UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from to

Commission file number 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1434426**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

800 Philadelphia Street	**Indiana**	**PA**	**15701**
(Address of principal executive offices)			**(zip code)**

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

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

Title of each class	**Trading Symbol**	**Name of each exchange on which registered**
Common Stock, par value $2.50 per share	STBA	The NASDAQ Stock Market LLC

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

(Title of class)

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

Yes ☒ No ☐

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

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate estimated fair value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2019:

Common Stock, $2.50 par value – 1,258,136,366

The number of shares outstanding of each of the registrant's classes of common stock as of February 28, 2020:

Common Stock, $2.50 par value –39,462,857

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of S&T Bancorp, Inc., to be filed pursuant to Regulation 14A for the 2019 annual meeting of shareholders to be held May 18, 2020, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. BUSINESS

General

S&T Bancorp, Inc. was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and is registered with the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, under the Bank Holding Company Act of 1956, as amended, or the BHCA, as a bank holding company and a financial holding company. S&T Bancorp, Inc. has five active direct wholly-owned subsidiaries, S&T Bank, 9th Street Holdings, Inc., STBA Capital Trust I, DNB Capital Trust I and DNB Capital Trust II, and owns a 50 percent interest in Commonwealth Trust Credit Life Insurance Company, or CTCLIC. DNB Capital Trust I and DNB Capital Trust II were acquired with the DNB merger on November 30, 2019. When used in this Report, "S&T", "we", "us" or "our" may refer to S&T Bancorp, Inc. individually, S&T Bancorp, Inc. and its consolidated subsidiaries or certain of S&T Bancorp, Inc.'s subsidiaries or affiliates, depending on the context. As of December 31, 2019, we had approximately $8.8 billion in assets, $7.1 billion in loans, $7.0 billion in deposits and $1.2 billion in shareholders' equity.

On November 30, 2019, pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of June 5, 2019 (the "Merger Agreement"), by and between S&T Bancorp, Inc. ("S&T") and DNB Financial Corporation ("DNB"), DNB merged with and into S&T (the "Merger"), with S&T continuing as the surviving corporation. At the effective time of the Merger, each share of the common stock of DNB issued and outstanding was converted into the right to receive 1.22 shares of S&T common stock. The transaction was valued at $201.0 million and added total assets of $1.1 billion, including $909.0 million in loans, as well as $967.3 million in deposits.

Immediately following the Merger, DNB First, National Association ("DNB First"), a wholly owned bank subsidiary of DNB, merged with and into S&T Bank, with S&T Bank as the surviving entity. DNB First was a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in the southeastern Pennsylvania market area. DNB First had three wholly-owned operating subsidiaries, Downco, Inc., DN Acquisition Company, Inc., and DNB Financial Services, Inc. Effective November 30, 2019, the DNB First subsidiaries were transferred to S&T Bank with the merger.

S&T Bank is a full-service bank that operates in five markets including Western Pennsylvania, Eastern Pennsylvania, Northeast Ohio, Central Ohio and Upstate New York. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent provided by law. S&T Bank has six active wholly-owned operating subsidiaries: S&T Insurance Group, LLC, S&T Bancholdings, Inc., Stewart Capital Advisors, LLC, Downco, Inc., DN Acquisition Company, Inc., and DNB Financial Services, Inc. Effective January 1, 2018, S&T Insurance Group, LLC, sold a majority interest in its previously wholly-owned subsidiary S&T Evergreen Insurance, LLC.

Through S&T Bank and our non-bank subsidiaries, we offer consumer, commercial and small business banking services, which include accepting time and demand deposits and originating commercial and consumer loans, brokerage services and trust services including serving as executor and trustee under wills and deeds and as guardian and custodian of employee benefits. We also manage private investment accounts for individuals and institutions through our registered investment advisor. Total Wealth Management assets under administration were $2.0 billion at December 31, 2019 of which $0.2 billion were acquired from the DNB merger.

The main office of both S&T Bancorp, Inc. and S&T Bank is located at 800 Philadelphia Street, Indiana, Pennsylvania, and its phone number is (800) 325-2265.

Employees

As of December 31, 2019, we had 1,201 full-time equivalent employees.

Access to United States Securities and Exchange Commission Filings

All of our reports filed electronically with the United States Securities and Exchange Commission, or the SEC, including this Annual Report on Form 10-K for the fiscal year ended December 31, 2019, our prior annual reports 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 under Financial Information, SEC Filings. These filings are also accessible on the SEC's website at www.sec.gov. The charters of the Audit Committee, the Compensation and Benefits Committee, the Nominating and Corporate Governance Committee, the Executive Committee, the Credit Risk Committee and the Trust and Revenue Oversight Committee, as well as the Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters Policy, the Code of Conduct for the CEO and CFO, the General Code of Conduct, the Corporate Governance Guidelines and the Shareholder Communications Policy are also available at www.stbancorp.com under Corporate Governance.

Supervision and Regulation

General

S&T is extensively regulated under federal and state law. Regulation of bank holding companies and banks is intended primarily for the protection of consumers, depositors, borrowers, the Federal Deposit Insurance Fund, or DIF, and the banking system as a whole, and not for the protection of shareholders or creditors. The following describes certain aspects of that regulation and does not purport to be a complete description of all regulations that affect S&T, or all aspects of any regulation discussed here. 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, enacted in July 2010, has had and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes addressing, among other things: (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; (v) enhanced corporate governance and executive compensation requirements and disclosures; and (vi) numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC. While certain requirements called for in the Dodd-Frank Act have been implemented, these regulations are subject to continuing interpretation and potential amendment, and a variety of the requirements remain to be implemented. Given the continued uncertainty associated with the ongoing implementation of the requirements of Dodd-Frank Act by the various regulatory agencies, including the manner in which the remaining provisions will be implemented and the interpretation of and potential amendments to existing regulations, the full extent of the impact of such requirements on financial institutions' operations is unclear. The continuing changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, increase our operating and compliance costs, or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

In addition, 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 that may impact S&T. Such initiatives to change the laws and regulations may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Any such legislation could change bank statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could affect how S&T and S&T Bank operate and could significantly increase costs, impede the efficiency of internal business processes, limit our ability to pursue business opportunities in an efficient manner, or affect the competitive balance among banks, credit unions and other financial institutions, any of which could materially and adversely affect our business, financial condition and results of operations. The likelihood and timing of any changes and the impact such changes might have on S&T is impossible to determine with any certainty.

S&T

We are a bank holding company subject to regulation under the BHCA and the examination and reporting requirements of 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.

As a bank holding company, we are expected under statutory and regulatory provisions to serve as a source of financial and managerial strength to our subsidiary bank. A bank holding company is also expected to commit resources, including capital and other funds, to support its subsidiary bank.

We elected to become a financial holding company under the BHCA in 2001 and thereby may engage in a broader range of financial activities than are permissible for traditional bank holding companies. In order to maintain our status as a financial holding company, we must remain “well-capitalized” and “well-managed” and the depository institutions controlled by us must remain “well-capitalized,” “well-managed” (as defined in federal law) and have at least a “satisfactory” Community Reinvestment Act, or CRA, rating. Refer to Note 26 Regulatory Matters to the Consolidated Financial Statements contained in Part II, Item 8 of this Report for information concerning the current capital ratios of S&T and S&T Bank. No prior regulatory approval is required for a financial holding company with total consolidated assets less than $50 billion 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, unless the total consolidated assets to be acquired exceed $10 billion. The BHCA identifies several activities as “financial in nature” including, among others, securities underwriting; dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and sales agency; investment advisory activities; merchant banking activities and activities that the Federal Reserve Board has determined to be closely related to banking. Banks may also engage in, subject to limitations on investment, activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is “well-capitalized,” “well-managed” and has at least a “satisfactory” CRA rating.

If S&T or S&T Bank ceases to be “well-capitalized” or “well-managed,” we will not be in compliance with the requirements of the BHCA regarding financial holding companies or requirements regarding the operation of financial subsidiaries by insured banks.

If a financial holding company is notified by the Federal Reserve Board of such a change in the ratings of any of its subsidiary banks, it must take certain corrective actions within specified time frames. Furthermore, if S&T Bank was to receive a CRA rating of less than “satisfactory,” then we would be prohibited from engaging in certain new activities or acquiring companies engaged in certain financial activities until the rating is raised to “satisfactory” or better.

We are presently engaged in nonbanking activities through the following eight entities:

- 9th Street Holdings, Inc. was formed in June 1988 to hold and manage a group of investments previously owned by S&T Bank and to give us additional latitude to purchase other investments.
- 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 us additional latitude to purchase other investments.
- CTCLIC is a joint venture with another financial institution, and acts as a reinsurer of credit life, accident and health insurance policies that were sold by S&T Bank and the other institution. S&T Bank and the other institution each have ownership interests of 50 percent in CTCLIC.
- S&T Insurance Group, LLC distributes life insurance and long-term disability income insurance products. During 2001, S&T Insurance Group, LLC and Attorneys Abstract Company, Inc. entered into an agreement to form S&T Settlement Services, LLC, or STSS, with respective ownership interests of 55 percent and 45 percent. STSS is a title insurance agency servicing commercial customers. During 2002, S&T Insurance Group, LLC expanded into the property and casualty insurance business with the acquisition of S&T Evergreen Insurance, LLC. On January 1, 2018, we sold a 70 percent majority interest in the assets of our subsidiary, S&T Evergreen Insurance, LLC. We transferred our remaining 30 percent share of net assets from S&T Evergreen Insurance, LLC to a new entity for a 30 percent partnership interest in a new insurance entity.
- Stewart Capital Advisors, LLC was formed in August 2005 and is a registered investment advisor that manages private investment accounts for individuals and institutions.
- DNB Financial Services, Inc. was acquired with the DNB First merger on November 30, 2019. DNB Financial Services, Inc. is a Pennsylvania licensed insurance agency, which, through a third-party marketing agreement with Cetera Investment Services, LLC, sells a variety of insurance and investments products.
- Downco, Inc and DN Acquisition Company, Inc. were acquired with the DNB First merger on November 30, 2019. Downco, Inc. and DN Acquisition Company, Inc. were formed to acquire and hold Other Real Estate Owned acquired through foreclosure or deed in-lieu-of foreclosure, as well as Bank-occupied real estate.

S&T Bank

As a Pennsylvania-chartered, FDIC-insured non-member commercial bank, S&T Bank is subject to the supervision and regulation of the Pennsylvania Department of Banking and Securities, or PADBS, and the FDIC. We are also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be granted and limits on the types of other activities in which S&T Bank may engage and the investments it may make. In addition, pursuant to the federal Bank Merger Act, S&T Bank must obtain the prior approval of the FDIC before it can merge or consolidate with or acquire the assets or assume the deposit liabilities of another bank.

S&T Bank is subject to affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W, that limit the amount of transactions between itself and S&T or any other company or entity that controls or is under common control with any company or entity that controls S&T Bank, including for most purposes any financial or depository institution subsidiary of S&T Bank. Under these provisions, “covered” transactions, including making loans, purchasing assets, issuing guarantees and other similar transactions, between a bank and its parent company or any other affiliate, generally are limited to 10 percent of the bank subsidiary’s capital and surplus, and with respect to all transactions with affiliates, are limited to 20 percent of the bank subsidiary’s capital and surplus. Loans and extensions of credit from a bank to an affiliate generally are required to be secured by eligible collateral in specified amounts, and in general all affiliated transactions must be on terms consistent with safe and sound banking practices. The Dodd-Frank Act expanded the affiliate transaction rules to broaden the definition of affiliate to include as covered transactions securities borrowing or lending, repurchase or reverse repurchase agreements and derivatives activities, and to strengthen collateral requirements and limit Federal Reserve exemptive authority.

Federal law also constrains the types and amounts of loans that S&T Bank may make to its executive officers, directors and principal shareholders. Among other things, these loans are limited in amount, must be approved by the bank’s board of directors in advance, and must be on terms and conditions as favorable to the bank as those available to an unrelated person. The Dodd-Frank Act strengthened restrictions on loans to insiders and expanded the types of transactions subject to the various limits to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement and a securities lending or borrowing transaction. The Dodd-Frank Act also placed restrictions on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.

Insurance of Accounts; Depositor Preference

The deposits of S&T Bank are insured up to applicable limits per insured depositor by the Deposit Insurance Fund, or DIF, as administered by the FDIC. The Dodd-Frank Act codified FDIC deposit insurance coverage per separately insured depositor for all account types at $250,000.

As an FDIC-insured bank, S&T Bank is subject to FDIC insurance assessments, which are imposed based upon the calculated risk the institution poses to the DIF. In July 2016, the FDIC Board of Directors adopted a revised final rule to refine the deposit insurance assessment system for small insured depository institutions (less than $10 billion in assets) that have been federally insured for at least five years by: revising the financial ratios method for determining assessment rates so that it is based on a statistical model estimating the probability of failure over three years; updating the financial measures used in the financial ratios method consistent with the statistical model; and eliminating risk categories for established small banks and using the financial ratios method to determine assessment rates for all such banks. The amended FDIC insurance assessment benefits many small institutions with a lower rate; we, however, have incurred a minimal increase to our base rate.

Under the current assessment system, for an institution with less than $10 billion in assets, assessment rates are determined based on a combination of financial ratios and CAMELS composite ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly. Assessments are calculated as a percentage of average consolidated total assets less average tangible equity during the assessment period. The current total base assessment rates on an annualized basis range from 1.5 basis points for certain “well-capitalized,” “well-managed” banks, with the highest ratings, to 40 basis points for complex institutions posing the most risk to the DIF. The FDIC may raise or lower these assessment rates on a quarterly basis based on various factors designed to achieve a minimum designated reserve ratio of the DIF, which the Dodd-Frank Act has mandated to be no less than 1.35 percent of estimated insured deposits, subsequently set at two percent by the FDIC.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the Federal Reserve Board. It also may suspend deposit insurance temporarily during the hearing process if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of termination, less subsequent withdrawals, will continue to be insured for a period of six months to two years, as determined by the FDIC.

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 a receiver. Such priority creditors would include the FDIC.

Capital

The Federal Reserve Board and the FDIC have issued substantially similar minimum risk-based and leverage capital rules applicable to banking organizations they supervise. At December 31, 2019, both S&T and S&T Bank met the applicable minimum regulatory capital requirements.

The following table summarizes the leverage and risk-based capital ratios for S&T and S&T Bank:

	Actual		Minimum Regulatory Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Leverage Ratio						
S&T	$ 854,146	10.29%	$ 331,925	4.00%	$ 414,907	5.00%
S&T Bank	832,113	10.04%	331,355	4.00%	414,194	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)						
S&T	825,146	11.43%	324,745	4.50%	469,077	6.50%
S&T Bank	832,113	11.56%	324,048	4.50%	468,069	6.50%
Tier 1 Capital (to Risk-Weighted Assets)						
S&T	854,146	11.84%	432,994	6.00%	577,325	8.00%
S&T Bank	832,113	11.56%	432,064	6.00%	576,085	8.00%
Total Capital (to Risk-Weighted Assets)						
S&T	954,094	13.22%	577,325	8.00%	721,656	10.00%
S&T Bank	922,310	12.81%	576,085	8.00%	720,106	10.00%

In addition, the banking regulatory agencies may from time to time require that a banking organization maintain capital above the minimum prescribed levels, whether because of its financial condition or actual or anticipated growth.

The risk-based capital standards establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures explicitly into account in assessing capital adequacy and minimizes disincentives to holding liquid, low-risk assets. For purposes of the risk-based ratios, assets and specified off-balance sheet instruments are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. The leverage ratio represents capital as a percentage of total average assets adjusted as specified in the guidelines.

In July 2013 the federal banking agencies issued final regulatory capital rules that replaced the then existing general risk-based capital and related rules, broadly revising the basic definitions and elements of regulatory capital and making substantial changes to the risk weightings for banking and trading book assets. The new regulatory capital rules are designed to implement Basel III (which were agreements reached in July 2010 by the international oversight body of the Basel Committee on Banking Supervision to require more and higher-quality capital) as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. These new capital standards apply to all banks, regardless of size, and to all bank holding companies with consolidated assets greater than $500 million and became effective on January 1, 2015. For smaller banking organizations such as S&T and S&T Bank, the rules are subject to a transition period providing for full implementation as of January 1, 2019.

The required regulatory capital minimum ratios under the new capital standards as of December 31, 2019 are as follows:

- Common equity Tier 1 risk-based capital ratio (common equity Tier 1 capital to standardized total risk-weighted assets) of 4.50 percent;
- Tier 1 risk-based capital ratio (Tier 1 capital to standardized total risk-weighted assets) of 6.00 percent;
- Total risk-based capital ratio (total capital to standardized total risk-weighted assets) of 8.00 percent; and
- Leverage ratio (Tier 1 capital to average total consolidated assets less amounts deducted from Tier 1 capital) of 4.00 percent.

Generally, under the guidelines, common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the rule, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest, less applicable regulatory adjustments and deductions including goodwill, intangible assets subject to limitation and certain deferred tax assets subject to limitation. Tier 1 capital is comprised of common equity Tier 1 capital plus generally non-cumulative perpetual preferred stock, Tier 1 minority interests and, for bank holding companies with less than $15 billion in consolidated assets at December 31, 2009, certain restricted capital instruments including qualifying cumulative perpetual preferred stock and grandfathered trust preferred securities, up to a limit of 25 percent of Tier 1 capital, less applicable regulatory adjustments and deductions. Tier 2, or supplementary, capital generally includes portions of trust preferred securities and cumulative perpetual preferred stock not otherwise counted in Tier 1 capital, as well as preferred stock, subordinated debt, total capital minority interests not included in Tier 1, and the allowance for loan losses in an amount not exceeding 1.25 percent of standardized risk-weighted assets, less applicable regulatory adjustments and deductions. Total capital is the sum of Tier 1 and Tier 2 capital.

The new regulatory capital rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets beginning in 2019. Beginning in 2016, the capital conservation buffer was phased in, beginning at 25 percent, increasing to 50 percent in 2017, 75 percent in 2018 and 100 percent in 2019 and beyond. As a result, starting in 2019, a banking organization must maintain a common equity Tier 1 risk-based capital ratio greater than 7.00 percent, a Tier 1 risk-based capital ratio greater than 8.50 percent and a Total risk-based capital ratio greater than 10.50 percent; otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments. The new rule was fully phased in during 2019 and the minimum capital requirements plus the capital conservation buffer exceed the regulatory capital ratios required for an insured depository institution to be well-capitalized under prompt corrective action law, described below.

The new regulatory capital rule also revises the calculation of risk-weighted assets. It includes a new framework under which the risk weight will increase for most credit exposures that are 90 days or more past due or on nonaccrual, high-volatility commercial real estate loans, mortgage servicing and deferred tax assets that are not deducted from capital and certain equity exposures. It also includes changes to the credit conversion factors of off-balance sheet items, such as the unused portion of a loan commitment.

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

Payment of Dividends

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of our revenues consist of dividend payments we receive from S&T Bank. The payment of common dividends by S&T is subject to certain requirements and limitations of Pennsylvania law. S&T Bank, in turn, is subject to federal and state laws and regulations that limit the amount of dividends it can pay to S&T. In addition, both S&T and S&T Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (i) the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition. Thus, under certain circumstances based upon our financial condition, our ability to declare and pay quarterly dividends may require consultation with the Federal Reserve Board and may be prohibited by applicable Federal Reserve Board guidance.

Other Safety and Soundness Regulations

There are a number of obligations and restrictions imposed on bank holding companies such as us and our depository institution subsidiary by federal law and regulatory policy. These obligations and restrictions are designed to reduce potential loss exposure to the FDIC’s DIF in the event an insured depository institution becomes in danger of default or is in default. Under current federal law, for example, the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” as defined by the law. As of December 31, 2019, S&T Bank was classified as “well-capitalized.” New definitions of these categories, as set forth in the federal banking agencies’ final rule to implement Basel III and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act, became effective as of January 1, 2015. To be well-capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 6.50 percent, a Tier 1 risk-based capital ratio of at least 8.00 percent, a total risk-based capital ratio of at least 10.00 percent and a leverage ratio of at least 5.00 percent, and the institution must not be subject to any written agreement, order, capital directive or prompt corrective action directive by its primary federal regulator. To be adequately capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 4.50 percent, a Tier 1 risk-based capital ratio of at least 6.00 percent, a total risk-based capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent. 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; restricting the institution from accepting brokered deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distributions, including payment of dividends, without prior regulatory approval; and, ultimately, appointing a receiver for the institution.

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

Regulatory Enforcement Authority

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

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

Interstate Banking and Branching

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. In addition, because of changes to law made by the Dodd-Frank Act, S&T Bank may now establish de novo branches in any state to the same extent that a bank chartered in that state could establish a branch.

Community Reinvestment, Fair Lending and Consumer Protection Laws

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

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate-income neighborhoods. Furthermore, such assessment 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.

With respect to consumer protection, the Dodd-Frank Act created the Consumer Financial Protection Bureau, or the CFPB, which took over rulemaking responsibility on July 21, 2011 for the principal federal consumer financial protection laws, such as those identified above. Institutions that have assets of $10 billion or less, such as S&T Bank, are subject to the rules established by the CFPB but will continue to be supervised in this area by their state and primary federal regulators, which in the case of S&T Bank is the FDIC. The Dodd-Frank Act also gives the CFPB expanded data collection powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function also has been consolidated into the CFPB with respect to the institutions it supervises. The CFPB established an Office of Community Banks and Credit Unions, with a mission to ensure that the CFPB incorporates the perspectives of small depository institutions into the policy-making process, communicates relevant policy initiatives to community banks and credit unions, and works with community banks and credit unions to identify potential areas for regulatory simplification.

Fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been a focus for bank regulators. Fair lending laws include the Equal Credit Opportunity Act and the Fair Housing Act, which outlaw discrimination in credit transactions and residential real estate on the basis of prohibited factors including, among others, race, color, national origin, sex and religion. A lender may be liable for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice, or DOJ, for investigation. In December of 2012, the DOJ and the CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations and have generally committed to strengthen their coordination efforts. S&T Bank is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

During 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth-in-Lending Act, as amended by the Dodd-Frank Act (“QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good-faith determinations that borrowers are able to repay their mortgage loans before extending the credit, based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a QM incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet government-sponsored enterprise, or GSE, Federal Housing Administration, or FHA, and Veterans Affairs, or VA, underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits. The QM Rule became effective on January 10, 2014. These rules did not have a material impact on our mortgage business.

In November 2013, the CFPB issued a final rule implementing the Dodd-Frank Act requirement to establish integrated disclosures in connection with mortgage origination, which incorporates disclosure requirements under the Real Estate Settlement Procedures Act and the Truth-in-Lending Act. The requirements of the final rule apply to all covered mortgage transactions for which S&T Bank receives a consumer application on or after October 3, 2015. The CFPB issued a final rule regarding the integrated disclosures in December 2013, and the disclosure requirement became effective in October 2015. These rules did not have a material impact on our mortgage business.

Anti-Money Laundering Rules

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

Other Dodd-Frank Provisions

In December 2013, federal regulators adopted final regulations regarding the Volcker Rule established in the Dodd-Frank Act. The Volcker Rule generally prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies generally covering hedge funds and private equity funds, subject to certain exemptions. Banking entities had until July 21, 2017 to conform their activities to the requirements of the rule. Because S&T generally does not engage in the activities prohibited by the Volcker Rule, the effectiveness of the rule has not had a material effect on S&T Bank or its affiliates.

In addition, the Dodd-Frank Act provides that the amount of any interchange fee charged for electronic debit transactions by debit card issuers having assets over $10 billion must be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted a rule which limits the maximum permissible interchange fees that such issuers can receive for an electronic debit transaction. This rule, Regulation II, which was effective October 1, 2011, does not apply to a bank that, together with its affiliates, has less than $10 billion in assets, which includes S&T.

Competition

S&T Bank competes with other local, regional and national financial services providers, such as other financial holding companies, commercial banks, credit unions, finance companies and brokerage and insurance firms, including competitors that provide their products and services online and through mobile devices. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and bank holding companies and are thus able to operate under lower cost structures. Our wealth management business competes with trust companies, mutual fund companies, investment advisory firms, law firms, brokerage firms and other financial services companies.

Changes in bank regulation, such as changes in the products and services banks can offer and permitted involvement in non-banking activities by bank holding companies, as well as bank mergers and acquisitions, can affect our ability to compete with other financial services providers. Our ability to do so will depend upon how successfully we can respond to the evolving competitive, regulatory, technological and demographic developments affecting our operations.

Our customers are primarily in Pennsylvania and the contiguous states of Ohio, West Virginia, New York, Maryland and Delaware. The majority of our commercial and consumer loans are made to businesses and individuals in these states resulting in a geographic concentration. Our market area has a high density of financial institutions, some of which are significantly larger institutions with greater financial resources than us, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, mortgage banking companies, credit unions, online lenders and other financial service companies. Our most direct competition for deposits has historically come from commercial banks and credit unions. We face additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Because larger competitors have advantages in attracting business from larger corporations, we do not generally attempt to compete for that business. Instead, we concentrate our efforts on attracting the business of individuals, and small and medium-size businesses. We consider our competitive advantages to be customer service and responsiveness to customer needs, the convenience of banking offices and hours, access to electronic banking services and the availability and pricing of our customized banking solutions. We emphasize personalized banking and the advantage of local decision-making in our banking business.

The financial services 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. Technological innovations have lowered traditional barriers to entry and enabled many companies to compete in financial services markets. Many customers now expect a choice of banking options for the delivery of services, including traditional banking offices, telephone, internet, mobile, ATMs, self-service branches, in-store branches and/or digital and technology based solutions. These delivery channels are offered by traditional banks and savings associations, credit unions, brokerage firms, asset management groups, financial technology companies, finance and insurance companies, internet-based companies, and mortgage banking firms.

Item 1A. RISK FACTORS

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

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

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing U.S. economic environment and changes in the commercial and residential real estate market, any of which may cause our stock price to fluctuate. If our operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- volatility of stock market prices and volumes in general;
- changes in market valuations of similar companies;
- changes in the conditions of credit markets;
- changes in accounting policies or procedures as required by the Financial Accounting Standards Board, or FASB, or other regulatory agencies;
- legislative and regulatory actions, including the impact of the Dodd-Frank Act and related regulations, that may subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- additions or departures of key members of management;
- fluctuations in our quarterly or annual operating results; and
- changes in analysts’ estimates of our financial performance.

Risks Related to Credit

Our ability to assess the credit-worthiness of our customers may diminish, which may adversely affect our results of operations.

We incur credit risk by virtue of making loans and extending loan commitments and letters of credit. Credit risk is one of our most significant risks. Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize “in-market” lending while avoiding excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans adhere to corporate policy and problem loans are promptly identified. There can be no assurance that such measures will be effective in avoiding undue credit risk. If the models and approaches that we use to select, manage and underwrite our consumer and commercial loan products become less predictive of future charge-offs, due to events adversely affecting our customers, including rapid changes in the economy, we may have higher credit losses.

The value of the collateral used to secure our loans may not be sufficient to compensate for the amount of an unpaid loan and we may be unsuccessful in recovering the remaining balances from our customers.

Decreases in real estate values, particularly with respect to our commercial lending and mortgage activities, could adversely affect the value of property used as collateral for our loans and our customers’ ability to repay these loans, which in turn could impact our profitability. Repayment of our commercial loans is often dependent on the cash flow of the borrower, which may become unpredictable. If the value of the assets, such as real estate, serving as collateral for the loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are secured by real estate become troubled when real estate market conditions are declining or have declined, in the event of foreclosure, we may not be able to realize the amount of collateral that was anticipated at the time of originating the loan. This could result in higher charge-offs which could have a material adverse effect on our operating results and financial condition.

Changes in the overall credit quality of our portfolio can have a significant impact on our earnings.

Like other lenders, we face the risk that our customers will not repay their loans. We reserve for losses in our loan portfolio based on our assessment of inherent credit losses. This process, which is critical to our financial results and condition, requires complex judgment including our assessment of economic conditions, which are difficult to predict. Through a periodic review of the loan portfolio, management determines the amount of the allowance for loan losses, or ALL, by considering historical losses combined with qualitative factors including changes in lending policies and practices, economic conditions, changes in the loan portfolio, changes in lending management, results of internal loan reviews, asset quality trends, collateral values, concentrations of credit risk and other external factors. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control. Although we have policies and procedures in place to determine future losses, due to the subjective nature of this area, there can be no assurance that our management has accurately assessed the level of allowances reflected in our Consolidated Financial Statements. We may underestimate our inherent losses and fail to hold an ALL sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and an inadequate ALL. As our assessment of inherent losses changes, we may need to increase or decrease our ALL, which could significantly impact our financial results and profitability.

The adoption of ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, referred to as CECL, effective for us on January 1, 2020, will result in a significant change in how we recognize credit losses. If the assumptions or estimates we use in adopting the new standard are incorrect or we need to change our underlying assumptions, there may be a material adverse impact on our results of operations and financial condition.

Effective January 1, 2020, we adopted CECL, which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The measurement of expected credit losses is to be based on historical loss experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Once adopted, upon origination of a loan, the estimate of expected credit losses, and any subsequent changes to such estimate, will be recorded through provision for loan losses in our consolidated statement of income. The CECL model may create more volatility in the level of our allowance for credit losses, or ACL.

The CECL model permits the use of judgment in determining the approach that is most appropriate for us, based on facts and circumstances. Changes in economic conditions affecting borrowers, new information regarding our loans and other factors, both within and outside of our control, may require an increase in the ACL. We may underestimate our expected losses and fail to maintain an ACL sufficient to account for these losses. We will continue to periodically review and update our CECL methodology, models and the underlying assumptions, estimates and assessments we use to establish our ACL under the CECL standard to reflect our view of current conditions and reasonable and supportable forecasts. We will implement further enhancements or changes to our methodology, models and the underlying assumptions, estimates and assessments, as needed. If the assumptions or estimates we use in adopting the new standard are incorrect or we need to change our underlying assumptions and estimates, there may be a material adverse impact on our results of operations and financial condition.

For additional information on our anticipated adoption of the CECL standard, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations"*.

Our loan portfolio is concentrated within our market area, and our lack of geographic diversification increases our risk profile.

The regional economic conditions within our market area affect the demand for our products and services as well as the ability of our customers to repay their loans and the value of the collateral securing these loans. A significant decline in the regional economy caused by inflation, recession, unemployment or other factors could negatively affect our customers, the quality of our loan portfolio and the demand for our products and services. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, results of operations and financial condition. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market area.

Our loan portfolio has a significant concentration of commercial real estate loans.

The majority of our loans are to commercial borrowers and 53 percent of our total loans are commercial real estate, or CRE, and construction loans with real estate as the primary collateral. The CRE segment of our loan portfolio typically involves higher loan principal amounts, and the repayment of these loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Because payments on loans secured by CRE often depend upon the successful operation and management of the properties, repayment of these loans may be affected by factors outside the borrower's control, including adverse conditions in the real estate market or the economy. Additionally, we have a number of significant credit exposures to commercial borrowers, and while the majority of these borrowers have numerous projects that make up the total aggregate exposure, if one or more of these borrowers default or have financial difficulties, we could experience higher credit losses, which could adversely impact our financial condition and results of operations. In December 2015, the FDIC and the other federal financial institution regulatory agencies released a new statement on prudent risk management for commercial real estate lending. In this statement, the agencies express concerns about easing commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward.

Risks Related to Our Operations

Failure to keep pace with technological changes could have a material adverse effect on our results of operations and financial condition.

The financial services industry is constantly undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better service customers and reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy their demands, as well as create additional efficiencies within our operations. Many of our large competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services quickly or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business, financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

Our operational and security systems, infrastructure, including our computer systems, data management and internal processes, as well as those of third parties, are integral to our business. We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct or malfeasance, or failure or breach of third- party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with our own systems.

We handle a substantial volume of customer and other financial transactions every day. Our financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online and mobile banking, automated teller machines, or ATMs, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. This could adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume, electrical, telecommunications or other major physical infrastructure outages, natural disasters, events arising from local or larger scale political or social matters, including terrorist acts, and cyber attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, and cause reputational harm.

A cyber attack, information or security breach, or a technology failure of ours or of a third-party could adversely affect our ability to conduct our business or manage our exposure to risk, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software, and networks to conduct our operations. In addition, to access our network, products and services, our customers and third parties may use personal mobile devices or computing devices that are outside of our network environment.

Financial services institutions have been subject to, and are likely to continue to be the target of, cyber attacks, including computer viruses, malicious or destructive code, phishing attacks, denial of service or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its employees or customers or of third parties, or otherwise materially disrupt network access or business operations. For example, denial of service attacks have been launched against a number of large financial institutions and several large retailers have disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers. We have experienced cyber security incidents in the past, although not material, and we anticipate that, as a growing regional bank, we could experience further incidents. There can be no assurance that we will not suffer material losses or other material consequences relating to technology failure, cyber attacks or other information or security breaches.

In addition to external threats, insider threats also represent a risk to us. Insiders, having legitimate access to our systems and the information contained in them, have the opportunity to make inappropriate use of the systems and information. We have policies, procedures, and controls in place designed to prevent or limit this risk, but we cannot guarantee that these policies, procedures and controls fully mitigate this risk.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Any of these matters could result in our loss of customers and business opportunities, significant disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs. In addition, any of the matters described above could adversely impact our results of operations and financial condition.

We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third-party could have a material adverse effect on our business.

We are dependent for the majority of our technology, including our core operating system, on third-party providers. If these companies were to discontinue providing services to us, we may experience significant disruption to our business. In addition, each of these third parties faces the risk of cyber attack, information breach or loss, or technology failure. If any of our third-party service providers experience such difficulties, or if there is any other disruption in our relationships with them, we may be required to find alternative sources of such services. We are dependent on these third-party providers securing their information systems, over which we have limited control, and a breach of their information systems could adversely affect our ability to process transactions, service our clients or manage our exposure to risk and could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

Risks Related to Interest Rates and Investments

Our net interest income could be negatively affected by interest rate changes which may adversely affect our financial condition.

Our results of operations are largely dependent on net interest income, which is the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Therefore, any change in general market interest rates, including changes resulting from the Federal Reserve Board's policies, can have a significant effect on our net interest income and total income. There may be mismatches between the maturity and repricing of our assets and liabilities that could cause the net interest rate spread to compress, depending on the level and type of changes in the interest rate environment. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental agencies. In addition, some of our customers often have the ability to prepay loans or redeem deposits with either no penalties, or penalties that are insufficient to compensate us for the lost income. A significant reduction in our net interest income will adversely affect our business and results of operations. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Declines in the value of investment securities held by us could require write-downs, which would reduce our earnings.

In order to diversify earnings and enhance liquidity, we own both debt and equity instruments of government agencies, municipalities and other companies. We may be required to record impairment charges on our debt securities if they suffer a decline in value that is considered other-than-temporary. Additionally, the value of these investments may fluctuate depending on the interest rate environment, general economic conditions and circumstances specific to the issuer. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit or liquidity risks. Changes in the value of these instruments may result in a reduction to earnings and/or capital, which may adversely affect our results of operations and financial condition.

Risks Related to Our Business Strategy

Our strategy includes growth plans through organic growth and by means of acquisitions. Our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a growth strategy through organic growth within our current footprint and through market expansion. We also actively evaluate acquisition opportunities as another source of growth. We cannot give assurance that we will be able to expand our existing market presence, or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy.

Our failure to find suitable acquisition candidates, or successfully bid against other competitors for acquisitions, could adversely affect our ability to fully implement our business strategy. If we are successful in acquiring other entities, the process of integrating such entities, including DNB, will divert significant management time and resources. We may not be able to integrate efficiently or operate profitably DNB or any entity we may acquire, including DNB. We may experience disruption and incur unexpected expenses in integrating acquisitions, including DNB. These failures could adversely impact our future prospects and results of operation.

We are subject to competition from both banks and non-banking companies.

The financial services industry is highly competitive, and we encounter strong competition for deposits, loans and other financial services in our market area, including online providers of these products and services. Our principal competitors include other local, regional and national financial services providers, such as other financial holding companies, commercial banks, credit unions, finance companies and brokerage and insurance firms, including competitors that provide their products and services online. Many of our non-bank competitors are not subject to the same degree of regulation that we are and have advantages over us in providing certain services. Additionally, many of our competitors are significantly larger than we are and have greater access to capital and other resources. Failure to compete effectively for deposit, loan and other financial services customers in our markets could cause us to lose market share, slow our growth rate and have an adverse effect on our financial condition and results of operations.

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

We are required by federal regulatory authorities to maintain adequate capital levels to support operations. While we believe we currently have sufficient capital, if we cannot raise additional capital when needed, we may not be able to meet these requirements. In addition, our ability to further expand our operations through organic growth, which includes growth within our current footprint and growth through market expansion, may be adversely affected by any inability to raise necessary capital. Our ability to raise additional capital at any given time is dependent on capital market conditions at that time and on our financial performance and outlook.

Risks Related to Regulatory Compliance and Legal Matters

We are subject to extensive governmental regulation and supervision.

We are subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of our operations. The regulations are primarily intended to protect depositors, customers and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or policies could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs of regulatory compliance and of doing business, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things, and could divert management's time from other business activities. Failure to comply with applicable laws, regulations, policies or supervisory guidance could lead to enforcement and other legal actions by federal or state authorities, including criminal or civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, and/or damage to our reputation. The ramifications and uncertainties of the level of government intervention in the U.S. financial system could also adversely affect us.

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business, financial condition and results of operations.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

As previously disclosed in Part II, Item 9A “Controls and Procedures” of our Form 10-K for the period ended December 31, 2017, or Item 9A, a material weakness was identified in our internal control over financial reporting resulting from the inconsistent assessment of internally assigned risk weightings, which is one of several factors used to estimate the allowance for loan losses. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness did not result in any misstatement of our Consolidated Financial Statements for any period presented. As previously disclosed, we have provided additional training internally and improved our documentation to strengthen the support for the judgments applied to risk rating conclusions by our internal Loan Review Department. Additionally, an independent third-party completed an engagement that encompassed a review of our loan review policies, procedures and processes, as well as an in-depth examination of judgments supporting risk rating conclusions. Based on the remediation performed by us and the conclusions reached by the independent third-party. Management has concluded that the material weakness was remediated as of September 30, 2018. However, we may in the future discover areas of our internal controls that need improvement. Failure to maintain effective controls or to timely implement any necessary improvement of our internal and disclosure controls could, among other things, result in losses from errors, harm our reputation, or cause investors to lose confidence in the reported financial information, all of which could have a material adverse effect on our results of operations and financial condition.

Negative public opinion could damage our reputation and adversely impact our earnings and liquidity.

Reputational risk, or the risk to our business, earnings, liquidity and capital from negative public opinion, is inherent in our operations. Negative public opinion could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues or inadequate protection of customer information. Financial companies are highly vulnerable to reputational damage when they are found to have harmed customers, particularly retail customers, through conduct that is illegal or viewed as unfair, deceptive, manipulative or otherwise wrongful. We are dependent on third-party providers for a number of services that are important to our business. Refer to the risk factor titled, “We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third-party could have a material adverse effect on our business” for additional information. A failure by any of these third-party service providers could cause a disruption in our operations, which could result in negative public opinion about us or damage to our reputation. We expend significant resources to comply with regulatory requirements, and the failure to comply with such regulations could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers and employees, expose us to litigation and regulatory action and adversely impact our earnings and liquidity.

We may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on our financial condition and results of operations.

From time to time, customers and others make claims and take legal action pertaining to the performance of our responsibilities. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant expenses, attention from management and financial liability. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Risks Related to Liquidity

We rely on a stable core deposit base as our primary source of liquidity.

We are dependent for our funding on a stable base of core deposits. Our ability to maintain a stable core deposit base is a function of our financial performance, our reputation and the security provided by FDIC insurance, which combined, gives customers confidence in us. If any of these considerations deteriorates, the stability of our core deposits could be harmed. In addition, deposit levels may be affected by factors such as general interest rate levels, rates paid by competitors, returns available to customers on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on other sources of liquidity to meet withdrawal demands or otherwise fund operations.

Our ability to meet contingency funding needs, in the event of a crisis that causes a disruption to our core deposit base, is dependent on access to wholesale markets, including funds provided by the FHLB of Pittsburgh.

We own stock in the Federal Home Loan Bank of Pittsburgh, or FHLB, in order to qualify for membership in the FHLB system, which enables us to borrow on our line of credit with the FHLB that is secured by a blanket lien on a significant portion of our loan portfolio. Changes or disruptions to the FHLB or the FHLB system in general may materially impact our ability to meet short and long-term liquidity needs or meet growth plans. Additionally, we cannot be assured that the FHLB will be able to provide funding to us when needed, nor can we be certain that the FHLB will provide funds specifically to us, should our financial condition and/or our regulators prevent access to our line of credit. The inability to access this source of funds could have a materially adverse effect on our ability to meet our customer’s needs. Our financial flexibility could be severely constrained if we were unable to maintain our access to funding or if adequate financing is not available at acceptable interest rates.

Risks Related to Owning Our Stock

Our ability to pay dividends on our common stock may be limited.

