.S. treasury securities, U.S. government corporations and agencies, mortgage-backed securities, collateralized mortgage obligations, states and political subdivisions, corporate securities and marketable equity securities as available for sale. On a quarterly basis, management evaluates the security portfolios for other-than-temporary declines in market value in accordance with Emerging Issues Task Force No. 03-1. During 2005, there were $0.3 million of realized losses taken for an other-than-temporary impairment on one equity investment security. The performance of the equities and debt securities markets could generate further impairment in future periods. At December 31, 2005, net unrealized gains on securities classified as available for sale, including equity securities, were approximately $13.5 million as compared to $31.7 million at December 31, 2004. S&T has the intent and ability to hold these debt securities until maturity or until market value recovers above cost.

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

S&T invests in various securities in order to provide a source of liquidity, increase net interest income and as a tool of ALCO to quickly reposition the balance sheet for interest rate risk purposes. Securities are subject to similar interest rate and credit risks as loans. In addition, by their nature, securities classified as available for sale are also subject to market value risks that could negatively affect the level of liquidity available to S&T, as well as equity.

Risks associated with various securities portfolios are managed and monitored by investment policies annually approved by the S&T Board of Directors, and administered through ALCO and the Treasury function of S&T Bank. As of December 31, 2005, management is not aware of any risk associated with securities that would be expected to have a significant, negative effect on S&T s statement of condition or statement of operations.

The following table sets forth the carrying amount of securities at the dates indicated:

	December 31		
(dollars in thousands)	2005	2004	2003
Available for Sale			
Marketable equity securities	$ 65,114	$ 74,555	$ 72,591
Obligations of U.S. government corporations and agencies	221,037	237,514	325,903
Collateralized mortgage obligations of U.S. government corporations and agencies	63,638	46,528	44,251
Mortgage-backed securities	38,417	48,373	45,769
U.S. treasury securities	499	5,248	5,744
Obligations of states and political subdivisions	83,811	71,198	67,539
Corporate securities		16,493	21,464
Other securities	22,059	17,997	27,557
TOTAL	**$ 494,575**	**$ 517,906**	**$ 610,818**
Held to Maturity			
Obligations of states and political subdivisions	$	$ 265	$ 265
TOTAL	**$**	**$ 265**	**$ 265**

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The following table sets forth the maturities of securities at December 31, 2005, and the weighted average yields of such securities (calculated on the basis of the cost and effective yields weighted for the scheduled maturity of debt securities and estimated prepayment rates on most mortgage-backed securities). Tax-equivalent adjustments (using a 35 percent federal income tax rate) for 2005 have been made in calculating yields on obligations of states and political subdivisions.

	Maturing								
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		No Fixed Maturity
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Available for Sale									
Marketable equity securities	$		$		$		$		$ 65,114
Obligations of U.S. government corporations and agencies	40,328	6.18%	170,658	3.93%	10,051	4.44%			
Collateralized mortgage obligations of U.S. government corporations and agencies	8,563	4.43%	39,197	4.67%	15,878	4.65%			
Mortgage-backed securities	6,599	4.83%	16,888	4.63%	11,259	4.53%	3,671	4.72%	
U.S. treasury securities	499	3.57%							
Obligations of states and political subdivisions	5,247	5.12%	48,890	4.76%	29,393	5.15%	281	5.86%	
Other securities									22,059
TOTAL	**$ 61,236**		**$ 275,633**		**$ 66,581**		**$ 3,952**		**$ 87,173**
Weighted Average Rate		**5.67%**		**4.22%**		**4.82%**		**4.80%**	

NONEARNING ASSETS

Average noninterest earning assets increased $13.3 million in 2005 and $1.8 million in 2004. The 2005 increase was primarily attributable to increases in cash and due from banks, premises and equipment due to the addition of five new branches during 2005 and accrued interest receivable on a higher earning asset balance. The 2004 increase of $1.8 million was primarily due to an increase in premises and equipment related to the addition of three new branches during 2004.

