



208

800 PHILADELPHIA STREET • P.O. BOX 90 • INDIANA, PA 15101 • 412 349 1900

March 6, 2009

Mr. Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

This is in response to your letter to Mr. Mark Kochvar, dated February 6, 2009, requesting information regarding S&T Bancorp, Inc.'s ("Bancorp") use of the funds that it received as part of the Troubled Asset Relief Program ("TARP") established under the Emergency Economic Stabilization Act of 2008 ("EESA") and a description of how Bancorp intends to implement the executive compensation requirements associated with the TARP funding. Specifically, you requested the following:

- (1) A narrative response specifically outlining (a) Bancorp's anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) Bancorp's actual use of TARP funds to date; and (d) Bancorp's expected use of unspent TARP funds.

As detailed below, Bancorp's anticipated use of the TARP funds was and continues to be to increase the capital of its subsidiary bank, S&T Bank, in order to support additional lending to qualified borrowers. Since their receipt in January 2009, the TARP funds have been maintained in a Bancorp deposit account at S&T Bank, pending their planned transfer to S&T Bank in the form of a capital contribution by Bancorp. The TARP funds have been segregated from other Bancorp funds to the extent that they have been temporarily placed in a deposit account, as noted above. Upon their transfer to S&T Bank, the funds will be combined with S&T Bank's other capital funds, and thus not segregated, but their usage will be monitored by S&T Bank.

Bancorp is a bank holding company headquartered in Indiana, Pennsylvania, which owns all of the common stock of S&T Bank, a Pennsylvania chartered bank. As of December 31, 2008, Bancorp had total assets of \$4.4 billion, \$3.2 billion in deposits and \$448.7 million in total shareholder's equity. S&T Bank serves customers through a network of 55 branch offices located throughout Western Pennsylvania. Bancorp received \$108,676,000 from the TARP on January 16, 2009. Bancorp obtained the TARP funds by issuing senior preferred stock to the United States Treasury as a participant in the Capital Purchase Program. It was anticipated that the TARP funds would assist in further strengthening the capital position of S&T Bank in order to provide further support for S&T Bank's lending activities in a challenging economic environment (See Exhibit 1, Conference Call Transcript, December 23, 2008). It should be noted that Bancorp and S&T Bank were both in the "well capitalized" capital category before receiving the TARP funds, with a Bancorp tier 1 risk-based capital ratio of 8.65% and a total risk-based capital ratio of 11.82%. With the infusion of the TARP funds, those ratios are

projected to increase to 11.67% and 14.85%, respectively, this further strengthening the capital position of Bancorp.

Immediately upon receipt of the TARP funds, Bancorp deposited them temporarily in an account at S&T Bank. To date, the principal initial use of the funds has been to pay down S&T Bank's overnight borrowings at the Federal Home Loan Bank of Pittsburgh, which has the effect of increasing S&T Bank's liquidity for lending activities commensurately. Bancorp intends to transfer the TARP funds to S&T Bank in the form of a capital contribution. To that end, the Bancorp Board of Directors adopted a resolution on December 15, 2008, approving the contribution of the TARP funds to S&T Bank. S&T Bank plans to deploy the TARP funds through the purchase of approximately \$100 million of U.S. government agency bonds and agency-guaranteed mortgage backed securities. These securities can then be used as collateral for repurchase transactions, through which S&T Bank will be able to obtain liquidity to fund new loan originations. This method of managing the TARP funds ensures the availability of funds for lending to creditworthy borrowers while generating earnings for S&T Bank.