Holders of our common stock will be entitled to receive only such dividends as our Board of Directors may declare out of funds legally available for such payments. The payment of common dividends by S&T is subject to certain requirements and limitations of Pennsylvania law. Although we have historically declared cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce, suspend or eliminate our dividend at any time. Substantial portions of our revenue consist of dividend payments we receive from S&T Bank. The payment of common dividends by S&T Bank is subject to certain requirements and limitations under federal and 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. Any decrease to or elimination of the dividends on our common stock could adversely affect the market price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments.

Item 2. PROPERTIES

S&T Bancorp, Inc. headquarters is located in Indiana, Pennsylvania. We operate in five markets including Western Pennsylvania, Eastern Pennsylvania, Northeast Ohio, Central Ohio and Upstate New York. At December 31, 2019, we operate 76 banking branches and 5 loan production offices, of which 45 are leased facilities.

Item 3. LEGAL PROCEEDINGS

The nature of our business generates a certain amount of litigation that arises in the ordinary course of business. However, in management’s opinion, there are no proceedings pending that we are a party to or to which our property is subject that would be material in relation to our financial condition or results of operations. 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. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stock Prices and Dividend Information

Our common stock is listed on the NASDAQ Global Select Market System, or NASDAQ, under the symbol STBA. As of the close of business on January 31, 2020, we had 2,776 shareholders of record.

Certain information relating to securities authorized for issuance under equity compensation plans is set forth under the heading Equity Compensation Plan Information in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Report.

Purchases of Equity Securities

The following table is a summary of our purchases of common stock during the fourth quarter of 2019:

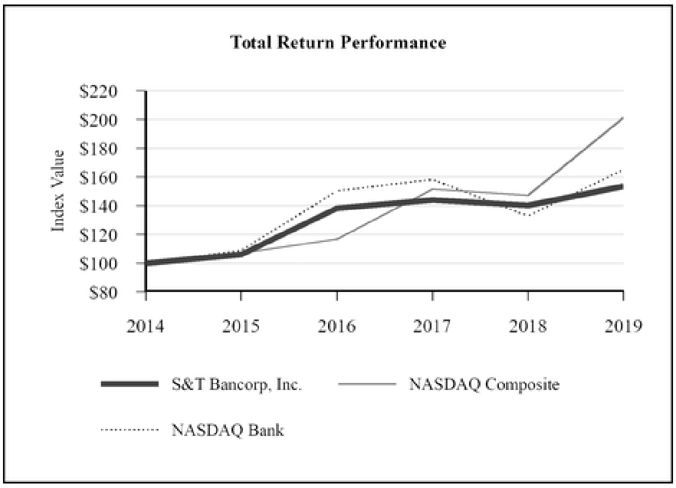
Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan [1]	Approximate dollar value of shares that may yet be purchased under the plan
10/1/2019 - 10/31/2019	—	$ —	—	$ 50,000,000
11/1/2019 - 11/30/2019	—	—	—	50,000,000
12/1/2019 - 12/31/2019	—	—	—	50,000,000
Total	**—**	**$ —**	**—**	**$ 50,000,000**

[1]On September 16, 2019, our Board of Directors authorized a new $50 million share repurchase plan. This new repurchase authorization, which is effective through March 31, 2021, permits S&T to repurchase from time to time up to $50 million in aggregate value of shares of S&T's common stock through a combination of open market and privately negotiated repurchases. The specific timing, price and quantity of repurchases will be at the discretion of S&T and will depend on a variety of factors, including general market conditions, the trading price of common stock, legal and contractual requirements, applicable securities laws and S&T's financial performance. The repurchase plan does not obligate us to repurchase any particular number of shares. We expect to fund any repurchases from cash on hand and internally generated funds. Since its approval, no common shares have been repurchased under the new share repurchase plan.

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

Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the NASDAQ Composite Index(1) and the NASDAQ Bank Index(2) assuming a $100 investment in each on December 31, 2014 and the reinvestment of dividends.



	Period Ending					
Index	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**
S&T Bancorp, Inc.	100.00	105.99	138.22	144.05	140.20	153.50
NASDAQ Composite(1)	100.00	107.11	116.72	151.41	147.16	201.22
NASDAQ Bank(2)	100.00	108.84	150.17	158.36	132.75	165.11

(1)The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.
(2)The NASDAQ Bank Index contains securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as Banks. These companies include banks providing a broad range of financial services, including retail banking, loans and money transmissions.

Item 6. SELECTED FINANCIAL DATA

The tables below summarize selected consolidated financial data as of the dates or for the periods presented and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and the Financial Statements and Supplementary Data in Part II, Item 8 of this Report. The below tables include the merger with DNB on November 30, 2019, the sale of a majority interest of insurance business on January 1, 2018, the effects of the enactment of the Tax Act in 2017 and the acquisition of Integrity Bancshares, Inc. beginning March 4, 2015.

CONSOLIDATED BALANCE SHEETS

	December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Total assets	$ 8,764,649	$ 7,252,221	$ 7,060,255	$ 6,943,053	$ 6,318,354
Securities, at fair value	784,283	684,872	698,291	693,487	660,963
Loans held for sale	5,256	2,371	4,485	3,793	35,321
Portfolio loans, net of unearned income	7,137,152	5,946,648	5,761,449	5,611,419	5,027,612
Goodwill	371,621	287,446	291,670	291,670	291,764
Total deposits	7,036,576	5,673,922	5,427,891	5,272,377	4,876,611
Securities sold under repurchase agreements	19,888	18,383	50,161	50,832	62,086
Short-term borrowings	281,319	470,000	540,000	660,000	356,000
Long-term borrowings	50,868	70,314	47,301	14,713	117,043
Junior subordinated debt securities	64,277	45,619	45,619	45,619	45,619
Total shareholders' equity	1,191,998	935,761	884,031	841,956	792,237

CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Interest income	$ 320,484	$ 289,826	$ 260,642	$ 227,774	$ 203,548
Interest expense	73,693	55,388	34,909	24,515	15,997
Provision for loan losses	14,873	14,995	13,883	17,965	10,388
Net Interest Income After Provision for Loan Losses	**231,918**	**219,443**	**211,850**	**185,294**	**177,163**
Noninterest income	52,558	49,181	55,462	54,635	51,033
Noninterest expense	167,116	145,445	147,907	143,232	136,717
Net Income Before Taxes	**117,360**	**123,179**	**119,405**	**96,697**	**91,479**
Provision for income taxes	19,126	17,845	46,437	25,305	24,398
Net Income	**$ 98,234**	**$ 105,334**	**$ 72,968**	**$ 71,392**	**$ 67,081**

SELECTED PER SHARE DATA AND RATIOS

Refer to Explanation of Use of Non-GAAP Financial Measures below for a discussion of common tangible book value, common return on average tangible common equity and the ratio of tangible common equity to tangible assets as non-GAAP financial measures.

	December 31,				
	2019	2018	2017	2016	2015
Per Share Data					
Earnings per common share—basic	$ 2.84	$ 3.03	$ 2.10	$ 2.06	$ 1.98
Earnings per common share—diluted	$ 2.82	$ 3.01	$ 2.09	$ 2.05	$ 1.98
Dividends declared per common share	$ 1.09	$ 0.99	$ 0.82	$ 0.77	$ 0.73
Dividend payout ratio	38.03%	32.79%	39.15%	37.52%	36.47%
Common book value	$ 30.13	$ 26.98	$ 25.28	$ 24.12	$ 22.76
Common tangible book value (non-GAAP)	$ 20.52	$ 18.63	$ 16.87	$ 15.67	$ 14.26
Profitability Ratios					
Common return on average assets	1.32%	1.50%	1.03%	1.08%	1.13%
Common return on average equity	9.98%	11.60%	8.37%	8.67%	8.94%
Common return on average tangible common equity (non-GAAP)	14.41%	17.14%	12.77%	13.71%	14.39%
Capital Ratios					
Common equity/assets	13.60%	12.90%	12.52%	12.13%	12.54%
Tangible common equity/tangible assets (non-GAAP)	9.68%	9.28%	8.72%	8.23%	8.24%
Tier 1 leverage ratio	10.29%	10.05%	9.17%	8.98%	8.96%
Common equity tier 1	11.43%	11.38%	10.71%	10.04%	9.77%
Risk-based capital—tier 1	11.84%	11.72%	11.06%	10.39%	10.15%
Risk-based capital—total	13.22%	13.21%	12.55%	11.86%	11.60%
Asset Quality Ratios					
Nonaccrual loans/loans	0.76%	0.77%	0.42%	0.76%	0.70%
Nonperforming assets/loans plus OREO	0.81%	0.83%	0.42%	0.77%	0.71%
Allowance for loan losses/total portfolio loans	0.87%	1.03%	0.98%	0.94%	0.96%
Allowance for loan losses/nonperforming loans	115%	132%	236%	124%	136%
Net loan charge-offs/average loans	0.22%	0.18%	0.18%	0.25%	0.22%

Explanation of Use of Non-GAAP Financial Measures

In addition to traditional measures presented in accordance with GAAP, our management uses, and this Report contains or references, certain non-GAAP financial measures identified below. We believe 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 other companies in the financial services industry. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP or considered to be more important than financial results determined in accordance with GAAP, nor are they necessarily comparable with non-GAAP measures which may be presented by other companies.

We believe the presentation of net interest income on a FTE 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 Net Income is reconciled to net interest income adjusted to a FTE basis in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report.

The efficiency ratio is noninterest expense divided by noninterest income plus net interest income, on a FTE basis, which ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice.

Item 6. SELECTED FINANCIAL DATA - continued

Common tangible book value, common return on average tangible common equity and the ratio of tangible common equity to tangible assets exclude goodwill and other intangible assets in order to show the significance of the tangible elements of our assets and common equity. Total assets and total average assets are reconciled to total tangible assets and total tangible average assets. Total shareholders' equity and total average shareholders' equity are also reconciled to total tangible common equity and total tangible average common equity. These measures are consistent with industry practice.

RECONCILIATIONS OF GAAP TO NON-GAAP RATIOS

	December 31				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Common tangible book value (non-GAAP)					
Total shareholders' equity	$ 1,191,998	$ 935,761	$ 884,031	$ 841,956	$ 792,237
Less: goodwill and other intangible assets	(382,540)	(290,047)	(295,347)	(296,580)	(298,289)
Tax effect of other intangible assets	2,293	546	1,287	1,719	2,284
Tangible common equity (non-GAAP)	811,751	646,260	589,971	547,095	496,232
Common shares outstanding	39,560	34,684	34,972	34,913	34,810
Common tangible book value (non-GAAP)	**$ 20.52**	**$ 18.63**	**$ 16.87**	**$ 15.67**	**$ 14.26**
Common return on average tangible common shareholders' equity (non-GAAP)					
Net income	$ 98,234	$ 105,334	$ 72,968	$ 71,392	$ 67,081
Plus: amortization of intangibles	836	861	1,233	1,615	1,818
Tax effect of amortization of intangibles	(176)	(181)	(432)	(565)	(636)
Net income before amortization of intangibles	98,894	106,014	73,769	72,442	68,263
Total average shareholders' equity (GAAP Basis)	983,908	908,355	872,130	823,607	750,069
Less: average goodwill and average other intangible assets	(298,228)	(290,380)	(295,937)	(297,377)	(278,130)
Tax effect of other intangible assets	639	614	1,493	1,992	2,283
Tangible average common shareholders' equity (non-GAAP)	**$ 686,319**	**$ 618,589**	**$ 577,686**	**$ 528,222**	**$ 474,222**
Common return on average tangible common shareholders' equity (non-GAAP)	**14.41%**	**17.14%**	**12.77%**	**13.71%**	**14.39%**
Efficiency Ratio (non-GAAP)					
Noninterest expense	$ 167,116	$ 145,445	$ 147,907	$ 143,232	$ 136,717
Less: merger related expenses	(11,350)	—	—	—	—
Noninterest expense excluding nonrecurring items	155,766	145,445	147,907	143,232	136,717
Net interest income per Consolidated Statements of Net Income	246,791	234,438	225,733	203,259	187,551
Plus: taxable equivalent adjustment	3,757	3,804	7,493	7,043	6,123
Noninterest income	52,558	49,181	55,462	54,635	51,033
Less: securities (gains) losses, net	26	—	(3,000)	—	34
Net interest income (FTE) (non-GAAP) plus noninterest income	**$ 303,132**	**$ 287,423**	**$ 285,688**	**$ 264,938**	**$ 244,742**
Efficiency ratio (non-GAAP)	**51.39%**	**50.60%**	**51.77%**	**54.06%**	**55.86%**
Tangible common equity (non-GAAP)					
Total shareholders' equity (GAAP basis)	$ 1,191,998	$ 935,761	$ 884,031	$ 841,956	$ 792,237
Less: goodwill and other intangible assets	(382,540)	(290,047)	(295,347)	(296,580)	(298,289)
Tax effect of other intangible assets	2,293	546	1,287	1,719	2,284
Tangible common equity (non-GAAP)	**811,751**	**646,260**	**589,971**	**547,095**	**496,232**
Total assets (GAAP basis)	8,764,649	7,252,221	7,060,255	6,943,053	6,318,354
Less: goodwill and other intangible assets	(382,540)	(290,047)	(295,347)	(296,580)	(298,289)
Tax effect of other intangible assets	2,293	546	1,287	1,719	2,284
Tangible assets (non-GAAP)	**$ 8,384,402**	**$ 6,962,720**	**$ 6,766,195**	**$ 6,648,192**	**$ 6,022,349**
Tangible common shareholders' equity/tangible assets (non-GAAP)	**9.68%**	**9.28%**	**8.72%**	**8.23%**	**8.24%**

Item 6. SELECTED FINANCIAL DATA - continued

The following profitability metrics are adjusted to exclude merger related expenses from the DNB merger for the year ended:

(dollars in thousands)		December 31, 2019
Diluted Earnings Per Share		
Net income	$	98,234
Adjust for merger related expenses		11,350
Tax effect of merger related expenses		(2,106)
Net income excluding merger related expenses (non-GAAP)	**$**	**107,478**
Average shares outstanding - diluted		34,723
Diluted adjusted earnings per share (non-GAAP)	**$**	**3.09**
Common Return on Average Tangible Common Shareholders' Equity (non-GAAP)		
Net income	$	98,234
Adjust for merger related expenses		11,350
Tax effect of merger related expenses		(2,106)
Net income excluding merger related expenses		**107,478**
Plus: amortization of intangibles		836
Tax effect of amortization of intangibles		(176)
Adjusted net income		**108,138**
Total average shareholders’ equity (GAAP Basis)		983,908
Less: average goodwill and average other intangible assets		(298,228)
Tax effect of other intangible assets		639
Tangible average common shareholders' equity (non-GAAP)	**$**	**686,319**
Common return on average tangible common shareholders' equity (non-GAAP)		**15.76%**
Return on Average Assets (non-GAAP)		
Net income excluding merger related expenses	$	107,478
Average total assets		7,435,536
Return on average assets (non-GAAP)		**1.45%**
Return on Average Shareholders' Equity (non-GAAP)		
Net income excluding merger related expenses	$	107,478
Average total shareholders' equity		983,908
Return on average shareholders' equity (non-GAAP)		**10.92%**

On December 22, 2017, H.R.1, originally known as the Tax Cuts and Jobs Act, or Tax Act, was signed into law. We made certain tax adjustments to reflect the impact of the Tax Act in our 2017 income tax expense for the year ended December 31, 2017. An adjustment of $13.4 million was made for the re-measurement of our deferred tax assets and liabilities as a result of the new corporate rate of 21 percent, rather than the pre-enactment rate of 35 percent. We believe the $13.4 million non-cash tax expense impacts comparability to prior year financial measurements and results and therefore present certain non-GAAP financial measures excluding the impact of this amount. These non-GAAP measures exclude the net deferred tax asset, or DTA, re-measurement and are reconciled to the GAAP measures below:

(dollars in thousands)		2017
Diluted Earnings Per Share		
Net Income	$	72,968
Plus: DTA re-measurement		13,433
Adjusted Net Income (non-GAAP)	**$**	**86,401**
Average shares outstanding - diluted		34,955
Diluted adjusted earnings per share (non-GAAP)	**$**	**2.47**

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

This section reviews our financial condition for each of the past two years and results of operations for each of the past three years. Certain reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. Some tables may include additional time periods to illustrate trends within our Consolidated Financial Statements. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains or incorporates statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting S&T and its future business and operations. Forward looking statements are typically identified by words or phrases such as "will likely result", "expect", "anticipate", "estimate", "forecast", "project", "intend", " believe", "assume", "strategy", "trend", "plan", "outlook", "outcome", "continue", "remain", "potential", "opportunity", "believe", "comfortable", "current", "position", "maintain", "sustain", "seek", "achieve" and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to: credit losses; cyber-security concerns; rapid technological developments and changes; sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve; a change in spreads on interest-earning assets and interest-bearing liabilities; regulatory supervision and oversight; changes in accounting policies, practices, or guidance, for example, our adoption of CECL; legislation affecting the financial services industry as a whole, and S&T, in particular; the outcome of pending and future litigation and governmental proceedings; increasing price and product/service competition; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; managing our internal growth and acquisitions; the possibility that the anticipated benefits from acquisitions, including DNB, cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; containing costs and expenses; reliance on significant customer relationships; general economic or business conditions; deterioration of the housing market and reduced demand for mortgages; deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses. Many of these factors, as well as other factors, are described elsewhere in this report, including Part I, Item 1A, Risk Factors and any of our subsequent filings with the SEC. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are presented in Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how significant assets and liabilities are valued in the Consolidated Financial Statements and how those values are determined.

We view critical accounting policies to be those which are highly dependent on subjective or complex estimates, assumptions and judgments and where changes in those estimates and assumptions could have a significant impact on the Consolidated Financial Statements. We currently view the determination of the allowance for loan losses, or ALL, goodwill and other intangible assets and accounting for acquisitions to be critical accounting policies. During 2019, we identified accounting for acquisitions as a critical accounting policy due to our merger with DNB. Otherwise, we did not significantly change the manner in which we applied our critical accounting policies or developed related assumptions or estimates. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee.

Allowance for Loan Losses

Our loan portfolio is our largest category of assets on our Consolidated Balance Sheets. We have designed a systematic ALL methodology which is used to determine our provision for loan losses and ALL on a quarterly basis. The ALL represents management's estimate of probable losses inherent in the loan portfolio at the balance sheet date and is presented as a reserve against loans in the Consolidated Balance Sheets. The ALL is increased by a provision charged to expense and reduced by charge-offs, net of recoveries. Determination of an adequate ALL is inherently subjective and may be subject to significant changes from period to period.

The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. A loan is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the original contractual terms of the loan agreement. For all troubled debt restructurings, or TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. Specific reserves are established based upon the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan's effective interest rate, 2) the loan's observable market price or 3) the estimated fair value of the collateral if the loan is collateral dependent. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, the current estimated fair value of the loan and collateral values. Our impairment evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. We obtain appraisals annually on impaired loans greater than $0.5 million.

The ALL methodology for groups of homogeneous loans, or the reserve for loans collectively evaluated for impairment, is comprised of both a quantitative and qualitative analysis. We first apply historical loss rates to pools of loans, with similar risk characteristics, using a migration analysis where losses in each pool are aggregated over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from when an event happens that causes the borrower to be unable to pay on a loan until the loss is confirmed through a loan charge-off.

In conjunction with our annual review of the ALL assumptions, we have updated our analysis of LEPs for our Commercial and Consumer loan portfolio segments using our loan charge-off history. Based on our updated analysis, we shortened our LEP over the construction portfolio from 4 years to 3 years and made no other changes. We estimate an LEP of 3 years for CRE, 3 years for construction and 1.25 years for C&I. We estimate an LEP of 2.75 years for Consumer Real Estate and 1.25 years for Other Consumer.

Another key assumption is the look-back period, or LBP, which represents the historical period utilized to calculate loss rates. We used 10.5 years for our LBP for all portfolio segments which encompasses our loss experience during the 2008 - 2010 Financial Crisis and our more recent improved loss experience.

After consideration of the historic loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio, changes in lending management, results of internal loan reviews, asset quality trends, collateral values, concentrations of credit risk and other external factors. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

Our ALL Committee meets at least quarterly to verify the overall adequacy of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate our ALL methodology. This validation includes reviewing the loan segmentation, LEP, LBP and the qualitative framework. As a result of this ongoing monitoring process, we may make changes to our ALL to be responsive to the economic environment.

Although we believe our process for determining the ALL adequately considers all of the factors that would likely result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual losses are higher than management estimates, additional provisions for loan losses could be required and could adversely affect our earnings or financial position in future periods.

Goodwill and Other Intangible Assets

As a result of acquisitions, we have recorded goodwill and identifiable intangible assets in our Consolidated Balance Sheets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired.

We have one reporting unit Community Banking. Existing goodwill relates to value inherent in the Community Banking reporting unit and that value is dependent upon our ability to provide quality, cost-effective services in the face of competition from other market participants. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of our services. As such, goodwill value is supported ultimately by profitability that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could adversely impact our earnings in future periods

The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if it is determined that a triggering event has occurred. We first assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of the reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed that could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. We completed the annual goodwill impairment assessment as required in 2019, 2018 and 2017; the results indicated that the fair value exceeded the carrying value.

We determine the amount of identifiable intangible assets based upon independent core deposit and insurance contract valuations at the time of acquisition. Intangible assets with finite useful lives, consisting primarily of core deposit and customer list intangibles, are amortized using straight-line or accelerated methods over their estimated weighted average useful lives, ranging from 10 to 20 years. Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No such events or changes in circumstances occurred during the years ended December 31, 2019, 2018 and 2017.

The financial services industry and securities markets can be adversely affected by declining values. If economic conditions result in a prolonged period of economic weakness in the future, our business may be adversely affected. In the event that we determine that either our goodwill is impaired, recognition of an impairment charge could have a significant adverse impact on our financial position or results of operations in the period in which the impairment occurs.

Business Combinations

We account for business combinations using the acquisition method of accounting. All identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree are recognized and measured as of the acquisition date at fair value. We record goodwill for the excess of the purchase price over the fair value of net assets acquired. Results of operations of the acquired entities are included in the consolidated statement of income from the date of acquisition.

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related ALL. Determining the fair value of acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. In estimating the fair value of our acquired loans, we considered a number of factors including loss rates, internal risk rating, delinquency status, loan type, loan term, prepayment rates, recovery periods and the current interest rate environment. The premium or discount estimated through the loan fair value calculation is recognized into interest income on a level yield basis over the remaining life of the loans. Subsequent to the acquisition date, the method utilized to estimate the required ALL for these loans is similar to the method used for originated loans; however, we record a provision for credit losses only when the required allowance exceeds the remaining fair value adjustment.

Acquired loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable at time of acquisition that all contractually required payments will not be collected. Loans acquired with evidence of credit deterioration were evaluated and not considered to be significant.

Recent Accounting Pronouncements and Developments

Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 of this Report, discusses new accounting pronouncements that we have adopted during 2019.

Recently Issued Accounting Standards Updates

Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this ASU apply to an entity that is a customer in a hosting arrangement that is a service contract. These amendments relate to accounting for implementation costs (*e.g*., implementation, setup and other upfront costs). These amendments require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which costs to capitalize and which costs to expense. These amendments require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. This ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption of the amendments is permitted, including adoption in any interim period. We adopted this ASU on January 1, 2020. The amendments in this ASU did not materially impact our Consolidated Balance Sheets or Consolidated Statements of Net Income.

Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU No. 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this ASU apply to all employers that sponsor defined benefit pension or other postretirement plans. These amendments remove certain disclosures from Topic 715-20 and require additional disclosures. The amendments in this ASU will require S&T to update our employee benefits disclosures beginning with our Form 10-Q for the period ended March 31, 2021. The amendments in this ASU will have no impact on our Consolidated Balance Sheets or Consolidated Statements of Net Income.

Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU remove certain disclosures from Topic 820, modify disclosures and/or require additional disclosures. The amendments in this Update will require us to change our Fair Value disclosures beginning with our Form 10-Q for the period ended March 31, 2020. The amendments in this ASU will have no impact on our Consolidated Balance Sheets or Consolidated Statements of Net Income.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment (Topic 350). The main objective of this ASU is to simplify the current requirements for testing goodwill for impairment by eliminating step two from the goodwill impairment test. The amendments are expected to reduce the complexity and costs associated with performing the goodwill impairment test, which could result in recording impairment charges sooner than under the current guidance. This Update is effective for any interim and annual impairment tests in reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted the amendments of this ASU on January 1, 2020. The amendments in this ASU did not have any impact on our Consolidated Balance Sheets or Consolidated Statements of Net Income.

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as CECL, or current expected credit loss model. Credit losses related to available-for-sale debt securities (regardless of whether the impairment is considered to be other-than-temporary) will be measured in a manner similar to the present, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We adopted this standard on January 1, 2020.

The adoption of this standard resulted in an immaterial allowance for credit losses, or ACL, related to our available-for-sale debt securities portfolio due to the credit quality of this portfolio.

Our CECL Committee governs the implementation of these amendments and the Committee consists of key stakeholders from Credit Administration, Finance, Accounting, Risk Management and Internal Audit. We engaged a third-party consultant to assist us in developing our CECL methodology. Our CECL model includes portfolio loan segmentation based upon similar risk characteristics and both a quantitative and a qualitative component of the calculation which incorporates a forecasting component of certain economic variables. We ran two parallel credit loss models in the fourth quarter of 2019 which were performed under the operation of our redesigned procedures and internal controls. The CECL model was reviewed and validated by an independent consultant during the fourth quarter of 2019.

Based on our January 1, 2020 CECL model estimate, we believe the adoption of ASU 2016-13 will result in an increase of approximately $7.5 million to $9.0 million, or 12 percent to 14 percent, in our ACL related to the legacy loan portfolio. The impact of the acquired DNB loans will result in an additional reserve of approximately $9.5 million to $11.0 million, or 15 percent to 18 percent. Combined, the increase in the ACL will be approximately $17.0 million to $20.0 million, or 27 percent to 32 percent. The increase in our ACL will be applied using a cumulative-effect adjustment to retained earnings. These estimated ranges may be impacted by the finalization of our purchase accounting for the DNB merger. Further, the ACL in future periods may be impacted by our loan volume, the mix of our loan portfolio, changes in risk ratings of loans, other indicators of credit quality and forecasted macroeconomic variables.

Executive Overview

We are an $8.8 billion bank holding company that is headquartered in Indiana, Pennsylvania and trades on the NASDAQ Global Select Market under the symbol STBA. We provide a full range of financial services with retail and commercial banking products, cash management services, trust and brokerage services. Our principal subsidiary, S&T Bank, a full-service financial institution, was established in 1902, and operates in five markets including Western Pennsylvania, Eastern Pennsylvania, Northeast Ohio, Central Ohio and Upstate New York.

We earn revenue primarily from interest on loans and securities and fees charged for financial services provided to our customers. We incur expenses for the cost of deposits and other funding sources, provision for loan losses and other operating costs such as salaries and employee benefits, data processing, occupancy and tax expense.

Our mission is to become the financial services provider of choice within the markets that we serve which will enable us to continue to be a high performing regional community bank. We strive to do this by delivering exceptional service and value, one customer at a time. Our strategic plan follows a disciplined approach focused on organic growth, which includes both growth within our current footprint and through market expansion. We employ a geographic market-based growth platform in order to drive organic growth. Each of our five markets is led by a Market President who is responsible for developing strategic initiatives specific to each market. We acknowledge that each of our five markets are in different stages of development and that our market based strategy will allow us to customize our approach to each market given its developmental stage and unique characteristics. We also actively evaluate acquisition opportunities that align with our strategic objectives as another source of growth. Our strategic plan includes a collaborative model that combines expertise from all areas of our business and focuses on satisfying each customer's individual financial objectives. We continuously work to maintain and improve the efficiency of our different lines of business.

Our major accomplishments during 2019 included:

- Market expansion through a merger and expansion in our existing markets:
    - We merged with DNB Financial Corporation (DNB) on November 30, 2019. The merger expanded S&T’s footprint in Eastern Pennsylvania gaining a new presence in the counties of Chester, Delaware and Philadelphia. The merger was valued at $201.0 million, or $37.72 per share, and added approximately $899.3 million of portfolio loans and $990.6 million of deposits at December 31, 2019.
    - We expanded our presence in Ohio with the opening of new branches in Central Ohio (Hillard) and Northeast Ohio (Cuyahoga Falls).
    - We opened two loan production offices in Upstate New York (Buffalo) and Eastern Pennsylvania (Greater Berks).
- We had portfolio loan growth of $291.2 million, or 4.9 percent, and deposit growth of $372.1 million, or 6.6 percent, excluding the DNB merger with growth in all five of our markets.
- Net income was $98.2 million, or $2.82 per diluted share, for the year ended December 31, 2019 compared to net income of $105.3 million, or $3.01 per diluted share, for 2018. On a non-GAAP basis, excluding $11.4 million of merger related expenses, or $0.27 per diluted share, our full year 2019 net income increased 2.1 percent to $107.5 million, or $3.09 per diluted share.
- Return on average assets, or ROA, was 1.32 percent, return on average equity, or ROE, was 9.98 percent and return on average tangible equity, or ROTE (non-GAAP), was 14.41 percent. Excluding $11.4 million of merger related expenses ROA (non-GAAP) was 1.45 percent, ROE (non-GAAP) was 10.92 percent and ROTE (non-GAAP) was 15.76 percent.

Refer to Explanation of Use of Non-GAAP Financial Measures in Part II, Item 6 Selected Financial Data of this Report for a reconciliation to the most directly comparable GAAP measures.

Results of Operations
Year Ended December 31, 2019

Earnings Summary

Net income decreased $7.1 million, or 6.7 percent, to $98.2 million, or $2.82 per diluted share, in 2019 compared to $105.3 million, or $3.01 per diluted share, in 2018. The 2019 results included $11.4 million, or $0.27 per diluted share, of merger related expenses. The DNB merger results have been included in our financial statements since the consummation of the merger on November 30, 2019.

The decrease in net income was primarily due to an increase in noninterest expense of $21.7 million, that included $11.4 million of merger related expenses. This decrease was partially offset by increases in net interest income of $12.4 million and noninterest income of $3.4 million compared to 2018.

Net interest income increased $12.4 million, or 5.3 percent, to $246.8 million compared to $234.4 million in 2018. Average interest-earning assets increased $335.7 million compared to 2018 to $6.9 billion. Average interest-bearing liabilities increased $182.5 million with increases in average interest-bearing deposits of $460.8 million offset by decreases in borrowings of $278.3 million. Net interest margin, on a fully taxable-equivalent, or FTE, basis (non-GAAP), remained unchanged at 3.64 percent. Net interest margin is reconciled to net interest income adjusted to a FTE basis below in the "Net Interest Income" section of this MD&A.

The provision for loan losses was $14.9 million for 2019 compared to $15.0 million in 2018. Net loan charge-offs increased $3.2 million to $13.6 million, or 0.22 percent of average loans, for 2019 compared to $10.4 million, or 0.18 percent of average loans, in 2018. Nonperforming loans increased $8.0 million and impaired loans increased $25.8 million with an increase in specific reserves of $0.4 million to $2.2 million compared to 2018.

Total noninterest income increased $3.4 million to $52.6 million compared to $49.2 million in 2018. The increase in noninterest income primarily related to higher commercial loan swap income of $4.3 million compared to 2018 as we continue to see a high demand for this product in the current rate environment. Offsetting this increase was a $1.9 million gain on the sale of a majority interest in S&T Evergreen Insurance, LLC in 2018. Wealth management fees decreased $1.5 million compared to the prior year due to a decline in financial service revenue.

Noninterest expense increased $21.7 million in part due to merger related expenses of $11.4 million in 2019, an increase of $7.9 million in salaries and employee benefits and an increase of $3.8 million in data processing and information technology. These expense increases were partially offset by a $2.8 million decrease in other taxes mainly due to a one-time adjustment related to a state sales tax assessment and a decrease of $2.5 million in FDIC insurance primarily due to Small Bank Assessment Credits that were received during 2019.

The federal income tax provision increased $1.3 million to $19.1 million in 2019 compared to $17.8 million in 2018. The increase in our 2019 income tax provision was mainly due to non-recurring items related to the tax benefit from the pension contribution in 2018 offset by the sale of a majority interest of our insurance business in 2018.

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce what we believe is an acceptable level of net interest income.

The interest income on interest-earning assets and the net interest margin are presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities and the dividend-received deduction for equity securities using the federal statutory tax rate of 21 percent for 2019 and 2018 and 35 percent for 2017. We believe this to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable sources of interest income.

The following table reconciles interest income per the Consolidated Statements of Net Income to net interest income and rates on a FTE basis for the periods presented:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Total interest income	$ 320,484	$ 289,826	$ 260,642
Total interest expense	73,693	55,388	34,909
Net interest income per Consolidated Statements of Net Income	246,791	234,438	225,733
Adjustment to FTE basis	3,757	3,803	7,493
Net Interest Income (FTE) (non-GAAP)	**$ 250,548**	**$ 238,241**	**$ 233,226**
Net interest margin	3.58%	3.58%	3.45%
Adjustment to FTE basis	0.06	0.06	0.11
Net Interest Margin (FTE) (non-GAAP)	**3.64%**	**3.64%**	**3.56%**

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the years ended December 31:

	2019			2018			2017		
(dollars in thousands)	**Average Balance**	**Interest**	**Rate**	**Average Balance**	**Interest**	**Rate**	**Average Balance**	**Interest**	**Rate**
ASSETS									
Interest-bearing deposits with banks	$ 59,941	$ 1,233	2.06%	$ 56,210	$ 1,042	1.85%	$ 56,344	$ 578	1.03%
Securities at fair value[(2)(3)]	678,069	17,876	2.64%	682,806	17,860	2.62%	698,460	17,320	2.48%
Loans held for sale	2,169	84	3.88%	1,515	85	5.60%	14,607	581	3.98%
Commercial real estate	2,945,278	144,877	4.92%	2,779,096	132,139	4.75%	2,638,766	114,484	4.34%
Commercial and industrial	1,575,485	79,429	5.04%	1,441,560	67,770	4.70%	1,425,421	61,976	4.35%
Commercial construction	278,665	14,237	5.11%	314,265	15,067	4.79%	426,574	17,384	4.08%
Total commercial loans	**4,799,428**	**238,543**	**4.97%**	**4,534,921**	**214,976**	**4.74%**	**4,490,761**	**193,844**	**4.32%**
Residential mortgage	765,604	33,889	4.43%	696,849	29,772	4.27%	699,843	28,741	4.11%
Home equity	475,149	25,208	5.31%	474,538	22,981	4.84%	484,023	20,866	4.31%
Installment and other consumer	72,283	5,173	7.16%	67,047	4,594	6.85%	69,163	4,521	6.54%
Consumer construction	10,896	593	5.44%	5,336	267	5.00%	4,631	201	4.35%
Total consumer loans	**1,323,932**	**64,863**	**4.90%**	**1,243,770**	**57,614**	**4.63%**	**1,257,660**	**54,329**	**4.32%**
Total portfolio loans	**6,123,360**	**303,406**	**4.95%**	**5,778,691**	**272,590**	**4.72%**	**5,748,421**	**248,173**	**4.32%**
Total Loans[(1)(2)]	**6,125,529**	**303,490**	**4.95%**	**5,780,206**	**272,675**	**4.72%**	**5,763,028**	**248,754**	**4.32%**
Federal Home Loan Bank and other restricted stock	21,833	1,642	7.52%	30,457	2,052	6.74%	31,989	1,483	4.64%
Total Interest-earning Assets	**6,885,372**	**324,241**	**4.71%**	**6,549,679**	**293,629**	**4.48%**	**6,549,821**	**268,135**	**4.09%**
Noninterest-earning assets	550,164			494,149			510,411		
Total Assets	**$ 7,435,536**			**$ 7,043,828**			**$ 7,060,232**		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing demand	$ 641,403	$ 3,915	0.61%	$ 570,459	$ 1,883	0.33%	$ 637,526	$ 1,418	0.22%
Money market	1,691,910	30,236	1.79%	1,299,185	18,228	1.40%	994,783	7,853	0.79%
Savings	766,142	1,928	0.25%	836,747	1,773	0.21%	988,504	2,081	0.21%
Certificates of deposit	1,396,706	26,947	1.93%	1,328,985	18,972	1.43%	1,439,711	13,978	0.97%
Total Interest-bearing deposits	**4,496,161**	**63,026**	**1.40%**	**4,035,376**	**40,856**	**1.01%**	**4,060,524**	**25,330**	**0.62%**
Securities sold under repurchase agreements	16,863	110	0.65%	45,992	221	0.48%	46,662	54	0.12%
Short-term borrowings	255,264	6,416	2.51%	525,172	11,082	2.11%	644,864	7,399	1.15%
Long-term borrowings	66,392	1,831	2.76%	47,986	1,129	2.35%	18,057	463	2.57%
Junior subordinated debt securities	47,934	2,310	4.82%	45,619	2,100	4.60%	45,619	1,663	3.65%
Total borrowings	**386,453**	**10,667**	**2.76%**	**664,769**	**14,532**	**2.19%**	**755,202**	**9,579**	**1.27%**
Total Interest-bearing Liabilities	**4,882,614**	**73,693**	**1.51%**	**4,700,145**	**55,388**	**1.18%**	**4,815,726**	**34,909**	**0.72%**
Noninterest-bearing liabilities	1,569,014			1,435,328			1,372,376		
Shareholders' equity	983,908			908,355			872,130		
Total Liabilities and Shareholders' Equity	**$ 7,435,536**			**$ 7,043,828**			**$ 7,060,232**		
Net Interest Income [(2)(3)]		**$ 250,548**			**$ 238,241**			**$ 233,226**	
Net Interest Margin [(2)(3)]			**3.64%**			**3.64%**			**3.56%**

[(1)]*Nonaccruing loans are included in the daily average loan amounts outstanding.*
[(2)]*Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 21 percent for 2019 and 2018 and 35 percent for 2017.*
[(3)]*Taxable investment income is adjusted for the dividend-received deduction for equity securities.*

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

	2019 Compared to 2018 Increase (Decrease) Due to			2018 Compared to 2017 Increase (Decrease) Due to		
(dollars in thousands)	**Volume[4]**	**Rate[4]**	**Net**	**Volume[4]**	**Rate[4]**	**Net**
Interest earned on:						
Interest-bearing deposits with banks	$ 69	$ 122	$ 191	$ (1)	$ 465	$ 464
Securities at fair value[2][3]	(124)	140	16	(388)	928	540
Loans held for sale	37	(38)	(1)	(521)	25	(496)
Commercial real estate	7,902	4,836	12,738	6,088	11,567	17,655
Commercial and industrial	6,296	5,363	11,659	702	5,092	5,794
Commercial construction	(1,707)	877	(830)	(4,577)	2,260	(2,317)
Total commercial loans	**12,491**	**11,076**	**23,567**	**2,213**	**18,919**	**21,132**
Residential mortgage	2,937	1,180	4,117	(123)	1,154	1,031
Home equity	30	2,197	2,227	(409)	2,524	2,115
Installment and other consumer	359	220	579	(138)	211	73
Consumer construction	278	48	326	31	35	66
Total consumer loans	**3,604**	**3,645**	**7,249**	**(639)**	**3,924**	**3,285**
Total portfolio loans	**16,095**	**14,721**	**30,816**	**1,574**	**22,843**	**24,417**
Total loans [1][2]	**16,132**	**14,683**	**30,815**	**1,053**	**22,868**	**23,921**
Federal Home Loan Bank and other restricted stock	(581)	171	(410)	(71)	640	569
Change in Interest Earned on Interest-earning Assets	**$ 15,496**	**$ 15,116**	**$ 30,612**	**$ 593**	**$ 24,901**	**$ 25,494**
Interest paid on:						
Interest-bearing demand	$ 234	$ 1,798	$ 2,032	$ (149)	$ 614	$ 465
Money market	5,510	6,498	12,008	2,403	7,972	10,375
Savings	(150)	305	155	(319)	11	(308)
Certificates of deposit	967	7,008	7,975	(1,075)	6,069	4,994
Total interest-bearing deposits	**6,561**	**15,609**	**22,170**	**860**	**14,666**	**15,526**
Securities sold under repurchase agreements	(140)	29	(111)	(1)	168	167
Short-term borrowings	(5,696)	1,030	(4,666)	(1,373)	5,056	3,683
Long-term borrowings	433	269	702	767	(101)	666
Junior subordinated debt securities	107	103	210	—	437	437
Total borrowings	**(5,296)**	**1,431**	**(3,865)**	**(607)**	**5,560**	**4,953**
Change in Interest Paid on Interest-bearing Liabilities	**$ 1,265**	**$ 17,040**	**$ 18,305**	**$ 253**	**$ 20,226**	**$ 20,479**
Change in Net Interest Income	**$ 14,231**	**$ (1,924)**	**$ 12,307**	**$ 340**	**$ 4,675**	**$ 5,015**

[1]Nonaccruing loans are included in the daily average loan amounts outstanding.
[2]Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 21 percent for 2019 and 2018 and 35 percent for 2017.
[3]Taxable investment income is adjusted for the dividend-received deduction for equity securities.
[4]Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Net interest income on a FTE basis (non-GAAP) increased $12.3 million, or 5.2 percent, compared to 2018. The net interest margin on a FTE basis (non-GAAP) remained unchanged at 3.64 percent.