ALLOWANCE FOR LOAN LOSSES

The balance in the allowance for loan losses increased to $36.6 million or 1.47 percent of total loans at December 31, 2005 as compared to $34.3 million or 1.50 percent of total loans at December 31, 2004. During the second quarter of 2005, S&T split its allowance for credit losses into an allowance for loan losses and an allowance for lending-related commitments such as unfunded commercial real

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

estate and commercial & industrial term loan commitments. This resulted in a decrease in the allowance for loan losses of $1.0 million and reduction in the allowance for loan losses to total loans from 1.44 percent to 1.40 percent at June 30, 2005.

Management evaluates the degree of loss exposure for loans on a continuous basis through a formal allowance for loan loss policy as administered by the Loan Administration Department of S&T Bank and various management and director committees. Problem loans are identified and continually monitored through detailed reviews of specific commercial loans, and the analysis of delinquency and charge-off levels of consumer loan portfolios. Charged-off and recovered loan amounts are applied to the allowance for loan losses. Monthly updates are presented to the S&T Board of Directors as to the status of loan quality.

Amounts are added to the allowance for loan losses through a charge to current earnings through the provision for loan losses, based upon management s assessment of the adequacy of the allowance for loan losses for probable loan losses. 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 all loan categories, fluctuations and trends in various risk factors. Factors consider the level of S&T s historical charge-offs that have occurred within the credits economic life cycle. Management also assesses qualitative factors such as portfolio credit trends, unemployment trends, vacancy trends, loan growth and variable interest rate factors.

Significant to this analysis and assessment 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 not well seasoned and could be more vulnerable to an economic slowdown. Management relies on its risk rating process to monitor trends, which may be occurring relative to commercial loans to assess potential weaknesses within specific credits. Current risk factors, trends in risk ratings and historical charge-off experiences are considered in the determination of the allowance for loan losses. During 2005, the risk rating profile of the portfolio remained relatively stable. Management believes its quantitative and qualitative analysis and risk-rating process is sufficient and enables it to conclude that the total allowance for loan losses is adequate to absorb probable loan losses.

The allowance for loan losses is established based on management s assessment of the factors noted above along with the growth in the loan portfolio. The additions to the allowance charged to operating expense has maintained the allowance as a percent of loans at the following levels at the end of each year presented below:

Year Ended December 31				
2005	**2004**	**2003**	**2002**	**2001**
1.47%	1.50%	1.50%	1.51%	1.64%

We have considered impaired loans in our determination of the allowance for loan losses. The allowance for loan losses for all impaired loans was $9,937,000 and $5,712,000 at December 31, 2005 and 2004, respectively.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

This table summarizes our loan loss experience for each of the five years presented below:

	Year Ended December 31				
(dollars in thousands)	2005	2004	2003	2002	2001
Balance at January 1:	$ 34,262	$ 31,478	$ 30,138	$ 26,926	$ 27,395
Charge-offs:					
Commercial, mortgage and industrial	2,260	5,616	5,208	6,131	4,728
Real estate mortgage	529	484	905	588	912
Installment	1,140	1,075	1,193	1,102	1,299
Total	3,929	7,175	7,306	7,821	6,939
Recoveries:					
Commercial, mortgage and industrial	1,699	4,835	624	1,118	643
Real estate mortgage	235	408	384	349	404
Installment	274	316	338	345	423
Total	2,208	5,559	1,346	1,812	1,470
Net charge-offs	**1,721**	**1,616**	**5,960**	**6,009**	**5,469**
Provision for loan losses	5,000	4,400	7,300	7,800	5,000
Reserve for unfunded commitments	(969)				
Loan loss reserve from acquisition				1,421	
Balance at December 31:	**$ 36,572**	**$ 34,262**	**$ 31,478**	**$ 30,138**	**$ 26,926**
Ratio of net charge-offs to average loans outstanding	**0.07%**	**0.07%**	**0.29%**	**0.34%**	**0.33%**

This table shows allocation of the allowance for loan losses as of the end of each of the last five years:

	December 31									
	2005		2004		2003		2002		2001	
(dollars in thousands)	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Commercial, mortgage and industrial	$ 32,053	63%	$ 29,594	64%	$ 26,947	63%	$ 26,002	58%	$ 22,628	62%
Real estate construction	532	14%	852	12%	843	9%	664	10%	329	7%
Real estate mortgage	613	21%	585	21%	558	24%	685	27%	744	26%
Installment	3,374	2%	3,231	3%	3,009	4%	2,671	5%	3,121	5%
Unallocated		0%		0%	121	0%	116	0%	104	0%
TOTAL	**$ 36,572**	**100%**	**$ 34,262**	**100%**	**$ 31,478**	**100%**	**$ 30,138**	**100%**	**$ 26,926**	**100%**