Bancorp is committed to utilizing the TARP funds to increase lending to creditworthy borrowers to the extent it can do so consistent with safe and sound banking practices. S&T Bank already provides a wide range of consumer and commercial loan products, including auto loans, consumer mortgages, home equity loans, credit card loans, personal loans, overdraft lines of credit, commercial and consumer construction loans, commercial real estate loans, letters of credit and business loans in almost all categories. S&T Bank has consistently applied sound underwriting criteria and refrained from engaging in sub-prime lending. Even amid volatility in the financial markets, S&T Bank has continued to extend credit to qualified borrowers. It achieved record net loan growth of approximately \$278 million in 2008, and strives to do so again in 2009, by utilizing the TARP funds to provide a stable base of capital to support such an overall increase in lending. S&T Bank originated \$79 million in new loans and lines of credit in January 2009, and estimates its new loan originations and lines of credit in February to be at least \$119 million. Additionally, S&T Bank is preparing to introduce specialized lending programs to make home equity loans and home purchase loans more readily available. S&T Bank is currently reviewing these programs for regulatory compliance, and projects that it will begin to implement the programs by March 31, 2009.

As noted above, the TARP funds have been segregated from other funds of Bancorp to the extent they have been deposited temporarily in a deposit account at S&T Bank. Once transferred to S&T Bank in the form of a capital contribution, the TARP funds will not be segregated, but rather will be combined with, and will augment S&T Bank's equity capital, along with capital raised from other sources. S&T Bank intends to monitor the usage of the TARP funds by tracking, for example, the amount of new loans that are originated since receipt of the TARP funds and the subsequent pay-downs and pay-offs of such loans. S&T Bank expects this monitoring to enable it to evaluate how effectively the TARP funds are being utilized to reach its goal of meeting credit needs, and to make any necessary adjustments.

Bancorp has adopted a TARP Records Retention Policy (attached as Exhibit 2), which instructs all employees with the title of Senior Vice President or above to retain all documents relating to the anticipated or actual use of TARP funds indefinitely, whether the documents are in hard copy or electronic format. The policy also requires periodic electronic back-up of emails and other electronic documents on Bancorp servers to prevent the loss of data through any hardware failure of individual computers.

- (2) Bancorp's specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other longer-term or deferred forms of executive compensation.

Bancorp has a system for review and supervision of its executive compensation, which is overseen by the Compensation and Benefits Committee of its Board of Directors ("Compensation Committee") (See the Compensation Committee Charter attached as Exhibit 3). The policy of the Compensation Committee is to provide compensation that is competitive within the banking industry of financial institutions of similar size and product offerings to attract and retain qualified executives; is integrated with Bancorp's corporate performance goals, the primary goal being earnings growth; rewards exceptional individual performance within the assigned area of operational responsibility; and, importantly, aligns the interests of senior management with the interests of Bancorp's shareholders.

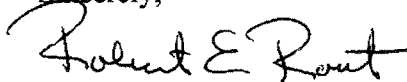
Bancorp is in the process of reviewing its executive compensation to ensure compliance with EESA and the American Recovery and Reinvestment Act of 2009 ("ARR"), as well as the regulations and guidelines that have been, or will be, promulgated under these laws. Bancorp intends to comply on a timely basis and remain in full compliance with the executive compensation provisions of the EESA and the ARR. This compliance will be monitored and certified by the Compensation Committee and will include an assessment of any incentives for loan risks.

* * *

As Chief Administrative and Chief Financial Officer of Bancorp, I certify that all the statements and representations in this letter, as well as all supporting information attached to this letter, are accurate to the best of my knowledge and belief, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Please do not hesitate to contact me directly at (b) (6) if you require any additional information.

Sincerely,



Robert E. Rout
Chief Administrative and
Chief Financial Officer

Cc: (b) (6)
Arnold & Porter LLP

*Conference Call Transcription
Tuesday, December 23, 2008*

Good morning everybody, and thank you for joining me this morning. I hope that everybody is ready for Christmas and you and your families have a very happy holiday season.

I would like to take this opportunity once again to thank everybody for your contributions to S&T this year. I think what we have accomplished in 2008 is truly remarkable, particularly with all of the turmoil surrounding the financial industry. Our partnership with Irwin Bank was the most successful merger in our history. Everyone also did a wonderful job promoting the safety and soundness of S&T Bank to our customers. No one could have predicted the severity of the downturn when 2008 began, but our performance has been outstanding.