Interest income on a FTE basis (non-GAAP) increased $30.6 million, or 10.4 percent, compared to 2018. The increase was primarily due to an increase in average interest-earning assets of $335.7 million and higher short-term interest rates compared to 2018. Average loan balances increased $345.3 million and the average rate earned on loans increased 23 basis points primarily due to higher average short-term interest rates. Average investment securities decreased $4.7 million and the average rate earned increased two basis points. Overall, the FTE rate on interest-earning assets (non-GAAP) increased 23 basis points compared to 2018.

Interest expense increased $18.3 million compared to 2018. The increase was primarily due to an increase in costing liabilities of $182.5 million and higher average short-term interest rates. Average interest-bearing deposits increased $460.8 million. Average money market balances increased $392.7 million and the average rate paid increased 39 basis points due to higher average short-term interest rates and promotional pricing. Average non-interest bearing deposits also increased $99.6 million. Average borrowings decreased $278.3 million due to increased deposits and the average rate paid increased 57 basis points due to higher average short-term interest rates. Overall, the cost of interest-bearing liabilities increased 33 basis points compared to 2018.

Provision for Loan Losses

The provision for loan losses is the adjustment to the ALL after net loan charge-offs have been deducted to bring the ALL to a level determined to be adequate to absorb probable losses inherent in the loan portfolio. The provision for loan losses was$14.9 million for 2019 compared to $15.0 million for 2018.

Commercial special mention, substandard and doubtful loans decreased $11.6 million to $258.7 million compared to $270.3 million at December 31, 2018, with a decrease of $28.5 million in substandard loans offset by increases of $16.5 million in special mention loans and $0.4 million in doubtful loans. The decrease in substandard loans was mainly due to loan pay-offs and upgrades of risk ratings. Special mention loans increased due to upgrades from substandard and other downgrades as a result of updated financial information.

Impaired loans increased $25.8 million to $75.3 million at December 31, 2019 compared to $49.5 million at December 31, 2018 with an increase in specific reserves of $0.4 million compared to December 31, 2018. The increase in specific reserves related to a new $5.4 million CRE impaired loan in the third quarter of 2019 that required a $0.8 million specific reserve at December 31, 2019. Other new significant impaired loans during 2019 did not require a specific reserve.

Net charge-offs increased $3.2 million to $13.6 million, or 0.22 percent of average loans in 2019, compared to $10.4 million, or 0.18 percent of average loans in 2018.

Total nonperforming loans increased $8.0 million to $54.1 million, or 0.76 percent of total loans at December 31, 2019, compared to $46.1 million, or 0.77 percent of total loans at December 31, 2018. The increase in nonperforming loans is primarily related to a $10.0 million C&I loan that moved to nonperforming, impaired during the fourth quarter of 2019.

The ALL at December 31, 2019, was $62.2 million, or 0.87 percent of total portfolio loans, compared to $61.0 million, or 1.03 percent of total portfolio loans at December 31, 2018. The decrease in the level of ALL as a percent of total portfolio loans is due to the DNB merger which added $899.3 million of loans with no carry-over of ALL. Acquired loans are recorded at fair value at the time of merger. Refer to the Allowance for Loan Losses section of this MD&A for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	**2019**	**2018**	**$ Change**	**% Change**
Securities gains, net	$ (26)	$ —	$ (26)	NM
Debit and credit card	13,405	12,679	726	5.7 %
Service charges on deposit accounts	13,316	13,096	220	1.7 %
Wealth management	8,623	10,084	(1,461)	(14.5)%
Commercial loan swap income	5,503	1,225	4,278	349.2 %
Mortgage banking	2,491	2,762	(271)	(9.8)%
Insurance	355	505	(150)	(29.7)%
Gain on sale of a majority interest of insurance business	—	1,873	(1,873)	NM
Other Income:				
Bank owned life insurance	1,971	2,041	(70)	(3.4)%
Letter of credit origination	1,058	1,064	(6)	(0.6)%
Other	5,862	3,852	2,010	52.2 %
Total Other Noninterest Income	**8,891**	**6,957**	**1,934**	**27.8 %**
Total Noninterest Income	**$ 52,558**	**$ 49,181**	**$ 3,377**	**6.9 %**

NM- percentage change not meaningful

Noninterest income increased $3.4 million, or 6.9 percent, in 2019 compared to 2018. The increase in noninterest income primarily related to higher commercial loan swap income of $4.3 million compared to 2018 as we continue to see a high demand for this product in the current rate environment. The $1.9 million increase in other noninterest income was primarily attributable to a change in the valuation of our rabbi trust related to a deferred compensation plan, which has a corresponding offset in salaries and benefit expense resulting in no impact to net income. Offsetting these increases was a $1.9 million gain on the sale of a majority interest in S&T Evergreen Insurance, LLC in 2018. Wealth management fees decreased $1.5 million due to a decline in financial service revenue. Debit and credit card fees increased $0.7 million compared to the prior year due to increased debit and credit card usage. Service charges on deposit accounts also increased $0.2 million due to increases in fees.

Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	**2019**	**2018**	**$ Change**	**% Change**
Salaries and employee benefits	$ 83,986	$ 76,108	$ 7,878	10.4 %
Data processing and information technology	14,468	10,633	3,835	36.1 %
Net occupancy	12,103	11,097	1,006	9.1 %
Merger-related expenses	11,350	—	11,350	NM
Furniture, equipment and software	8,958	8,083	875	10.8 %
Marketing	4,631	4,192	439	10.5 %
Professional services and legal	4,244	4,132	112	2.7 %
Other taxes	3,364	6,183	(2,819)	(45.6)%
FDIC insurance	758	3,238	(2,480)	(76.6)%
Other expenses:				
Loan related expenses	3,250	2,268	982	43.3 %
Joint venture amortization	2,648	2,701	(53)	(2.0)%
Supplies	1,159	1,080	79	7.3 %
Postage	1,082	1,077	5	0.5 %
Amortization of intangibles	836	846	(10)	(1.2)%
Other	14,279	13,807	472	3.4 %
Total Other Noninterest Expense	**23,254**	**21,779**	**1,475**	**6.8 %**
Total Noninterest Expense	**$ 167,116**	**$ 145,445**	**$ 21,671**	**14.9 %**

NM - percentage not meaningful

Noninterest expense increased $21.7 million, or 14.9 percent, to $167.1 million in 2019 compared to 2018. Total merger related expenses of $11.4 million were comprised of $4.7 million for data processing, $3.4 million of salaries and employee benefits, mainly related to severance payments, $2.8 million for professional services and $0.5 million in various other expenses. Salaries and employee benefits increased $7.9 million during 2019 primarily due to additional employees, annual merit increases, and higher pension and incentive expense. Data processing and information technology increased $3.8 million compared to 2018 due to the outsourcing agreement for certain components of our information technology function and the annual increase with our third-party data processor. These increases were partially offset by a $2.8 million decrease in other taxes due to a one-time adjustment related to a state sales tax assessment. FDIC insurance decreased $2.5 million related to Small Bank Assessment Credits that were received by all banking institutions with assets of less than $10 billion and improvements in our financial ratios which are used to determine the assessment.

Our efficiency ratio (non-GAAP), which measures noninterest expense as a percent of noninterest income plus net interest income, on a FTE basis, excluding security gains/losses and $11.4 million of merger related expenses, was 51.39 percent for 2019 and 50.60 percent for 2018. Refer to Explanation of Use of Non-GAAP Financial Measures in Part II, Item 6 Selected Financial Data in this Report for a discussion of this non-GAAP financial measure.

Federal Income Taxes

The federal income tax provision increased $1.3 million to $19.1 million in 2019 compared to $17.8 million in 2018. The increase in our 2019 income tax provision was mainly due to non-recurring items related to the tax benefit from the pension contribution in 2018 offset by the sale of a majority interest of our insurance business in 2018.

The effective tax rate, which is total tax expense as a percentage of pretax income, increased to 16.3 percent in 2019 compared to 14.5 percent in 2018. The increase in the effective tax rate was primarily due to lower pretax income in 2019 compared to 2018. Historically, we have generated an annual effective tax rate that is less than the statutory rates of 21 percent due to benefits resulting from tax-exempt interest, excludable dividend income, tax-exempt income on BOLI and tax benefits associated with Low Income Housing Tax Credits, or LIHTC.

Results of Operations
Year Ended December 31, 2018

Earnings Summary

Net income increased $32.3 million, or 44.4 percent, to $105.3 million, or $3.01 per diluted share, in 2018 compared to $73.0 million, or $2.09 per diluted share, in 2017. As a result of the Tax Act, additional tax expense of $13.4 million was recognized to re-measure the net deferred tax asset (DTA) in the fourth quarter 2017. Excluding the net DTA re-measurement, net income was $86.4 million (non-GAAP) and diluted earnings per share was $2.47 (non-GAAP). Net income and diluted earnings per share adjusted to exclude the net DTA remeasurement are non-GAAP measures. Refer to Explanation of Use of
Non-GAAP Financial Measures in Part II, Item 6 Selected Financial Data of this Report for a reconciliation to the comparable GAAP measures.

The increase in net income was primarily due to decreases in the provision for income taxes of $28.6 million and noninterest expense of $2.5 million, an increase in net interest income of $8.7 million offset by a decrease of $6.3 million in noninterest income.

Net interest income increased $8.7 million, or 3.9 percent, to $234.4 million compared to $225.7 million in 2017. Average interest-earning assets were unchanged from 2017 at $6.5 billion. Average interest-bearing liabilities decreased $115.6 million due to decreases in average interest-bearing deposits and short-term borrowings. Average interest-bearing deposits decreased $25.1 million and average short-term borrowings decreased $119.7 million for 2018. Net interest margin, on a fully taxable-equivalent, or FTE, basis (non-GAAP), increased eight basis points to 3.64 percent in 2018 compared to 3.56 percent for 2017. The increases in short-term interest rates over the past year positively impacted both net interest income and net interest margin. Net interest margin is reconciled to net interest income adjusted to a FTE basis below in the "Net Interest Income" section of this MD&A.

The provision for loan losses increased $1.1 million, or 8.0 percent, to $15.0 million during 2018 compared to $13.9 million in 2017. The provision for loan losses increased due to increases in substandard loans and impaired loans with specific reserves. Commercial substandard loans increased $110.5 million to $181.2 million at December 31, 2018 compared to $70.7 million at December 31, 2017. The increase in substandard loans from December 31, 2017 was mainly due to the receipt of updated financial information from our borrowers that resulted in the loans being downgraded. Impaired loans increased $22.7 million with an increase in specific reserves of $1.7 million compared to 2017. Net loan charge-offs were consistent at $10.4 million, or 0.18 percent of average loans, for 2018 compared to $10.3 million, or 0.18 percent of average loans, in 2017.

Total noninterest income decreased $6.3 million to $49.2 million compared to $55.5 million in 2017. Insurance income decreased $4.9 million compared to 2017 due to the sale of a majority interest in our insurance business on January 1, 2018. A gain of $1.9 million was recognized in 2018 related to this sale. Further decreasing noninterest income were security gains of $3.0 million recognized in 2017 compared to no gains in 2018. Other income decreased $1.7 million due to a bank owned life insurance, or BOLI, claim of $0.7 million and a $1.0 million gain on a branch sale both during 2017.

Expenses were well controlled during 2018. Total noninterest expense decreased $2.5 million to $145.4 million for 2018 compared to $147.9 million for 2017. The decrease was mainly due to a decrease in salaries and employee benefits of $4.7 million due to lower incentives and commission costs and fewer employees due to the sale of our insurance business on January 1, 2018. FDIC insurance decreased $1.3 million due to improvements in the components used to determine the assessment. Offsetting these improvements was an increase of $1.7 million for other taxes related to a state sales tax assessment. Data processing and information technology, or IT, increased $1.8 million mainly due to a recent outsourcing arrangement for certain components of our IT function.

The provision for income taxes decreased $28.6 million to $17.8 million compared to $46.4 million in 2017. Our effective tax rate was 14.5 percent for 2018 compared to 38.9 percent for 2017. The decrease was primarily due to the enactment of the Tax Act which lowered the federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. The comparison between the 2018 and the 2017 tax provision was also affected by the increased tax expense in 2017 for the non-cash tax adjustment of $13.4 million for the re-measurement of our deferred tax assets and liabilities.

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce what we believe is an acceptable level of net interest income.

The interest income on interest-earning assets and the net interest margin are presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities and the dividend-received deduction for equity securities using the federal statutory tax rate of 21 percent for 2018 and 35 percent for 2017 and 2016. We believe this to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable sources of interest income.

The following table reconciles interest income per the Consolidated Statements of Net Income to net interest income and rates on a FTE basis for the periods presented:

	Years Ended December 31,		
(dollars in thousands)	**2018**	**2017**	**2016**
Total interest income	$ 289,826	$ 260,642	$ 227,774
Total interest expense	55,388	34,909	24,515
Net interest income per Consolidated Statements of Net Income	234,438	225,733	203,259
Adjustment to FTE basis	3,803	7,493	7,043
Net Interest Income (FTE) (non-GAAP)	**$ 238,241**	**$ 233,226**	**$ 210,302**
Net interest margin	3.58%	3.45%	3.35%
Adjustment to FTE basis	0.06	0.11	0.12
Net Interest Margin (FTE) (non-GAAP)	**3.64%**	**3.56%**	**3.47%**

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the years ended December 31:

	2018			2017			2016		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS									
Interest-bearing deposits with banks	$ 56,210	$ 1,042	1.85%	$ 56,344	$ 578	1.03%	$ 41,810	$ 207	0.50%
Securities, at fair value[(1)(2)]	682,806	17,860	2.62%	698,460	17,320	2.48%	676,696	16,306	2.41%
Loans held for sale	1,515	85	5.60%	14,607	581	3.98%	14,255	814	5.71%
Commercial real estate	2,779,096	132,139	4.75%	2,638,766	114,484	4.34%	2,344,050	96,814	4.13%
Commercial and industrial	1,441,560	67,770	4.70%	1,425,421	61,976	4.35%	1,348,287	53,629	3.98%
Commercial construction	314,265	15,067	4.79%	426,574	17,384	4.08%	400,997	14,788	3.69%
Total commercial loans	**4,534,921**	**214,976**	**4.74%**	**4,490,761**	**193,844**	**4.32%**	**4,093,334**	**165,231**	**4.04%**
Residential mortgage	696,849	29,772	4.27%	699,843	28,741	4.11%	668,236	27,544	4.12%
Home equity	474,538	22,981	4.84%	484,023	20,866	4.31%	477,011	19,213	4.03%
Installment and other consumer	67,047	4,594	6.85%	69,163	4,521	6.54%	64,960	4,136	6.37%
Consumer construction	5,336	267	5.00%	4,631	201	4.35%	7,038	287	4.08%
Total consumer loans	**1,243,770**	**57,614**	**4.63%**	**1,257,660**	**54,329**	**4.32%**	**1,217,245**	**51,180**	**4.20%**
Total portfolio loans	**5,778,691**	**272,590**	**4.72%**	**5,748,421**	**248,173**	**4.32%**	**5,310,579**	**216,411**	**4.08%**
Total Loans[(1)(2)]	**5,780,206**	**272,675**	**4.72%**	**5,763,028**	**248,754**	**4.32%**	**5,324,834**	**217,225**	**4.08%**
Federal Home Loan Bank and other restricted stock	30,457	2,052	6.74%	31,989	1,483	4.64%	23,811	1,079	4.53%
Total Interest-earning Assets	**6,549,679**	**293,629**	**4.48%**	**6,549,821**	**268,135**	**4.09%**	**6,067,151**	**234,817**	**3.87%**
Noninterest-earning assets	494,149			510,411			521,104		
Total Assets	**$ 7,043,828**			**$ 7,060,232**			**$ 6,588,255**		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing demand	$ 570,459	$ 1,883	0.33%	$ 637,526	$ 1,418	0.22%	$ 651,118	$ 1,088	0.17%
Money market	1,299,185	18,228	1.40%	994,783	7,853	0.79%	735,159	3,222	0.44%
Savings	836,747	1,773	0.21%	988,504	2,081	0.21%	1,039,664	2,002	0.19%
Certificates of deposit	1,328,985	18,972	1.43%	1,439,711	13,978	0.97%	1,472,613	13,380	0.91%
Total Interest-bearing deposits	**4,035,376**	**40,856**	**1.01%**	**4,060,524**	**25,330**	**0.62%**	**3,898,554**	**19,692**	**0.51%**
Securities sold under repurchase agreements	45,992	221	0.48%	46,662	54	0.12%	51,021	5	0.01%
Short-term borrowings	525,172	11,082	2.11%	644,864	7,399	1.15%	414,426	2,713	0.65%
Long-term borrowings	47,986	1,129	2.35%	18,057	463	2.57%	50,257	670	1.33%
Junior subordinated debt securities	45,619	2,100	4.60%	45,619	1,663	3.65%	45,619	1,435	3.14%
Total borrowings	**664,769**	**14,532**	**2.19%**	**755,202**	**9,579**	**1.27%**	**561,323**	**4,823**	**0.86%**
Total Interest-bearing Liabilities	**4,700,145**	**55,388**	**1.18%**	**4,815,726**	**34,909**	**0.72%**	**4,459,877**	**24,515**	**0.55%**
Noninterest-bearing liabilities	1,435,328			1,372,376			1,304,771		
Shareholders' equity	908,355			872,130			823,607		
Total Liabilities and Shareholders' Equity	**$ 7,043,828**			**$ 7,060,232**			**$ 6,588,255**		
Net Interest Income [(2)(3)]		**$ 238,241**			**$ 233,226**			**$ 210,302**	
Net Interest Margin [(2)(3)]			**3.64%**			**3.56%**			**3.47%**

[(1)]Nonaccruing loans are included in the daily average loan amounts outstanding.
[(2)]Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 21 percent for 2018 and 35 percent for 2017 and 2016.
[(3)]Taxable investment income is adjusted for the dividend-received deduction for equity securities.

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

	2018 Compared to 2017 Increase (Decrease) Due to			2017 Compared to 2016 Increase (Decrease) Due to		
(dollars in thousands)	**Volume[4]**	**Rate[4]**	**Net**	**Volume[4]**	**Rate[4]**	**Net**
Interest earned on:						
Interest-bearing deposits with banks	$ (1)	$ 465	$ 464	$ 72	$ 299	$ 371
Securities, at fair value[2][3]	(388)	928	540	524	490	1,014
Loans held for sale	(521)	25	(496)	20	(253)	(233)
Commercial real estate	6,088	11,567	17,655	12,172	5,498	17,670
Commercial and industrial	702	5,092	5,794	3,068	5,279	8,347
Commercial construction	(4,577)	2,260	(2,317)	943	1,653	2,596
Total commercial loans	**2,213**	**18,919**	**21,132**	**16,183**	**12,430**	**28,613**
Residential mortgage	(123)	1,154	1,031	1,303	(106)	1,197
Home equity	(409)	2,524	2,115	282	1,371	1,653
Installment and other consumer	(138)	211	73	268	117	385
Consumer construction	31	35	66	(98)	12	(86)
Total consumer loans	**(639)**	**3,924**	**3,285**	**1,755**	**1,394**	**3,149**
Total portfolio loans	**1,574**	**22,843**	**24,417**	**17,938**	**13,824**	**31,762**
Total loans [1][2]	**1,053**	**22,868**	**23,921**	**17,958**	**13,571**	**31,529**
Federal Home Loan Bank and other restricted stock	(71)	640	569	371	33	404
Change in Interest Earned on Interest-earning Assets	**$ 593**	**$ 24,901**	**$ 25,494**	**$ 18,925**	**$ 14,393**	**$ 33,318**
Interest paid on:						
Interest-bearing demand	$ (149)	$ 614	$ 465	$ (23)	$ 353	$ 330
Money market	2,403	7,972	10,375	1,138	3,493	4,631
Savings	(319)	11	(308)	(99)	178	79
Certificates of deposit	(1,075)	6,069	4,994	(299)	897	598
Total interest-bearing deposits	**860**	**14,666**	**15,526**	**717**	**4,921**	**5,638**
Securities sold under repurchase agreements	(1)	168	167	—	49	49
Short-term borrowings	(1,373)	5,056	3,683	1,509	3,177	4,686
Long-term borrowings	767	(101)	666	(429)	222	(207)
Junior subordinated debt securities	—	437	437	—	228	228
Total borrowings	**(607)**	**5,560**	**4,953**	**1,080**	**3,676**	**4,756**
Change in Interest Paid on Interest-bearing Liabilities	**$ 253**	**$ 20,226**	**$ 20,479**	**$ 1,797**	**$ 8,597**	**$ 10,394**
Change in Net Interest Income	**$ 340**	**$ 4,675**	**$ 5,015**	**$ 17,128**	**$ 5,796**	**$ 22,924**

[1]Nonaccruing loans are included in the daily average loan amounts outstanding.
[2]Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 21 percent for 2018 and 35 percent for 2017 and 2016.
[3]Taxable investment income is adjusted for the dividend-received deduction for equity securities.
[4]Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Net interest income on a FTE basis increased $5.0 million, or 2.2 percent, compared to 2017. The net interest margin on a FTE basis increased eight basis points compared to 2017. These increases were primarily due to higher short-term interest rates offset by the decrease in the federal corporate tax rate effective January 1, 2018, which negatively impacted the net interest margin on a FTE basis by six basis points or $3.0 million, compared to 2017.

Interest income on a FTE basis increased $25.5 million, or 9.5 percent, compared to 2017. The increase was primarily due to higher short-term interest rates. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, remained relatively flat and the average rate earned increased 82 basis points due to higher short-term interest rates. Average securities decreased $15.7 million due to a decline in the market value of our bond portfolio and the average rate earned increased 14 basis points. Average loan balances increased $17.2 million and the average rate earned on loans increased 40 basis points due to higher short-term interest rates. The average rate earned on the FHLB and other restricted stock improved due to an increase in the FHLB's quarterly dividend in 2018. Overall, the FTE rate on interest-earning assets increased 39 basis points compared to 2017.

Interest expense increased $20.5 million compared to 2017. The increase was primarily due to higher short-term interest rates. Average interest-bearing deposits decreased $25.1 million. Average money market balances increased $304.4 million and the average rate paid increased 61 basis points due to higher short-term interest rates. The increase in average money market balances was partially attributable to a shift in deposit mix with decreases in average interest-bearing demand, savings, and certificates of deposit balances. The overall decline in interest-bearing deposits is favorably offset by increased average noninterest-bearing demand balances of $65.5 million. Average borrowings decreased $90.4 million. Short-term borrowings decreased $119.7 million and the average rate paid increased 96 basis points due to higher short-term interest rates. Long-term borrowings increased $29.9 million and the average rate paid decreased 22 basis points due to the addition of a long-term variable rate borrowing in November 2017. Overall, the cost of interest-bearing liabilities increased 46 basis points compared to 2017.

Provision for Loan Losses

The provision for loan losses is the adjustment to the ALL after net loan charge-offs have been deducted to bring the ALL to a level determined to be adequate to absorb probable losses inherent in the loan portfolio. The provision for loan losses increased $1.1 million, or 8.0 percent, to $15.0 million for 2018 compared to $13.9 million for 2017. The provision for loan losses increased primarily due to increases in substandard loans and impaired loans with specific reserves.

Commercial special mention and substandard loans increased $67.7 million to $268.5 million compared to $200.8 million at December 31, 2017, with an increase of $110.5 million in substandard offset by a decrease of $42.8 million in special mention. The increase in substandard loans from December 31, 2017 was mainly due to the receipt of updated financial information from our borrowers that resulted in the loans being downgraded.

Impaired loan balances increased $22.7 million, or 84.6 percent, to $49.5 million at December 31, 2018 compared to $26.8 million at December 31, 2017 with an increase in specific reserves of $1.7 million compared to December 31, 2017. The increase in specific reserves related to an $11.3 million commercial construction loan that had a specific reserve of $1.3 million at December 31, 2018.

Net charge-offs increased $0.1 million to $10.4 million, or 0.18 percent of average loans in 2018, compared to $10.3 million, or 0.18 percent of average loans in 2017. Significantly impacting net loan charge-offs during 2018 was a $5.2 million loan charge-off in the second quarter of 2018 for a commercial customer arising from a participation loan agreement with a lead bank and other participating banks. The loss resulted from fraudulent activities believed to be perpetrated by one or more executives employed by the borrower and its related entities. S&T's total exposure consisted of the participation loan of $4.9 million and a direct exposure of $950 thousand which was secured by vehicles and equipment liens. Subsequent to the loan charge-off in the second quarter, we received $0.4 million of recovery on this relationship.

Total nonperforming loans increased $22.2 million to $46.1 million, or 0.77 percent of total loans at December 31, 2018, compared to $23.9 million, or 0.42 percent of total loans at December 31, 2017.

The ALL at December 31, 2018, was $61.0 million, or 1.03 percent of total portfolio loans, compared to $56.4 million, or 0.98 percent of total portfolio loans at December 31, 2017. The increase in the level of the reserve is due to portfolio loan growth of $185.2 million and the increase in substandard loans during 2018. Refer to the Allowance for Loan Losses section of this MD&A for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	**2018**	**2017**	**$ Change**	**% Change**
Securities gains, net	$ —	$ 3,000	$ (3,000)	NM
Service charges on deposit accounts	13,096	12,458	638	5.1 %
Debit and credit card	12,679	12,029	650	5.4 %
Wealth management	10,084	9,758	326	3.3 %
Insurance	505	5,371	(4,866)	(90.6)%
Mortgage banking	2,762	2,915	(153)	(5.2)%
Gain on sale of credit card portfolio	1,873	—	1,873	NM
Other Income:				
Bank owned life insurance	2,041	2,755	(714)	(25.9)%
Letter of credit origination	1,064	1,018	46	4.5 %
Interest rate swap	1,225	503	722	143.5 %
Other	3,852	5,655	(1,803)	(31.9)%
Total Other Noninterest Income	**8,182**	**9,931**	**(1,749)**	**(17.6)%**
Total Noninterest Income	**$ 49,181**	**$ 55,462**	**$ (6,281)**	**(11.3)%**

NM- percentage change not meaningful

Noninterest income decreased $6.3 million, or 11.3 percent, in 2018 compared to 2017. The decrease was primarily related to gains on the sales of securities of $3.0 million in 2017, a $1.0 million gain from the sale of a branch in the fourth quarter of 2017 in other income and the sale of a majority interest in S&T Evergreen Insurance, LLC in the first quarter of 2018. As a result of this sale in 2018, insurance income decreased $4.9 million. A gain of $1.9 million was recognized related to this sale during 2018. The decrease in BOLI income related to a $0.7 million claim during the third quarter of 2017. Interest rate swap fees from our commercial customers increased $0.7 million compared to the prior year due to an increase in customer demand for this product. Debit and credit card fees increased $0.6 million compared to the prior year due to increased debit card usage. Service charges on deposit accounts also increased $0.6 million due to increases in fees.

Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	**2018**	**2017**	**$ Change**	**% Change**
Salaries and employee benefits	$ 76,108	$ 80,776	$ (4,668)	(5.8)%
Net occupancy	11,097	10,994	103	0.9 %
Data processing	10,633	8,801	1,832	20.8 %
Furniture, equipment and software	8,083	7,946	137	1.7 %
FDIC insurance	3,238	4,543	(1,305)	(28.7)%
Other taxes	6,183	4,509	1,674	37.1 %
Professional services and legal	4,132	4,096	36	0.9 %
Marketing	4,192	3,659	533	14.6 %
Other expenses:				
Joint venture amortization	2,701	3,048	(347)	(11.4)%
Telecommunications	2,500	2,572	(72)	(2.8)%
Loan related expenses	2,268	2,547	(279)	(11.0)%
Amortization of intangibles	846	1,247	(401)	(32.2)%
Supplies	1,080	1,233	(153)	(12.4)%
Postage	1,077	1,128	(51)	(4.5)%
Other	11,307	10,808	499	4.6 %
Total Other Noninterest Expense	**21,779**	**22,583**	**(804)**	**(3.6)%**
Total Noninterest Expense	**$ 145,445**	**$ 147,907**	**$ (2,462)**	**(1.7)%**

Noninterest expense decreased $2.5 million, or 1.7 percent, to $145.4 million in 2018 compared to 2017. Salaries and employee benefits decreased $4.7 million during 2018 primarily due to lower restricted stock, incentive and commission costs and fewer employees mainly due to the sale of a majority of our insurance business in the first quarter 2018 and the sale of a branch office in the fourth quarter of 2017. FDIC insurance decreased $1.3 million due to improvements in the components used to determine the assessment. The increase of $1.8 million in data processing expense compared to 2017 was mainly due to the annual increase with our third-party data processor and recent outsourcing arrangement for certain components of our IT function. Other taxes increased $1.7 million due to a state sales tax assessment.

Our efficiency ratio (non-GAAP), which measures noninterest expense as a percent of noninterest income plus net interest income, on a FTE basis, excluding security gains/losses, was 50.60 percent for 2018 and 51.77 percent for 2017. Refer to Explanation of Use of Non-GAAP Financial Measures in Part II, Item 6 Selected Financial Data in this Report for a discussion of this non-GAAP financial measure.

Federal Income Taxes

Our federal income tax provision decreased $28.6 million to $17.8 million in 2018 compared to $46.4 million in 2017. The decrease in our 2018 income tax provision was primarily due to the corporate income tax rate reduction from 35 percent to 21 percent. Our 2017 income tax provision was calculated at the 35 percent corporate income tax rate and further increased by $13.4 million due to the re-measurement of our deferred tax assets and liabilities at the new corporate income tax rate of 21 percent enacted as part of the Tax Act on December 22, 2017.

The effective tax rate, which is total tax expense as a percentage of pretax income, decreased to 14.5 percent in 2018 compared to 38.9 percent in 2017. Historically, we have generated an annual effective tax rate that is less than the statutory rates of 21 percent for 2018 and 35 percent for 2017 due to benefits resulting from tax-exempt interest, excludable dividend income, tax-exempt income on BOLI and tax benefits associated with Low Income Housing Tax Credits, or LIHTC. However, due to the 2017 enactment of the Tax Act, our net DTA re-measurement of $13.4 million increased our effective tax rate by 11.3 percent in 2017.

Financial Condition
December 31, 2019

Total assets increased $1.5 billion, or 20.9 percent, to $8.8 billion at December 31, 2019 compared to $7.3 billion at December 31, 2018. The DNB merger added $1.1 billion of assets, $899.3 million of portfolio loans and $990.6 million of deposits at December 31, 2019.

Total portfolio loans increased $1.2 billion to $7.1 billion at December 31, 2019 compared to $5.9 billion at December 31, 2018. The DNB merger added $899.3 million of portfolio loans at December 31, 2019 comprised of $455.6 million of CRE, $85.4 million of C&I, $77.1 million of commercial construction, $219.7 million of residential mortgage, $56.4 million of home equity, $4.1 million of installment and other consumer and $1.0 million of consumer construction. We had organic loan growth of $291.2 million, or 4.9 percent, across all five of our markets during 2019. Securities increased $99.4 million to $784.3 million at December 31, 2019 from $684.9 million at December 31, 2018 in part due to the DNB merger.

Our deposits increased $1.3 billion, or 24.0 percent, with total deposits of $7.0 billion at December 31, 2019 compared to $5.7 billion at December 31, 2018. We acquired $990.6 million of deposits from the DNB merger and generated $372.1 million from organic growth. Money market increased $467.7 million with $227.8 million related to the merger, interest-bearing demand increased $388.6 million with $214.8 million related to the merger and noninterest-bearing accounts increased $276.9 million with $180.4 million related to the merger. Although both certificates of deposit and savings accounts increased due to the merger they decreased organically compared to the year ago period.

Total borrowings decreased $188.0 million, or 31.1 percent, compared to 2018 due to successful growth in deposits. Short-term borrowings decreased by $188.7 million, or 40.1 percent, long-term borrowings increased $19.5 million offset by increases of $18.7 million in junior subordinated debt acquired through the DNB merger.

Shareholders' equity increased $256.2 million, or 27.4 percent, to $1.2 billion at December 31, 2019 compared to $935.8 million at December 31, 2018. The increase in shareholders' equity is primarily due to $200.6 million of common stock issued in the DNB merger and net income exceeding dividends by $60.9 million offset by share repurchases of $18.2 million for 2019.

Securities Activity

The balances and average rates of our securities portfolio are presented below as of December 31:

	2019		2018		2017	
(dollars in thousands)	**Balance**	**Weighted-Average Yield**	**Balance**	**Weighted-Average Yield**	**Balance**	**Weighted-Average Yield**
U.S. Treasury securities	$ 10,040	1.87%	$ 9,736	1.87%	$ 19,789	1.57%
Obligations of U.S. government corporations and agencies	157,697	2.20%	128,261	2.30%	162,193	2.09%
Collateralized mortgage obligations of U.S. government corporations and agencies	189,348	2.68%	148,659	2.71%	108,688	2.25%
Residential mortgage-backed securities of U.S. government corporations and agencies	22,418	2.95%	24,350	3.43%	32,854	3.52%
Commercial mortgage-backed securities of U.S. government corporations and agencies	275,870	2.42%	246,784	2.38%	242,221	2.34%
Corporate securities	7,627	—%	—	—%	—	—%
Obligations of states and political subdivisions (1)	116,133	3.45%	122,266	3.43%	127,402	4.06%
Marketable equity securities	5,150	2.77%	4,816	3.02%	5,144	2.78%
Total Securities	**$ 784,283**	**2.56%**	**$ 684,872**	**2.65%**	**$ 698,291**	**2.62%**

(1) *Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent for 2019 and 2018 and 35 percent for 2017.*

We invest in various securities in order to maintain a source of liquidity, to satisfy various pledging requirements, to increase net interest income and as a tool of ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to us. Security purchases are subject to an investment policy approved annually by our Board of Directors and administered through ALCO and our treasury function. Securities increased $99.4 million, or 14.5 percent, to $784.3 million at December 31, 2019 compared to $684.9 million at December 31, 2018. The increase of $99.4 million is due to securities acquired in the DNB merger, normal purchasing activity and an increase in market value compared to December 31, 2018.

At December 31, 2019, our bond portfolio was in a net unrealized gain position of $10.7 million compared to a net unrealized loss position of $5.1 million at December 31, 2018. At December 31, 2019, total gross unrealized gains were $11.7 million offset by total gross unrealized losses of $1.0 million compared to total gross unrealized gains of $3.5 million offset by total gross unrealized losses of $8.6 million at December 31, 2018. The increase in the net unrealized gain position of our securities portfolio was due to a decrease in interest rates during 2019.

Management evaluates the bond portfolio for other than temporary impairment, or OTTI, on a quarterly basis. The unrealized losses on debt securities were primarily attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities were determined to be investment grade and paying principal and interest according to the contractual terms of the security at December 31, 2019. We do not intend to sell and it is more likely than not that we will not be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost. We did not record any OTTI in 2019, 2018 or 2017. The performance of the debt securities markets could generate impairments in future periods requiring realized losses to be reported.

The following table sets forth the maturities of securities at December 31, 2019 and the weighted average yields of such securities. Taxable-equivalent adjustments for 2019 have been made in calculating yields on obligations of state 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	Yield
Available-for-Sale										
U.S. Treasury securities	$ —	—%	$ 10,040	1.87%	$ —	—%	$ —	—%	$ —	—%
Obligations of U.S. government corporations and agencies	77,221	2.11%	64,574	2.31%	15,903	2.14%	—	—%	—	—%
Collateralized mortgage obligations of U.S. government corporations and agencies	—	—%	—	—%	84,600	2.73%	104,748	2.64%	—	—%
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—%	527	5.11%	7,891	1.53%	13,999	2.91%	—	—%
Commercial mortgage-backed securities of U.S. government corporations and agencies	7,905	2.79%	167,857	2.42%	89,264	2.40%	10,843	—	—	—%
Obligations of states and political subdivisions [(1)]	22,052	2.56%	25,835	3.80%	52,488	3.34%	15,758	4.03%	—	—%
Corporate Bonds	4,005	2.52%	79	5.57%	3,543	4.45%	—	—%	—	—%
Marketable equity securities	—	—%	—	—%	—	—%	—	—%	4,816	3.02%
Total	**$ 111,183**		**$ 268,912**		**$ 253,689**		**$ 145,348**		**$ 4,816**	
Weighted Average Yield		**2.26%**		**2.51%**		**2.69%**		**2.62%**		**3.02%**

[(1)] *Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent for 2019.*

Lending Activity

The following table summarizes our loan portfolio as of December 31:

	2019		2018		2017		2016		2015	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial										
Commercial real estate	$ 3,416,518	47.87%	$ 2,921,832	49.13%	$ 2,685,994	44.62%	$ 2,498,476	44.53%	$ 2,166,603	43.09%
Commercial and industrial	1,720,833	24.11%	1,493,416	25.11%	1,433,266	24.88%	1,401,035	24.97%	1,256,830	25.00%
Commercial construction	375,445	5.26%	257,197	4.33%	384,334	6.67%	455,884	8.12%	413,444	8.22%
Total Commercial Loans	**5,512,796**	**77.24%**	**4,672,445**	**78.57%**	**4,503,594**	**78.17%**	**4,355,395**	**77.62%**	**3,836,877**	**76.31%**
Consumer										
Residential mortgage	998,585	13.99%	726,679	12.22%	698,774	12.13%	701,982	12.51%	639,372	12.72%
Home equity	538,348	7.54%	471,562	7.93%	487,326	8.46%	482,284	8.59%	470,845	9.37%
Installment and other consumer	79,033	1.10%	67,546	1.13%	67,204	1.17%	65,852	1.17%	73,939	1.47%
Consumer construction	8,390	0.12%	8,416	0.14%	4,551	0.08%	5,906	0.11%	6,579	0.13%
Total Consumer Loans	**1,624,356**	**22.76%**	**1,274,203**	**21.43%**	**1,257,855**	**21.83%**	**1,256,024**	**22.38%**	**1,190,735**	**23.69%**
Total Portfolio Loans	**$ 7,137,152**	**100.00%**	**$ 5,946,648**	**100.00%**	**$ 5,761,449**	**100.00%**	**$ 5,611,419**	**100.00%**	**$ 5,027,612**	**100.00%**

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

We maintain a General Lending Policy to control the quality of our loan portfolio. The policy delegates the authority to extend loans under specific guidelines and underwriting standards. The General Lending Policy is formulated by management and reviewed and ratified annually by the Board of Directors.

Total portfolio loans increased $1.2 billion, or 20 percent, to $7.1 billion at December 31, 2019 compared to $5.9 billion at December 31, 2018. The DNB merger added $899.3 million of portfolio loans at December 31, 2019 comprised of $455.6 million of CRE, $85.4 million of C&I, $77.1 million of commercial construction, $219.7 million of residential mortgage, $56.4 million of home equity, $4.1 million of installment and other consumer and $1.0 million of consumer construction. We had organic loan growth of $291.2 million, or 4.9 percent, across all five of our markets during 2019.

Commercial loans, including CRE, C&I and Commercial Construction, comprised 77 percent of total portfolio loans at December 31, 2019 and 79 percent at December 31, 2018. Although commercial loans can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, conservative underwriting standards and continuous portfolio review. The loan-to-value, or LTV, policy guidelines for CRE loans are generally 65-80 percent. At December 31, 2019, variable rate commercial loans represented 73 percent of total commercial loans compared to 74 percent in 2018.

Consumer loans represent 23 percent of our loan portfolio at December 31, 2019 compared to 21 percent at December 31, 2018. Residential mortgage lending continues to be a focus through a centralized mortgage origination department, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio mortgage loans will be as important in a growing economy as it was during the downturn in recent years. The LTV policy guideline is 80 percent for residential first lien mortgages. Higher LTV loans may be approved with the appropriate private mortgage insurance coverage. We primarily limit our fixed rate portfolio mortgage loans to a maximum term of 20 years for traditional mortgages, 30 year fixed rate construction loans and adjustable rate mortgages with a maximum amortization term of 30 years. We may originate home equity loans with a lien position that is second to unrelated third party lenders, but normally only to the extent that the combined LTV considering both the first and second liens does not exceed 100 percent of the fair value of the property. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available.

We originate and sell loans into the secondary market, primarily to Fannie Mae. We sell these loans in order to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio and to generate fee revenue from sales and servicing of the loans. During 2019 and 2018, we sold $94.5 million and $79.3 million of 1-4 family mortgages to Fannie Mae. Our servicing portfolio of mortgage loans that we had originated and sold into the secondary market was $509.2 million at December 31, 2019 compared to $473.2 million at December 31, 2018.

We also offer a variety of unsecured and secured consumer loan products. LTV guidelines for direct loans are generally 90-100 percent of invoice for new automobiles and 80-90 percent of National Automobile Dealer Association value for used automobiles.