Net loan charge-offs totaled $1.7 million in 2005 and $1.6 million in 2004. The balance of nonperforming loans, which include nonaccrual loans past due 90 days or more, at December 31, 2005, was $11.2 million or 0.45 percent of total loans. This compares to nonperforming loans of $6.3 million or 0.28 percent of total loans at December 31, 2004. The majority of the increase in nonperforming loans primarily relates to a $4.6 million commercial real estate loan classified as

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

nonperforming. The provision for loans losses was $5.0 million for 2005, as compared to $4.4 million for 2004. The provision is based on management s detailed quarterly analysis of the adequacy of the allowance for loans losses. During 2005, S&T recorded a specific allowance for one impaired commercial loan relationship, which accounted for the majority of the provision for loan losses in 2005. S&T s exposure with respect to this one commercial loan has been appropriately considered in determining the adequacy of its allowance for loan losses based on S&T s value of the underlying collateral and the expectation of future cash flows.

The following table summarizes our nonaccrual and past due loans:

	December 31				
(dollars in thousands)	2005	2004	2003	2002	2001
Nonaccrual loans	$ 11,166	$ 6,309	$ 9,120	$ 5,831	$ 8,253
Accruing loans past due 90 days or more					

It is S&T s policy to place loans in all categories on nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There are no loans 90 days or more past due and still accruing. At December 31, 2005 and 2004, nonaccrual interest that was not recorded amounted to $565,000 and $535,000, respectively. At December 31, 2005 and 2004, nonaccrual interest that was recorded on paid current nonaccrual loans amounted to $660,000 and $825,000, respectively. 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. At December 31, 2005 and 2004, there was $5,507,000 and $2,138,000, respectively, of impaired loans that were on nonaccrual. There are no foreign loan amounts required to be included in this table. There were no restructured loans in the periods presented.

DEPOSITS

Average total deposits increased by $217.7 million in 2005 and $100.9 million in 2004. The mix of average deposits changed in 2005 with average time deposits increasing $31.7 million and average savings accounts increasing $266.7 million. Partially offsetting these increases is a decrease of $100.1 million in average money market and NOW accounts. Average noninterest-bearing deposits increased by $19.4 million or 5 percent in 2005 and were approximately 18 percent and 19 percent of average total deposits during 2005 and 2004, respectively. The increase in savings accounts is primarily attributable to the success of the Green Plan savings account, which has grown to $494.7 million at December 31, 2005 since its introduction in August 2004. The Green Plan account is indexed to the Federal Funds Target Rate. Deposit growth has been an important strategic initiative for S&T, through the expansion of retail facilities, promotions and new products. Other important strategies include providing cash management services to commercial customers to increase transaction related deposits, and delivery services such as electronic banking. Total deposits at December 31, 2005 increased $242.6 million compared to December 31, 2004.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The daily average amount of deposits and rates paid on such deposits is summarized for the periods indicated in the following table:

	Year Ended December 31					
	2005		2004		2003	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest-bearing demand deposits	$ 411,236		$ 391,885		$ 347,042	
NOW/Money market accounts	438,356	0.87%	538,471	0.61%	568,869	0.66%
Savings deposits	502,641	2.24%	235,926	0.63%	203,633	0.46%
Time deposits	889,261	3.34%	857,534	3.02%	803,323	3.30%
TOTAL	**$ 2,241,494**		**$ 2,023,816**		**$ 1,922,867**	

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2005, are summarized as follows:

(dollars in thousands)	
Three months or less	$ 83,205
Over three through six months	19,101
Over six through twelve months	36,464
Over twelve months	67,896
TOTAL	**$ 206,666**

We believe our deposit base is stable and we have the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Special rate deposits of $100,000 and over were 9 percent of total deposits at December 31, 2005 and 2004, and primarily represent deposit relationships with local customers in our market area. In addition, S&T has the ability to access both public and private markets to raise long-term funding if necessary. At December 31, 2005, S&T had $57.2 million of brokered retail certificates of deposit outstanding compared to $37.3 million at December 31, 2004. The purchase of brokered retail certificates of deposits in 2005 and 2004 was an ALCO strategy to increase liquidity for commercial loan demand, as an alternative to increased borrowings.