Looking forward to 2009, we are anticipating a challenging year. The economic distress is expected to continue. We will be facing challenges to our margin as a result of the reduction in interest rates. Our expenses will increase, particularly FDIC premiums as well as costs associated with operating in the current regulatory environment. In spite of these challenges, I do believe that we are well positioned to continue to grow our company.

In consideration of market conditions, we have made one of the most important decisions in the history of S&T Bank.

Our Board of Directors, on the recommendation of our senior management team, has approved the sale of \$108,676,000 of preferred stock to the United States Treasury, under their Capital Purchase Program.

We debated long and hard on the merits of participating or not participating in this program, and at the end of the day, we felt that it is in the best long term interests of all of our constituents, our shareholders, our employees and our customers.

I know that you probably have questions and you will receive questions from your customers. The purpose of today's call is to educate you on the Capital Purchase Program. In addition, we will have information posted on our intranet that you can reference to answer customer questions. I do want to stress that these communications are for internal use only and are not to be distributed.

We will be issuing a press release to the general public at 9:00, which will also be posted on the intranet.

At this point, I would like to discuss the facts and will answer questions at the conclusion of my remarks.

- On December 9, 2008, we were notified by the United States Treasury that we were granted preliminary approval to issue \$108,676,000 of preferred stock to the UST under the Capital Purchase Program with the TARP or Troubled Asset Relief Program that was approved by Congress.
- Approval is contingent on executing standard documentation that we anticipate signing in early January.

- Participation in the program is open to only the healthiest and strongest banks in the country.
- The goal of the UST is to further strengthen the Bank balance sheets to enable them to continue to grow their business and continue to meet the credit needs of their markets.
 - I think that it is important to note that we are going to originate approximately \$1 billion in new loans this year. And, we intend to continue lending money to provide jobs and stimulate the economy and, hopefully, lead the economic recovery.
- We are required to pay a 5% dividend on the funds. So, I want to stress that this is not free money, and the UST will be earning interest. In addition, they will have the option to purchase approximately 500,000 shares of common stock at \$31 for a ten-year period.

[REFERENCE TALKING POINTS]

I know we have provided a lot of information in a very short period of time. I would encourage everybody to familiarize yourselves with the material and to be prepared to discuss the talking points with your customers. I would encourage everybody to contact your best customers and assure them that we continue to be strong, stable and secure and let them know that by participating in this program, we will continue to meet their credit needs. From a depositor point of view, it is an added layer of protection on their accounts.

In the room with me today are Bob Rout, Ed Hauck and Mark Kochvar, and we would now be happy to answer any questions.

[QUESTIONS]

Thank you for listening, and if you have any further questions, please contact me, Bob, Ed or Mark, and we will be happy to assist you.

Also, I would be interested in receiving feedback on our customers' reactions. Please drop me an email to keep us informed.

Once again, have a great holiday, and I am looking forward to a great 2009!

M E M O R A N D U M

ATTORNEY-CLIENT PRIVILEGED COMMUNICATION

To: Senior Staff

From: Robert E. Rout, Chief Administrative & Chief Financial Officer

Date: March 6, 2009

Re: NOTICE OF LEGAL HOLD – *Request of Office of the Special Inspector General for Troubled Asset Relief Program*

S&T Bancorp, Inc. (“S&T”) has received an inquiry from the Office of the Inspector General for Troubled Asset Relief Program (the “TARP Inquiry”) requesting certain information concerning:

- (1) S&T’s use or anticipated use of Troubled Asset Relief Program (“TARP”) funds; and
- (2) plans for addressing executive compensation requirements associated with the TARP funds.

The TARP Inquiry also asks that S&T segregate and preserve all documents referencing S&T’s use or anticipated use of TARP funds (such as any internal email, budgets or memoranda). Although not specifically requested, we are undertaking also to segregate and preserve all documents concerning executive compensation requirements associated with the TARP funds as well.