The following table presents the maturity of consumer and commercial loans outstanding as of December 31, 2019:

	Maturity			
(dollars in thousands)	**Within One Year**	**After One But Within Five Years**	**After Five Years**	**Total**
Fixed interest rates	$ 303,228	$ 706,551	$ 479,191	$ 1,488,970
Variable interest rates	1,000,852	1,486,770	1,536,204	4,023,826
Total Commercial Loans	**$ 1,304,080**	**$ 2,193,321**	**$ 2,015,395**	**$ 5,512,796**
Fixed interest rates	79,363	228,458	358,807	666,628
Variable interest rates	428,178	122,317	407,233	957,728
Total Consumer Loans	**$ 507,541**	**$ 350,775**	**$ 766,040**	**$ 1,624,356**
Total Portfolio Loans	**$ 1,811,621**	**$ 2,544,096**	**$ 2,781,435**	**$ 7,137,152**

Credit Quality

On a quarterly basis, a criticized asset meeting is held to monitor all special mention and substandard loans greater than $1.5 million. These loans typically represent the highest risk of loss to us. Action plans are established and these loans are monitored through regular contact with the borrower, review of current financial information and other documentation, review of all loan or potential loan restructures or modifications and the regular re-evaluation of assets held as collateral.

Additional credit risk management practices include periodic review and update of our lending policies and procedures to support sound underwriting practices and portfolio management through portfolio stress testing. We have a portfolio monitoring process in place that includes a review of all commercial loans greater than $1.5 million. Commercial loans less than $1.5 million are monitored through portfolio management software that identifies credit risk indicators. Our Loan Review process serves to independently monitor credit quality and assess the effectiveness of credit risk management practices to provide oversight of all corporate lending activities. The Loan Review function has the primary responsibility for assessing commercial credit administration and credit decision functions of consumer and mortgage underwriting, as well as providing input to the loan risk rating process.

Nonperforming assets, or NPAs, consist of nonaccrual loans, nonaccrual TDRs and OREO. The following represents NPAs as of December 31:

(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Nonperforming Loans					
Commercial real estate	$ 22,427	$ 11,085	$ 2,501	$ 15,526	$ 5,171
Commercial and industrial	13,287	5,763	2,449	3,578	7,709
Commercial construction	737	11,780	1,460	4,497	7,488
Residential mortgage	6,697	3,543	3,580	4,850	4,964
Home equity	1,961	2,719	2,736	2,485	2,379
Installment and other consumer	36	33	62	101	12
Consumer construction	—	—	—	—	—
Total Nonperforming Loans	**45,145**	**34,923**	**12,788**	**31,037**	**27,723**
Nonperforming Troubled Debt Restructurings					
Commercial real estate	6,713	967	646	3,548	2,180
Commercial and industrial	695	3,197	4,493	1,570	356
Commercial construction	—	2,413	430	1,265	1,869
Residential mortgage	822	3,585	5,068	665	459
Home Equity	678	979	954	523	562
Installment and other consumer	4	9	7	88	10
Total Nonperforming Troubled Debt Restructurings	**8,912**	**11,150**	**11,598**	**7,659**	**5,436**
Total Nonperforming Loans	**54,057**	**46,073**	**24,386**	**38,696**	**33,159**
OREO	3,525	3,092	469	679	354
Total Nonperforming Assets	**$ 57,582**	**$ 49,165**	**$ 24,855**	**$ 39,375**	**$ 33,513**
Nonperforming loans as a percent of total loans	0.76%	0.77%	0.42%	0.76%	0.70%
Nonperforming assets as a percent of total loans plus OREO	0.81%	0.83%	0.42%	0.77%	0.71%

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. We had $3.8 million of loans 90 days or more past due and still accruing at December 31, 2019 related to the DNB merger and no loans 90 days or more past due and still accruing at December 31, 2018. The DNB merger loans were recorded at fair value at the time of acquisition.

NPAs increased $8.4 million to $57.6 million at December 31, 2019 compared to $49.2 million at December 31, 2018. The increase in nonperforming loans was primarily related to a commercial and industrial, or C&I, nonperforming, impaired loan relationship of $10.0 million that experienced deterioration during the fourth quarter of 2019.

TDRs are loans where we, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower that we would not otherwise grant. We strive to identify borrowers in financial difficulty early and work with them to modify the terms before their loan reaches nonaccrual status. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 bankruptcy and not reaffirmed by the borrower as TDRs.

An accruing loan that is modified into a TDR can remain in accrual status if, based on a current credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expect that the remaining principal and interest will be collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate given to the borrower is considered to be lower than the current market rate for new debt with similar risk and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted due to the long extension, resulting in payment delay as well as the rate being lower than the current market rate for new debt with similar risk. The loan will be reported as nonaccrual TDR and an impaired loan. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

TDRs increased $18.0 million to $45.9 million at December 31, 2019 compared to $27.9 million at December 31, 2018. The $45.9 million of TDRs at December 31, 2019 included $37.0 million of TDRS that were performing and $8.9 million that were nonperforming. This is an increase from December 31, 2018 when we had $27.9 million in TDRs, including $16.8 million that were performing and $11.1 million that were nonperforming. The increase is primarily due to new TDRs totaling $32.4 million, which were offset by principal reductions and charge-offs. The significant increase in performing TDRs in 2019 primarily related to a $20.2 million CRE relationship that was modified during the third quarter of 2019. The modification granted a concession to the borrower that reduced their monthly payments resulting in the TDR. The loan remains in performing status based on the strong historical repayment performance of the borrower prior to the restructure as well as recent changes occurring in the business which demonstrate the borrower's ability to pay under the revised contractual terms. Guarantor support and sufficient collateral value further support the performing status of the loan.

Loan modifications resulting in new TDRs during 2019 included 53 modifications for $32.4 million compared to 46 modifications for $12.7 million of new TDRs in 2018. Included in the 2019 new TDRs were 36 loans totaling $1.1 million related to consumer bankruptcy filings that were not reaffirmed, thus resulting in discharged debt, which compares to 29 loans totaling $1.2 million in 2018.

The following represents delinquency as of December 31:

	2019		2018		2017		2016		2015	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
90 days or more:										
Commercial real estate	$ 29,140	0.85%	$ 12,052	0.41%	$ 3,468	0.13%	$ 16,172	0.65%	$ 8,719	0.40%
Commercial and Industrial	13,982	0.81%	8,960	0.60%	5,646	0.39%	8,071	0.58%	9,279	0.74%
Commercial construction	737	0.20%	14,193	5.52%	3,873	1.01%	4,927	1.08%	8,753	2.12%
Residential mortgage	7,519	0.75%	7,128	0.98%	7,165	1.03%	9,918	1.41%	5,629	0.88%
Home equity	2,639	0.49%	3,698	0.78%	3,715	0.76%	3,439	0.71%	2,902	0.62%
Installment and other consumer	40	0.05%	42	0.06%	71	0.11%	108	0.16%	100	0.14%
Consumer construction	—	—%	—	—%	—	—%	—	—%	—	—%
Total Loans	**$ 54,057**	**0.76%**	**$ 46,073**	**0.77%**	**$ 23,938**	**0.42%**	**$ 42,635**	**0.74%**	**$ 35,382**	**0.61%**
30 to 89 days:										
Commercial real estate	$ 10,311	0.28%	$ 5,783	0.20%	$ 1,131	0.04%	$ 2,791	0.11%	$ 12,229	0.56%
Commercial and industrial	4,886	0.17%	1,983	0.13%	866	0.06%	1,488	0.11%	2,749	0.22%
Commercial construction	2,119	0.25%	—	—%	2,493	0.65%	547	0.12%	3,607	0.87%
Residential mortgage	3,743	0.20%	2,104	0.29%	4,414	0.63%	2,429	0.35%	2,658	0.42%
Home equity	2,200	0.38%	2,712	0.58%	2,655	0.54%	1,979	0.41%	2,888	0.61%
Installment and other consumer	718	0.54%	223	0.33%	363	0.54%	220	0.33%	352	0.48%
Consumer construction	—	—%	—	—%	—	—%	—	—%	—	—%
Loans held for sale	—	—%	—	—%	—	—%	—	—%	143	—%
Total Loans	**$ 23,977**	**0.34%**	**$ 12,805**	**0.22%**	**$ 11,922**	**0.21%**	**$ 9,454**	**0.16%**	**$ 24,626**	**0.43%**

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more. We monitor delinquency on a monthly basis, including early stage delinquencies of 30 to 89 days past due for early identification of potential problem loans.

Loans past due 90 days or more increased $8.0 million compared to December 31, 2018 and represented 0.76 percent of total loans at December 31, 2019. The increase in CRE 90 days or more past due of $17.1 million primarily related to a $10.5 million loan that was reclassified out of construction into CRE in 2019 and a new $5.3 million nonperforming loan during 2019. The increase in C&I 90 days or more past due of $5.0 million was primarily related to the above mentioned $10.0 million C&I impaired, nonperforming loan relationship that experienced deterioration during the fourth quarter of 2019 offset by loan payoffs. Loans past due by 30 to 89 days increased $11.2 million and represented 0.34 percent of total loans at December 31, 2019. The increase was primarily due to a $7.3 million CRE loan that went delinquent during 2019.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date, and it is presented as a reserve against loans in the Consolidated Balance Sheets. Determination of an adequate ALL is inherently subjective and may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

Our charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

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

Consumer unsecured loans and secured loans are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

The following summarizes our loan charge-off experience for each of the five years presented below:

	Years Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
ALL Balance at Beginning of Year:	$ 60,996	$ 56,390	$ 52,775	$ 48,147	$ 47,911
Charge-offs:					
Commercial real estate	(3,664)	(372)	(2,304)	(3,114)	(2,787)
Commercial and industrial	(8,928)	(8,574)	(4,709)	(6,810)	(5,463)
Commercial construction	(406)	(2,630)	(2,571)	(1,877)	(3,321)
Consumer real estate	(1,353)	(1,319)	(2,274)	(1,657)	(2,167)
Other consumer	(1,838)	(1,694)	(1,638)	(2,103)	(1,528)
Total	**(16,189)**	**(14,589)**	**(13,496)**	**(15,561)**	**(15,266)**
Recoveries:					
Commercial real estate	137	309	810	692	3,545
Commercial and industrial	1,388	1,723	654	722	605
Commercial construction	5	1,135	851	21	143
Consumer real estate	637	541	342	433	495
Other consumer	377	492	571	356	326
Total	**2,544**	**4,200**	**3,228**	**2,224**	**5,114**
Net Charge-offs	**(13,645)**	**(10,389)**	**(10,268)**	**(13,337)**	**(10,152)**
Provision for loan losses	14,873	14,995	13,883	17,965	10,388
ALL Balance at End of Year:	**$ 62,224**	**$ 60,996**	**$ 56,390**	**$ 52,775**	**$ 48,147**

Net loan charge-offs for 2019 were $13.6 million, or 0.22 percent of average loans, compared to $10.4 million, or 0.18 percent of average loans for 2018. Impacting the increase in net loan charge-offs of $3.2 million were higher gross recoveries in 2018 of $1.7 million and higher gross charge-offs of $1.6 million.

The following table summarizes net charge-offs as a percentage of average loans for the years presented

	2019	2018	2017	2016	2015
Commercial real estate	0.10%	NM	0.06%	0.10%	(0.04)%
Commercial and industrial	0.44%	0.48%	0.28%	0.45%	0.40 %
Commercial construction	0.11%	0.48%	0.40%	0.46%	0.96 %
Consumer real estate	0.05%	0.07%	0.16%	0.11%	0.17 %
Other consumer	1.85%	1.79%	1.54%	2.69%	1.37 %
Net charge-offs to average loans outstanding	0.22%	0.18%	0.18%	0.25%	0.22 %
Allowance for loan losses as a percentage of total portfolio loans	0.87%	1.03%	0.98%	0.94%	0.96 %
Allowance for loan losses to total nonperforming loans	115%	132%	236%	124%	136 %
Provision for loan losses as a percentage of net loan charge-offs	109%	144%	135%	135%	102 %

NM - percentage not meaningful

An inherent risk to the loan portfolio as a whole is the condition of the economy in our markets. In addition, each loan segment carries with it risks specific to the segment. We develop and document a systematic ALL methodology based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer.

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

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

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

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

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

The following is the ALL balance by portfolio segment as of December 31:

	2019		2018		2017		2016		2015	
(dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial real estate	$ 30,577	49%	$ 33,707	55%	$ 27,235	48%	$ 19,976	38%	$ 15,043	31%
Commercial and industrial	15,681	25%	11,596	19%	8,966	16%	10,810	20%	10,853	23%
Commercial construction	7,900	13%	7,983	13%	13,167	23%	13,999	26%	12,625	26%
Consumer real estate	6,337	10%	6,187	10%	5,479	10%	6,095	12%	8,400	17%
Other consumer	1,729	3%	1,523	3%	1,543	3%	1,895	4%	1,226	3%
Total	**$ 62,224**	**100%**	**$ 60,996**	**100%**	**$ 56,390**	**100%**	**$ 52,775**	**100%**	**$ 48,147**	**100%**

Significant to our ALL is a higher concentration of commercial loans. The ability of borrowers to repay commercial loans is dependent upon the success of their business and general economic conditions. Due to the greater potential for loss within our commercial portfolio, we monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans rated special mention or substandard have potential or well-defined weaknesses not generally found in high quality, performing loans, and require attention from management to limit loss.

The following table summarizes the ALL balance as of December 31:

(dollars in thousands)	2019	2018	2017	2016	2015
Collectively Evaluated for Impairment	$ 60,024	$ 59,233	$ 56,313	$ 51,977	$ 48,110
Individually Evaluated for Impairment	2,200	1,763	77	798	37
Total Allowance for Loan Losses	**$ 62,224**	**$ 60,996**	**$ 56,390**	**$ 52,775**	**$ 48,147**

The ALL was $62.2 million, or 0.87 percent of total portfolio loans, at December 31, 2019, compared to $61.0 million, or 1.03 percent of total portfolio loans, at December 31, 2018. The increase in the ALL of $1.2 million was primarily due to a $0.8 million increase in the reserve for loans collectively evaluated for impairment and an increase of $0.4 million in specific reserves for loans individually evaluated for impairment at December 31, 2019 compared to December 31, 2018.

Impaired loans increased $25.8 million from December 31, 2018 due to three large commercial relationships. The most significant related to a modification during 2019 of a $20.2 million commercial relationship. The modification granted a concession to the borrower that reduced their monthly payments resulting in the TDR. The loan remains in performing status based on the strong historical repayment performance of the borrower prior to the restructure as well as recent changes occurring in the business which demonstrate the borrower's ability to pay under the revised contractual terms. Guarantor support and sufficient collateral value further support the performing status of the loan.

Federal Home Loan Bank and Other Restricted Stock

At December 31, 2019 and 2018, we held FHLB of Pittsburgh stock of $21.9 million and $28.6 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon on the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value. We reviewed and evaluated the FHLB capital stock for OTTI at December 31, 2019. The FHLB reported improved earnings throughout 2019 and 2018 and continues to exceed all capital ratios required. Additionally, we considered that the FHLB has been paying dividends and actively redeeming stock throughout 2019 and 2018. Accordingly, we believe sufficient evidence exists to conclude that no OTTI exists at December 31, 2018.

Deposits

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

(dollars in thousands)	2019	2018	$ Change
Customer deposits			
Noninterest-bearing demand	$ 1,698,082	$ 1,421,156	$ 276,926
Interest-bearing demand	762,111	567,492	194,619
Money market	1,849,684	1,178,211	671,473
Savings	830,919	784,970	45,949
Certificates of deposit	1,535,305	1,261,704	273,601
Total customer deposits	**6,676,101**	**5,213,533**	**1,462,568**
Brokered deposits			
Interest-bearing demand	200,220	6,201	194,019
Money market	100,127	303,854	(203,727)
Certificates of deposit	60,128	150,334	(90,206)
Total brokered deposits	**360,475**	**460,389**	**(99,914)**
Total Deposits	**$ 7,036,576**	**$ 5,673,922**	**$ 1,362,654**

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits. Total deposits at December 31, 2019 increased $1.4 billion, or 24.0 percent, from December 31, 2018 including $990.6 million acquired in the DNB merger. Noninterest-bearing demand deposits increased $276.9 million, of which $180.5 million was acquired in the DNB merger. Interest-bearing demand increased $194.6 million, of which $214.8 million was acquired in the DNB merger. Money market increased $671.5 million, of which $227.8 million was acquired in the DNB merger. The organic increase in money market deposits is related to a promotional rate product offered in selected markets. Savings increased $45.9 million, of which $77.7 million was acquired in the DNB merger. Certificates of deposits increased $273.6 million, of which $289.8 million was acquired in the DNB merger. Although the DNB merger added $60.0 million of brokered deposits, they decreased $99.9 million from December 31, 2018 due to the strong customer deposit growth. The approximate $200 million shift between money market and interest-bearing demand brokered deposits is related to a change in our brokered deposit program during the second quarter of 2019. Brokered deposits are an additional source of funds utilized by ALCO as a way to diversify funding sources, as well as manage our funding costs and structure.

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

The daily average balance of deposits and rates paid on deposits are summarized in the following table for the years ended December 31:

	2019		2018		2017	
(dollars in thousands)	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Noninterest-bearing demand	$ 1,475,960		$ 1,376,329		$ 1,310,814	
Interest-bearing demand	561,756	0.41%	565,273	0.31%	630,418	0.21%
Money market	1,474,841	1.69%	1,040,214	1.24%	710,149	0.65%
Savings	766,142	0.25%	836,747	0.21%	988,504	0.21%
Certificates of deposit	1,322,643	1.91%	1,202,781	1.37%	1,327,001	0.97%
Brokered deposits	370,779	2.32%	390,360	2.05%	404,453	1.10%
Total	**$ 5,972,121**	**1.06%**	**$ 5,411,704**	**0.76%**	**$ 5,371,339**	**0.47%**

CDs of $100,000 and over accounted for 12.6 percent of total deposits at December 31, 2019 and 10.6 percent of total deposits at December 31, 2018 and primarily represent deposit relationships with local customers in our market area.

Maturities of CDs of $100,000 or more outstanding at December 31, 2019 are summarized as follows:

(dollars in thousands)	**2019**
Three months or less	$ 221,768
Over three through six months	207,798
Over six through twelve months	202,502
Over twelve months	122,749
Total	**$ 754,817**

Borrowings

The following table represents the composition of borrowings for the years ended December 31:

(dollars in thousands)	**2019**	**2018**	**$ Change**
Securities sold under repurchase agreements, retail	$ 19,888	$ 18,383	$ 1,505
Short-term borrowings	281,319	470,000	(188,681)
Long-term borrowings	50,868	70,314	(19,446)
Junior subordinated debt securities	64,277	45,619	18,658
Total Borrowings	**$ 416,352**	**$ 604,316**	**$ (187,964)**

Borrowings are an additional source of funding for us. Securities sold under repurchase agreements are with our retail customers. Securities pledged as collateral under these arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Short-term borrowings are comprised of FHLB advances with terms of one year and under. Long-term borrowings are for terms greater than one year and consist primarily of FHLB advances. FHLB advances are for various terms and are secured by a blanket lien on eligible real estate secured loans.

At December 31, 2019, long-term borrowings decreased $19.4 million compared to December 31, 2018. Short-term borrowings decreased $188.7 million as compared to December 31, 2018 primarily due to increased deposits. At December 31, 2019, our long-term borrowings outstanding of $50.9 million included $47.8 million that were at a fixed rate and $3.1 million at a variable rate.

Information pertaining to short-term borrowings is summarized in the tables below:

	Securities Sold Under Repurchase Agreements		
(dollars in thousands)	2019	2018	2017
Balance at December 31	$ 19,888	$ 18,383	$ 50,161
Average balance during the year	$ 16,863	$ 45,992	$ 46,662
Average interest rate during the year	0.65%	0.48%	0.12%
Maximum month-end balance during the year	$ 23,427	$ 54,579	$ 53,609
Average interest rate at December 31	0.74%	0.46%	0.39%

	Short-Term Borrowings		
(dollars in thousands)	2019	2018	2017
Balance at December 31	$ 281,319	$ 470,000	$ 540,000
Average balance during the year	$ 255,264	$ 525,172	$ 644,864
Average interest rate during the year	2.51%	2.11%	1.15%
Maximum month-end balance during the year	$ 425,000	$ 690,000	$ 734,600
Average interest rate at December 31	1.84%	2.65%	1.47%

Information pertaining to long-term borrowings is summarized in the tables below:

	Long-Term Borrowings		
(dollars in thousands)	2019	2018	2017
Balance at December 31	$ 50,868	$ 70,314	$ 47,301
Average balance during the year	$ 66,392	$ 47,986	$ 18,057
Average interest rate during the year	2.76%	2.35%	2.57%
Maximum month-end balance during the year	$ 70,418	$ 70,314	$ 47,505
Average interest rate at December 31	2.61%	2.84%	1.88%

	Junior Subordinated Debt Securities		
(dollars in thousands)	2019	2018	2017
Balance at December 31	$ 64,277	$ 45,619	$ 45,619
Average balance during the year	$ 47,934	$ 45,619	$ 45,619
Average interest rate during the year	4.82%	3.65%	3.65%
Maximum month-end balance during the year	$ 64,277	$ 45,619	$ 45,619
Average interest rate at December 31	4.42%	5.25%	3.78%

We have completed three private placements of trust preferred securities to financial institutions. As a result, we own 100 percent of the common equity of STBA Capital Trust I, DNB Capital Trust I, and DNB Capital Trust II, or the Trusts. The Trusts were formed to issue mandatorily redeemable capital securities to third-party investors. The proceeds from the sale of the securities and the issuance of the common equity by the Trusts were invested in junior subordinated debt securities issued by us. The third party investors are considered the primary beneficiaries of the Trusts; therefore, the Trusts qualify as variable interest entities, but are not consolidated into our financial statements. The Trusts pays dividends on the securities at the same rate as the interest paid by us on the junior subordinated debt held by the Trusts. DNB Capital Trust I and DNB Capital Trust II were acquired with the DNB merger. Refer to Note 17 Short-Term Borrowings and Note 18 Long-Term Borrowings and Subordinated Debt to the Consolidated Financial Statements included in Part II, Item 8, of this Report, for more details.

Wealth Management Assets

As of December 31, 2019, the fair value of the S&T Bank Wealth Management assets under administration, which are not accounted for as part of our assets, increased to $2.0 billion from $1.8 billion as of December 31, 2018 of which $0.2 billion were acquired from the DNB merger. Assets under administration consisted of $1.2 billion in S&T Trust, $0.6 billion in S&T Financial Services and $0.2 billion in Stewart Capital Advisors.

Capital Resources

Shareholders' equity increased $256.2 million, or 27.4 percent, to $1.2 billion at December 31, 2019 compared to $935.8 million at December 31, 2018. The increase in shareholders' equity is primarily due to $200.6 million of common stock issued in the DNB merger and net income exceeding dividends by $60.9 million offset by share repurchases of $18.2 million for 2019.

We continue to maintain our capital position with a leverage ratio of 10.29 percent as compared to the regulatory guideline of 5.00 percent to be well-capitalized and a risk-based Common Equity Tier 1 ratio of 11.43 percent compared to the regulatory guideline of 6.50 percent to be well-capitalized. Our risk-based Tier 1 and Total capital ratios were 11.84 percent and 13.22 percent, which places us above the federal bank regulatory agencies' well-capitalized guidelines of 8.00 percent and 10.00 percent, respectively. We believe that we have the ability to raise additional capital, if necessary.

In July 2013 the federal banking agencies issued a final rule to implement Basel III (which were agreements reached in July 2010 by the international oversight body of the Basel Committee on Banking Supervision to require more and higher-quality capital) and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. The final rule established a comprehensive capital framework and went into effect on January 1, 2015 for smaller banking organizations such as S&T and S&T Bank. The rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets beginning in 2019. The capital conservation buffer is scheduled to phase in over several years. The capital conservation buffer was 0.25 percent in 2016, 0.50 percent in 2017, 0.75 percent in 2018, and increased to 1.00 percent in 2019 and beyond. As a result, starting in 2019, a banking organization must maintain a common equity tier 1 risk-based capital ratio greater than 7.00 percent, a tier 1 risk-based capital ratio greater than 8.50 percent, and a total risk-based capital ratio greater than 10.50 percent; otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments. Now that the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer exceeds the regulatory capital ratios required for an insured depository institution to be well-capitalized under the FDIC's prompt corrective action framework.

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

We have filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC, which allows for the issuance of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of December 31, 2019, we had not issued any securities pursuant to the shelf registration statement.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payments. We have various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents as of December 31, 2019 significant fixed and determinable contractual obligations to third parties by payment date:

	Payments Due In				
(dollars in thousands)	**2020**	**2021-2022**	**2023-2024**	**Later Years**	**Total**
Deposits without a stated maturity[(1)]	$ 5,441,143	$ —	$ —	$ —	$ 5,441,143
Certificates of deposit[(1)]	1,272,707	284,395	34,003	4,328	1,595,433
Securities sold under repurchase agreements[(1)]	19,888	—	—	—	19,888
Short-term borrowings[(1)]	281,319	—	—	—	281,319
Long-term borrowings[(1)]	27,058	8,707	13,845	1,258	50,868
Junior subordinated debt securities[(1)]	—	—	—	64,277	64,277
Operating and capital leases	4,885	9,727	9,735	70,918	95,265
Purchase obligations	26,809	39,418	44,045	—	110,272
Total	**$ 7,073,809**	**$ 342,247**	**$ 101,628**	**$ 140,781**	**$ 7,658,465**

[(1)]*Excludes interest*

Operating lease obligations represent short and long-term lease arrangements as described in Note 11 Premises and Equipment, to the Consolidated Financial Statements included in Part II, Item 8 of this Report. Purchase obligations primarily represent obligations under agreement with our third party data processing servicer and communications charges as described in Note 19 Commitments and Contingencies, to the Consolidated Financial Statements included in Part II, Item 8 of this Report.

Off-Balance Sheet Arrangements

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The DNB merger added $186.5 million of commitments to extend credit and standby letters of credit.

The following table sets forth the commitments and letters of credit as of December 31:

(dollars in thousands)	2019	2018
Commitments to extend credit	$ 1,910,805	$ 1,464,892
Standby letters of credit	80,040	77,134
Total	**$ 1,990,845**	**$ 1,542,026**

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

Our allowance for unfunded commitments is determined using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for unfunded commitments through a charge to current earnings in noninterest expense. The balance in the allowance for unfunded commitments increased $0.9 million to $3.0 million at December 31, 2019, including $0.4 million from the DNB merger, compared to $2.1 million at December 31, 2018.

Liquidity

Liquidity is defined as a financial institution’s ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk, our Board of Directors has delegated authority to the ALCO for formulation, implementation, and oversight of liquidity risk management for S&T. The ALCO’s goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. The ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests, and having a detailed contingency funding plan. The ALCO policy guidelines define graduated risk tolerance levels. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits section of this MD&A for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to S&T include borrowing availability at the FHLB of Pittsburgh, federal funds lines with other financial institutions, the brokered deposit market, and borrowing availability through the Federal Reserve Borrower-In-Custody program.

An important component of our ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate, and high. At December 31, 2019, we had $615.5 million in highly liquid assets, which consisted of $116.9 million in interest-bearing deposits with banks and federal funds sold, $493.3 million in unpledged securities, and $5.3 million in loans held for sale. This resulted in a highly liquid assets to total assets ratio of 7.0 percent at December 31, 2019. Also, at December 31, 2019, we had a remaining borrowing availability of $2.6 billion with the FHLB of Pittsburgh. Refer to Note 17 Short-Term Borrowings and Note 18 Long-Term Borrowings and Subordinated Debt to the Consolidated Financial Statements included in Part II, Item 8, of this Report, and the Borrowings section of this MD&A, for more details.

Inflation

Management is aware of the significant effect inflation has on interest rates and can have on financial performance. Our ability to cope with this is best determined by analyzing our capability to respond to changing interest rates and our ability to manage noninterest income and expense. We monitor the mix of interest-rate sensitive assets and liabilities through ALCO in order to reduce the impact of inflation on net interest income. We also control the effects of inflation by reviewing the prices of our products and services, by introducing new products and services and by controlling overhead expenses.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes also affect capital by changing the net present value of a bank's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and enhancing shareholder value. However, excessive interest rate risk can threaten a bank's earnings, capital, liquidity, and solvency. Our sensitivity to changes in interest rate movements is continually monitored by the ALCO. The ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analyses and by performing stress tests and simulations to mitigate earnings and market value fluctuations due to changes in interest rates.

Rate shock analyses results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 and 24 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and include management assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over 12- and 24-month horizons using rate shocks in increments of +/- 100 basis points. Policy guidelines define the percentage change in pretax net interest income by graduated risk tolerance levels of minimal, moderate, and high. We have temporarily suspended the analyses on downward rate shocks of 200 basis points or more because they do not provide meaningful insight into our interest rate risk position.

To monitor interest rate risk beyond the 24-month time horizon of rate shocks on pretax net interest income, we also perform EVE analyses. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. EVE change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analyses on pretax net interest income, EVE analyses incorporate management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and the behavior and value of non-maturity deposit products. S&T policy guidelines limit the change in EVE using rate shocks in increments of +/- 100 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate, and high. We have also temporarily suspended the downward rate shocks of 200 basis points or more for EVE.

The table below reflects the rate shock analyses results for the 1 to 12 and 13 to 24 month periods of pretax net interest income and EVE. All results are in the minimal risk tolerance level.

	December 31, 2019			December 31, 2018		
	1 - 12 Months	13 - 24 Months		1 - 12 Months	13 - 24 Months	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Pretax Net Interest Income	% Change in EVE	% Change in Pretax Net Interest Income	% Change in Pretax Net Interest Income	% Change in EVE
400	9.6 %	14.4 %	(1.8)%	8.3 %	11.6 %	(10.0)%
300	7.2	10.8	2.8	6.1	8.5	(4.6)
200	5.0	7.6	5.5	4.0	5.6	(0.6)
100	2.7	4.2	5.1	2.2	3.1	1.4
(100)	(4.3)	(6.4)	(10.8)	(3.8)	(5.4)	(7.5)

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

Our rate shock analyses show an improvement in the percentage change in pretax net interest income in the rates up scenarios and a decline in the rates down scenario in months 1 to 12 and 13 to 24 when comparing December 31, 2019 to December 31, 2018. Our EVE analyses show an improvement in the percentage change in EVE in the rates up scenarios and a decline in the rates down scenario when comparing December 31, 2019 to December 31, 2018.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

In addition to rate shocks and EVE analyses, we perform a market risk stress test at least annually. The market risk stress test includes sensitivity analyses and simulations. Sensitivity analyses are performed to help us identify which model assumptions cause the greatest impact on pretax net interest income. Sensitivity analyses may include changing prepayment behavior of loans and securities with optionality and the impact of interest rate changes on non-maturity deposit products. Simulation analyses may include the potential impact of rate changes other than the policy guidelines, yield curve shape changes, significant balance mix changes, and various growth scenarios.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS
S&T Bancorp, Inc. and Subsidiaries

	December 31,	
(in thousands, except share and per share data)	**2019**	**2018**
ASSETS		
Cash and due from banks, including interest-bearing deposits of $124,491 and $82,740 at December 31, 2019 and 2018	$ 197,823	$ 155,489
Securities, at fair value	784,283	684,872
Loans held for sale	5,256	2,371
Portfolio loans, net of unearned income	7,137,152	5,946,648
Allowance for loan losses	(62,224)	(60,996)
Portfolio loans, net	7,074,928	5,885,652
Bank owned life insurance	80,473	73,900
Premises and equipment, net	56,940	41,730
Federal Home Loan Bank and other restricted stock, at cost	22,977	29,435
Goodwill	371,621	287,446
Other intangible assets, net	10,919	2,601
Other assets	159,429	88,725
Total Assets	**$ 8,764,649**	**$ 7,252,221**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 1,698,082	$ 1,421,156
Interest-bearing demand	962,331	573,693
Money market	1,949,811	1,482,065
Savings	830,919	784,970
Certificates of deposit	1,595,433	1,412,038
Total Deposits	**7,036,576**	**5,673,922**
Securities sold under repurchase agreements	19,888	18,383
Short-term borrowings	281,319	470,000
Long-term borrowings	50,868	70,314
Junior subordinated debt securities	64,277	45,619
Other liabilities	119,723	38,222
Total Liabilities	**7,572,651**	**6,316,460**
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value) Authorized—50,000,000 shares Issued—41,449,444 shares at December 31, 2019 and 36,130,480 shares at December 31, 2018 Outstanding—39,560,304 shares at December 31, 2019 and 34,683,874 shares at December 31, 2018	103,623	90,326
Additional paid-in capital	399,944	210,345
Retained earnings	761,083	701,819
Accumulated other comprehensive loss	(11,670)	(23,107)
Treasury stock (1,889,140 shares at December 31, 2019 and 1,446,606 shares at December 31, 2019, at cost)	(60,982)	(43,622)
Total Shareholders' Equity	**1,191,998**	**935,761**
Total Liabilities and Shareholders' Equity	**$ 8,764,649**	**$ 7,252,221**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF NET INCOME
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands, except per share data)	**2019**	**2018**	**2017**
INTEREST INCOME			
Loans, including fees	$ 300,625	$ 269,811	$ 243,315
Investment Securities:			
Taxable	14,733	14,342	11,947
Tax-exempt	3,302	3,449	3,615
Dividends	1,824	2,224	1,765
Total Interest Income	**320,484**	**289,826**	**260,642**
INTEREST EXPENSE			
Deposits	63,026	40,856	25,330
Borrowings and junior subordinated debt securities	10,667	14,532	9,579
Total Interest Expense	**73,693**	**55,388**	**34,909**
NET INTEREST INCOME	**246,791**	**234,438**	**225,733**
Provision for loan losses	14,873	14,995	13,883
Net Interest Income After Provision for Loan Losses	**231,918**	**219,443**	**211,850**
NONINTEREST INCOME			
Net (loss)/gain on sale of securities	(26)	—	3,000
Debit and credit card	13,405	12,679	12,029
Service charges on deposit accounts	13,316	13,096	12,458
Wealth management	8,623	10,084	9,758
Commercial loan swap income	5,503	1,225	503
Mortgage banking	2,491	2,762	2,915
Insurance	355	505	5,371
Gain on sale of a majority interest of insurance business	—	1,873	—
Other	8,891	6,957	9,428
Total Noninterest Income	**52,558**	**49,181**	**55,462**
NONINTEREST EXPENSE			
Salaries and employee benefits	83,986	76,108	80,776
Data processing and information technology	14,468	10,633	8,801
Net occupancy	12,103	11,097	10,994
Merger-related	11,350	—	—
Furniture, equipment and software	8,958	8,083	7,946
Marketing	4,631	4,192	3,659
Professional services and legal	4,244	4,132	4,096
Other taxes	3,364	6,183	4,509
FDIC insurance	758	3,238	4,543
Other	23,254	21,779	22,583
Total Noninterest Expense	**167,116**	**145,445**	**147,907**
Income Before Taxes	**117,360**	**123,179**	**119,405**
Provision for income taxes	19,126	17,845	46,437
Net Income	**$ 98,234**	**$ 105,334**	**$ 72,968**
Earnings per common share—basic	$ 2.84	$ 3.03	$ 2.10
Earnings per common share—diluted	$ 2.82	$ 3.01	$ 2.09
Dividends declared per common share	$ 1.09	$ 0.99	$ 0.82

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands)	2019	2018	2017
Net Income	**$ 98,234**	**$ 105,334**	**$ 72,968**
Other Comprehensive Income (Loss), Before Tax:			
Net change in unrealized gains on bond securities[(1)]	15,793	(6,794)	(1,275)
Net losses (gains) on bonds and equity securities available-for-sale reclassified into net income [(2)]	26	—	(3,000)
Adjustment to funded status of employee benefit plans	(1,282)	6,297	(1,992)
Other Comprehensive Income (Loss), Before Tax	**14,537**	**(497)**	**(6,267)**
Income tax (expense) benefit related to items of other comprehensive income	(3,100)	106	1,624
Other Comprehensive Income (Loss), After Tax	**11,437**	**(391)**	**(4,643)**
Comprehensive Income	**$ 109,671**	**$ 104,943**	**$ 68,325**

(1) Due to the adoption of ASU No. 2016-01, net unrealized gains on marketable equity securities were reclassified from accumulated other comprehensive income to retained earnings during the three months ended March 31, 2018. The prior period data was not restated; as such, the change in unrealized gains on marketable securities is combined with the change in net unrealized gains on debt securities for the prior period ended December 31, 2017.

(2) Reclassification adjustments are comprised of realized security gains or losses. The realized gains or losses have been reclassified out of accumulated other comprehensive income/(loss) and have affected certain lines in the Consolidated Statements of Net Income as follows: the pre-tax amount is included in securities gains/losses-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
S&T Bancorp, Inc. and Subsidiaries

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at December 31, 2016	**$ 90,326**	**$ 213,098**	**$ 585,891**	**$ (13,784)**	**$ (33,575)**	**$ 841,956**
Net income for 2017	—	—	72,968	—	—	72,968
Other comprehensive (loss) income, net of tax	—	—	—	(4,643)	—	(4,643)
Cash dividends declared ($0.82 per share)	—	—	(28,569)	—	—	(28,569)
Treasury stock issued (58,906 shares, net)	—	—	(2,183)	—	1,494	(689)
Recognition of restricted stock compensation expense	—	3,008	—	—	—	3,008
Balance at December 31, 2017	**$ 90,326**	**$ 216,106**	**$ 628,107**	**$ (18,427)**	**$ (32,081)**	**$ 884,031**
Net income for 2018	—	—	105,334	—	—	105,334
Other comprehensive (loss) income, net of tax	—	—	—	(391)	—	(391)
Reclassification of certain tax effects from accumulated other comprehensive income[(1)]	—	—	3,427	(3,427)	—	—
Reclassification of net unrealized gains on equity securities[(2)]	—	—	862	(862)	—	—
Repurchase of warrant	—	(7,652)	—	—	—	(7,652)
Cash dividends declared ($0.99 per share)	—	—	(34,539)	—	—	(34,539)
Treasury stock repurchased (321,731 shares)	—	—	—	—	(12,256)	(12,256)
Treasury stock issued (33,676 shares, net)	—	—	(1,372)	—	715	(657)
Recognition of restricted stock compensation expense	—	1,891	—	—	—	1,891
Balance at December 31, 2018	**$ 90,326**	**$ 210,345**	**$ 701,819**	**$ (23,107)**	**$ (43,622)**	**$ 935,761**
Net income for 2019	—	—	98,234	—	—	98,234
Other comprehensive income (loss), net of tax	—	—	—	11,437	—	11,437
Impact of new lease standard	—	—	167	—	—	167
Cash dividends declared ($1.09 per share)	—	—	(37,360)	—	—	(37,360)
Common stock issuance cost	—	(176)	—	—	—	(176)
Common stock issued in acquisition (5,318,962 shares)	13,297	187,334	—	—	—	200,631
Treasury stock repurchased (470,708 shares)	—	—	—	—	(18,222)	(18,222)
Treasury stock issued (28,174 shares, net)	—	—	(1,777)	—	862	(915)
Recognition of restricted stock compensation expense	—	2,441	—	—	—	2,441
Balance at December 31, 2019	**$ 103,623**	**$ 399,944**	**$ 761,083**	**$ (11,670)**	**$ (60,982)**	**$ 1,191,998**

[1)]Reclassification of tax effects due to the adoption of ASU No. 2018-02, relating to $(3,660) relates to funded status of pension and $233 relates to net unrealized gains on available-for-sale securities.
[(2)]Reclassification due to the adoption of ASU No. 2016-01, related to changes in fair value for equity securities reclassified out of accumulated other comprehensive income.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
S&T Bancorp, Inc. and Subsidiaries

(dollars in thousands)	Years ended December 31, 2019	2018	2017
OPERATING ACTIVITIES			
Net Income	$ 98,234	$ 105,334	$ 72,968
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	14,873	14,995	13,883
Provision (recovery) for unfunded loan commitments	436	(54)	(410)
Net depreciation, amortization and accretion	5,763	4,599	2,498
Net amortization of discounts and premiums on securities	3,243	3,180	4,003
Stock-based compensation expense	2,441	1,891	3,008
Loss (gain) on sale of securities	26	—	(3,000)
Gain on sale of bank branch	—	—	(1,042)
Deferred income taxes	(381)	3,509	13,832
Loss (gain) on sale of fixed assets	37	(81)	128
Gain on the sale of mortgage loans, net	(1,887)	(1,537)	(1,551)
Gain on the sale of majority interest of insurance business	—	(1,873)	—
Pension contribution	—	(20,420)	—
Net change in:			
Mortgage loans originated for sale	(109,624)	(90,142)	(93,382)
Proceeds from sale of loans	109,082	93,793	93,991
Net increase in interest receivable	(3,768)	(1,635)	(2,714)
Net (decrease) increase in interest payable	(2,223)	2,353	1,349
Net (increase) decrease in other assets	(2,325)	9,948	5,634
Net increase in other liabilities	24,496	4,157	5,041
Net Cash Provided by Operating Activities	**138,423**	**128,017**	**114,236**
INVESTING ACTIVITIES			
Proceeds from maturities, prepayments and calls of securities	92,412	89,833	80,956
Proceeds from sales of securities	59,934	—	65,801
Purchases of securities	(129,973)	(92,597)	(156,839)
Net sales (purchases) of Federal Home Loan Bank stock	6,615	(165)	2,547
Net increase in loans	(298,741)	(207,233)	(211,766)
Proceeds from the sale of loans not originated for resale	520	7,695	6,754
Purchases of premises and equipment	(5,153)	(4,172)	(4,694)
Proceeds from the sale of premises and equipment	71	135	422
Proceeds from sale of bank branch, net of cash and cash equivalents	—	—	4,404
Net cash acquired from bank merger	63,759	—	—
Proceeds from the sale of majority interest of insurance business	—	4,540	—
Net Cash Used in Investing Activities	**(210,556)**	**(201,964)**	**(212,415)**
FINANCING ACTIVITIES			
Net increase in core deposits	423,203	231,756	166,054
Net (decrease) increase in certificates of deposit	(27,632)	14,397	27,132
Net decrease in short-term borrowings	(200,000)	(70,000)	(120,000)
Net increase (decrease) in securities sold under repurchase agreements	1,505	(31,778)	(671)
Proceeds from long-term borrowings	10,000	25,000	35,000
Repayments of long-term borrowings	(35,936)	(1,987)	(2,412)
Treasury shares issued-net	(915)	(657)	(689)
Repurchase common stock	(18,222)	(12,256)	—
Common stock issuance costs	(176)	—	—
Cash dividends paid to common shareholders	(37,360)	(34,539)	(28,569)
Repurchase warrant	—	(7,652)	—
Net Cash Provided by Financing Activities	**114,467**	**112,284**	**75,845**
Net increase (decrease) in cash and cash equivalents	42,334	38,337	(22,334)
Cash and cash equivalents at beginning of year	155,489	117,152	139,486
Cash and Cash Equivalents at End of Year	**$ 197,823**	**$ 155,489**	**$ 117,152**

CONSOLIDATED STATEMENTS OF CASH FLOWS
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands)	2019	2018	2017
Supplemental Disclosures			
Transfers to other real estate owned and other repossessed assets	$ 2,592	$ 870	$ 2,238
Interest paid	$ 75,278	$ 53,035	$ 33,591
Income taxes paid, net of refunds	$ 14,663	$ 15,728	$ 33,814
Loans transferred to held for sale	$ 456	$ —	$ —
Loans transferred to portfolio from held for sale	$ —	$ 7,695	$ 250
Transfer retained assets from sale to investment in insurance company partnership	$ —	$ 1,917	$ —
Net assets from acquisitions, excluding cash and cash equivalents	$ 43,637	$ —	$ —
Decrease in cash and cash equivalents from sale of bank branch	$ —	$ —	$ 154

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

S&T Bancorp, Inc., or S&T, was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has five active direct wholly owned subsidiaries, S&T Bank, 9th Street Holdings, Inc., STBA Capital Trust I, DNB Capital Trust I and DNB Capital Trust II. DNB Capital Trust I and DNB Capital Trust II were acquired with the DNB merger on November 30, 2019. We own a 50 percent interest in Commonwealth Trust Credit Life Insurance Company, or CTCLIC.