BORROWINGS

Average borrowings by S&T decreased $129.2 million in 2005 as a result of increased deposit growth and lower levels of investment securities. Borrowings were comprised of retail repurchase agreements (REPOs), wholesale REPOs, federal funds purchased, FHLB advances and long-term borrowings. S&T defines REPOs with our retail customers as retail REPOs; wholesale REPOs are those transacted with other banks and brokerage firms with terms normally ranging from one to 365 days.

The average balance in retail REPOs decreased by $7.7 million in 2005 and increased by $11.4 million in 2004. S&T views retail REPOs as a relatively stable source of funds because most of these accounts are with local, long-term customers.

Wholesale REPOs, federal funds purchased and FHLB advances averaged $293.3 million in 2005, a decrease of $96.0 million from the 2004 averages. The decrease is attributable to the increase in deposits in 2005, which decreased our need for additional funds.

During 2005, average fixed rate borrowings decreased $25.5 million. The decrease is attributable to the increase in deposits in 2005, which decreased our need for additional borrowings. At December 31, 2005, S&T had long-term borrowings outstanding of $83.8 million at a fixed-rate with

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the FHLB. The purpose of these borrowings was to provide matched fundings for newly originated loans, to mitigate the risk associated with volatile liability fundings, to take advantage of lower-cost funds through the FHLB s Community Investment Program and to fund stock buy-backs.

During the fourth quarter of 2003, S&T prepaid $89.3 million of fixed-rate borrowings, with average maturities of approximately nine months and an average cost of 6.56 percent, resulting in a pretax prepayment charge of $3.6 million. The prepayment penalties are reflected in S&T s Consolidated Statements of Income as noninterest expense. The funds were replaced with short-term borrowings having an average cost of 1.25 percent. The expense savings approximated $3.0 million in 2004 and $0.5 million in 2003. The reduction in higher-cost long-term debt was an ALCO strategy intended to mitigate the asset sensitivity position of S&T s balance sheet and exposure to declining interest rates or a flattening yield curve.

The following table shows the distribution of our short-term borrowings and the weighted average interest rates thereon at the end of each of the last three years. Also provided are the maximum amount of borrowings and the average amounts of borrowings as well as weighted average interest rates for the last three years.

Securities Sold under Repurchase Agreements and Federal Funds Purchased *(dollars in thousands)*	**2005**	**2004**	**2003**
Balance at December 31	$ 137,829	$ 98,384	$ 182,020
Average balance during the year	132,406	164,645	185,214
Average interest rate during the year	2.98%	1.16%	1.13%
Maximum month-end balance during the year	$ 174,467	$ 199,538	$ 230,774
Average interest rate at year-end	3.80%	1.77%	0.95%

Federal Home Loan Bank (FHLB) Advances *(dollars in thousands)*	**2005**	**2004**	**2003**
Balance at December 31	$ 150,000	$ 225,000	$ 250,000
Average balance during the year	221,918	293,391	142,136
Average interest rate during the year	3.21%	1.47%	1.28%
Maximum month-end balance during the year	$ 315,000	$ 380,000	$ 250,000
Average interest rate at year-end	4.34%	2.20%	1.20%

WEALTH MANAGEMENT ASSETS

The year-end 2005 market value balance of the S&T Bank Wealth Management assets, which are not accounted for as part of the assets of S&T, increased 5 percent in 2005 to $1.2 billion, with $912.8 million in Wealth Management Services and $311.5 million in Brokerage Services. The 2005 increase is attributable to increased performance in the stock markets and newly developed business relationships.

EXPLANATION OF USE OF NON-GAAP FINANCIAL MEASURES

In addition to the results of operations presented in accordance with generally accepted accounting principles (GAAP), S&T management uses, and this annual report contains or references, certain non-GAAP financial measures, such as net interest income on a fully tax-equivalent basis and operating revenue. S&T believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and our business and performance trends as they facilitate comparisons with the performance of others in the financial

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services industry. Although S&T believes that these non-GAAP financial measures enhance investors understanding of S&T s business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a fully tax-equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the consolidated statements of income is reconciled to net interest income adjust