Effective immediately and until further notice, we are implementing a policy that all documents pertaining to (1) S&T’s use or anticipated use of TARP funds or (2) plans for addressing executive compensation requirements associated with TARP funding are hereby placed on **HOLD**. That means S&T personnel receiving this memorandum should retain, and should not discard, dispose of, or destroy any documents that are potentially relevant to the TARP Inquiry.

In order to ensure continued compliance with S&T’s ongoing document preservation and retention obligations, all recipients of this memorandum must consider and observe the following important guidelines and requirements:

1. The term “documents” should be construed broadly and includes both hard copies and electronic files, drafts as well as final documents and non-identical copies of documents (*e.g.*, copies with hand-written notations), correspondence, reports, memoranda, notes, charts, graphs, maps, presentations, photographs, calendars, e-mails, and any hard copy or electronic data compilation from which information can be obtained, including without limitation e-mail, spreadsheets, databases, PDA files, voicemail, videos, CDs or DVDs, flash drives, and similar electronic media storage devices.

2. This Notice of Legal Hold applies to any and all hard copy or electronic materials that have been archived or placed in storage, as well as any hard copy and/or electronic materials or files of former employees or predecessors in your position.
3. This Notice of Legal Hold applies equally to company files as well as individual planners, diaries, calendars, memos, letters, weekly reports or other personal documents and notes to the extent such materials contain information or discussion of matters within the scope of the litigation hold.
4. All documents which fall within the scope of this Notice of Legal Hold should be retained regardless of whether additional copies are in the possession of other individuals or employees. All copies, including drafts, duplicates and revisions must be retained.
5. All electronically stored information falling within the scope of this Notice of Legal Hold, such as spreadsheets, word processed documents, presentations, databases, e-mails and similar materials, should be archived to a document retention folder or similar location to the extent necessary in order to preserve them. Do not alter, delete or destroy these materials if they pertain to the subjects identified in this memorandum, and take care to ensure that such information is preserved.

Whenever possible, documents should be preserved in their original format. Electronic documents and e-mails should be preserved on S&T network servers and not individual hard drives. Electronic media storage devices such as back-up tapes, CDs/DVDs, flash drives, and disks should be well labeled as to content and retained indefinitely.

Attached as Addendum A are specific instructions for retention of electronic files.

In the event that it becomes imperative to remove e-mails and/or electronic documents from your computer for any reason, please contact the Executive Vice President, Operations and Technology, currently (b) (6) [REDACTED] for further instructions before taking any such action.

6. As a general rule, if you are uncertain whether a particular document is subject to this Notice of Legal Hold, always err on the side of preservation and retention. You should not discard, dispose of, or destroy a relevant document because you think it is insignificant, because you believe that duplicate copies exist in files of other individuals, or because the document is confidential or contains sensitive business information.
7. If you have any questions or concerns regarding this Notice of Legal Hold, the types and categories of documents subject to this Notice of Legal Hold, or anything else addressed in this memorandum, please contact S&T's Chief Financial Officer, currently Robert E. Rout at (b) (6) [REDACTED]

This document Notice of Legal Hold applies until the Chief Executive Officer or Chief Financial Officer of S&T advises otherwise.

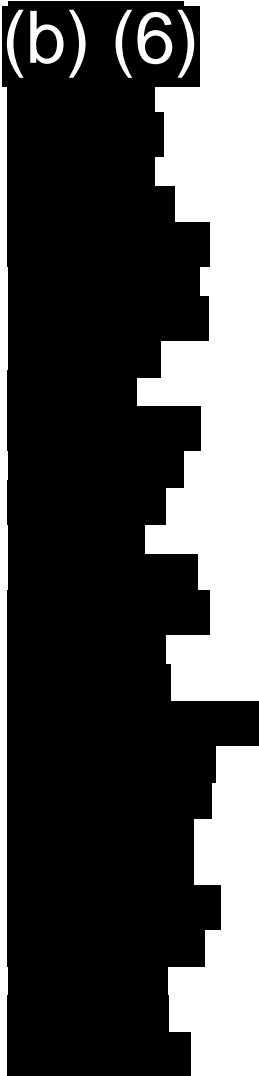
Please inform the Chief Financial Officer of any S&T personnel who you are aware of, or who report to you, who are likely to possess responsive documents that were not included in this distribution.