We are presently engaged in nonbanking activities through the following eight entities: 9th Street Holdings, Inc.; S&T Bancholdings, Inc.; CTCLIC; S&T Insurance Group, LLC; Stewart Capital Advisors, LLC.; Downco Inc.; DN Acquisition, Inc.; and DNB Financial Services, Inc. 9th Street Holdings, Inc. and S&T Bancholdings, Inc. are investment holding companies. 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, through its subsidiaries, offers a variety of insurance products. Stewart Capital Advisors, LLC is a registered investment advisor that manages private investment accounts for individuals and institutions. Downco Inc. and DN Acquisition Company, Inc. were acquired with the DNB merger and were incorporated for the purpose of acquiring and holding Other Real Estate Owned acquired through foreclosure or deed in-lieu-of foreclosure, as well as Bank-occupied real estate. DNB Financial Services was also acquired with the DNB merger and is a Pennsylvania licensed insurance agency, which, through a third-party marketing agreement with Cetera Investment Services, LLC, sells a variety of insurance and investment products.

On June 5, 2019 we entered into an agreement to acquire DNB Financial Corporation, or DNB, and the transaction was completed on November 30, 2019. The transaction was valued at $201.0 million and added total assets of $1.1 billion, including $909.0 million in loans, $84.2 million in goodwill and $967.3 million in deposits.

On January 1, 2018, we sold a 70 percent majority interest in the assets of our wholly-owned subsidiary S&T Evergreen Insurance, LLC. We transferred our remaining 30 percent ownership interest in the net assets of S&T Evergreen Insurance, LLC to a new entity for a 30 percent ownership interest in a new insurance entity (see Note 28: Sale of a Majority Interest of Insurance Business). We use the equity method of accounting to recognize our partial ownership interest in the new entity.

Accounting Policies

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates. Our significant accounting policies are described below.

Principles of Consolidation

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

Reclassification

Amounts in prior years' financial statements and footnotes are reclassified whenever necessary to conform to the current year’s presentation. Reclassifications had no effect on our results of operations or financial condition.

Business Combinations

We account for business combinations using the acquisition method of accounting. All identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized and measured as of the acquisition date at fair value. We record goodwill for the excess of the purchase price over the fair value of net assets acquired. Results of operations of the acquired entities are included in the consolidated statement of income from the date of acquisition.

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related ALL. Determining the fair value of acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. In estimating the fair value of our acquired loans, we considered a number of factors including loss rates, internal risk rating, delinquency status, loan type, loan term, prepayment rates, recovery periods and the current interest rate environment. The premium or discount estimated through the loan fair value calculation is recognized into interest income on a level yield basis over the remaining life of the loans. Subsequent to the acquisition date, the methods utilized to estimate the required ALL for these loans is similar to the method used for originated loans; however, we record a provision for credit losses only when the required allowance exceeds the remaining fair value adjustment.

Acquired loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable at time of acquisition that all contractually required payments will not be collected. Loans acquired with evidence of credit deterioration were evaluated and not considered to be significant.

Fair Value Measurements

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

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

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

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

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

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

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

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

Recurring Basis

Debt Securities Available-for-Sale

We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provide us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt securities. The market valuation sources for debt securities include observable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models, vast descriptive terms and condition databases, and extensive quality control programs.

Equity Securities

Marketable equity securities with quoted prices in active markets for identical assets are classified as Level 1. Marketable equity securities in markets that are not active and are based on other observable information for comparable assets are classified as Level 2. Marketable equity securities that are not traded in active markets and use unobservable assumptions in the market are classified as Level 3.

Rabbi Trust Assets

We use quoted market prices to determine the fair value of our equity security assets. These securities are reported at fair value with the gains and losses included in noninterest income in our Consolidated Statements of Net Income. These assets are held in a Rabbi Trust under a deferred compensation plan and are invested in readily quoted mutual funds. Accordingly, these assets are classified as Level 1. Rabbi Trust assets are reported in other assets in the Consolidated Balance Sheets.

Derivative Financial Instruments

We use derivative instruments, including interest rate swaps for commercial loans with our customers, interest rate lock commitments and the sale of mortgage loans in the secondary market. We calculate the fair value for derivatives using accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2. We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparties' nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets carried at fair value are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. MSRs are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3. MSRs are reported in other assets in the Consolidated Balance Sheets and are amortized into noninterest income in the Consolidated Statements of Net Income.

Other Assets

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

Financial Instruments

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

Cash and Cash Equivalents

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

Loans

With the adoption of ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement, on January 1, 2018, we refined our methodology to estimate the fair value of our loan portfolio to use the exit price notion as required by the standard. The guidance was applied on a prospective basis resulting in prior periods no longer being comparable.

The fair value of variable rate loans that may reprice frequently at short-term market rates is based on carrying values adjusted for liquidity and credit risk. The fair value of variable rate loans that reprice at intervals of one year or longer, such as adjustable rate mortgage products, is estimated using discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for liquidity and credit risk. The fair value of fixed rate loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans adjusted for liquidity and credit risk.

Bank Owned Life Insurance

Fair value approximates net cash surrender value of bank owned life insurance, or BOLI.

Federal Home Loan Bank, or FHLB, and Other Restricted Stock

It is not practical to determine the fair value of our FHLB and other restricted stock due to the restrictions placed on the transferability of these stocks; it is presented at carrying value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

The interest rate on the variable rate junior subordinated debt securities is reset quarterly; therefore, the carrying values approximate their fair values.

Loan Commitments and Standby Letters of Credit

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

Other

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

Cash and Cash Equivalents

We consider cash and due from banks, interest-bearing deposits with banks and federal funds sold as cash and cash equivalents.

Securities

We determine the appropriate classification of securities at the time of purchase. Debt securities are classified as available-for-sale with the intent to hold for an indefinite period of time, but may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. Debt securities are carried at fair value with net unrealized gains and losses deemed to be temporary and reported as a component of other comprehensive loss, net of tax. On January 1, 2018, we adopted the new accounting standard for financial instruments, which requires equity securities to be measured at fair value with net unrealized gains and losses recognized in noninterest income on the Consolidated Statements of Net Income. As a result of the adoption of this guidance $0.9 million was reclassified from accumulated other comprehensive income, or AOCI, to retained earnings. Realized gains and losses on the sale of debt securities available-for-sale and other-than-temporary impairment, or OTTI, charges are recorded within noninterest income in the Consolidated Statements of Net Income. Realized gains and losses on the sale of these securities are determined using the specific-identification method. Bond premiums are amortized to the call date and bond discounts are accreted to the maturity date, both on a level yield basis.

Our policy for OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the best estimate of the impairment charge representing credit losses, the likelihood of the security’s ability to recover any decline in its estimated fair value and whether management intends to sell the security or if it is more likely than not that management will be required to sell the investment security prior to the security’s recovery of any decline in its estimated fair value. If the impairment is considered other-than-temporary based on management’s review, the impairment must be separated into credit and non-credit components. The credit component is recognized in the Consolidated Statements of Net Income and the non-credit component is recognized in other comprehensive loss, net of applicable taxes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. If a loan is transferred from the loan portfolio to the held for sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off against the allowance for loan losses, or ALL. Subsequent declines in fair value are recognized as a charge to noninterest income. When a loan is placed in the held for sale category, we stop amortizing the related deferred fees and costs. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold. Gains and losses on sales of loans held for sale are included in other noninterest income in the Consolidated Statements of Net Income.

Loans

Loans are reported at the principal amount outstanding net of unearned income, unamortized premiums or discounts and deferred origination fees and costs. We defer certain nonrefundable loan origination and commitment fees. Accretion of discounts and amortization of premiums on loans are included in interest income in the Consolidated Statements of Net Income. Loan origination fees and direct loan origination costs are deferred and amortized as an adjustment of loan yield over the respective lives of the loans without consideration of anticipated prepayments. If a loan is paid off, the remaining unaccreted or unamortized net origination fees and costs are immediately recognized into income or expense. Interest is accrued and interest income is recognized on loans as earned.

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related ALL. Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. In estimating the fair value of our acquired loans, we consider a number of factors including the loan term, internal risk rating, delinquency status, prepayment rates, recovery periods, estimated value of the underlying collateral and the current interest rate environment.

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more.

Generally, consumer loans are charged off against the ALL upon the loan reaching 90 days past due. Commercial loans are charged off as management becomes aware of facts and circumstances that raise doubt as to the collectability of all or a portion of the principal and when we believe a confirmed loss exists.

Nonaccrual or Nonperforming Loans

We stop accruing interest on a loan when the borrower’s payment is 90 days past due. Loans are also placed on nonaccrual status when we have doubt about the borrower’s ability to comply with contractual repayment terms, even if payment is not past due. When the interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest income is recognized on nonaccrual loans on a cash basis if recovery of the remaining principal is reasonably assured. As a general rule, a nonaccrual loan may be restored to accrual status when its principal and interest is paid current and the bank expects repayment of the remaining contractual principal and interest, or when the loan otherwise becomes well secured and in the process of collection.

Troubled Debt Restructurings

Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower. We strive to identify borrowers with financial difficulty early and work with them to come to a mutual resolution to modify the terms of their loan before the loan reaches nonaccrual status. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed as TDRs.

We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, and all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan, to determine if they should be designated as TDRs.

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

Allowance for Loan Losses

The ALL reflects our estimates of probable credit losses inherent within the loan portfolio as of the balance sheet date, and it is presented as a reserve against loans in the Consolidated Balance Sheets. Determination of an appropriate ALL is inherently subjective and may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. A TDR will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For each TDR or other impaired loan, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. Specific reserves are established based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent and we expect to liquidate the collateral. Our impairment evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the impaired loan is less than the recorded investment in the loan balance.

The ALL for homogeneous loans is calculated using a systematic methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ALL model is comprised of five distinct portfolio segments: 1) Commercial Real Estate, or CRE, 2) Commercial and Industrial, or C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer. Each segment has a distinct set of risk characteristics monitored by management. We further assess and monitor risk and performance at a more disaggregated level which includes our internal risk rating system for the commercial segments and type of collateral, lien position and loan-to-value, or LTV, for the consumer segments.

We first apply historical loss rates to pools of loans with similar risk characteristics. Loss rates are calculated by historical charge-offs that have occurred within each pool of loans over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from when an event happens that causes the borrower to be unable to pay on a loan until the loss is confirmed through a loan charge-off.

In conjunction with our annual review of the ALL assumptions, we have updated our analysis of LEPs for our Commercial and Consumer loan portfolio segments using our loan charge-off history. Based on our updated analysis, we shortened our LEP over the construction portfolio from 4 years to 3 years and made no other changes. We estimate an LEP of 3 years for CRE, 3 years for construction and 1.25 years for C&I. We estimate an LEP of 2.75 years for Consumer Real Estate and 1.25 years for Other Consumer.

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates. We used 10.5 years for our LBP for all portfolio segments which encompasses our loss experience during the Financial Crisis, and our more recent improved loss experience.

After consideration of the historic loss calculations, management applies qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio, changes in lending management, results of internal loan reviews, asset quality trends, collateral values, concentrations of credit risk and other external factors. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related ALL. Determining the fair value of acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. In estimating the fair value of our acquired loans, we considered a number of factors including the loan term, internal risk rating, delinquency status, prepayment rates, recovery periods, estimated value of the underlying collateral and the current interest rate environment.

Loans acquired with evidence of credit deterioration were evaluated and not considered to be significant. The premium or discount estimated through the loan fair value calculation is recognized into interest income on a level yield or straight-line basis over the remaining contractual life of the loans. Additional credit deterioration on acquired loans, in excess of the original

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

credit discount embedded in the fair value determination on the date of acquisition, will be recognized in the ALL through the provision for loan losses.

Our ALL Committee meets quarterly to verify the overall appropriateness of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate our ALL methodology. This validation includes reviewing the loan segmentation, LEP, LBP and the qualitative framework. As a result of this ongoing monitoring process, we may make changes to our ALL to be responsive to the economic environment.

Although we believe our process for determining the ALL appropriately considers all of the factors that would likely result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual losses are higher than management estimates, additional provisions for loan losses could be required and could adversely affect our earnings or financial position in future periods.

Bank Owned Life Insurance

We have purchased life insurance policies on certain executive officers and employees. We receive the cash surrender value of each policy upon its termination or benefits are payable to us upon the death of the insured. Changes in net cash surrender value are recognized in noninterest income or expense in the Consolidated Statements of Net Income.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred, while improvements that extend an asset’s useful life are capitalized and depreciated over the estimated remaining life of the asset. Depreciation expense is computed by the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the particular assets. Management reviews long-lived assets using events and circumstances to determine if and when an asset is evaluated for recoverability.

The estimated useful lives for the various asset categories are as follows:

1)	Land and Land Improvements	Non-depreciating assets
2)	Buildings	25 years
3)	Furniture and Fixtures	5 years
4)	Computer Equipment and Software	5 years or term of license
5)	Other Equipment	5 years
6)	Vehicles	5 years
7)	Leasehold Improvements	Lesser of estimated useful life of the asset (generally 15 years unless established otherwise) or the remaining term of the lease, including renewal options in the lease that are reasonably assured of exercise

Right-of-Use Assets and Lease Liabilities

We determine if a contract is or contains a lease at inception. Leases are classified as either finance or operating leases. We recognize leases on our Consolidated Balance Sheets as ROU assets and related lease liabilities. Finance ROU assets are included in property and equipment and related finance lease liabilities are included in long-term borrowings. Operating lease ROU assets are included in other assets and related operating lease liabilities are included in other liabilities. Our lease liability is calculated as the present value of the lease payments over the lease term discounted using our estimated incremental borrowing rate with similar terms at commencement date. Lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases. Interest and amortization expenses are recognized for finance leases over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term in Net Occupancy on our Consolidated Statements of Net Income. Refer to Note 10 Right-of-Use Assets and Lease Liabilities for more details.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Restricted Investment in Bank Stock

FHLB stock is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon on the member's asset value, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the low-cost products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value. Both cash and stock dividends are reported as income in taxable investment securities in the Consolidated Statements of Net Income. FHLB stock is evaluated for OTTI on a quarterly basis.

Atlantic Community Bankers’ Bank, or ACBB, stock is carried at cost and evaluated for impairment based on the ultimate recoverability of the carrying value. We do not currently use their membership products and services. We acquired ACBB stock through various mergers of banks that were ACBB members. ACBB stock is evaluated for OTTI on a quarterly basis.

Goodwill and Other Intangible Assets

As a result of acquisitions, we have recorded goodwill and identifiable intangible assets in our Consolidated Balance Sheets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. We account for business combinations using the acquisition method of accounting.

We have one reporting unit: Community Bank. Existing goodwill relates to value inherent in the Community Banking reporting unit and that value is dependent upon our ability to provide quality, cost-effective services in the face of competition from other market participants. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of our services. As such, goodwill value is supported ultimately by profitability that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could adversely impact our earnings in future periods.

The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if it is determined that a triggering event has occurred. We first assess qualitatively whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of the reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed that could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. We completed the annual goodwill impairment assessment as required in 2019, 2018 and 2017; the results indicated that the fair value each reporting unit exceeded the carrying value.

We determine the amount of identifiable intangible assets based upon independent valuations for core deposit and wealth management customer relationships. The core deposit intangible asset represents the value of the core deposit relationship, which is based primarily on the expected future benefits or earnings capacity attributable to those deposits. The valuation is based upon the present value of the future benefits over the expected life of the customer deposits and considers customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. Intangible assets with finite lives are amortized using straight-line or accelerated methods over their estimated weighted average useful lives, ranging from 10 to 20 years.

Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No such events or changes in circumstances occurred during the years ended December 31, 2019, 2018 and 2017.

The financial services industry and securities markets can be adversely affected by declining values. If economic conditions result in a prolonged period of economic weakness in the future, our operating segments, including the Community Banking segment, may be adversely affected. In the event that we determine that either our goodwill or finite lived intangible assets are impaired, recognition of an impairment charge could have a significant adverse impact on our financial position or results of operations in the period in which the impairment occurs.

Variable Interest Entities

Variable interest entities, or VIEs, are legal entities that generally either do not have equity investors with voting rights or that have equity investors that do not provide sufficient financial resources for the entity to support its activities. When an enterprise has both the power to direct the economic activities of the VIE and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE, the entity has a controlling financial interest in the VIE. A VIE often holds financial assets, including loans, receivables, or other property. The company with a controlling financial interest, the primary beneficiary, is required to consolidate the VIE into its Consolidated Balance Sheets. S&T has three wholly-owned trust subsidiaries, STBA Capital Trust I, DNB Capital Trust I and DNB Capital Trust II, or the Trusts, for which it does not absorb a majority of expected losses or receive a majority of the expected residual returns. The DNB Capital Trust I and DNB Capital Trust II were acquired with the DNB merger. At inception, these Trusts issued floating rate trust preferred securities to the Trustees and used the proceeds from the sale to invest in junior subordinated debt securities issued by us. The Trusts pay dividends on the trust preferred securities at the same rate as the interest we pay on the junior subordinated debt held by the Trusts. The Trusts are VIEs with the third-party investors as their primary beneficiaries, and accordingly, the Trusts and their net assets are not included in our Consolidated Financial Statements. However, the junior subordinated debt securities issued by S&T are included in our Consolidated Balance Sheets.

Joint Ventures

We have made investments directly in Low Income Housing Tax Credit, or LIHTC, partnerships formed with third parties. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. These investments are amortized over a maximum of 10 years, which represents the period over which the tax credits will be utilized. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly impact the economic performance of the partnership and have both the obligation to absorb expected losses and the right to receive benefits.

OREO and Other Repossessed Assets

OREO and other repossessed assets are included in other assets in the Consolidated Balance Sheets and are comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of a foreclosure. At the time of foreclosure or acceptance of a deed in lieu of foreclosure, these properties are recorded at the lower of the recorded investment in the loan or fair value less cost to sell. Loan losses arising from the acquisition of any such property initially are charged against the ALL. Subsequently, these assets are carried at the lower of carrying value or current fair value less cost to sell. Gains or losses realized upon disposition of these assets are recorded in other expenses in the Consolidated Statements of Net Income.

Mortgage Servicing Rights

MSRs are recognized as separate assets when commitments to fund a loan to be sold are made. Upon commitment, the MSR is established, which represents the then current estimated fair value of future net cash flows expected to be realized for performing the servicing activities. The estimated fair value of the MSRs is estimated by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the estimated fair value of MSRs, mortgage interest rates, which are used to determine prepayment rates, are held constant over the estimated life of the portfolio. MSRs are reported in other assets in the Consolidated Balance Sheets and are amortized into noninterest income in the Consolidated Statements of Net Income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Derivative Financial Instruments

Interest Rate Swaps

In accordance with applicable accounting guidance for derivatives and hedging, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value. Interest rate swaps are contracts in which a series of interest rate flows (fixed and variable) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. These derivative positions relate to transactions in which we enter into an interest rate swap with a commercial customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, we agree to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate loan with us receiving a variable rate. These agreements could have floors or caps on the contracted interest rates.

Pursuant to our agreements with various financial institutions, we may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon our current positions and related future collateral requirements relating to them, we believe any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, the possibility that we will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by our Asset and Liability Committee, or ALCO, and derivatives with customers may only be executed with customers within credit exposure limits approved in accordance with our credit policy. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Net Income.

Interest Rate Lock Commitments and Forward Sale Contracts

In the normal course of business, we sell originated mortgage loans into the secondary mortgage loan market. We also offer interest rate lock commitments to potential borrowers. The commitments are generally for a period of 60 days and guarantee a specified interest rate for a loan if underwriting standards are met, but the commitment does not obligate the potential borrower to close on the loan. Accordingly, some commitments expire prior to becoming loans. We may encounter pricing risks if interest rates increase significantly before the loan can be closed and sold. We may utilize forward sale contracts in order to mitigate this pricing risk. Whenever a customer desires these products, a mortgage originator quotes a secondary market rate guaranteed for that day by the investor. The rate lock is executed between the mortgagee and us and in turn a forward sale contract may be executed between us and the investor. Both the rate lock commitment and the corresponding forward sale contract for each customer are considered derivatives but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Net Income.

Allowance for Unfunded Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. The allowance for unfunded commitments is determined using a similar methodology as our ALL methodology. The reserve is calculated by applying historical loss rates and qualitative adjustments to our unfunded commitments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Treasury Stock

The repurchase of our common stock is recorded at cost. At the time of reissuance, the treasury stock account is reduced using the average cost method. Gains and losses on the reissuance of common stock are recorded in additional paid-in capital, to the extent additional paid-in capital from previous treasury share transactions exists. Any deficiency is charged to retained earnings.

Revenue Recognition - Contracts with Customers

We earn revenue from contracts with our customers when we have completed our performance obligations and recognize that revenue when services are provided to our customers. Our contracts with customers are primarily in the form of account agreements. Generally, our services are transferred at a point in time in response to transactions initiated and controlled by our customers under service agreements with an expected duration of one year or less. Our customers have the right to terminate their services agreements at any time.

We do not defer incremental direct costs to obtain contracts with customers that would be amortized in one year or less. These costs are primarily salaries and employee benefits recognized as expense in the period incurred.

Service charges on deposit accounts - We recognize monthly service charges for both commercial and personal banking customers based on account fee schedules. Our performance obligation is generally satisfied and the related revenue recognized at a point in time or over time when the services are provided. Other fees are earned based on specific transactions or customer activity within the customers' deposit accounts. These are earned at the time the transaction or customer activity occurs.

Debit and credit card services - Interchange fees are earned whenever debit and credit cards are processed through third-party card payment networks. ATM fees are based on transactions by our customers' and other customers' use of our ATMs or other ATMs. Debit and credit card revenue is recognized at a point in time when the transaction is settled. Our performance obligation to our customers is generally satisfied and the related revenue is recognized at a point in time when the service is provided. Third-party service contracts include annual volume and marketing incentives which are recognized over a period of twelve months when we meet thresholds as stated in the service contract.

Wealth management services - Wealth management services are primarily comprised of fees earned from the management and administration of trusts, assets under administration and other financial advisory services. Generally, wealth management fees are earned over a period of time between monthly and annually, per the related fee schedules. Our performance obligations with our customers are generally satisfied when we provide the services as stated in the customers' agreements. The fees are based on a fixed amount or a scale based on the level of services provided or amount of assets under management.

Other fee revenue - Other fee revenue includes a variety of other traditional banking services such as, electronic banking fees, letters of credit origination fees, wire transfer fees, money orders, treasury checks, checksale fees and transfer fees. Our performance obligations are generally satisfied at a point in time, fee revenue is recognized when the services are provided or the transaction is settled.

Wealth Management Fees

Assets held in a fiduciary capacity by our subsidiary bank, S&T Bank, are not our assets and are therefore not included in our Consolidated Financial Statements. Wealth management fee income is reported in the Consolidated Statements of Net Income on an accrual basis.

Stock-Based Compensation

Stock-based compensation may include stock options and restricted stock which is measured using the fair value method of accounting. The grant date fair value is recognized over the period during which the recipient is required to provide service in exchange for the award. Stock option expense is determined utilizing the Black-Scholes model. Compensation expense for time-based restricted stock is recognized ratably over the period of service, generally the entire vesting period, based on fair value on the grant date. Compensation expense for performance-based restricted stock is recognized ratably over the remaining vesting period once the likelihood of meeting the performance measure is probable, based on the fair value on the grant date. We estimate expected forfeitures when stock-based awards are granted and record compensation expense only for awards that are expected to vest.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Pensions

The expense for S&T Bank's qualified and nonqualified defined benefit pension plans is actuarially determined using the projected unit credit actuarial cost method. It requires us to make economic assumptions regarding future interest rates and asset returns and various demographic assumptions. We estimate the discount rate used to measure benefit obligations by applying the projected cash flow for future benefit payments to a yield curve of high-quality corporate bonds available in the marketplace and by employing a model that matches bonds to our pension cash flows. The expected return on plan assets is an estimate of the long-term rate of return on plan assets, which is determined based on the current asset mix and estimates of return by asset class. We recognize in the Consolidated Balance Sheets an asset for the plan's overfunded status or a liability for the plan's underfunded status. Gains or losses related to changes in benefit obligations or plan assets resulting from experience different from that assumed are recognized as other comprehensive income (loss) in the period in which they occur. To the extent that such gains or losses exceed ten percent of the greater of the projected benefit obligation or plan assets, they are recognized as a component of pension costs over the future service periods of actively employed plan participants. The funding policy for the qualified plan is to contribute an amount each year that is at least equal to the minimum required contribution as determined under the Pension Protection Act of 2006 and the Bipartisan Budget Act of 2015, but not more than the maximum amount permissible for taxable plan sponsors. Our nonqualified plans are unfunded.

On January 25, 2016, the Board of Directors approved an amendment to freeze benefit accruals under the qualified and nonqualified defined benefit pension plans effective March 31, 2016. As a result, no additional benefits are earned by participants in those plans based on service or pay after March 31, 2016. The plan was previously closed to new participants effective December 31, 2007.

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Income Taxes

We estimate income tax expense based on amounts expected to be owed to the tax jurisdictions where we conduct business. On a quarterly basis, management assesses the reasonableness of our effective tax rate based upon our current estimate of the amount and components of net income, tax credits and the applicable statutory tax rates expected for the full year. We classify interest and penalties as an element of tax expense.

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

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. We evaluate and assess the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintain tax accruals consistent with the evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, and the current period's income tax expense and can be significant to our operating results.

In the fourth quarter 2017, H.R.1, known as the Tax Cuts and Jobs Act, or Tax Act, was signed into law which requires the deferred tax assets and liabilities to be revalued using the 21 percent federal tax rate enacted. The effect was recorded in our fourth quarter tax provision in 2017.

In the first quarter 2018, we elected to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings.

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

Earnings Per Share

Basic earnings per share, or EPS, is calculated using the two-class method to determine income allocated to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends are considered participating securities under the two-class method. Income allocated to common shareholders is then divided by the weighted average number of common shares outstanding during the period. Potentially dilutive securities are excluded from the basic EPS calculation.

Diluted EPS is calculated under the more dilutive of either the treasury stock method or the two-class method. Under the treasury stock method, the weighted average number of common shares outstanding is increased by the potentially dilutive common shares. For the two-class method, diluted EPS is calculated for each class of shareholders using the weighted average number of shares attributed to each class. Potentially dilutive common shares are related to our outstanding warrants, stock options and restricted stock.

Recently Adopted Accounting Standards Updates, or ASU

Leases - Section A-Amendments to the FASB Accounting Standards Codification, Section B-Conforming Amendments Related to Leases and Section C-Background Information and Basis for Conclusions

In February 2016, the Financial Accounting Standards Board, or FASB, established ASC Topic 842, by issuing ASU No. 2016-02, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use, or ROU, model that requires a lessee to recognize ROU assets and lease liabilities on the balance sheet. Leases will be classified as finance or operating leases, with classification affecting the pattern and classification of expense recognition in the statement of operations. We adopted the new standard on January 1, 2019 (see Note 7: Right-of-use Assets and Lease Liabilities).

The new standard provides several optional practical expedients to elect in transition to the new lease guidance. We have elected the "package of practical expedients," which permit us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We elected the "use-of-hindsight" practical expedient which allows us to use hindsight in judgments that impact the lease term. We have also elected an accounting policy not to restate comparative periods upon adoption.

The most significant effects of adopting the new standard relate to the recognition of ROU assets and lease liabilities on our balance sheet for our real estate leases and providing significant new disclosures about our leasing activities. The carrying value of our ROU assets will be tested annually for impairment or more frequently if events or changes in circumstances indicate that an impairment might exist.

Upon adoption, we recognized additional finance lease liabilities of approximately $1.2 million and operating lease liabilities, net of deferred rent, of approximately $33.7 million based on the present value of the remaining minimum rental payments under current leasing standards for existing leases. We also recognized corresponding finance ROU assets of $1.2 million and operating ROU assets of approximately $33.4 million. The adoption had no material impact on the Consolidated Statements of Net Income.

The new standard also provides practical expedients for our ongoing lease accounting. We elected the short-term lease recognition exemption for all leases with terms of 12 months or less. This means that we will not recognize ROU assets or lease liabilities for existing short-term leases of those assets in transition. Beginning in 2019, we made changes to our disclosed lease recognition policies and practices, as well as to other related financial statement disclosures due to the adoption of this standard (See Note 7: Right-of-use Assets and Lease Liabilities).

Leases - Land Easement Practical Expedient for Transition to Topic 842

In January 2018, the FASB issued ASU No. 2018-01, Leases - Land Easement Practical Expedient for Transition to Topic 842. The amendments in this ASU permit an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. We have one land easement lease that we previously accounted for under Topic 840; as such, this lease has been recognized as an operating lease under Topic 842. We adopted the amendments in this ASU in conjunction with the adoption of the new lease standard, ASU 2016-02.

NOTE 2. BUSINESS COMBINATIONS

On November 30, 2019, we completed our acquisition of DNB Financial Corporation, or DNB, and DNB First National Association, its wholly-owned bank subsidiary, located in Downingtown, Pennsylvania. The acquisition of DNB expanded our Eastern Pennsylvania market by adding 14 banking locations, in an all-stock transaction structured as a merger of DNB with and into S&T, with S&T being the surviving entity. The related systems conversion of DNB into S&T Bank occurred on February 7, 2020.

DNB shareholders received, without interest, 1.22 shares of S&T common stock for each share of DNB common stock. The total purchase price was approximately $201.0 million, which included $0.4 million of cash and 5,318,964 S&T common shares at a fair value of $37.72 per share. The fair value of $37.72 per share of S&T common stock was based on the November 30, 2019 closing price.

The Merger was accounted for under the acquisition method of accounting and our Consolidated Financial Statements include all DNB Bank transactions from December 1, 2019 through December 31, 2019. Goodwill of $84.2 million was calculated as the excess of the consideration exchanged over the preliminary fair value of the identifiable net assets acquired. All of the goodwill was assigned to our Community Banking segment. The goodwill recognized will not be deductible for tax purposes.

The following table provides a summary of the assets acquired and liabilities assumed by DNB, the preliminary estimates of the fair value adjustments necessary to adjust those acquired assets and assumed liabilities to estimated fair value and the preliminary estimates of the resultant fair values of those assets and liabilities by S&T. S&T intends to finalize its accounting for the acquisition of DNB within one year from the date of acquisition. The preliminary fair value adjustments shown in the following table continue to be evaluated by management and may be subject to further adjustment.

	November 30, 2019		
(dollars in thousands)	**As Recorded by DNB**	**Preliminary Fair Value Adjustments[(1)]**	**As Recorded by S&T**
Fair Value of Assets Acquired			
Cash and cash equivalents	$ 64,119	$ —	$ 64,119
Securities and other investments	108,715	183	108,898
Loans	917,127	(8,143)	908,984
Allowance for loan losses	(6,487)	6,487	—
Goodwill	15,525	(15,525)	—
Premises and equipment	6,782	8,090	14,872
Accrued interest receivable	4,138	—	4,138
Deferred income taxes	2,017	(3,298)	(1,281)
Core deposits and other intangible assets	269	(269)	—
Other assets	24,883	(4,278)	20,605
Total Assets Acquired	**1,137,088**	**(16,753)**	**1,120,335**
Fair Value of Liabilities Assumed			
Deposits	966,263	1,002	967,265
Borrowings	37,617	(276)	37,341
Accrued interest payable and other liabilities	11,157	(3,184)	7,973
Total Liabilities Assumed	**1,015,037**	**(2,458)**	**1,012,579**
Total Net Assets Acquired	**$ 122,051**	**$ (14,295)**	**$ 107,756**
Core Deposit Intangible Asset			$ 7,288
Wealth Management Intangible Asset			1,772
Total Fair Value of Net Assets Acquired and Identified			**$ 116,816**
Consideration Paid			
Cash			$ 360
Common stock			200,631
Fair Value of Total Consideration			**$ 200,991**
Goodwill			**$ 84,175**

[(1)]*Management is continuing to evaluate the purchase accounting fair value adjustments related to loans, including loan classification, intangible assets, premises and equipment, deferred income taxes, other assets and borrowings until the final valuations and appraisals are complete. Any changes in preliminary estimates will be adjusted in goodwill in subsequent periods, but not extending beyond one year from the date of acquisition.*

NOTE 2. BUSINESS COMBINATIONS - continued

Loans acquired in the Merger were recorded at fair value with no carryover of the related ALL from DNB. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The preliminary fair value of the loans acquired was estimated at $909.0 million, net of a $10.5 million discount. The discount is accreted to interest income over the remaining contractual life of the loans. At December 31, 2019, acquired portfolio loans totaled $899.3 million and included $455.6 million of CRE, $85.4 million of C&I, $77.1 million of commercial construction, $219.7 million of residential mortgage, $56.4 million of home equity, $4.1 million of installment and other consumer and $1.0 million of consumer construction.

Direct costs related to the DNB merger were expensed as incurred. As of December 31, 2019, we recognized $11.4 million of merger related expenses, including $4.7 million for data processing contract termination and system conversion costs, $2.8 million in legal and professional expenses, $3.4 million in severance payments and $0.5 million in other expenses.

The Consolidated Statements of Net Income for 2019 include net interest income of $3.2 million and net income of $2.1 million from the DNB merger since the November 30, 2019 acquisition date.

The following table presents unaudited pro forma financial information which combines the historical consolidated statements of income of S&T and DNB to give effect to the merger as if it had occurred on January 1, 2018 for the periods presented.

	Unaudited Pro Forma Information December 31	
(dollars in thousands, except per share data)	**2019**	**2018**
Total Revenue	$ 341,117	$ 325,668
Net Income[(1)]	120,964	116,046
Earnings Per Common Share:[(1)]		
Basic	$ 3.03	$ 2.90
Diluted	$ 3.03	$ 2.88

[(1)]*Excludes non-recurring merger-related expenses of $13.6 million, net of tax at 21 percent.*

Total pro forma revenue is defined as net interest income plus non-interest income, excluding gains and losses on sales of investment securities available-for-sale. Pro forma adjustments include intangible amortization expense, net amortization or accretion of valuation amounts and income tax expense.

NOTE 3. EARNINGS PER SHARE

Diluted earnings per share is calculated using both the two-class and the treasury stock methods with the more dilutive method used to determine reported diluted earnings per share. The two-class method was more dilutive in 2019, 2018 and 2017 and was used to determine reported diluted earnings per share. The following table reconciles the numerators and denominators of basic and diluted EPS:

	Years ended December 31,		
(dollars in thousands, except share and per share data)	**2019**	**2018**	**2017**
Numerator for Earnings per Common Share—Basic:			
Net income	$ 98,234	$ 105,334	$ 72,968
Less: Income allocated to participating shares	260	304	242
Net Income Allocated to Common Shareholders	**$ 97,974**	**$ 105,030**	**$ 72,726**
Numerator for Earnings per Common Share—Diluted:			
Net income	**$ 98,234**	**$ 105,334**	**$ 72,968**
Denominators:			
Weighted Average Common Shares Outstanding—Basic	**34,628,191**	**34,775,784**	**34,729,376**
Add: Dilutive potential common shares	94,763	199,625	225,391
Denominator for Treasury Stock Method—Diluted	**34,722,954**	**34,975,409**	**34,954,767**
Weighted Average Common Shares Outstanding—Basic	**34,628,191**	**34,775,784**	**34,729,376**
Add: Average participating shares outstanding	51,287	100,733	115,418
Denominator for Two-Class Method—Diluted	**34,679,478**	**34,876,517**	**34,844,794**
Earnings per common share—basic	$ 2.84	$ 3.03	$ 2.10
Earnings per common share—diluted	$ 2.82	$ 3.01	$ 2.09
Warrants considered anti-dilutive excluded from dilutive potential common shares - exercise price $31.53 per share, expires January 2019[(1)]	—	267,106	438,681
Restricted stock considered anti-dilutive excluded from dilutive potential common shares	12,686	81,587	88,578

[(1)]*We repurchased our outstanding warrant on September 11, 2018 for $7.7 million. Prior to the repurchase, the warrant provided the holder the right to 517,012 shares of common stock at a strike price of $31.53 per share via cashless exercise.*

NOTE 4. FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at December 31, 2019 and 2018. There was one transfer between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented. The transfer is related to marketable equity securities with quoted prices in active markets that moved from level 2 to level 1.

	December 31, 2019			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$ —	$ 10,040	$ —	$ 10,040
Obligations of U.S. government corporations and agencies	—	157,697	—	157,697
Collateralized mortgage obligations of U.S. government corporations and agencies	—	189,348	—	189,348
Residential mortgage-backed securities of U.S. government corporations and agencies	—	22,418	—	22,418
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	275,870	—	275,870
Corporate Bonds	—	7,627	—	7,627
Obligations of states and political subdivisions	—	116,133	—	116,133
Total Debt Securities Available-for-Sale	**—**	**779,133**	**—**	**779,133**
Marketable equity securities	5,078	72	—	5,150
Total Securities	**5,078**	**779,205**	**—**	**784,283**
Securities held in a Rabbi Trust	5,987	—	—	5,987
Derivative financial assets:				
Interest rate swaps	—	25,647	—	25,647
Interest rate lock commitments	—	321	—	321
Forward sale contracts	—	1	—	1
Total Assets	**$ 11,065**	**$ 805,174**	**$ —**	**$ 816,239**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$ —	$ 25,615	$ —	$ 25,615
Total Liabilities	**$ —**	**$ 25,615**	**$ —**	**$ 25,615**

NOTE 4. FAIR VALUE MEASUREMENTS -- continued

	December 31, 2018			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$ —	$ 9,736	$ —	$ 9,736
Obligations of U.S. government corporations and agencies	—	128,261	—	128,261
Collateralized mortgage obligations of U.S. government corporations and agencies	—	148,659	—	148,659
Residential mortgage-backed securities of U.S. government corporations and agencies	—	24,350	—	24,350
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	246,784	—	246,784
Obligations of states and political subdivisions	—	122,266	—	122,266
Total Debt Securities Available-for-Sale	**—**	**680,056**	**—**	**680,056**
Marketable equity securities	—	4,816	—	4,816
Total Securities	**—**	**684,872**	**—**	**684,872**
Securities held in a Rabbi Trust	4,725	—	—	4,725
Derivative financial assets:				
Interest rate swaps	—	5,504	—	5,504
Interest rate lock commitments	—	251	—	251
Forward sale contracts	—	55	—	55
Total Assets	**$ 4,725**	**$ 690,682**	**$ —**	**$ 695,407**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$ —	$ 5,340	$ —	$ 5,340
Total Liabilities	**$ —**	**$ 5,340**	**$ —**	**$ 5,340**

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market.

We may be required to measure certain assets and liabilities at fair value on a nonrecurring basis. Nonrecurring assets are recorded at the lower of cost or fair value in our financial statements. There were no liabilities measured at fair value on a nonrecurring basis at either December 31, 2019 or December 31, 2018.

The following table presents our assets that are measured at fair value on a nonrecurring basis by the fair value hierarchy level as of the dates presented:

	December 31, 2019				December 31, 2018			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS[(1)]								
Loans held for sale	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Impaired loans	—	—	38,697	38,697	—	—	21,441	21,441
Other real estate owned	—	—	3,231	3,231	—	—	2,826	2,826
Mortgage servicing rights	—	—	1,134	1,134	—	—	1,197	1,197
Total Assets	**$ —**	**$ —**	**$ 43,062**	**$ 43,062**	**$ —**	**$ —**	**$ 25,464**	**$ 25,464**

[(1)]*This table presents only the nonrecurring items that are recorded at fair value in our financial statements.*

NOTE 4. FAIR VALUE MEASUREMENTS -- continued

The carrying values and fair values of our financial instruments at December 31, 2019 and 2018 are presented in the following tables:

		Fair Value Measurements at December 31, 2019			
(dollars in thousands)	Carrying Value[(1)]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 197,823	$ 197,823	$ 197,823	$ —	$ —
Securities	784,283	784,283	5,078	779,205	—
Loans held for sale	5,256	5,256	—	—	5,256
Portfolio loans, net	7,074,928	6,940,875	—	—	6,940,875
Bank owned life insurance	80,473	80,473	—	80,473	—
FHLB and other restricted stock	22,977	22,977	—	—	22,977
Securities held in a Rabbi Trust	5,987	5,987	5,987	—	—
Mortgage servicing rights	4,662	4,650	—	—	4,650
Interest rate swaps	25,647	25,647	—	25,647	—
Interest rate lock commitments	321	321	—	321	—
Forward sale contracts - mortgage loans	1	1	—	1	—
LIABILITIES					
Deposits	$ 7,036,576	$ 7,034,595	$ 5,441,143	$ 1,593,452	$ —
Securities sold under repurchase agreements	19,888	19,888	19,888	—	—
Short-term borrowings	281,319	281,319	281,319	—	—
Long-term borrowings	50,868	51,339	4,678	46,661	—
Junior subordinated debt securities	64,277	64,277	64,277	—	—
Interest rate swaps	25,615	25,615	—	25,615	—

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

		Fair Value Measurements at December 31, 2018			
(dollars in thousands)	Carrying Value[(1)]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 155,489	$ 155,489	$ 155,489	$ —	$ —
Securities	684,872	684,872	—	684,872	—
Loans held for sale	2,371	2,469	—	—	2,469
Portfolio loans, net	5,885,652	5,728,843	—	—	5,728,843
Bank owned life insurance	73,900	73,900	—	73,900	—
FHLB and other restricted stock	29,435	29,435	—	—	29,435
Securities held in a Rabbi Trust	4,725	4,725	4,725	—	—
Mortgage servicing rights	4,464	5,181	—	—	5,181
Interest rate swaps	5,504	5,504	—	5,504	—
Interest rate lock commitments	251	251	—	251	—
Forward sale contracts	55	55	—	55	—
LIABILITIES					
Deposits	$ 5,673,922	$ 5,662,193	$ 4,261,884	$ 1,400,309	$ —
Securities sold under repurchase agreements	18,383	18,383	18,383	—	—
Short-term borrowings	470,000	470,000	470,000	—	—
Long-term borrowings	70,314	70,578	38,610	31,968	
Junior subordinated debt securities	45,619	45,619	45,619	—	—
Interest rate swaps	5,340	5,340	—	5,340	—

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

NOTE 5. RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

The Board of Governors of the Federal Reserve System, or the Federal Reserve, imposes certain reserve requirements on all depository institutions. These reserves are maintained in the form of vault cash or as an interest-bearing balance with the Federal Reserve. The required reserves averaged $43.9 million for 2019, $38.8 million for 2018 and $36.2 million for 2017.

NOTE 6. DIVIDEND AND LOAN RESTRICTIONS

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of our revenues consist of dividend payments we receive 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 us. 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 has indicated that banking organizations should generally pay dividends only if (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. Thus, under certain circumstances based upon our financial condition, our ability to declare and pay quarterly dividends may require consultation with the Federal Reserve and may be prohibited by applicable Federal Reserve Board guidance.

Federal law prohibits us from borrowing from S&T Bank unless such loans are collateralized by specific obligations. Further, such loans are limited to 10 percent of S&T Bank's capital stock and surplus.

NOTE 7. SECURITIES

The following table presents the fair values of our securities portfolio at the dates presented:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Debt securities available-for-sale	$ 779,133	$ 680,056
Marketable equity securities	5,150	4,816
Total Securities	**$ 784,283**	**$ 684,872**

Debt Securities Available-for-Sale

The following tables present the amortized cost and fair value of debt securities available-for-sale as of December 31, 2019 and December 31, 2018:

	December 31, 2019				December 31, 2018			
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities	$ 9,969	$ 71	$ —	$ 10,040	$ 9,958	$ —	$ (222)	$ 9,736
Obligations of U.S. government corporations and agencies	155,969	1,773	(45)	157,697	129,267	68	(1,074)	128,261
Collateralized mortgage obligations of U.S. government corporations and agencies	186,879	2,773	(304)	189,348	149,849	795	(1,985)	148,659
Residential mortgage-backed securities of U.S. government corporations and agencies	22,120	321	(23)	22,418	24,564	203	(417)	24,350
Commercial mortgage-backed securities of U.S. government corporations and agencies	273,771	2,680	(581)	275,870	251,660	—	(4,876)	246,784
Corporate Obligations	7,603	24	—	7,627	—	—	—	—
Obligations of states and political subdivisions	112,116	4,017	—	116,133	119,872	2,448	(54)	122,266
Total Debt Securities Available-for-Sale	**$ 768,427**	**$ 11,659**	**$ (953)**	**$ 779,133**	**$ 685,170**	**$ 3,514**	**$ (8,628)**	**$ 680,056**

NOTE 7. SECURITIES AVAILABLE-FOR-SALE -- continued

The following table shows the composition of gross and net realized gains and losses for the periods presented:

	Years ended December 31,		
(dollars in thousands)	2019	2018	2017
Gross realized gains	$ 41	$ —	$ 3,986
Gross realized losses	(67)	—	(986)
Net Realized (Losses)/Gains	**$ (26)**	**$ —**	**$ 3,000**

The following tables present the fair value and the age of gross unrealized losses on debt securities available-for-sale by investment category as of the dates presented:

	December 31, 2019								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Obligations of U.S. government corporations and agencies	3	22,638	(45)	—	—	—	3	22,638	(45)
Collateralized mortgage obligations of U.S. government corporations and agencies	6	23,393	(73)	6	25,254	(231)	12	48,647	(304)
Residential mortgage-backed securities of U.S. government corporations and agencies	1	982	(2)	1	2,534	(21)	2	3,516	(23)
Commercial mortgage-backed securities of U.S. government corporations and agencies	9	90,005	(581)	—	—	—	9	90,005	(581)
Corporate Obligations [(1)]	1	79	—	—	—	—	1	79	—
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Debt Securities	**20**	**$ 137,097**	**$ (701)**	**7**	**$ 27,788**	**$ (252)**	**27**	**$ 164,885**	**$ (953)**

[(1)] *Unrealized loss on Corporate Obligations rounded to less than one thousand dollars.*

	December 31, 2018								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	$ —	$ —	1	$ 9,736	$ (222)	1	$ 9,736	$ (222)
Obligations of U.S. government corporations and agencies	7	67,649	(613)	6	35,760	(461)	13	103,409	(1,074)
Collateralized mortgage obligations of U.S. government corporations and agencies	2	12,495	(44)	14	76,179	(1,941)	16	88,674	(1,985)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	2,327	(45)	3	9,241	(372)	5	11,568	(417)
Commercial mortgage-backed securities of U.S. government corporations and agencies	8	75,466	(1,032)	19	171,318	(3,844)	27	246,784	(4,876)
Obligations of states and political subdivisions	2	9,902	(23)	1	5,247	(31)	3	15,149	(54)
Total Temporarily Impaired Debt Securities	**21**	**$ 167,839**	**$ (1,757)**	**44**	**$ 307,481**	**$ (6,871)**	**65**	**$ 475,320**	**$ (8,628)**

NOTE 7. SECURITIES AVAILABLE-FOR-SALE -- continued

We do not believe any individual unrealized loss as of December 31, 2019 represents an other-than-temporary impairment, or OTTI. At December 31, 2019, there were 27 debt securities and at December 31, 2018 there were 65 debt securities in an unrealized loss position. The unrealized losses on debt securities were primarily attributable to changes in interest rates and not related to the credit quality of the issuers. All debt securities are determined to be investment grade and paying principal and interest according to the contractual terms of the security. We do not intend to sell and it is more likely than not that we will not be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

The following table presents net unrealized gains and losses, net of tax, on debt securities available-for-sale included in accumulated other comprehensive income/(loss), for the periods presented:

	December 31, 2019			December 31, 2018		
(dollars in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains (Losses)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains (Losses)
Total unrealized gains/(losses) on debt securities available-for-sale	$ 11,659	$ (953)	$ 10,706	$ 3,514	$ (8,628)	$ (5,114)
Income tax (expense) benefit	(2,486)	203	(2,283)	(746)	1,832	1,086
Net Unrealized Gains/(Losses), Net of Tax Included in Accumulated Other Comprehensive Income/(Loss)	**$ 9,173**	**$ (750)**	**$ 8,423**	**$ 2,768**	**$ (6,796)**	**$ (4,028)**

The amortized cost and fair value of debt securities available-for-sale at December 31, 2019 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2019	
(dollars in thousands)	Amortized Cost	Fair Value
Obligations of the U.S. Treasury, U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$ 103,008	$ 103,278
Due after one year through five years	98,401	100,527
Due after five years through ten years	69,213	71,933
Due after ten years	15,035	15,759
Debt Securities Available-for-Sale With Maturities	**285,657**	**291,497**
Collateralized mortgage obligations of U.S. government corporations and agencies	186,879	189,348
Residential mortgage-backed securities of U.S. government corporations and agencies	22,120	22,418
Commercial mortgage-backed securities of U.S. government corporations and agencies	273,771	275,870
Total Debt Securities Available-for-Sale	**$ 768,427**	**$ 779,133**

At December 31, 2019 and 2018, debt securities with carrying values of $286 million and $236 million were pledged for various regulatory and legal requirements.

Marketable Equity Securities

The following table presents realized and unrealized net gains and losses for our marketable equity securities for the periods presented:

	Years ended December 31,		
(dollars in thousands)	2019	2018	2017
Marketable Equity Securities			
Unrealized Gains on Equity Securities Held at Beginning of Year	$ 1,001	$ 1,329	$ 3,670
Net market gains/(losses)	334	(328)	1,646
Less: Net gains for equity securities sold	—	—	3,987
Unrealized Gains on Equity Securities Still Held	**$ 1,335**	**$ 1,001**	**$ 1,329**

NOTE 8. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $4.6 million and $5.3 million at December 31, 2019 and 2018 and net of a discount related to purchase accounting fair value adjustments of $12.3 million and $3.3 million at December 31, 2019 and December 31, 2018.

The following table summarizes the composition of originated and acquired loans as of the dates presented:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Commercial		
Commercial real estate	$ 3,416,518	$ 2,921,832
Commercial and industrial	1,720,833	1,493,416
Commercial construction	375,445	257,197
Total Commercial Loans	**5,512,796**	**4,672,445**
Consumer		
Residential mortgage	998,585	726,679
Home equity	538,348	471,562
Installment and other consumer	79,033	67,546
Consumer construction	8,390	8,416
Total Consumer Loans	**1,624,356**	**1,274,203**
Total Portfolio Loans	**7,137,152**	**5,946,648**
Loans held for sale	5,256	2,371
Total Loans	**$ 7,142,408**	**$ 5,949,019**

As of December 31, 2019 our acquired portfolio loans from the DNB merger were $899.3 million including $455.6 million of CRE, $85.4 million of C&I, $77.1 million of commercial construction, $219.7 million of residential mortgage, $56.4 million of home equity, $4.1 million of installment and other and $1.0 million of consumer construction.

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by reviewing the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 77 percent of total portfolio loans at December 31, 2019 and 79 percent at December 31, 2018. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised $3.8 billion or 69 percent of total commercial loans and 53 percent of total portfolio loans at December 31, 2019 and comprised $3.2 billion or 68 percent of total commercial loans and 53 percent of total portfolio loans at December 31, 2018. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of 11 percent of both total CRE and Commercial Construction loans at December 31, 2019 and 14 percent at December 31, 2018.

We lend primarily in Pennsylvania and the contiguous states of Ohio, New York, West Virginia and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this geography, resulting in a concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data and information supplied by our customers. We also use subscription services for additional geographic and industry specific information. Our CRE and Commercial Construction portfolios have exposure outside this geography of 5.4 percent of the combined portfolios and 2.9 percent of total portfolio loans at both December 31, 2019 and 2018.

NOTE 8. LOANS AND LOANS HELD FOR SALE -- continued

The following table summarizes our restructured loans as of the dates presented:

	December 31, 2019			December 31, 2018		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$ 22,233	$ 6,713	$ 28,946	$ 2,054	$ 1,139	$ 3,193
Commercial and industrial	6,909	695	7,604	7,026	6,646	13,672
Commercial construction	1,425	—	1,425	1,912	406	2,318
Residential mortgage	2,013	822	2,835	2,214	1,543	3,757
Home equity	4,371	678	5,049	3,568	1,349	4,917
Installment and other consumer	9	4	13	12	5	17
Total	**$ 36,960**	**$ 8,912**	**$ 45,872**	**$ 16,786**	**$ 11,088**	**$ 27,874**

The significant increase in performing TDRs in 2019 primarily related to a $20.2 million CRE relationship that was modified during the third quarter of 2019. The modification granted a concession to the borrower that reduced their monthly payments resulting in the TDR. The loan remains in performing status based on the strong historical repayment performance of the borrower prior to the restructure as well as recent changes occurring in the business which demonstrate the borrower’s ability to pay under the revised contractual terms. Guarantor support and sufficient collateral value further support the performing status of the loan.

NOTE 8. LOANS AND LOANS HELD FOR SALE -- continued

The following tables present the restructured loans by loan segment and by type of concession for the years ended December 31:

	2019				2018			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment
Totals by Loan Segment								
Commercial Real Estate								
Maturity date extension	—	$ —	$ —	$ —	1	$ 256	$ 179	$ (77)
Maturity date extension and interest rate reduction	1	150	145	(6)	—	—	—	—
Principal deferral	3	23,517	23,059	(458)	1	90	90	—
Principal deferral and maturity date extension	1	436	436	—	—	—	—	—
Below market interest rate	2	569	1,519	950	—	—	—	—
Total Commercial Real Estate	**7**	**24,672**	**25,159**	**486**	**2**	**346**	**269**	**(77)**
Commercial and Industrial								
Maturity date extension	—	—	—	—	2	768	166	(602)
Maturity date extension and interest rate reduction	1	4,751	4,136	(616)	—	—	—	—
Principal deferral	1	1,250	1,250	—	4	4,815	4,383	(432)
Principal deferral and maturity date extension	1	292	275	(17)	6	5,355	5,341	(14)
Total Commercial and Industrial	**3**	**6,294**	**5,661**	**(633)**	**12**	**10,938**	**9,890**	**(1,048)**
Residential Mortgage								
Principal deferral and maturity date extension	3	183	183	—	—	—	—	—
Consumer bankruptcy(2)	3	165	157	(9)	5	387	374	(13)
Total Residential Mortgage	**6**	**348**	**340**	**(9)**	**5**	**387**	**374**	**(13)**
Home equity								
Maturity date extension and interest rate reduction	—	—	—	—	2	47	46	(1)
Principal deferral and maturity date extension	2	39	39	—	—	—	—	—
Interest rate reduction	2	190	188	(2)	1	120	120	—
Consumer bankruptcy(2)	29	886	810	(77)	22	811	681	(130)
Total Home Equity	**33**	**1,116**	**1,037**	**(79)**	**25**	**978**	**847**	**(131)**
Installment and Other Consumer								
Consumer bankruptcy(2)	4	16	11	(5)	2	23	4	(19)
Total Installment and Other Consumer	**4**	**$ 16**	**$ 11**	**$ (5)**	**2**	**$ 23**	**$ 4**	**$ (19)**
Totals by Concession Type								
Maturity date extension	—	$ —	$ —	$ —	3	$ 1,024	$ 345	$ (679)
Maturity date extension and interest rate reduction	2	4,902	4,280	(622)	2	47	46	(1)
Principal deferral	4	24,767	24,309	(458)	5	4,905	4,473	(432)
Principal deferral and maturity date extension	7	950	933	(17)	6	5,355	5,341	$ (14)
Interest rate reduction	2	190	188	(2)	1	120	120	—
Below market interest rate	2	569	1,519	950	—	—	—	—
Consumer bankruptcy(2)	36	1,068	977	(91)	29	1,221	1,059	$ (162)
Total	**53**	**$ 32,446**	**$ 32,206**	**$ (240)**	**46**	**$ 12,672**	**$ 11,384**	**$ (1,288)**

(1) *Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.*
(2) *Consumer bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.*

NOTE 8. LOANS AND LOANS HELD FOR SALE -- continued

We had 24 commitments for $4.6 million to lend additional funds on TDRs at December 31, 2019 compared to six commitments for $11.6 million at December 31, 2018. We had six TDRs with a total loan balance of $0.5 million that were returned to accruing status during 2019. We returned no TDRs to accruing status during 2018.

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place. There were no TDRs that defaulted during the year ended December 31, 2019 and four TDRs that defaulted during 2018 totaling $4.4 million that were restructured within the last 12 months prior to defaulting.

The following table is a summary of nonperforming assets as of the dates presented:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Nonperforming Assets		
Nonaccrual loans	$ 45,145	$ 34,985
Nonaccrual TDRs	8,912	11,088
Total nonaccrual loans	54,057	46,073
OREO	3,525	3,092
Total Nonperforming Assets	**$ 57,582**	**$ 49,165**

NPAs increased $8.4 million to $57.6 million during 2019 compared to $49.2 million for the year ended 2018. The increase is primarily related to one commercial and industrial nonperforming, impaired loan relationship of $10.0 million that experienced deterioration during the fourth quarter of 2019.

The following table presents a summary of the aggregate amount of loans to certain officers, directors of S&T or any affiliates of such persons as of December 31:

(dollars in thousands)	**2019**	**2018**
Balance at beginning of year	$ 8,682	$ 10,070
New loans	2,442	2,841
Repayments or no longer considered a related party	(2,899)	(4,229)
Balance at end of year	**$ 8,225**	**$ 8,682**

NOTE 9. ALLOWANCE FOR LOAN LOSSES

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

The following are key risks within each portfolio segment:

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

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

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

Note 9. ALLOWANCE FOR LOAN LOSSES - continued

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

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

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral, lien position and loan to value, or LTV, ratio for Consumer Real Estate loans. Historical loss rates are applied to these loan pools to determine the reserve for loans collectively evaluated for impairment.

The ALL methodology for groups of loans collectively evaluated for impairment is comprised of both a quantitative and qualitative analysis. A key assumption in the quantitative component of the reserve is the LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. Another key assumption is the LBP which represents the historical data period utilized to calculate loss rates.

Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

The following tables present the age analysis of past due loans segregated by class of loans as of the dates presented:

	December 31, 2019						
(dollars in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days + Past Due**[(1)]	**Non-performing**	**Total Past Due Loans**	**Total Loans**
Commercial real estate	$ 3,376,156	$ 9,595	$ 716	$ 911	$ 29,140	$ 40,362	$ 3,416,518
Commercial and industrial	1,700,522	2,940	1,946	1,443	13,982	20,311	1,720,833
Commercial construction	372,589	956	1,163	—	737	2,856	375,445
Residential mortgage	986,148	2,016	1,727	1,175	7,519	12,437	998,585
Home equity	533,367	2,059	141	142	2,639	4,981	538,348
Installment and other consumer	78,189	426	292	86	40	844	79,033
Consumer construction	8,390	—	—	—	—	—	8,390
Loans held for sale	5,256	—	—	—	—	—	5,256
Total	**$ 7,060,617**	**$ 17,992**	**$ 5,985**	**$ 3,757**	**$ 54,057**	**$ 81,791**	**$ 7,142,408**

[(1)]Represents acquired loans that were recorded at fair value at the acquisition date and remain performing.

	December 31, 2018						
(dollars in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days + Past Due**	**Non-performing**	**Total Past Due Loans**	**Total Loans**
Commercial real estate	$ 2,903,997	$ 3,638	$ 2,145	$ —	$ 12,052	$ 17,835	$ 2,921,832
Commercial and industrial	1,482,473	1,000	983	—	8,960	10,943	1,493,416
Commercial construction	243,004	—	—	—	14,193	14,193	257,197
Residential mortgage	717,447	1,584	520	—	7,128	9,232	726,679
Home equity	465,152	2,103	609	—	3,698	6,410	471,562
Installment and other consumer	67,281	148	75	—	42	265	67,546
Consumer construction	8,416	—	—	—	—	—	8,416
Loans held for sale	2,371	—	—	—	—	—	2,371
Total	**$ 5,890,141**	**$ 8,473**	**$ 4,332**	**$ —**	**$ 46,073**	**$ 58,878**	**$ 5,949,019**

We continually monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention and substandard.

Note 9. ALLOWANCE FOR LOAN LOSSES - continued

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

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

Special Mention—A special mention loan has potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the strength of our credit position at some future date.

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

Doubtful—Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

The following tables present the recorded investment in commercial loan classes by internally assigned risk ratings as of the dates presented:

	December 31, 2019							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 3,270,437	95.7%	$ 1,636,314	95.1%	$ 347,324	92.5%	$ 5,254,076	95.3%
Special mention	57,285	1.7%	36,484	2.1%	10,109	2.7%	103,878	1.9%
Substandard	86,772	2.5%	47,980	2.8%	17,899	4.8%	152,651	2.8%
Doubtful	2,023	—%	55	—%	113	—%	2,191	—%
Total	**$ 3,416,518**	**100.0%**	**$ 1,720,833**	**100.0%**	**$ 375,445**	**100.0%**	**$ 5,512,796**	**100.0%**

	December 31, 2018							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 2,774,997	95.0%	$ 1,394,067	93.4%	$ 233,103	90.7%	$ 4,402,167	94.3%
Special mention	54,627	1.9%	25,368	1.7%	7,349	2.8%	87,344	1.8%
Substandard	90,913	3.1%	73,621	4.9%	16,658	6.5%	181,192	3.9%
Doubtful	1,295	—%	360	—%	87	—%	1,742	—%
Total	**$ 2,921,832**	**100.0%**	**$ 1,493,416**	**100.0%**	**$ 257,197**	**100.0%**	**$ 4,672,445**	**100.0%**

Commercial substandard loans decreased $28.5 million from December 31, 2018 mainly due to loan pay-offs and upgrades of risk ratings. Special mention loans increased $16.5 million to $103.9 million at December 31, 2019 due to downgrades as a result of updated financial information.

We monitor the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower's financial condition exists. The risk of loss is generally highest for nonperforming loans. Loans 90 days past due and still performing represent acquired loans that were recorded at fair value at the acquisition date.

Note 9. ALLOWANCE FOR LOAN LOSSES - continued

The following tables present the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

	December 31, 2019									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$ 991,066	99.2%	$ 535,709	99.5%	$ 78,993	99.9%	$ 8,390	100.0%	$ 1,614,158	99.4%
Nonperforming	7,519	0.8%	2,639	0.5%	40	0.1%	—	—%	10,198	0.6%
Total	**$ 998,585**	**100.0%**	**$ 538,348**	**100.0%**	**$ 79,033**	**100.0%**	**$ 8,390**	**100.0%**	**$ 1,624,356**	**100.0%**

	December 31, 2018									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$ 719,551	99.0%	$ 467,864	99.2%	$ 67,504	99.9%	$ 8,416	100.0%	$ 1,263,335	99.1%
Nonperforming	7,128	1.0%	3,698	0.8%	42	0.1%	—	—%	10,868	0.9%
Total	**$ 726,679**	**100.0%**	**$ 471,562**	**100.0%**	**$ 67,546**	**100.0%**	**$ 8,416**	**100.0%**	**$ 1,274,203**	**100.0%**

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. A TDR will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For each TDR or other impaired loan, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

The following table summarizes investments in loans considered to be impaired and related information on those impaired loans as of the dates presented:

	December 31, 2019			December 31, 2018		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:						
Commercial real estate	$ 13,011	$ 14,322	$ 2,023	$ 7,733	$ 7,733	$ 1,295
Commercial and industrial	10,001	10,001	55	884	893	360
Commercial construction	489	489	113	489	489	87
Consumer real estate	—	—	—	15	14	10
Other consumer	9	9	9	11	12	11
Total with a Related Allowance Recorded	**23,510**	**24,821**	**2,200**	**9,132**	**9,141**	**1,763**
Without a related allowance recorded:						
Commercial real estate	34,909	40,201	—	3,636	4,046	—
Commercial and industrial	7,605	10,358	—	12,788	14,452	—
Commercial construction	1,425	2,935	—	15,286	19,198	—
Consumer real estate	7,884	8,445	—	8,659	9,635	—
Other consumer	4	11	—	5	18	—
Total without a Related Allowance Recorded	**51,827**	**61,950**	**—**	**40,374**	**47,349**	**—**
Total:						
Commercial real estate	47,920	54,523	2,023	11,369	11,779	1,295
Commercial and industrial	17,606	20,359	55	13,672	15,345	360
Commercial construction	1,914	3,424	113	15,775	19,687	87
Consumer real estate	7,884	8,445	—	8,674	9,649	10
Other consumer	13	20	9	16	30	11
Total	**$ 75,337**	**$ 86,771**	**$ 2,200**	**$ 49,506**	**$ 56,490**	**$ 1,763**

Note 9. ALLOWANCE FOR LOAN LOSSES - continued

Impaired loans increased $25.8 million to $75.3 million compared to $49.5 million at December 31, 2018. During 2019, we modified a $20.2 million commercial relationship. The modification granted a concession to the borrower that reduced their monthly payments resulting in a TDR. The loan remains in performing status based on the strong historical repayment performance of the borrower prior to the restructure as well as recent changes occurring in the business which demonstrate the borrower’s ability to pay under the revised contractual terms. Guarantor support and sufficient collateral value further support the performing status of the loan.

The following table summarizes average recorded investment and interest income recognized on loans considered to be impaired for the years presented:

	For the Year Ended			
	December 31, 2019		December 31, 2018	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	$ 14,018	$ —	$ 7,780	$ 238
Commercial and industrial	10,135	576	591	38
Commercial construction	489	—	561	—
Consumer real estate	—	—	16	1
Other consumer	13	1	19	1
Total with a Related Allowance Recorded	**24,655**	**577**	**8,967**	**278**
Without a related allowance recorded:				
Commercial real estate	35,739	943	3,911	172
Commercial and industrial	5,565	368	4,722	257
Commercial construction	1,831	131	17,643	217
Consumer real estate	8,190	397	9,701	483
Other consumer	7	—	24	—
Total without a Related Allowance Recorded	**51,332**	**1,839**	**36,001**	**1,129**
Total:				
Commercial real estate	49,757	943	11,691	410
Commercial and industrial	15,700	944	5,313	295
Commercial construction	2,320	131	18,204	217
Consumer real estate	8,190	397	9,717	484
Other consumer	20	1	43	1
Total	**$ 75,987**	**$ 2,416**	**$ 44,968**	**$ 1,407**

Note 9. ALLOWANCE FOR LOAN LOSSES - continued

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

(dollars in thousands)	2019 Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total
Balance at beginning of year	$ 33,707	$ 11,596	$ 7,983	$ 6,187	$ 1,523	$ 60,996
Charge-offs	(3,664)	(8,928)	(406)	(1,353)	(1,838)	(16,189)
Recoveries	137	1,388	5	637	377	2,544
Net (Charge-offs)	**(3,527)**	**(7,540)**	**(401)**	**(716)**	**(1,461)**	**(13,645)**
Provision for loan losses	397	11,625	318	866	1,667	14,873
Balance at End of Year	**$ 30,577**	**$ 15,681**	**$ 7,900**	**$ 6,337**	**$ 1,729**	**$ 62,224**

(dollars in thousands)	2018 Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total
Balance at beginning of year	$ 27,235	$ 8,966	$ 13,167	$ 5,479	$ 1,543	$ 56,390
Charge-offs	(372)	(8,574)	(2,630)	(1,319)	(1,694)	(14,589)
Recoveries	309	1,723	1,135	541	492	4,200
Net (Charge-offs)	**(63)**	**(6,851)**	**(1,495)**	**(778)**	**(1,202)**	**(10,389)**
Provision for loan losses	6,535	9,481	(3,689)	1,486	1,182	14,995
Balance at End of Year	**$ 33,707**	**$ 11,596**	**$ 7,983**	**$ 6,187**	**$ 1,523**	**$ 60,996**

Loans acquired in the DNB merger were recorded at fair value of $909.0 million with no carryover of the related ALL.
The following tables present the ALL and recorded investments in loans by category as of December 31:

	2019					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 2,023	$ 28,554	$ 30,577	$ 47,920	$ 3,368,598	$ 3,416,518
Commercial and industrial	55	15,626	15,681	17,606	1,703,227	1,720,833
Commercial construction	113	7,787	7,900	1,914	373,531	375,445
Consumer real estate	—	6,337	6,337	7,884	1,537,439	1,545,323
Other consumer	9	1,720	1,729	13	79,020	79,033
Total	**$ 2,200**	**$ 60,024**	**$ 62,224**	**$ 75,337**	**$ 7,061,815**	**$ 7,137,152**

	2018					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 1,295	$ 32,412	$ 33,707	$ 11,369	$ 2,910,463	$ 2,921,832
Commercial and industrial	360	11,236	11,596	13,672	1,479,744	1,493,416
Commercial construction	87	7,896	7,983	15,775	241,422	257,197
Consumer real estate	10	6,177	6,187	8,674	1,197,983	1,206,657
Other consumer	11	1,512	1,523	16	67,530	67,546
Total	**$ 1,763**	**$ 59,233**	**$ 60,996**	**$ 49,506**	**$ 5,897,142**	**$ 5,946,648**

NOTE 10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

We have 51 lease contracts that we have recognized under the new lease standard, ASC Topic 842. These leases are for our branch, loan production and support services facilities. We have recognized 48 operating leases and three finance leases under the new lease accounting standard. Included in the lease expense for premises are leases with one S&T director, which totaled approximately $0.2 million for each of the three years 2019, 2018 and 2017.

The following table presents our lease expense for finance and operating leases for the years ended December 31:

(dollars in thousands)	2019	2018	2017
Operating lease expense	$ 4,221	$ 3,850	$ 3,980
Amortization of ROU assets - finance leases	101	44	43
Interest on lease liabilities - finance leases [(1)]	74	11	20
Total Lease Expense	**$ 4,396**	**$ 3,905**	**$ 4,043**

[(1)] Included in borrowings interest expense in our Consolidated Statements of Net Income. All other lease costs in this table are included in net occupancy expense.

The following table presents our ROU assets, weighted average term and the discount rates for finance and operating leases as of December 31, 2019:

(dollars in thousands)	
Operating Leases	
ROU assets	$ 47,686
Operating cash flows	$ 5,028
Finance Leases	
ROU assets	$ 1,513
Operating cash flows	$ 47
Financing cash flows	$ 57
Weighted Average Lease Term - Years	
Operating leases	19.18
Finance leases	12.16
Weighted Average Discount Rate	
Operating leases	5.94%
Finance leases	5.73%

Leases acquired from the DNB merger were remeasured at the acquisition date resulting in a ROU asset of $10.9 million at December 31, 2019.

The following table presents the maturity analysis of lease liabilities for finance and operating leases as of December 31, 2019:

(dollars in thousands)			
Maturity Analysis	**Finance**	**Operating**	**Total**
2020	$ 267	$ 4,618	$ 4,885
2021	269	4,586	4,855
2022	225	4,647	4,872
2023	129	4,716	4,845
2024	130	4,760	4,890
Thereafter	1,277	69,641	70,918
Total	**2,297**	**92,968**	**95,265**
Less: Present value discount	(719)	(40,461)	(41,180)
Lease Liabilities	**$ 1,578**	**$ 52,507**	**$ 54,085**

NOTE 11. PREMISES AND EQUIPMENT

The following table is a summary of premises and equipment as of the dates presented:

(dollars in thousands)	December 31, 2019	December 31, 2018
Land	$ 9,018	$ 6,266
Premises	60,767	52,423
Furniture and equipment	41,713	36,911
Leasehold improvements	11,290	7,118
	122,788	**102,718**
Accumulated depreciation	(65,848)	(60,988)
Total	**$ 56,940**	**$ 41,730**

Certain banking facilities are leased under finance leases and are included in total premises and equipment. We have one right-of-use asset for land in the amount of $0.4 million and two right-of use assets for buildings totaling $1.1 million. Additional information relating to leased right-of-use assets is included in Note 10. Right-of-Use Assets and Lease Liabilities.

Depreciation expense related to premises and equipment was $5.4 million in 2019, $5.0 million in 2018 and $5.1 million in 2017.

NOTE 12. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill as of the dates presented:

(dollars in thousands)	December 31, 2019	2018
Balance at beginning of year	$ 287,446	$ 291,670
Additions[(1)]	84,175	—
Other adjustments	—	(4,224)
Balance at End of Year	**$ 371,621**	**$ 287,446**

[(1)] *Management is continuing to evaluate the purchase accounting fair value adjustments for the DNB merger. Any changes in preliminary estimates will be adjusted in goodwill in subsequent periods, but not extending beyond one year from the date of acquisition.*

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Additional goodwill of $84.2 million was recorded during 2019 for our acquisition of DNB. Refer to Note 2 Business Combinations for further details on the DNB merger. We sold a majority interest in our insurance business which reduced goodwill by $4.2 million in 2018.

Goodwill is reviewed for impairment annually or more frequently if it is determined that a triggering event has occurred. Based upon our qualitative assessment performed for our annual impairment analysis, we concluded that it is more likely than not that the fair value of the reporting units exceeds the carrying value. In general, the overall macroeconomic conditions and more specifically the economic conditions of the banking industry have been very good. Additionally, our overall performance has been good and we did not identify any other facts and circumstances causing us to conclude that it is more likely than not that the fair value of the reporting units would be less than the carrying value.

The following table presents a summary of intangible assets as of the dates presented:

(dollars in thousands)	December 31, 2019	2018
Gross carrying amount at beginning of year	$ 21,898	$ 22,114
Additions [(1)]	9,154	80
Other adjustments	—	(296)
Accumulated amortization	(20,133)	(19,297)
Balance at End of Year	**$ 10,919**	**$ 2,601**

[(1)] *Management is still evaluating the intangible asset valuation due to the final independent valuation report not being complete. Any changes in preliminary estimates will be adjusted in goodwill in subsequent periods, but not extending beyond one year from the date of acquisition.*

Intangible assets as of December 31, 2019 consisted of $10.9 million for core deposits and wealth management customer relationships resulting from acquisitions. The addition of $9.2 million during 2019 was due to $7.3 million for core deposit intangible assets and $1.9 million for wealth management customer relationships related to the DNB merger. We determined the amount of identifiable intangible assets for our core deposits based upon an independent valuation. Other intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. There were no triggering events in 2019 requiring an impairment analysis to be completed.

Amortization expense on finite-lived intangible assets totaled $0.8 million, $0.9 million and $1.2 million for 2019, 2018 and 2017.

The following is a summary of the expected amortization expense for finite-lived intangible assets, assuming no new additions, for each of the five years following December 31, 2019 and thereafter:

(dollars in thousands)	Amount
2020	$ 2,421
2021	1,738
2022	1,474
2023	1,274
2024	1,110
Thereafter	2,902
Total	**$ 10,919**

NOTE 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The following table indicates the amounts representing the value of derivative assets and derivative liabilities at December 31:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts—Commercial Loans				
Fair value	$ 25,647	$ 5,504	$ 25,615	$ 5,340
Notional amount	740,762	325,750	740,762	325,750
Collateral posted	—	160	26,127	—
Interest Rate Lock Commitments—Mortgage Loans				
Fair value	321	251	—	—
Notional amount	9,829	6,054	—	—
Forward Sale Contracts—Mortgage Loans				
Fair value	1	55	—	—
Notional amount	12,750	6,000	—	—

Presenting offsetting derivatives that are subject to legally enforceable netting arrangements with the same party is permitted. For example, we may have a derivative asset and a derivative liability with the same counterparty to a swap transaction and are permitted to offset the asset position and the liability position resulting in a net presentation.

The following table indicates the gross amounts of commercial loan swap derivative assets and derivative liabilities, the amounts offset and the carrying values in the Consolidated Balance Sheets at December 31:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Derivatives not Designated as Hedging Instruments				
Gross amounts recognized	$ 26,146	$ 8,733	$ 26,114	$ 8,569
Gross amounts offset	(499)	(3,229)	(499)	(3,229)
Net amounts presented in the Consolidated Balance Sheets	25,647	5,504	25,615	5,340
Gross amounts not offset[(1)]	—	(160)	(26,127)	—
Net Amount	**$ 25,647**	**$ 5,344**	**$ (512)**	**$ 5,340**

[(1)] *Amounts represent collateral received/posted for the periods presented.*

The following table indicates the gain or loss recognized in income on derivatives for the years ended December 31:

(dollars in thousands)	**2019**	**2018**	**2017**
Derivatives not Designated as Hedging Instruments			
Interest rate swap contracts—commercial loans	$ (132)	$ 145	$ 17
Interest rate lock commitments—mortgage loans	70	25	(11)
Forward sale contracts—mortgage loans	(54)	60	52
Total Derivative (Loss)/Gain	**$ (116)**	**$ 230**	**$ 58**

NOTE 14. MORTGAGE SERVICING RIGHTS

For the years ended December 31, 2019, 2018 and 2017, the 1-4 family mortgage loans that were sold to Fannie Mae amounted to $94.5 million, $79.3 million and $78.8 million. At December 31, 2019, 2018 and 2017 our servicing portfolio totaled $509.2 million, $473.7 million and $441.0 million.

The following table indicates MSRs and the net carrying values:

(dollars in thousands)	Servicing Rights	Valuation Allowance	Net Carrying Value
Balance at December 31, 2017	**$ 4,192**	**$ (59)**	**$ 4,133**
Additions	907	—	907
Amortization	(581)	—	(581)
Temporary recapture	—	5	5
Balance at December 31, 2018	**$ 4,518**	**$ (54)**	**$ 4,464**
Additions	1,086	—	1,086
Amortization	(665)	—	(665)
Temporary (impairment)	—	(223)	(223)
Balance at December 31, 2019	**$ 4,939**	**$ (277)**	**$ 4,662**

NOTE 15. QUALIFIED AFFORDABLE HOUSING

As part of our responsibilities under the Community Reinvestment Act and due to their favorable federal income tax benefits, we invest in Low Income Housing projects. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. We use the cost method to account for these partnerships.

Our total investment in qualified affordable housing projects was $4.8 million at December 31, 2019 and $6.3 million at December 31, 2018. Amortization expense, included in other noninterest expense in the Consolidated Statements of Net Income, was $2.6 million, $2.7 million and $3.0 million for December 31, 2019, 2018 and 2017. The amortization expense was offset by tax credits of $4.2 million, $3.1 million and $3.4 million for December 31, 2019, 2018 and 2017 as a reduction to our federal tax provision.

On September 11, 2019, we entered into a new qualified affordable housing project and committed to an investment of $10.2 million. As of December 31, 2019, we have invested $1.5 million in this new project. We expect to recognize a $0.5 million income tax benefit in our tax provision in 2020 from tax credits related to this project.

NOTE 16. DEPOSITS

The following table presents the composition of deposits at December 31 and interest expense for the years ended December 31:

	2019		2018		2017	
(dollars in thousands)	Balance	Interest Expense	Balance	Interest Expense	Balance	Interest Expense
Noninterest-bearing demand	$ 1,698,082	$ —	$ 1,421,156	$ —	$ 1,387,712	$ —
Interest-bearing demand	962,331	3,915	573,693	93	603,141	67
Money market	1,949,811	30,236	1,482,065	20,018	1,146,156	9,204
Savings	830,919	1,928	784,970	1,773	893,119	2,081
Certificates of deposit	1,595,433	26,947	1,412,038	18,972	1,397,763	13,978
Total	**$ 7,036,576**	**$ 63,026**	**$ 5,673,922**	**$ 40,856**	**$ 5,427,891**	**$ 25,330**

The aggregate of all certificates of deposits over $100,000, including brokered CDs, was $754.8 million and $575.2 million at December 31, 2019 and 2018. Certificates of deposits over $250,000, including brokered CDs, were $347.5 million and $256.0 million at December 31, 2019 and 2018.