ACKNOWLEDGEMENT

Please send an email to (b) (6) acknowledging your receipt of this Notice.

Distribution:

(b) (6)



ADDENDUM to NOTICE of LEGAL HOLD

To effectively support the general practice of permanently storing all electronic records associated with TARP for the purpose of e-Discovery, please follow the detailed instructions below:

E-Mail

All email related to any information involving TARP, whether sent or received, should be stored in the user's e-mail folder entitled "TARP".

To setup a "TARP" folder within your e-mail, right mouse click on "Cabinet" in the left navigation bar. Depending on the version of GroupWise you are using, please follow the instructions below:

GroupWise Web:

- Select "Add Folder"
- Next screen will prompt you to name the folder – type in TARP
- Click on "OK" to save

GroupWise Full Client

- Personal Folder is already marked – Click "Next"
- Next screen will prompt you to name the folder – type in TARP and click "Next"
- Click on "Finish" to save the folder

To move an e-mail to the TARP folder, simply click on and drag the e-mail to the TARP folder.

Network

All documents created that are related to TARP, should be saved to a folder named "TARP" within your users directory.

To create a TARP folder under your user directory, follow the instructions below:

- Double click on the "My Computer" icon on your desktop
- Double click on the (H:) drive
- Click on "File" in the menu bar and select "New Folder"
- It will highlight the folder and allow you to name the folder – type in TARP
- After you type in the name of the folder press the "Enter" key to save

When saving any Word or Excel documents to this folder, you will need to click on "File", "Save As" and browse to this folder.

Any questions, please feel free to call the MIS Department for assistance.

S&T BANCORP, INC.
COMPENSATION AND BENEFITS COMMITTEE
COMMITTEE CHARTER

PURPOSE

The Compensation and Benefits Committee (the “Committee”) is appointed by the S&T Bancorp, Inc. (“S&T”) Board of Directors (the “Board”) and is authorized to perform its functions for and on behalf of S&T and its subsidiaries. The Committee’s primary purpose is to oversee and review the compensation and benefit plans of S&T and to prepare the disclosure on executive compensation required by the rules of the Securities and Exchange Commission (“SEC”) to be included in S&T’s annual proxy statement.

COMMITTEE MEMBERSHIP

Committee members are appointed annually by the Board on the recommendation of the Nominating and Corporate Governance Committee. The members shall serve until their successors are duly elected and qualified by the Board or until such member’s earlier resignation or removal. The Committee shall be comprised of three or more members. Each member shall (1) satisfy the independence and other applicable requirements of NASDAQ, (2) be a “non-employee director” as that term is defined under Rule 16b-3 promulgated under the Securities and Exchange Act of 1934, as amended (3) be an “outside director” as that term is defined for purposes of Section 162(m) of the Internal Revenue Code, and (4) any standards of independence as may be prescribed for purposes of any applicable laws, rules and regulations relating to the Committee’s duties and responsibilities.

The Board will appoint one of the members of the Committee to serve as its chairperson. The Committee may also appoint a secretary, who need not be a director. The Committee may delegate to its chairperson such power and authority as the Committee deems to be appropriate, except such powers and authorities required by law or regulation to be exercised by the whole Committee or a subcommittee of at least two members.

MEETINGS

The Committee shall meet as often as it determines is necessary and appropriate, and at least twice annually. The Chairperson shall have the authority to call a special meeting of the Committee, or seek a unanimous written consent of the Committee whenever he or she deems such a meeting or consent necessary or desirable. Any officer or employee of S&T, outside counsel, independent auditor or other person may attend meetings, as the Committee deems appropriate. The Committee may meet in executive session without members of management in attendance at the Committee’s discretion. Any member of the Committee may call executive sessions.