The following table indicates the scheduled maturities of certificates of deposit at December 31, 2019:

(dollars in thousands)	Amount
2020	$ 1,272,707
2021	220,480
2022	63,915
2023	21,991
2024	12,012
Thereafter	4,328
Total	**$ 1,595,433**

NOTE 17. SHORT-TERM BORROWINGS

Short-term borrowings are for terms under or equal to one year and are comprised of securities sold under REPOs and FHLB advances. All REPOs are overnight short-term investments and are not insured by the Federal Deposit Insurance Corporation, or FDIC. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and, therefore, the REPOs are accounted for as secured borrowings. Mortgage-backed securities with amortized cost of $22.7 million and carrying value of $23.0 million at December 31, 2019 and amortized cost of $24.2 million and carrying value of $23.9 million at December 31, 2018 were pledged as collateral for these secured transactions. The pledged securities are held in safekeeping at the Federal Reserve. Due to the overnight short-term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. Collateral pledging requirements with REPOs are monitored daily. FHLB advances are for various terms and are secured by a blanket lien on residential mortgages and other real estate secured loans.

The following table presents the composition of short-term borrowings, the weighted average interest rate as of December 31 and interest expense for the years ended December 31:

	2019			2018			2017		
(dollars in thousands)	Balance	Weighted Average Interest Rate	Interest Expense	Balance	Weighted Average Interest Rate	Interest Expense	Balance	Weighted Average Interest Rate	Interest Expense
REPOs	$ 19,888	0.74%	$ 110	$ 18,383	0.46%	$ 222	$ 50,161	0.39%	$ 54
FHLB advances	281,319	1.84%	6,416	470,000	2.65%	11,082	540,000	1.47%	7,399
Total Short-term Borrowings	**$ 301,207**	**1.76%**	**$ 6,526**	**$ 488,383**	**2.57%**	**$ 11,304**	**$ 590,161**	**1.38%**	**$ 7,453**

NOTE 18. LONG-TERM BORROWINGS AND SUBORDINATED DEBT

Long-term borrowings are for original terms greater than one year and are comprised of FHLB advances, capital leases and junior subordinated debt securities. Our long-term borrowings at the Pittsburgh FHLB were $49.3 million as of December 31, 2019 and $69.8 million as of December 31, 2018. Long-term FHLB advances are secured by the same loans as short-term FHLB advances. Total loans pledged as collateral at the FHLB were $4.4 billion at December 31, 2019. We were eligible to borrow up to an additional $2.6 billion based on qualifying collateral, to a maximum borrowing capacity of $3.1 billion at December 31, 2019.

The following table represents the balance of long-term borrowings, the weighted average interest rate as of December 31 and interest expense for the years ended December 31:

(dollars in thousand)	2019	2018	2017
Long-term borrowings	$ 50,868	$ 70,314	$ 47,301
Weighted average interest rate	2.60%	2.84%	1.88%
Interest expense	$ 1,831	$ 1,129	$ 463

Scheduled annual maturities and average interest rates for all of our long-term debt for each of the five years subsequent to December 31, 2019 and thereafter are as follows:

(dollars in thousands)	Balance	Average Rate
2020	$ 27,058	2.91%
2021	1,115	3.57%
2022	7,592	2.24%
2023	464	5.71%
2024	13,381	1.71%
Thereafter	1,258	5.83%
Total	**$ 50,868**	**2.61%**

Junior Subordinated Debt Securities

The following table represents the composition of junior subordinated debt securities at December 31 and the interest expense for the years ended December 31:

	2019		2018		2017	
(dollars in thousands)	Balance	Interest Expense	Balance	Interest Expense	Balance	Interest Expense
Junior subordinated debt	$ 34,753	$ 1,059	$ 25,000	$ 951	$ 25,000	$ 708
Junior subordinated debt—trust preferred securities	29,524	1,251	20,619	1,149	20,619	955
Total	**$ 64,277**	**$ 2,310**	**$ 45,619**	**$ 2,100**	**$ 45,619**	**$ 1,663**

The following table summarizes the key terms of our junior subordinated debt securities:

(dollars in thousands)	2001 Trust Preferred Securities	2005 Trust Preferred Securities	2015 Junior Subordinated Debt	2006 Junior Subordinated Debt	2008 Trust Preferred Securities
Junior Subordinated Debt	$—	$—	$9,750	$25,000	$—
Trust Preferred Securities	5,155	4,124	—	—	20,619
Stated Maturity Date	7/25/2031	5/23/2035	3/6/2025	12/15/2036	3/15/2038
Optional redemption date at par	Any time after 7/25/2011	Any time after 5/23/2010	Quarterly after 4/1/2020	Any time after 9/15/2011	Any time after 3/15/2013
Regulatory Capital	Tier 1	Tier 1	Tier 2	Tier 2	Tier 1
Interest Rate	6 Month LIBOR plus 375 bps	3 Month LIBOR plus 177 bps	fixed at 4.25% until 4/1/2020 then prime plus 100 bps	3 month LIBOR plus 160 bps	3 month LIBOR plus 350 bps
Interest Rate at December 31, 2019	6.00%	3.68%	4.25%	3.49%	5.39%

We have completed three private placements of trust preferred securities to financial institutions. As a result, we own 100 percent of the common equity of STBA Capital Trust I, DNB Capital Trust I and DNB Capital Trust II, or the Trusts. The Trusts were formed to issue mandatorily redeemable capital securities to third-party investors. The proceeds from the sale of the securities and the issuance of the common equity by the Trusts were invested in junior subordinated debt securities issued by us. The third party investors are considered the primary beneficiaries of the Trusts; therefore, the Trusts qualify as variable interest entities, but are not consolidated into our financial statements. The Trusts pays dividends on the securities at the same rate as the interest paid by us on the junior subordinated debt held by the Trusts. DNB Capital Trust I and DNB Capital Trust II were acquired with the DNB merger.

NOTE 19. COMMITMENTS AND CONTINGENCIES

Commitments

The following table sets forth our commitments and letters of credit as of the dates presented:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Commitments to extend credit	$ 1,910,805	$ 1,464,892
Standby letters of credit	80,040	77,134
Total	**$ 1,990,845**	**$ 1,542,026**

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

Our allowance for unfunded loan commitments totaled $3.0 million at December 31, 2019 and $2.1 million at December 31, 2018. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

Litigation

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

NOTE 20. REVENUE FROM CONTRACTS WITH CUSTOMERS

The information presented in the following table presents the point of revenue recognition for revenue from contracts with customers. Other revenue streams are excluded such as: interest income, net securities gains and losses, insurance, mortgage banking and other revenues that are accounted for under other GAAP.

		Years ended December 31,		
(dollars in thousands)		2019	2018	2017
Revenue Streams [1]	**Point of Revenue Recognition**			
Service charges on deposit accounts	Over a period of time	$ 1,859	$ 1,972	$ 1,984
	At a point in time	11,457	11,124	10,474
		$ 13,316	**$ 13,096**	**$ 12,458**
Debit and credit card	Over a period time	$ 723	$ 656	$ 537
	At a point in time	12,682	12,022	11,493
		$ 13,405	**$ 12,679**	**$ 12,029**
Wealth management	Over a period of time	$ 6,939	$ 7,113	$ 7,067
	At a point in time	1,684	2,971	2,691
		$ 8,623	**$ 10,084**	**$ 9,758**
Other fee revenue	At a point in time	$ 3,836	$ 3,854	$ 3,679

[1] Refer to Note 1. Summary of Significant Accounting Policies for the types of revenue streams that are included within each category.

NOTE 21. INCOME TAXES

The following table presents the composition of income tax expense (benefit) for the years ended December 31:

(dollars in thousands)	2019	2018	2017
Federal			
Current	$ 18,918	$ 13,616	$ 32,282
Deferred	(406)	3,517	13,980
Total Federal	**18,512**	**17,133**	**46,262**
State			
Current	589	720	323
Deferred	25	(8)	(148)
Total State	**614**	**712**	**175**
Total Federal and State	**$ 19,126**	**$ 17,845**	**$ 46,437**

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes. We ordinarily generate an annual effective tax rate that is less than the statutory rate of 21 percent primarily due to benefits resulting from certain partnership investments, such as low income housing and historic rehabilitation projects, tax-exempt interest, excludable dividend income and tax-exempt income on BOLI. The state tax provision is due to taxable business activities conducted at our loan production office in New York.

On December 22, 2017, H.R.1, originally known as the Tax Cuts and Jobs Act, or Tax Act, was signed into law. The Tax Act resulted in significant changes to the U.S. corporate tax system including a federal corporate rate reduction from 35 percent to 21 percent. The Tax Act also established new tax laws that became effective January 1, 2018. GAAP requires us to record the effects of a tax law change in the period of enactment. As a result, in 2017 we re-measured our deferred tax assets and liabilities and recorded a provisional adjustment of $13.4 million. This re-measurement adjustment was recognized as an increase to our income tax expense in the fourth quarter of 2017. The calculation over the income tax effects of the Tax Act was completed in the third quarter of 2018. We recognized a $3.0 million income tax benefit as a result of finalizing the calculation.

The following table presents a reconciliation of the statutory tax rate to the effective tax rate for the years ended December 31:

	2019	2018	2017
Statutory tax rate	21.0 %	21.0 %	35.0 %
Low income housing tax credits	(3.3)%	(2.5)%	(2.9)%
Tax-exempt interest	(2.1)%	(2.1)%	(4.0)%
Bank owned life insurance	(0.4)%	(0.4)%	(0.8)%
Gain on sale of a majority interest of insurance business	— %	0.7 %	— %
Merger related expenses	0.3 %	— %	— %
Other	0.8 %	0.3 %	0.3 %
Impact of the Tax Act	— %	(2.5)%	11.3 %
Effective Tax Rate	**16.3 %**	**14.5 %**	**38.9 %**

NOTE 21. INCOME TAXES -- continued

The following table presents significant components of our temporary differences as of the dates presented:

(dollars in thousands)	December 31, 2019	2018
Deferred Tax Assets:		
Allowance for loan losses	$ 13,798	$ 13,463
Net unrealized losses on securities available-for-sale	—	1,091
Other employee benefits	3,039	2,712
Low income housing partnerships	3,494	3,249
Net adjustment to funded status of pension	5,438	5,173
Lease liabilities	11,257	—
State net operating loss carryforwards	5,134	4,573
Other	1,856	2,856
Gross Deferred Tax Assets	**44,016**	**33,117**
Less: Valuation allowance	(5,134)	(4,573)
Total Deferred Tax Assets	**38,882**	**28,544**
Deferred Tax Liabilities:		
Net unrealized gains on securities available-for-sale	(2,570)	—
Prepaid pension	(5,971)	(6,164)
Deferred loan income	(3,555)	(3,219)
Purchase accounting adjustments	(1,269)	(100)
Depreciation on premises and equipment	(592)	(477)
Right-of-use lease assets	(10,476)	—
Other	(1,243)	(1,375)
Total Deferred Tax liabilities	**(25,676)**	**(11,335)**
Net Deferred Tax Asset	**$ 13,206**	**$ 17,209**

We establish a valuation allowance when it is more likely than not that we will not be able to realize the benefit of the deferred tax assets. Except for Pennsylvania net operating losses, or NOLs, we have determined that no valuation allowance is needed for deferred tax assets because it is more likely than not that these assets will be realized through future reversals of existing temporary differences and through future taxable income. The valuation allowance is reviewed quarterly and adjusted based on management’s assessments of realizable deferred tax assets. Gross deferred tax assets were reduced by a valuation allowance of $5.1 million in 2019 and $4.6 million in 2018 related to Pennsylvania income tax NOLs. The Pennsylvania NOL carryforwards total $51.4 million and will expire in the years 2020-2040.

Unrecognized Tax Benefits

The following table reconciles the change in Federal and State gross unrecognized tax benefits, or UTB, for the years ended December 31:

(dollars in thousands)	**2019**	**2018**	**2017**
Balance at beginning of year	$ 768	$ 909	$ 804
Prior period tax positions	(10)	(251)	(37)
Current period tax positions	293	110	142
Balance at End of Year	**$ 1,051**	**$ 768**	**$ 909**
Amount That Would Impact the Effective Tax Rate if Recognized	**$ 848**	**$ 607**	**$ 770**

We classify interest and penalties as an element of tax expense. We monitor changes in tax statutes and regulations to determine if significant changes will occur over the next 12 months. As of December 31, 2019, no significant changes to UTB are projected; however, tax audit examinations are possible. As of December 31, 2019, all income tax returns filed for the tax years 2016, 2017 and 2018 remain subject to examination by the IRS, and years 2015-2018 remain open for examination by the New York State Department of Taxation.

NOTE 22. TAX EFFECTS ON OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the tax effects of the components of other comprehensive income (loss) for the years ended December 31:

(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
2019			
Net change in unrealized gains on debt securities available-for sale	$ 15,793	$ (3,367)	$ 12,426
Net available-for-sale securities losses reclassified into earnings	26	(6)	20
Adjustment to funded status of employee benefit plans	(1,282)	273	(1,009)
Other Comprehensive Income	**$ 14,537**	**$ (3,100)**	**$ 11,437**
2018			
Net change in unrealized gains on securities available-for-sale[(1)]	$ (6,794)	$ 1,449	$ (5,345)
Net available-for-sale securities losses reclassified into earnings	—	—	—
Adjustment to funded status of employee benefit plans	6,297	(1,343)	4,954
Other Comprehensive Loss	**$ (497)**	**$ 106**	**$ (391)**
2017			
Net change in unrealized gains on securities available-for-sale	$ (1,275)	$ 448	$ (827)
Net available-for-sale securities gains reclassified into earnings	(3,000)	1,054	(1,946)
Adjustment to funded status of employee benefit plans	(1,992)	122	(1,870)
Other Comprehensive Loss	**$ (6,267)**	**$ 1,624**	**$ (4,643)**

[(1)] Due to the adoption of ASU No. 2016-01, net unrealized gains on marketable equity securities were reclassified from accumulated other comprehensive income to retained earnings during the three months ended March 31, 2018. The prior period data was not restated; as such, the change in unrealized gains on marketable securities is combined with the change in net unrealized gains on debt securities for the prior period ended December 31, 2017.

NOTE 23. EMPLOYEE BENEFITS

We maintain a qualified defined benefit pension plan, or Plan, covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years through March 31, 2016 when the Plan was frozen. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future.

Our qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan in 2016. We will continue recording pension expense related to these plans, primarily representing interest costs on the accumulated benefit obligation and amortization of actuarial losses accumulated in the plan, as well as income from expected investment returns on pension assets. Since the plans have been frozen, no service costs are included in net periodic pension expense. The expected long-term rate of return on plan assets is 4.80 percent.

We made a $20.4 million contribution to our qualified defined benefit plan on September 7, 2018. The fair value of the plan was not re-measured for the impact of the contribution. The pension contribution was deducted on our 2017 Consolidated Federal Income Tax Return and we recognized a return to provision discrete tax benefit of $2.9 million due to the decrease in the federal statutory rate of 35 percent to 21 percent resulting from tax legislation enacted in December 2017.

The following table summarizes the activity in the benefit obligation and Plan assets deriving the funded status, which is recorded in other liabilities in the Consolidated Balance Sheets:

(dollars in thousands)	**2019**	**2018**
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 95,200	$ 106,664
Interest cost	3,987	3,882
Actuarial gain/(loss)	13,996	(7,371)
Acquisitions - DNB merger	6,778	—
Benefits paid	(6,282)	(7,975)
Projected Benefit Obligation at End of Year	**$ 113,679**	**$ 95,200**
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 101,765	$ 87,154
Actual return on plan assets	16,358	2,166
Employer contributions	—	20,420
Acquisitions - DNB merger	4,811	—
Benefits paid	(6,282)	(7,975)
Fair Value of Plan Assets at End of Year	**$ 116,652**	**$ 101,765**
Funded Status	**$ 2,973**	**$ 6,565**

The following table sets forth the amounts recognized in accumulated other comprehensive (loss) income at December 31:

(dollars in thousands)	**2019**	**2018**
Net actuarial loss	(23,106)	(22,340)
Total (Before Tax Effects)	**$ (23,106)**	**$ (22,340)**

NOTE 23. EMPLOYEE BENEFITS -- continued

Below are the actuarial weighted average assumptions used in determining the benefit obligation:

	2019	2018
Discount rate	3.25%	4.31%
Rate of compensation increase[(1)]	—%	—%

[(1)]*Rate of compensation increase is not applicable for 2019 and 2018 due to the amendment to freeze benefit accruals under the qualified and nonqualified defined benefit pension plans effective March 31, 2016.*

The following table summarizes the components of net periodic pension cost and other changes in Plan assets and benefit obligations recognized in other comprehensive loss for the years ended December 31:

(dollars in thousands)	2019	2018	2017
Components of Net Periodic Pension Cost			
Interest cost on projected benefit obligation	3,987	3,882	4,100
Expected return on plan assets	(4,731)	(6,266)	(6,313)
Amortization of prior service credit - DNB merger	7	—	—
Recognized net actuarial loss	1,604	2,134	1,866
Net Periodic Pension Expense	**$ 867**	**$ (250)**	**$ (347)**
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income (Loss)			
Net actuarial loss/(gain)	$ 2,370	$ (3,271)	$ 3,678
Recognized net actuarial loss	(1,604)	(2,134)	(1,866)
Recognized prior service credit	—	—	—
Total (Before Tax Effects)	**$ 766**	**$ (5,405)**	**$ 1,812**
Total Recognized in Net Benefit Cost and Other Comprehensive Income/(Loss) (Before Tax Effects)	**$ 1,633**	**$ (5,655)**	**$ 1,465**

The following table summarizes the actuarial weighted average assumptions used in determining net periodic pension cost:

	2019	2018	2017
Discount rate	4.31%	3.75%	4.00%
Rate of compensation increase[(1)]	—%	—%	—%
Expected return on assets	4.80%	7.50%	7.50%

[(1)]*Rate of compensation increase is not applicable for 2019, 2018 and 2017 due to the amendment to freeze benefit accruals under the qualified and nonqualified defined benefit pension plans effective March 31, 2016.*

The net actuarial loss included in accumulated other comprehensive loss expected to be recognized in net periodic pension cost in the following year ending December 31, 2020 is $1.5 million. There will be no prior service credit recognized due to the amendment to freeze benefit accruals under the qualified and nonqualified defined benefit pension plans.

The accumulated benefit obligation for the Plan was $113.7 million at December 31, 2019 and $95.2 million at December 31, 2018.

We consider many factors when setting the assumed rate of return on Plan assets. As a general guideline the assumed rate of return is equal to the weighted average of the expected returns for each asset category and is estimated based on historical returns as well as expected future returns. The weighted average discount rate is derived from corporate yield curves.

S&T Bank’s Retirement Plan Committee determines the investment policy for the Plan. In general, the targeted asset allocation is 5 percent to 15 percent equities and alternatives and 85 percent to 95 percent fixed income. Prior to 2018, the asset allocation was 50 percent to 70 percent equities and 30 percent to 50 percent fixed income. A strategic allocation within each asset class is based on the Plan’s duration, time horizon, risk tolerances, performance expectations, and asset class preferences. Investment managers have discretion to invest in any equity or fixed-income asset class, subject to the securities guidelines of the Plan’s Investment Policy Statement.

On December 19, 2017, S&T Bank, as Plan Sponsor, entered into an agreement with an insurance company to purchase a single premium annuity contract for 124 retired Plan participants and their beneficiaries. Of these participants, 30 are receiving a $2,000 death benefit only. The total premium of $1.5 million was paid out of the Plan's assets, and the effective date of the annuity payments was January 1, 2018. The annuity purchase resulted in a reduction in the associated pension liability.

At this time, S&T Bank is expected to make a $0.1 million required cash contribution to the Plan in 2020.

NOTE 23. EMPLOYEE BENEFITS -- continued

The following table provides information regarding estimated future benefit payments to be paid in each of the next five years and in the aggregate for the five years thereafter:

(dollars in thousands)	Amount
2020	$ 8,211
2021	8,151
2022	7,695
2023	7,343
2024	7,164
2025 - 2029	33,640

We also have nonqualified supplemental executive pension plans, or SERPs, for certain key employees. The SERPs are unfunded. The projected benefit obligations related to the SERPs were $5.3 million and $4.4 million at December 31, 2019 and 2018. These amounts also represent the net amount recognized in the statement of financial position for the SERPs. Net periodic benefit costs for the SERPs were $0.4 million for the year ended December 31, 2019 and $0.5 million for each of the years ended December 31, 2018 and 2017. Additionally, $2.4 million, $1.9 million and $2.7 million before tax was reflected in accumulated other comprehensive income (loss) at December 31, 2019, 2018 and 2017, in relation to the SERPs. The actuarial assumptions used for the SERPs are the same as those used for the Plan.

We maintain a Thrift Plan, a qualified defined contribution plan, in which substantially all employees are eligible to participate. We make matching contributions to the Thrift Plan up to 3.5 percent of participants' eligible compensation and may make additional profit-sharing contributions as provided by the Thrift Plan. Expense related to these contributions amounted to $2.0 million in 2019, $1.7 million in 2018 and $1.8 million in 2017.

Fair Value Measurements

The following tables present our Plan assets measured at fair value on a recurring basis by fair value hierarchy level at December 31, 2019 and 2018. During the year ended December 31, 2019, there were no transfers between Level 1 and Level 2 for items of a recurring basis. During the year ended December 31, 2018, cash and cash equivalents of $2.2 million were transferred to Level 1 from Level 2 relating to changes in our plan asset allocation as set forth in the plan's investment policy. There were no purchases or transfers of Level 3 plan assets in 2019 or 2018.

	December 31, 2019			
	Fair Value Asset Classes[1]			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents[2]	$ 1,831	$ —	$ —	$ 1,831
Fixed income[3]	101,320	—	—	101,320
Equities:				
Equity index mutual funds—international[4]	3,066	—	—	3,066
Domestic individual equities[5]	10,435	—	—	10,435
Total Assets at Fair Value	**$ 116,652**	**$ —**	**$ —**	**$ 116,652**

[1]Refer to Note 1 Summary of Significant Accounting Policies, Fair Value Measurements for a description of levels within the fair value hierarchy.
[2]This asset class includes FDIC insured money market instruments.
[3]This asset class includes a variety of fixed income mutual funds which primarily invest in investment grade rated securities. Investment managers have discretion to invest in fixed income related securities including futures, options and other derivatives. Investments may be made in currencies other than the U.S. dollar.
[4]The sole investment within this asset class is the Vanguard Total International Stock Index Fund Admiral Shares.
[5]This asset class includes individual domestic equities invested in an active all-cap strategy. It may also include convertible bonds.

NOTE 23. EMPLOYEE BENEFITS -- continued

	December 31, 2018							
	Fair Value Asset Classes[1]							
(dollars in thousands)		Level 1		Level 2		Level 3		Total
Cash and cash equivalents[2]	$	2,164	$	—	$	—	$	2,164
Fixed income[3]		91,830		—		—		91,830
Equities:								
Equity index mutual funds—international[4]		2,604		—		—		2,604
Domestic individual equities[5]		4,884		—		—		4,884
Total Assets at Fair Value	**$**	**101,482**	**$**	**—**	**$**	**—**	**$**	**101,482**

[1]Refer to Note 1 Summary of Significant Accounting Policies, Fair Value Measurements for a description of levels within the fair value hierarchy.
[2]This asset class includes FDIC insured money market instruments.
[3]This asset class includes a variety of fixed income mutual funds which primarily invest in investment grade rated securities. Investment managers have discretion to invest in fixed income related securities including futures, options and other derivatives. Investments may be made in currencies other than the U.S. dollar.
[4]The sole investment within this asset class is Harbor International Institutional Fund.
[5]This asset class includes individual domestic equities invested in an active all-cap strategy. It may also include convertible bonds.

NOTE 24. INCENTIVE AND RESTRICTED STOCK PLAN AND DIVIDEND REINVESTMENT PLAN

We adopted an Incentive Stock Plan in 2014 that provides for cash performance awards and for granting incentive stock options, nonstatutory stock options, restricted stock, restricted stock units and appreciation rights. A maximum of 750,000 shares of our common stock are available for awards granted under the 2014 Incentive Plan and the plan expires ten years from the date of board approval. As of December 31, 2019, no nonstatutory stock options were outstanding under the 2014 Stock Plan.

Restricted Stock

We periodically issue restricted stock to employees and directors, pursuant to our 2014 Stock Plan. As of December 31, 2019, 529,933 restricted shares have been granted under the 2014 Stock Plan.

During 2019, 2018 and 2017, we granted 11,231, 9,264 and 12,728 restricted shares of common stock to outside directors under the 2014 Stock Plan. The grants are part of the compensation arrangement approved by the Compensation and Benefits Committee whereby the directors receive compensation in the form of both cash and restricted shares of common stock. These shares fully vest one year after the date of grant. The closing price of our stock is used to determine the fair value on the date of grant.

During 2019, 2018 and 2017, we granted 73,651, 66,733 and 77,387 restricted shares of common stock to senior management under our Long Term Incentive Plan, or LTIP, within the 2014 Stock Plan. The restricted shares granted under the LTIP consist of both time and performance-based awards. The awards were granted in accordance with performance levels set by the Compensation and Benefits Committee. Vesting for the time-based awards is 50 percent after two years and the remaining 50 percent at the end of the third year. The performance-based awards vest at the end of the three-year period. During the vesting period, if the recipient leaves S&T before the end of the vesting period, shares will be forfeited except in the case of retirement, disability or death where accelerated vesting provisions are defined within the awards agreement. The closing price of our stock is used to determine the fair value on the date of grant.

During 2019, 2018 and 2017, we recognized compensation expense of $2.4 million, $1.9 million and $3.0 million and realized a tax benefit of $0.5 million, $0.4 million and $1.1 million related to restricted stock grants.

NOTE 24. INCENTIVE AND RESTRICTED STOCK PLAN AND DIVIDEND REINVESTMENT PLAN -- continued

The following table provides information about restricted stock granted under the 2014 Stock Plan for the years ended December 31:

	Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	**220,568**	**$ 30.19**
Granted	75,997	42.43
Vested	63,323	29.19
Forfeited	26,847	30.18
Non-vested at December 31, 2018	**206,395**	**$ 30.70**
Granted	84,882	38.67
Vested	76,014	30.75
Forfeited	33,228	32.50
Non-vested at December 31, 2019	**182,035**	**$ 34.06**

As of December 31, 2019, there was $3.6 million of total unrecognized compensation cost related to restricted stock that will be recognized as compensation expense over a weighted average period of 1.77 years.

Dividend Reinvestment Plan

We also sponsor a Dividend Reinvestment and Stock Purchase Plan, or Dividend Plan, where shareholders may purchase shares of S&T common stock at the average fair value with reinvested dividends and voluntary cash contributions. The plan administrator and transfer agent may purchase shares directly from us from shares held in treasury or purchase shares in the open market to fulfill the Dividend Plan's needs.

NOTE 25. PARENT COMPANY CONDENSED FINANCIAL INFORMATION

The following condensed financial statements summarize the financial position of S&T Bancorp, Inc. as of December 31, 2019 and 2018 and the results of its operations and cash flows for each of the three years ended December 31, 2019, 2018 and 2017.

BALANCE SHEETS

	December 31,	
(dollars in thousands)	**2019**	**2018**
ASSETS		
Cash	$ 7,509	$ 8,869
Investments in:		
Bank subsidiary	1,198,964	925,286
Nonbank subsidiaries	16,393	15,479
Other assets	9,741	8,458
Total Assets	**$ 1,232,607**	**$ 958,092**
LIABILITIES		
Long-term debt	$ 39,277	$ 20,619
Other liabilities	1,332	1,712
Total Liabilities	**40,609**	**22,331**
Total Shareholders' Equity	**1,191,998**	**935,761**
Total Liabilities and Shareholders' Equity	**$ 1,232,607**	**$ 958,092**

STATEMENTS OF NET INCOME

	Years ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Dividends from subsidiaries	$ 59,490	$ 44,988	$ 36,169
Investment income	1	24	22
Total Income	**59,491**	**45,012**	**36,191**
Interest expense on long-term debt	1,285	1,149	955
Other expenses	4,325	3,988	3,801
Total Expense	**5,610**	**5,137**	**4,756**
Income before income tax and undistributed net income of subsidiaries	**53,881**	**39,875**	**31,435**
Income tax benefit	(1,189)	(1,093)	(1,596)
Income before undistributed net income of subsidiaries	**55,070**	**40,968**	**33,031**
Equity in undistributed net income (distribution in excess of net income) of:			
Bank subsidiary	42,683	68,385	40,877
Nonbank subsidiaries	481	(4,019)	(940)
Net Income	**$ 98,234**	**$ 105,334**	**$ 72,968**

NOTE 25. PARENT COMPANY CONDENSED FINANCIAL INFORMATION -- continued

STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(dollars in thousands)	2019	2018	2017
OPERATING ACTIVITIES			
Net Income	$ 98,234	$ 105,334	$ 72,968
Equity in undistributed (earnings) losses of subsidiaries	(43,164)	(64,366)	(39,937)
Other	(99)	1,695	480
Net Cash Provided by Operating Activities	**54,971**	**42,663**	**33,511**
INVESTING ACTIVITIES			
Net investments in subsidiaries	176	—	—
Acquisitions	(10)	—	—
Net Cash Used in Investing Activities	**166**	**—**	**—**
FINANCING ACTIVITIES			
Sale of treasury shares, net	(915)	(657)	(689)
Purchase of treasury shares	(18,222)	(12,256)	—
Cash dividends paid to common shareholders	(37,360)	(34,539)	(28,569)
Payment to repurchase of warrant	—	(7,652)	—
Net Cash Used in Financing Activities	**(56,497)**	**(55,104)**	**(29,258)**
Net (decrease) increase in cash	(1,360)	(12,441)	4,253
Cash at beginning of year	8,869	21,310	17,057
Cash at End of Year	**$ 7,509**	**$ 8,869**	**$ 21,310**

NOTE 26. REGULATORY MATTERS

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our Consolidated Financial Statements. Under capital guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about risk weightings and other factors.

The most recent notifications from the Federal Reserve and the FDIC categorized S&T and S&T Bank as well capitalized under the regulatory framework for corrective action. There have been no conditions or events that we believe have changed S&T's or S&T Bank’s status during 2019 and 2018.

Common equity tier 1 capital includes common stock and related surplus plus retained earnings, less goodwill and intangible assets subject to a limitation and certain deferred tax assets subject to a limitation. In addition, we made a one-time permanent election to exclude accumulated other comprehensive income from capital. For regulatory purposes, trust preferred securities totaling $29.0 million, issued by an unconsolidated trust subsidiary of S&T underlying junior subordinated debt, are included in Tier 1 capital for S&T. Total capital consists of Tier 1 capital plus junior subordinated debt and the ALL subject to limitation. We currently have $34.8 million in junior subordinated debt which is included in Tier 2 capital for S&T in accordance with current regulatory reporting requirements.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios of Total, Tier 1 and Common Equity Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. As of December 31, 2019 and 2018, we met all capital adequacy requirements to which we are subject.

NOTE 26. REGULATORY MATTERS -- continued

The following table summarizes risk-based capital amounts and ratios for S&T and S&T Bank:

	Actual		Minimum Regulatory Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Leverage Ratio						
S&T	$ 854,146	10.29%	$ 331,925	4.00%	$ 414,907	5.00%
S&T Bank	832,113	10.04%	331,355	4.00%	414,194	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)						
S&T	825,146	11.43%	324,745	4.50%	469,077	6.50%
S&T Bank	832,113	11.56%	324,048	4.50%	468,069	6.50%
Tier 1 Capital (to Risk-Weighted Assets)						
S&T	854,146	11.84%	432,994	6.00%	577,325	8.00%
S&T Bank	832,113	11.56%	432,064	6.00%	576,085	8.00%
Total Capital (to Risk-Weighted Assets)						
S&T	954,094	13.22%	577,325	8.00%	721,656	10.00%
S&T Bank	922,310	12.81%	576,085	8.00%	720,106	10.00%
As of December 31, 2018						
Leverage Ratio						
S&T	$ 689,778	10.05%	$ 274,497	4.00%	$ 343,121	5.00%
S&T Bank	659,304	9.63%	273,820	4.00%	342,275	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)						
S&T	669,778	11.38%	264,933	4.50%	382,681	6.50%
S&T Bank	659,304	11.23%	264,127	4.50%	381,517	6.50%
Tier 1 Capital (to Risk-Weighted Assets)						
S&T	689,778	11.72%	353,244	6.00%	470,992	8.00%
S&T Bank	659,304	11.23%	352,170	6.00%	469,560	8.00%
Total Capital (to Risk-Weighted Assets)						
S&T	777,913	13.21%	470,992	8.00%	588,741	10.00%
S&T Bank	747,438	12.73%	469,560	8.00%	586,950	10.00%

NOTE 27. SELECTED FINANCIAL DATA

The following table presents selected financial data for the most recent eight quarters.

(dollars in thousands, except per share data) (unaudited)	2019 Fourth Quarter [1]	2019 Third Quarter	2019 Second Quarter	2019 First Quarter	2018 Fourth Quarter	2018 Third Quarter	2018 Second Quarter	2018 First Quarter
SUMMARY OF OPERATIONS								
Interest income	$ 82,457	$ 79,813	$ 79,624	$ 78,590	$ 76,589	$ 73,627	$ 71,581	$ 68,029
Interest expense	18,045	18,617	18,797	18,234	16,747	14,365	13,178	11,097
Provision for loan losses	2,105	4,913	2,205	5,649	2,716	462	9,345	2,472
Net Interest Income After Provision For Loan Losses	**62,307**	**56,283**	**58,622**	**54,707**	**57,126**	**58,800**	**49,058**	**54,460**
Security (losses) gains, net	(26)	—	—	—	—	—	—	—
Noninterest income	15,257	13,063	12,901	11,362	11,095	12,042	12,251	13,792
Noninterest expense	50,178	37,667	40,352	38,919	36,415	37,085	35,863	36,082
Income Before Taxes	**27,360**	**31,679**	**31,171**	**27,150**	**31,806**	**33,757**	**25,446**	**32,170**
Provision for income taxes	5,091	4,743	5,070	4,222	4,952	2,876	4,010	6,007
Net Income	**$ 22,269**	**$ 26,936**	**$ 26,101**	**$ 22,928**	**$ 26,854**	**$ 30,881**	**$ 21,436**	**$ 26,163**
Per Share Data								
Common earnings per share—diluted	$ 0.62	$ 0.79	$ 0.76	$ 0.66	$ 0.77	$ 0.88	$ 0.61	$ 0.75
Dividends declared per common share	0.28	0.27	0.27	0.27	0.27	0.25	0.25	0.22
Common book value	30.13	28.69	28.11	27.47	26.98	26.27	25.91	25.58

[1] *The DNB Merger is included in our consolidated financial statements beginning on December 1, 2019.*

NOTE 28. SALE OF A MAJORITY INTEREST OF INSURANCE BUSINESS

On November 9, 2017, we entered into an asset purchase agreement to sell a 70 percent ownership interest in the assets of our subsidiary, S&T Evergreen Insurance, LLC. The partial sale was accounted for as the sale of a business. At the date of the sale, January 1, 2018, we ceased to have a controlling financial interest, deconsolidated the subsidiary and recognized a gain of $1.9 million. We transferred our remaining 30 percent share of net assets from S&T Evergreen Insurance, LLC to a new entity for a 30 percent partnership interest in a new insurance entity. We use the equity method of accounting to recognize changes in the value of our investment in the new insurance entity for our proportional share of income and losses of the new insurance entity.

NOTE 29. SHARE REPURCHASE PLAN

On March 19, 2018, our Board of Directors authorized a $50 million share repurchase plan. This repurchase authorization, which was effective through August 31, 2019, permitted us to repurchase from time to time up to $50 million in aggregate value of shares of our common stock through a combination of open market and privately negotiated repurchases. Under the March 19, 2018 plan, we repurchased 792,439 common shares at a total cost of $30.5 million, or an average of $38.46 per share.

On September 16, 2019, our Board of Directors authorized a new $50 million share repurchase plan. This new repurchase authorization, which is effective through March 31, 2021, permits S&T to repurchase from time to time up to $50 million in aggregate value of shares of S&T's common stock through a combination of open market and privately negotiated repurchases. The specific timing, price and quantity of repurchases will be at the discretion of S&T and will depend on a variety of factors, including general market conditions, the trading price of common stock, legal and contractual requirements, applicable securities laws and S&T's financial performance. The repurchase plan does not obligate us to repurchase any particular number of shares. We expect to fund any repurchases from cash on hand and internally generated funds. Since its approval no common shares have been repurchased under the new repurchase plan.

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of S&T Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of S&T Bancorp, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of net income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2019, and the related notes collectively referred to as the consolidated financial statements. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses ("ALL")

Description of the Matter	The Company's loan portfolio totaled $7.14 billion as of December 31, 2019, and the associated allowance for loan losses (ALL) was $62.22 million. As discussed in Note 1 of the Company's Form 10-K, Summary of Significant Accounting Policies, determining the amount of the ALL requires significant judgment about the collectability of loans which includes an assessment of quantitative adjustments such as actual loss experience within each category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio, asset quality trends, collateral values, and concentrations of credit risk for the commercial loan portfolios. Auditing management's estimate of the ALL involves a high degree of subjectivity due to the nature of the qualitative adjustments included in the ALL. Management's identification and measurement of the qualitative adjustments is highly judgmental and could have a significant effect on the ALL.
How We Addressed the Matter in Our Audit	We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL and the reliability of the data utilized to support management's assessment. To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments. Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, peer bank data and considered the existence of new or contrary information. We also compared the ALL to a range of historical losses to evaluate the ALL, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends.

Accounting for acquisitions

Description of the Matter	As described in Note 2 to the financial statements, the Company completed one acquisition during 2019. It was the acquisition of DNB Financial Corporation (DNB) for net consideration of $201.0 million. The transaction was accounted for as a business combination and the Company recorded certain provisional fair value estimates as of December 31, 2019. Auditing the accounting for the Company's acquisition of DNB involved a high degree of subjectivity and was complex due to the significant estimation required by management to determine the provisional fair value of the acquired loans. The significant estimation was primarily due to the assumptions utilized in the discounted cash flow model to derive the provisional fair value of the acquired loan portfolio, including the expected loss rates.
How We Addressed the Matter in Our Audit	We gained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's business acquisition process, including controls over the recognition and measurement of the provisional fair value of loans acquired. We also tested controls over management's review of assumptions used in the valuation process. To test the provisional fair value of the loans acquired, our audit procedures included, among others, involving our valuation specialists to assist in evaluating the Company's valuation methodology and determining whether the significant assumptions, including expected loss rates, used in the discounted cash flow valuation model were appropriate. Specifically, when evaluating the expected loss rates assumptions, we compared the expected loss rates to the past performance of DNB and peer loss data. Additionally, we performed sensitivity analyses over the components of the expected loss rates and tested the completeness and accuracy of the underlying data used in the valuation model.

/s/ Ernst & Young LLP
We have served as the Company's auditors since 2018.

Pittsburgh, Pennsylvania
March 2, 2020

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of S&T Bancorp, Inc.,

Opinion on Internal Control Over Financial Reporting

We have audited S&T Bancorp, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, S&T Bancorp, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and our report dated March 2, 2020 expressed an unqualified opinion thereon.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls over financial reporting at DNB Financial Corporation, which are included in the 2019 consolidated financial statements of the Company and represented approximately 14 percent and 19 percent of S&T Bancorp, Inc.'s total and net assets, respectively, as of December 31, 2019 and approximately 1 percent and 2 percent of S&T Bancorp, Inc.'s total revenue and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of DNB Financial Corporation.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
March 2, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

S&T Bancorp, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows of S&T Bancorp, Inc. and subsidiaries (the Company) for the year ended December 31, 2017 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2007 to 2018.

Pittsburgh, Pennsylvania

March 1, 2018

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

Item 9A. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T’s Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer), management has evaluated the effectiveness of the design and operation of S&T’s disclosure controls and procedures as of December 31, 2019. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T’s management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

b) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management assessed S&T’s system of internal control over financial reporting as of December 31, 2019, in relation to criteria for effective internal control over financial reporting as described in “Internal Control Integrated Framework (2013),” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concludes that, as of December 31, 2019, S&T’s system of internal control over financial reporting is effective and meets the criteria of the “Internal Control Integrated Framework (2013).”

Management assessed the effectiveness of S&T's internal control over financial reporting as of December 31, 2019, in relation to criteria for effective internal control over financial reporting as described in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). The scope of management's assessment of the effectiveness of its disclosure controls and procedures did not include the internal controls over financial reporting at DNB Financial Corporation, or DNB, which was acquired effective November 30, 2019. DNB represented approximately 14 percent and 19 percent of S&T's total and net assets, respectively, as of December 31, 2019 and approximately 1 percent and 2 percent of S&T's total revenue and net income, respectively, for the year ended December 31, 2019. This exclusion is consistent with the SEC Staff's guidance that an assessment of a recently acquired business may be omitted from the scope of management's assessment of the effectiveness of disclosure controls and procedures that are also part of internal control over financial reporting in the year of acquisition. Based on this assessment, management concluded that, as of December 31, 2019, S&T's internal controls over financial reporting were effective. Ernst & Young LLP, independent registered public accounting firm, has issued a report on the effectiveness of S&T’s internal control over financial reporting as of December 31, 2019, which is included herein.

c) Changes in Internal Control Over Financial Reporting

No changes were made to S&T’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, S&T’s internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Part III, Item 10 of Form 10-K is incorporated herein from the sections entitled “Beneficial Ownership of S&T Common Stock by Directors and Officers -- Delinquent Section 16(a) Reports”, “Proposal 1 -- Election of Directors,” “Executive Officers of the Registrant,” “Corporate Governance --Audit Committee,” "Corporate Governance - Director Qualifications and Nominations: Board Diversity" and “Corporate Governance --Code of Conduct and Ethics” in our proxy statement relating to our May 18, 2020 annual meeting of shareholders.