A majority of the members of the Committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present, shall be the act of the Committee. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

COMMITTEE AUTHORITY AND RESPONSIBILITIES

In connection with its responsibilities, the Committee may seek appropriate assurances from internal and external advisors that all compensation and benefit plans are appropriate, legally permissible, and where required, properly disclosed to S&T's shareholders.

In performing their responsibilities, Committee members are entitled to rely in good faith upon S&T's records and upon information, opinions, reports or statements prepared or presented by any of S&T's officers or employees, or by any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of S&T. Each member of the Committee also may rely in good faith upon actions taken by another committee of the Board as to matters within its designated authority.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible to enable the Committee to react to changing conditions and circumstances. The processes set forth below are intended to serve as a guide with the understanding that the Committee may supplement them as appropriate.

1. Annually review and approve corporate goals and objectives relative to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and communicate such evaluation to the CEO, and based on this evaluation, as a Committee recommend to the Board the CEO's compensation level based on this evaluation. In determining the short and long-term incentive component of CEO compensation, the Committee will consider S&T's performance and relative shareholder return, the CEO's individual performance, the value of similar incentive awards to CEOs at comparable companies, and other factors the Committee deems appropriate. NASDAQ requires that the CEO not be present during voting or deliberations on the CEO's compensation.
2. Maintain direct responsibility for the CEO succession process with the consensus of the full Board of Directors in the selection of a CEO. The Committee, in conjunction with the current CEO, is also responsible for identifying qualified members of senior management who could immediately assume operational responsibilities on an interim basis upon the sudden death or unexpected disability of the CEO.
3. Annually review and approve, for the CEO and the other S&T executive officers, (a) the annual base salary level, (b) the short-term incentive opportunity level, (c) the long-term incentive opportunity level, (d) employment agreements, severance agreements, and change in control agreements/provisions, in each case as, when and if appropriate, and (e) any special or supplemental benefits.
4. Approve the Committee report on executive compensation as required by the SEC to be included in S&T's proxy statement and review any disclosure regarding compensation matters in the proxy statement.

5. Adopt, administer and approve S&T's incentive compensation and equity-based compensation plans and awards thereunder, including amendments to the plans or awards made under any such plans. The Committee shall approve participants in these plans, target award opportunities for participants and performance criteria to be utilized in the plans and payouts.
6. Review on a periodic basis S&T's various employee benefit plans maintained by S&T covering substantially all employees, including, but not limited to, the thrift plan, pension plan, healthcare plan and various plans that supplement the foregoing. The Committee shall review material plan modifications and recommend action on such modifications to the Board.
7. Monitoring the effects of S&T's compensation programs with regard to Section 162(m) of the Internal Revenue Code, as amended.
8. Form and delegate authority to subcommittees when appropriate.
9. Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter.
10. Maintain minutes of its meetings and report the Committee's activities to the Board with respect to such matters as are relevant to the Committee's discharge of its responsibilities and with respect to such recommendations, as the Committee may deem appropriate.

RESOURCES AND AUTHORITY

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the sole authority to select, retain, terminate, and approve the fees and other retention terms of independent legal, accounting or other experts and advisors, as it deems necessary or appropriate. The Committee shall also have the authority, to the extent it deems necessary or appropriate, to ask S&T to provide the Committee with the support of one or more S&T employees to assist in carrying out its duties. S&T shall provide for appropriate funding, as determined solely by the Committee, for payment of compensation to any advisors retained by the Committee and to pay for ordinary administrative expenses of the Committee.

The Committee may authorize S&T's officers to take any and all actions necessary to implement actions approved by the Committee.

Approved: Board of Directors, 11/19/2007

Reviewed and Reaffirmed: Compensation and Benefits Committee, 11/17/2008