Item 11. EXECUTIVE COMPENSATION

The information required by Part III, Item 11 of Form 10-K is incorporated herein from the sections entitled “Compensation Discussion and Analysis,” “Executive Compensation,” “Director Compensation,” “Corporate Governance -- Compensation Committee Interlocks and Insider Participation,” “Corporate Governance - The S&T Board’s Role in Risk Oversight” and “Compensation and Benefits Committee Report” in our proxy statement relating to our May 18, 2020 annual meeting of shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by Part III, Item 12 of Form 10-K is incorporated herein from the sections entitled “Beneficial Owners of S&T Common Stock” and “Beneficial Ownership of S&T Common Stock by Directors and Officers” in our proxy statement relating to our May 18, 2020 annual meeting of shareholders.

Equity Compensation Plan Information

The following table provides information as of December 31, 2019 related to the equity compensation plans in effect at that time.

	(a)	(b)	(c)
Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))**
Equity compensation plan approved by shareholders[1]	45,967 [2]		298,222
Equity compensation plans not approved by shareholders	—	—	—
Total	**45,967**	**$ —**	**298,222**

[1] *Awards granted under the 2014 Incentive Stock Plan.*
[2] *Represents performance shares that can be earned under the 2014 Stock Plan with no associated exercise price.*

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Part III, Item 13 of Form 10-K is incorporated herein from the sections entitled “Related Person Transactions” and “Corporate Governance -- Director Independence” in our proxy statement relating to our May 18, 2020 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Part III, Item 14 of Form 10-K is incorporated herein from the section entitled “Proposal 2: Ratification of the Selection of Independent Registered Public Accounting Firm for Fiscal Year 2020” in our proxy statement relating to our May 18, 2020 annual meeting of shareholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report.

Consolidated Financial Statements: The following Consolidated Financial Statements are included in Part II, Item 8 of this Report. No financial statement schedules are being filed because the required information is inapplicable or is presented in the Consolidated Financial Statements or related notes.

(b) Exhibits

2.1	Agreement and Plan of Merger, dated as of October 29, 2014, between S&T Bancorp, Inc. and Integrity Bancshares, Inc. Filed as Exhibit 2.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 30, 2014, and incorporated herein by reference.
2.2	Agreement and Plan of Merger, dated June 5, 2019, by and between DNB Financial Corporation and S&T Bancorp, Inc. Filed as Exhibit 2.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on June 5, 2019, and incorporated herein by reference.
3.1	Articles of Incorporation of S&T Bancorp, Inc. Filed as Exhibit B to Form S-4 Registration Statement (No. 2-83565) of S&T Bancorp, Inc., dated May 5, 1983, and incorporated herein by reference.
3.2	Amendment to Articles of Incorporation of S&T Bancorp, Inc. Filed as Exhibit 3.2 to Form S-4 Registration Statement (No. 33-02600) of S&T Bancorp, Inc. dated January 15, 1986, and incorporated herein by reference.
3.3	Amendment to Articles of Incorporation of S&T Bancorp, Inc. effective May 8, 1989 Filed as Exhibit 3.3 to S&T Bancorp, Inc. Annual Report on Form 10-K for year ended December 31, 1998, and incorporated herein by reference.
3.4	Amendment to Articles of Incorporation of S&T Bancorp, Inc. effective July 21, 1995. Filed as Exhibit 3.4 to S&T Bancorp, Inc. Annual Report on Form 10-K for year ended December 31, 1998, and incorporated herein by reference.
3.5	Amendment to Articles of Incorporation of S&T Bancorp, Inc. effective June 18, 1998. Filed as Exhibit 3.5 to S&T Bancorp, Inc. Annual Report on Form 10-K for year ended December 31, 1998, and incorporated herein by reference.
3.6	Amendment to Articles of Incorporation of S&T Bancorp, Inc. effective April 21, 2008. Filed as Exhibit 3.1 to S&T Bancorp, Inc. Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2008, and incorporated herein by reference.
3.7	Certificate of Designations for the Series A Preferred Stock. Filed as Exhibit 3.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on January 15, 2009, and incorporated herein by reference.
3.8	Amended and Restated By-laws of S&T Bancorp, Inc. Filed as Exhibit 3.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on January 30, 2019, and incorporated herein by reference.
	The Company has certain long-term debt but has not filed the instruments evidencing such debt as Exhibit 4 as none of such instruments authorize the issuance of debt exceeding 10 percent of the Companies total consolidated assets. The Company agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.
4.1	Description of Securities (filed herewith).
10.1	S&T Bancorp, Inc. 2003 Incentive Stock Plan. Filed as Exhibit 4.2 to Form S-8 Registration Statement (No. 333-111557) of S&T Bancorp, Inc. dated December 24, 2003, and incorporated herein by reference.*
10.2	S&T Bancorp, Inc. Thrift Plan for Employees of S&T Bank, as amended and restated. Filed as Exhibit 4.2 to Form S-8 Registration Statement (No. 333-156541) of S&T Bancorp, Inc. dated December 31, 2008, and incorporated herein by reference.*
10.3	Dividend Reinvestment and Stock Purchase Plan of S&T Bancorp, Inc. Filed as Exhibit 4.2 to Form S-3D Registration Statement (No. 333-156555) of S&T Bancorp, Inc. dated January 2, 2009 (included within the prospectus contained therein), and incorporated herein by reference.
10.4	Severance Agreement, by and between Todd D. Brice and S&T Bancorp, Inc. dated April 7, 2015. Filed as Exhibit 10.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on August 10, 2015, and incorporated herein by reference.*
10.5	Severance Agreement, by and between David G. Antolik and S&T Bancorp, Inc. dated May 17, 2019 (filed herewith).*

(b) Exhibits

10.6	Severance Agreement, by and between Mark Kochvar and S&T Bancorp, Inc. dated April 7, 2015. Filed as Exhibit 10.2 to S&T Bancorp, Inc. Current Report on Form 8-K filed on April 10, 2015, and incorporated herein by reference.*
10.7	Severance Agreement, by and between David Ruddock and S&T Bancorp, Inc. dated April 7, 2015. Filed as Exhibit 10.4 to S&T Bancorp, Inc. Current Report on Form 8-K filed on April 10, 2015, and incorporated herein by reference.*
10.8	Severance Agreement, by and between Patrick Haberfield and S&T Bancorp, Inc. dated April 7, 2015. Filed as Exhibit 10.5 to S&T Bancorp, Inc. Current Report on Form 8-K filed on April 10, 2015, and incorporated herein by reference.*
10.9	S&T Bancorp, Inc. 2014 Incentive Plan. Filed as Exhibit 10.9 to S&T Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2013, and incorporated herein by reference. *
10.10	Employment Agreement of Thomas John Sposito II, Filed as Exhibit 10.1 to S&T Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, and incorporated herein by reference*
10.11	Change in Control Severance Agreement for Thomas John Sposito II, Filed as Exhibit 10.2 to S&T Bancorp, Inc. Quarter Report on Form 10-Q for the quarter ended March 31, 2018, and incorporated herein by reference*
21	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, S&T Bancorp, Inc.'s Current Independent Registered Public Accounting Firm.
23.2	Consent of KPMG LLP, S&T Bancorp, Inc.'s Former Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Principal Financial Officer.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File ((formatted as Inline XBRL and contained in Exhibits 101))

*Management Contract or Compensatory Plan or Arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

S&T BANCORP, INC.
(Registrant)

/s/ Todd D. Brice	3/2/2020
Todd D. Brice Chief Executive Officer (Principal Executive Officer)	Date
/s/ Mark Kochvar	3/2/2020
Mark Kochvar Senior Executive Vice President, Chief Financial Officer (Principal Financial Officer)	Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s Todd D. Brie Todd D. Brice	Chief Executive Officer and Director (Principal Executive Officer)	3/2/2020
/s/ Mark Kochvar Mark Kochvar	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	3/2/2020
/s/ Melanie Lazzari Melanie Lazzari	Executive Vice President, Controller	3/2/2020
/s/ David G. Antolik David G. Antolik	President, Chief Lending Officer and Director	3/2/2020
/s/ Christine J. Toretti Christine J. Toretti	Chair of the Board and Director	3/2/2020
/s/ Lewis W. Adkins Jr. Lewis W. Adkins Jr.	Director	3/2/2020
/s/ Peter Barsz Peter Barsz	Director	3/2/2020

SIGNATURE	TITLE	DATE
/s/ Christina A. Cassotis Christina A. Cassotis	Director	3/2/2020
/s/ Michael J. Donnelly Michael J. Donnelly	Director	3/2/2020
/s/ James T. Gibson James T. Gibson	Director	3/2/2020
/s/ Jeffrey D. Grube Jeffrey D. Grube	Director	3/2/2020
/s/ William Hieb William Hieb	Director	3/2/2020
/s/ Jerry D. Hostetter Jerry D. Hostetter	Director	3/2/2020
/s/ Frank W. Jones Frank W. Jones	Director	3/2/2020
/s/ Robert E. Kane Robert E. Kane	Director	3/2/2020
James C. Miller	Director	3/2/2020
/s/ Frank J. Palermo, Jr. Frank J. Palermo, Jr.	Director	3/2/2020
/s/ Steven J. Weingarten Steven J. Weingarten	Director	3/2/2020

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2019 S&T Bancorp (our, "S&T" or the "Company") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, our common stock, par value $2.50 per share.

DESCRIPTION OF COMMON STOCK

The following is a description of the terms of our common stock based on the Company's articles of incorporation and bylaws and relevant provisions of the laws of the Commonwealth of Pennsylvania. This summary is not complete, and is qualified in its entirety by reference to the provisions of our articles of incorporation and bylaws as well as the Pennsylvania Business Corporation Law, referred to as the PBCL.

Authorized Common Stock

Our articles of incorporation authorize 50,000,000 shares of common stock, par value $2.50 per share and authorize the issuance of up to 10,000,000 shares of preferred stock, no par value. Our common stock is traded on the Nasdaq Global Select Market under the symbol "STBA." All of the outstanding shares of common stock are fully paid and nonassessable. We currently have no preferred stock outstanding.

The rights of holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future.

Voting Rights

Holders of common stock are entitled to one vote per share on all matters submitted to a vote of shareholders. Holders of common stock do not have cumulative voting rights.

Dividends

Holders of common stock are entitled to dividends as and when declared by the board of directors out of funds legally available for the payment of dividends. The board of directors has in the past declared and paid regular dividends on a quarterly basis. However, the payment of future dividends is subject to the discretion of our board of directors, which will consider, among other factors, economic and market conditions, our financial condition and operating results, and other factors including applicable government regulations.

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of our revenues consist of dividend payments we receive from S&T Bank. The payment of common dividends by S&T is subject to certain requirements and limitations of Pennsylvania law described below. S&T Bank, in turn, is subject to federal and state laws and regulations that limit the amount of dividends it can pay to S&T. In addition, both S&T and S&T Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. Thus, under certain circumstances based upon our financial condition, our ability to declare and pay quarterly dividends may require consultation with the Federal Reserve Board and may be prohibited by applicable Federal Reserve Board guidance.

We are incorporated in Pennsylvania and governed by the PBCL. Under the PBCL, S&T cannot pay dividends if, after giving effect to the dividend payments, it would be unable to pay its debts as they become due in the usual course of its business or its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were to be dissolved at the time as of which the dividend is measured, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividends.

Furthermore, if in the opinion of a federal bank regulatory agency, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution, could include the payment of dividends), the agency may require that the bank cease and desist from the practice. The Federal Reserve Board has similar authority with respect to bank holding companies. Finally, these regulatory authorities have established guidelines with respect to the maintenance of appropriate levels of capital by a bank, bank holding company or savings association under their jurisdiction. Compliance with the standards set forth in these guidelines could limit the amount of dividends that we and our subsidiaries may pay in the future.

Rights upon Liquidation

In the event of our liquidation, dissolution or winding up, the holders of common stock would be entitled to receive our net assets remaining after paying all liabilities and after paying all preferred shareholders (including holders of depositary shares) the full preferential amount to which those shareholders are entitled.

Ability to Issue Preferred Stock

S&T's articles of incorporation authorize the issuance of up to 10,000,000 shares of preferred stock, no par value. Under S&T's articles of incorporation, the board of directors of S&T is authorized to issue shares of preferred stock in one or more series, and to establish from time to time a series of preferred stock with the following terms specified:

- the designation of the series;
- the number of shares to comprise the series;
- the dividend rate or rates payable with respect to the shares of the series;
- the voting rights;
- the conversion privileges;
- the redemption rights and price or prices;
- any other powers, preferences and rights of the shares of the series; and
- the qualifications, limitations or restrictions pertaining to the series.

The rights of holders of our common stock may be adversely affected by the rights of holders of any shares of preferred stock that may be issued in the future. The board of directors may cause shares of preferred stock to be issued in public or private transactions for any proper corporate purpose. Examples of proper corporate purposes include issuances to obtain additional financing in connection with acquisitions or otherwise, and issuances to officers, directors and employees of S&T and its subsidiaries pursuant to benefit plans or otherwise. Shares of preferred stock issued by S&T may have the effect of rendering more difficult or discouraging an acquisition of S&T deemed undesirable by the board of directors of S&T.

Changes of Control

Certain Provisions of Pennsylvania Law. Pennsylvania law has "anti-takeover" statutes. The PBCL allows Pennsylvania corporations to elect to either be covered or not be covered by certain of these statutes. S&T has elected in its bylaws not to be covered by Subchapter G of Chapter 25 of the PBCL governing "control-share acquisitions," Subchapter H of Chapter 25 of the PBCL governing "disgorgement by certain controlling shareholders following attempts to acquire control," Subchapter I of Chapter 25 governing "severance compensation for employees terminated following certain control-share acquisitions," and Subchapter J of Chapter 25 governing "labor contracts following certain business combination transactions." However, the following provisions of the PBCL apply to S&T:

- shareholders are not entitled to call a special meeting (Section 2521);
- unless the articles of incorporation provided otherwise (which as of the date hereof they do not), action by shareholder consent must be unanimous (Section 2524);
- shareholders are not entitled to propose an amendment to the articles of incorporation (Section 2535);
- certain transactions with interested shareholders (such as mergers or sales of assets between the company and a shareholder) where the interested shareholder is a party to the transaction or is treated differently from other shareholders require approval by a majority of the disinterested shareholders (Section 2538);
- a five year moratorium exists on certain business combinations with a 20% or more shareholder (described below) (Sections 2551-2556); and
- shareholders have a right to "put" their shares to a 20% shareholder at a "fair value" for a reasonable period after the 20% stake is acquired (Sections 2541-2547).

Under Pennsylvania law, we may not at any time engage, except in certain instances, in any business combination with any interested shareholder (an interested shareholder is a beneficial owner of more than 20% of the outstanding stock entitled to elect directors or an affiliate or associate of us who at any time within the previous five years was the beneficial owner of more than 20% of our outstanding stock entitled to elect directors) other than a business combination (i) approved by our board of directors prior to the interested shareholder's share acquisition date (or where the interested shareholder's acquisition of shares was previously approved), (ii) approved by the affirmative vote of all of the holders of the outstanding common stock, (iii) approved by holders of a majority of the voting shares (excluding the shares held by the interested shareholder or any associate or affiliate thereof) at a meeting called for such purpose, no earlier than three months after the interested shareholder becomes the beneficial owner of at least 80% of our voting shares if the consideration payable to our shareholders in the business combination complies with certain fair price conditions specified by the PBCL, (iv) approved by a majority of the votes of the shareholders entitled to vote (excluding the shares held by the interested shareholder or any associate or affiliate thereof) at a meeting called for such purpose not earlier than five years after the interested shareholder's share acquisition date or (v) approved by a majority of the votes of the shareholders entitled to vote at a meeting called for such purpose not earlier than five years after the interested shareholder's share acquisition date, if the business combination complies with certain fair price conditions specified by the PBCL.

Articles of Incorporation and Bylaws. S&T's articles of incorporation and bylaws contain provisions that may discourage or delay attempts to gain control of S&T. Under S&T's bylaws and articles of incorporation, S&T has (i) a requirement that no merger, consolidation, liquidation or dissolution of S&T nor any action that would result in the sale or other disposition of all or substantially all of the assets of S&T shall be valid unless first approved by the holders of at least 66.7% of the outstanding shares of common stock; and (ii) a requirement that only a majority of the board of directors may amend, alter or repeal the by-laws.

In addition, in certain instances the ability of S&T's board to issue authorized but unissued shares of common stock and preferred stock may have an anti-takeover effect.

Federal Bank Regulatory Limitations. The ability of a third party to acquire S&T is also limited under applicable banking regulations.

Miscellaneous

Holders of common stock do not have any preemptive rights for the purchase of any securities of S&T or any conversion rights. The common stock is not subject to redemption or a sinking fund.

The transfer agent and registrar for the common stock is American Stock Transfer and Trust Company, New York, New Y

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT ("Agreement") is made and entered into as of the latest date set forth below by and between S&T Bancorp, Inc. (the "Company") and President and Chief Lending Officer, David G. Antolik (the "Executive").

WITNESSETH THAT:

WHEREAS, the Board of Directors of the Company has determined that the Executive's service to the Company is important to the continued success of the Company S&T Bank (the "Bank") and their Affiliates;

WHEREAS, the Executive has previously executed a severance agreement with the Company (the "Prior Agreement");

WHEREAS, the Company wishes to amend and restate the Prior Agreement as provided herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto have agreed, and do hereby agree, as follows:

1. Definitions. For the purposes of this Agreement, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise:

1.1 Affiliate. "Affiliate" means (a) any person, other than a natural person, who, with respect to the Company, is an "affiliate" as defined in Rule 405 under the Securities Act of 1933, as amended, or any successor rule, or (b) any entity more than twenty-five percent (25%) of the common stock or other equity interest of which is owned or controlled by the Company, either directly or indirectly.

1.2 Bank. "Bank" means S&T Bank, a Pennsylvania state-chartered bank and wholly-owned subsidiary of the Company.

1.3 Benefits Continuation Period. "Benefits Continuation Period" means if a Triggering Event has occurred, the two-year period immediately following the Executive's termination of employment.

1.4 COBRA Amount. "COBRA Amount" means an amount equal, on an after-tax basis, to the amount of the COBRA premium payable under the Company's group medical plan by a qualified beneficiary for the level of coverage in effect for the Executive immediately prior to termination of employment, calculated using an assumed combined state and federal tax rate for the Executive of forty-five percent [45%].

1.5 Change In Control. "Change in Control" means the occurrence of any of the following:

(a) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act in effect on the date first written above), other than a pension, profit-sharing or other employee benefit plan established by the Company or the Bank, that is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act in effect as of the date first written above), directly or indirectly, of securities of the Company representing twenty- five percent [25%] or more of the combined voting power of the Company's then outstanding securities;

(b) During any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the period;

(c) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(d) The stockholders of the Company or the Board of Directors of the Company or of the Bank approve a plan of complete liquidation or an agreement for the sale of or disposition (in one transaction or a series of transactions) of all or substantially all of the Company's or the Bank's assets;

(e) Any other event that constitutes a change in control of a nature that would be required to be reported by the Company in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act or any successor provision (whether or not the Company then in subject to the requirements of the Exchange Act).

A Change in Control shall exclude:

(i) A public stock offering by the Company; or

(ii) A convertible debt offering by the Company.

1.6 Committee. "Committee" means the Compensation Committee of the Board of Directors of the Company or any successor committee thereto.

1.7 Company. "Company" means S&T Bancorp, Inc., a Pennsylvania corporation. If the Executive is or becomes employed by an Affiliate of S&T Bancorp, Inc., the "Company" shall be deemed to refer to the Affiliate thereof by which the Executive is employed, except for purposes of the definition of "Change in Control." In such case, references to payments, benefits, privileges or other rights to be accorded by the "Company" shall be deemed to refer to such payments, benefits, privileges or other rights to be accorded by the Affiliate affected by the provisions hereof. Such payments, benefits, privileges or other rights shall be paid and awarded by the Company or such Affiliate as determined by the Company and such Affiliate, but if not promptly paid or awarded by such Affiliate they shall be paid or awarded by the Company.

1.8 Disability. "Disability" shall have the meaning given such term in any long-term disability plan of the Company as from time to time in effect or, in the event of the termination of such plan, in any successor plan, or, in the absence of a successor plan, in such plan as last in effect prior to its termination.

1.9 Exchange Act. "Exchange Act" means the Securities and Exchange Act of 1934, as amended, or any successor statute.

1.10 Good Reason. "Good Reason" means any of the following which occurs without the Executive's consent after a Change in Control:

(a) The material diminution of the Executive's duties, authority or responsibility, or any material change in the geographic location at which the Executive must perform services (in this case, a material change means any location more than forty 40 land-miles from the location prior to the Change in Control);

(b) A material breach by the Company of Sections 3 or 8.1 of this Agreement; or

(c) A material diminution in the Executive's base salary (in this case, a material diminution means a reduction of more than ten percent (10%) in the Executive's annual base salary).

Notwithstanding the foregoing, no such event shall constitute "Good Reason" unless (a) the Executive shall have given written notice of such event to the Company within ninety (90) days after the initial occurrence thereof, (b) the Company shall have failed to cure the situation within thirty (30) days following the delivery of such notice (or such longer cure period as may be agreed upon by the parties), and (c) the Executive terminates employment within six (6) months after the initial notification of the event constituting Good Reason.

1.11 "Irrevocable Release" means a general release of claims, [in the form attached hereto as Exhibit A], that has been executed by the Executive and for which the revocation period under Age Discrimination in Employment Act of 1967, as amended, and the terms of the release have expired.

1.12 Termination for Cause. "Termination for Cause" means termination of the employment of the Executive because of the Executive's:

(a) Failure to substantially perform employment duties (other than by reason of Disability), after reasonable demand for substantial performance has been delivered by the Company specifically identifying the manner in which the Company believes the Executive has not performed the Executive's duties, and the Executive has been given a reasonable opportunity to cure any deficiencies in performance;

(b) Willful conduct that demonstrably results in material injury to the Company;

(c) Personal dishonesty or breach of fiduciary duty to the Company that in either case results or was intended to result in personal profit to the Executive at the expense of the Company; or

(d) Willful violation of any law, rule or regulation (other than traffic violations, misdemeanors or similar offenses) or cease-and-desist order, court order, judgment or supervisory agreement, which violation demonstrably results in material injury to the Company.

1.13 Triggering Event. "Triggering Event" means:

(a) Except as provided in subsection (b) of this Section 1.13,

(i) any involuntary termination of the Executive's employment by the Company within six [6] months preceding a Change of Control without the Executive's express written consent;

(ii) any involuntary termination of the Executive's employment by the Company within two [2] years following a Change in Control without the Executive's express written consent; or

(iii) any termination of the Executive's employment by the Executive for Good Reason within two [2] years following a Change in Control.

(b) The following circumstances shall not constitute a Triggering Event within the meaning of this Section:

(i) Termination of the Executive's employment by reason of the Executive's death;

(ii) Termination of the Executive's employment as a result of Disability;

(iii) Termination of the Executive's employment for Cause; or

(iv) Voluntary termination of employment by the Executive other than for Good Reason.

2. Benefits Upon Occurrence of Triggering Event.

2.1 If a Triggering Event occurs, then in lieu of any further salary payment to the Executive for periods subsequent to the date of termination, the Company shall pay as severance to the Executive, in a lump-sum and in cash, an amount equal to the sum of (a) **three hundred percent [300%]** of the sum of (a) the Executive's annual base salary and target annual bonus, and (b) the product of (i) the Executive's target annual bonus and (ii) a fraction the numerator of which is the number of days from the first day of the calendar year in which the Executive's termination of employment occurs to the date of the Executive's termination of employment and the denominator of which is three hundred and sixty five [365]. For purposes of the preceding sentence, the Executive's base salary and target annual bonus shall be those as in effect immediately preceding the earlier of the date of the Change in Control or the date of the Executive's termination of employment. For purposes of this Agreement, the Executive's annual base salary shall mean the stated annual base salary (excluding bonuses, benefits under any benefit plan, incentive compensation, compensation paid in stock, and other fringe benefits) payable to the Executive for services rendered to the Company. The lump-sum payment provided for by this Section 2.1 shall be paid at the time provided for in Section 2.4 hereof and shall be subject to the Irrevocable Release requirement set forth in Section 2.3 hereof.

2.2 If a Triggering Event described in Section 1.13(a)(i) occurs, the Company shall pay to the Executive a lump-sum cash payment equal the sum of monthly COBRA Amounts for the period from the Executive's termination of employment until the date of the Change in Control (the "Lump-Sum COBRA Payment") and with respect to the remainder of the Benefits Continuation Period, shall pay to the Executive the COBRA Amount on a monthly basis. If a Triggering Event described in Sections 1.13(a)(ii) or (iii) occurs, the Company shall pay to the Executive during the Benefits Continuation Period the COBRA Amount on a monthly basis (beginning with the month of the Executive's termination of employment). The Lump-Sum COBRA Payment and the monthly COBRA payments provided for by this Section 2.2 shall be paid (or commence to be paid) at the time provided for in Section 2.4 hereof and shall be subject to the Irrevocable Release requirement set forth in Section 2.3 hereof.

2.3 Notwithstanding the foregoing provisions of this Section 2: (a) the Executive's entitlement to the payments and benefits provided for by Sections 2.1, and 2.2, and (the "Severance Benefits") shall be subject to and conditioned upon the Executive providing to the Company an Irrevocable Release Agreement, in a form substantially similar to EXHIBIT A attached hereto, not later than forty-five [45] days after the date of the Triggering Event (or in the case of a Triggering Event described in Section 1.13(a)(i), the date of the Change in Control) and (b) the Executive's entitlement to the Severance Benefits shall be subject to and conditioned upon the Executive complying with Sections 4 and 5 of this Agreement.

2.4 Subject to the preceding provisions of this Section 2, the Severance Benefits shall be paid or provided (or commence to be paid or provided) within five [5] business days after the Executive has satisfied the Irrevocable Release requirement set forth in Section 2.3; provided, however, that if the 45-day period following the date of the Triggering Event (or in the case of a Triggering Event described in Section 1.13(a)(i), the date of the Change in Control) begins in one calendar year and ends in another, the Severance Benefits shall, to the extent required in order to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), be paid or provided (or commence to be paid or provided) within five [5] business days following the later of (A) the end of the calendar year in which the Triggering Event (or in the case of a Triggering Event described in Section 1.13(a)(i), the Change in Control) occurs or (B) the date the Executive satisfies the Irrevocable Release requirement described in Section 2.3.

2.5 Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed.

2.6 Benefits described under Section 2.1 through 2.2 of this Agreement will not be included as additional compensation or service for the purpose of determining qualified or nonqualified retirement benefits under any program sponsored by the Company.

3. Benefits Following a Change in Control.

3.1 Following a Change in Control, the Company or its successor shall provide to the Executive (or cause to be provided to the Executive) (a) benefits substantially similar to those enjoyed by the Executive under any of the Company's and its Affiliates' pension, life insurance, medical, health and accident, disability or other welfare plans (but not including annual bonus and short-term and long-term incentive or equity-based compensation plans in which the Executive was participating at the time of the Change in Control) unless the nature of the change in benefit levels is consistent with changes to benefits levels provided to employees at the same or equivalent level or title as the Executive and (b) annual bonus and short-term and long-term incentive compensation opportunities that are not less favorable to the Executive than those provided to the Executive immediately prior to the Change in Control.

3.2 Following a Change in Control, the Company or its successors shall provide to the Executive (or cause to be provided to the Executive) the number of paid vacation days to which the Executive is entitled to on the basis of years of service with the Company, the Bank, and their Affiliates in accordance with the applicable vacation policy of the Company, the Bank, or applicable Affiliates in effect at the time of a Change in Control.

4. Non-Competition and Non-Solicitation.

4.1 Upon Executive's first receipt of Severance Benefits, Executive agrees that for the twelve (12) month period thereafter, the Executive will not, without the written consent of the Company, directly or indirectly:

(a) own any interest in, manage, operate, control, be employed by, render consulting or advisory services to, or participate in or be connected with the management or control of any business that is then engaged, or proposing to engage, in the operation of a Competing Business in the Territory. For purposes of this Agreement, "Competing Business" means any entity or business engaged in the banking or financial services business (including commercial banks, savings banks, credit unions, mortgage companies, savings and loan associations, trust companies, investment advisory or sales businesses, and any similar financial institutions), or any other entity or business engaged in a business in which the Company, the Bank, or any of their Affiliates are engaged, or are contemplating becoming engaged, at the time of termination of the Executive's employment; and "Territory" means the counties within Pennsylvania in which the Company, the Bank, or any of their Affiliates conducts operations as of the date of this Agreement and any other counties in Pennsylvania or any other state in which, during the period of the Executive's employment, the Company, the Bank, or any of their Affiliates conduct operations; provided, however, that the Executive may, without violating this Agreement, own as a passive investment not in excess of one percent (1%) of the outstanding capital stock or other equity interests of a corporation or other entity whose shares or other equity interests are publicly traded on an established securities market;

(b) solicit or in any way contact any Customer(s) of the Company, Bank or any of their Affiliates for the purposes of directly or indirectly furnishing any financial, wealth management, insurance, or other banking services that the Company, Bank or Affiliates provide, or is permitted by law to provide, on the date the Executive's employment is terminated. The term "Customer(s)", as used herein, shall mean any individual, corporation, partnership, business or other entity, whether for-profit or not-for-profit (i) whose existence and business is known to Executive as a result of Executive's access to customer lists, customer account information, or other business related information; or (ii) that is a business entity or individual with whom Executive has contracted on behalf of the Company or Bank., performed services for, or negotiated with, during the two (2) year period preceding the termination of Executive's employment, and

(c) solicit, or assist any other person or entity in soliciting, any employee of the Company, Bank, or any of their Affiliates to perform services for any entity (other than the Company, the Bank, or any of their Affiliates), or encourage any employee of the Company, the Bank, or any of their Affiliates to leave their employment with the Company.

4.2 In the event the Executive breaches any of the provisions contained in Section 4.1 and the Company seeks compliance with such provisions by judicial proceedings, the time period during which the Executive is restricted by such provisions shall be extended by the time during which the Executive has actually competed with the Company, the Bank or any of their Affiliates or been in violation of any such provision and any period of litigation required to enforce the Executive's obligations under this Agreement.

4.3 The Executive and the Company intend that Section 4 of this Agreement be enforced as written. However, if one or more of the provisions contained in Section 4 shall for any reason be held to be unenforceable because of the duration or scope of such provision or the area covered thereby, the Executive and the Company agree that the court making such determination shall have the full power to reform, by "blue penciling" or any other means, the duration, scope and/or area of such provision and in its reformed form such provision shall then be enforceable and shall be binding on the parties.

5. Confidentiality and Non-Disclosure. The Executive hereby agrees that, during the period of the Executive's employment by the Company, the Bank, or any of their Affiliates and thereafter, the Executive agrees to maintain the confidentiality of their Confidential Information. "Confidential Information" shall include, but is not necessarily limited to, any information concerning accounts, sales and sales volume; any information related to Customers or prospective Customers, prospect lists, business strategies, business manuals, software products, patented products, copyrighted information, operating methods, all information (in whatever form) that is not generally known to the public, and any other trade secret or proprietary information belonging to or relating to the Company's, the Bank's or their Affiliate's affairs, that is not public information.

6. Injunctive Relief. It is impossible to measure in money the damages that will accrue to the Company, the Bank, or any of their Affiliates in the event that the Executive breaches any of the restrictive covenants set forth in Sections 4 and 5 above (the "Restrictive Covenants"). In the event that the Executive breaches any of the Restrictive Covenants, the Company, Bank or Affiliated organization shall be entitled to an injunction restraining the Executive from violating such Restrictive Covenant without posting a bond in excess of one thousand dollars ($1,000.00). If the Company, Bank or Affiliated organization institutes any action or proceeding to enforce any such Restrictive Covenant, the

Executive hereby waives the claim or defense that the Company, the Bank, or any of their Affiliates has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company, the Bank, or any of their Affiliates has an adequate remedy at law. In the event the Company, Bank or Affiliated organization obtains any such injunction, order, decree or other relief, in law or in equity, the Executive shall be responsible for reimbursement of all costs associated with obtaining the relief, including reasonable attorneys' fees, expenses and costs of suit. The Executive further covenants and agrees that any order of court or judgment which enforces the Company's, Bank's or Affiliated organization's rights under this Agreement may be transferred, without objection or opposition by the Executive, to any court of law or other appropriate law enforcement body located in any State or Commonwealth in the U.S.A. where the Executive resides or works, and that said court or body shall give full force and effect to said order and or judgment.

7. Choice of law, Jurisdiction and Venue. The parties agree that this Agreement shall be deemed to have been made and entered into in Indiana County, Pennsylvania, and that the Law of the Commonwealth of Pennsylvania shall govern this Agreement except where Federal law may be applicable, without regard to conflict of laws principles. Jurisdiction and venue is exclusively limited in any proceeding by the Company or the Executive to enforce their rights hereunder to the Court of Common Pleas located in Indiana County, Pennsylvania or the United States Court for the Western District of Pennsylvania. The Executive hereby waives any objections to the jurisdiction and venue of the aforementioned Courts, including any objection to personal jurisdiction, venue, and/or *forum non-conveniens*, in any proceeding by the Company to enforce its rights hereunder. The Executive agrees not to object to any petition filed by the Company to remove an action filed in a different venue than those set forth herein. To the extent that the Company obtains a judgment against the Executive, the Executive agrees that that judgment may be transmitted to any jurisdiction where Executive lives or resides without the Executive's objection.

8. Miscellaneous.

8.1 Binding Effect. This Agreement shall be binding upon any successor or successors of the Company due to a Change in Control or otherwise.

8.2 Partial Invalidity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

8.3 No Effect on Other Rights. The payment or obligation to pay any monies, or granting of any rights or privileges to the Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has under any benefit plan or program presently outstanding.

8.4 No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Executive the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge the Executive at any time and for any lawful reason, subject in all cases to the terms of this Agreement.

8.5 Entire Agreement. This Agreement constitutes an amendment and restatement of the Prior Agreement and contains the entire agreement between the parties with respect to the transactions contemplated hereunder and supersedes all prior arrangements or understandings with respect thereto, written or oral, including the Prior Agreement. No agreements or representations, oral or otherwise, expressed or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

8.6 Modifications; Waivers. Subject to Section 10, no provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company, except that the terms of this Agreement may be terminated or amended by the Company and the Executive at any time prior the occurrence of a Change in Control. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.7 No Mitigation. The Company agrees that if a Triggering Event occurs, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to this Agreement. Moreover, the amount of any payment or benefit provided for under this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

8.8 Assignment of Rights or Interest. Except as otherwise provided herein or by law, no right or interest of the Executive under this Agreement shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of the Executive under this Agreement shall be liable for, or subject to, any obligation or liability of the Executive. The Company shall have the right to assign this Agreement in connection with a Change In Control, and the Executive agrees to be obligated by this Agreement to any successor, assign or surviving entity. Any assignee or successor to the Company is an intended third party beneficiary of this Agreement.

8.9 Payment of Benefits Upon Death of the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

8.10 Notices. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when received if delivered in person or by overnight courier or if mailed by United States registered mail, return receipt requested, postage prepaid, to the following addresses:

If to the Company:

S&T Bancorp, Inc.
800 Philadelphia Street
Indiana, Pennsylvania 15701
Attention: Chairman

If to the Executive:
Executive's last known address.

Either party may change its address for notices by written notice to the other party in accordance with this Section 8.10.

8.11 Headings. The headings in this Agreement are inserted for convenience only and shall have no significance in the interpretation of this Agreement.

8.12 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

9. Golden Parachute Limit. Notwithstanding any other provision of this Agreement, in the event that any portion of the Severance Benefits or any other payment or benefit received or to be received by the Executive (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (collectively, the "Total Benefits") would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code" (the "Excise Tax"), the Total Benefits shall be reduced to the extent necessary so that no portion of the Total Benefits is subject to the Excise Tax. All amounts payable in consideration of the Executive's covenants pursuant to Section 4, 5, and 6, as determined by a valuation firm selected by the Company and reasonably acceptable to the Executive, shall, for purposes of the determinations made under this Section 9, be excluded from the amounts considered "parachute payments" to the maximum extent permitted under Section 280G of the Code. All determinations required to be made under this Section 9 shall be made by tax counsel selected by the Company and reasonably acceptable to the Executive ("Tax Counsel"), which determinations shall be conclusive and binding on the Executive and the Company absent manifest error. All fees and expenses of Tax Counsel shall be borne solely by the Company. In the event the Total Benefits must be reduced in order to comply with this Section 9, the cash payment provided for by Section 2.1 shall first be reduced (if necessary, to zero), then payment of the COBRA Amounts and any Life Insurance Lump-Sum Amount shall be reduced proportionately, then the Life Insurance Benefit provided in Sections 2.3 shall next be reduced, and then any payments and benefits not provided under this Agreement shall be reduced in that order so that no portion of the Total Benefits is subject to the Excise Tax. All such reductions shall be made in a manner intended to comply with Section 409A of the Code.

10. Term of Agreement.

10.1 The term of this agreement shall begin on May 17, 2019, and end at 11:59 p.m. on December 31, 2019, and shall automatically be extended for an additional year each December 31 occurring after January 1, 2020, unless either party delivers written notice of non-renewal to the other party within 90 days prior to the renewal date; provided, however, that if a Change in Control has occurred during the original or extended term, the term of the Agreement shall end no earlier than 36 calendar months after the end of the calendar month in which the Change in Control occurs.

11. Compliance with Code Section 409A.

This Agreement is intended to comply with the requirements of Section 409A of the Code (including the exceptions thereto), to the extent applicable, and the Agreement shall be interpreted in accordance with such requirements. If any provision contained in the Agreement conflicts with the requirements of Section 409A of the Code (or the exemptions intended to apply under the Agreement), the Agreement shall be deemed to be reformed to comply with the requirements of Section 409A of the Code (or the applicable exemptions thereto). Notwithstanding anything to the contrary herein, for purposes of determining the Executive's entitlement to the Severance Benefits, the Executive's employment shall not be deemed to have terminated unless and until the Executive incurs a "separation from service" as defined in Section 409A of the Code. Notwithstanding anything to the contrary herein, if a payment or benefit under this Agreement is due to a "separation from service" for purposes of the rules under Treas. Reg. § 1.409A-3(i)(2) (payments to specified employees upon a separation from service) and the Executive is determined to be a "specified employee" (as determined under Treas. Reg. § 1.409A-1(i)), such payment shall, to the extent necessary to comply with the requirements of Section 409A of the Code, be made on the later of (x) the date specified by the foregoing provisions of this Agreement or (y) the date that is six (6) months after the date of the Executive's separation from service (or, if earlier, the date of the Executive's death). Any installment payments that are delayed pursuant to this Section 11 shall be accumulated and paid in a lump-sum on the first day of the seventh month following the Date of Termination (or, if earlier, upon the Executive's death) and the remaining installment payments shall begin on such date in accordance with the schedule provided in this Agreement. The Severance Benefits are intended not to constitute deferred compensation subject to Section 409A of the Code to the extent such Severance Benefits are covered by (i) the "short-term deferral exception" set forth in Treas. Reg. § 1.409A-1(b)(4), (ii) the "two times severance exception" set forth in Treas. Reg. § 1.409A-1(b)(9)(iii), or (iii) the "limited payments exception" set forth in Treas. Reg. § 1.409A-1(b)(9)(v)(D). The short-term deferral exception, the two times severance exception and the limited payments exception shall be applied to the Severance Benefits in order of payment in such manner as results in the maximum exclusion of such Severance Payments from treatment as deferred compensation under Section 409A of the Code. Each installment of the Severance Benefits shall be deemed to be a separate payment for purposes of Section 409A of the Code. In no event whatsoever shall the Company or any of its Affiliates be liable for any additional tax, interest or penalties that may be imposed on the

Executive under Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or have caused this Agreement to be duly executed on their behalf, as of the date and year first above written, and agree to be bound legally hereby.

S&T BANCORP, INC.

By: __________________
Name: Jeffrey D. Grube

Title: Chairman, Compensation Committee

Date: May 17, 2019

EXECUTIVE:

____
Name: David G. Antolik
Title: President
and Chief Lending Officer

Date: May 17, 2019

EXHIBIT A

IRREVOCABLE RELEASE AGREEMENT

This IRREVOCABLE RELEASE AGREEMENT (the "Agreement") is entered into effective as of the latest date set forth below (the "Effective Date"), by and between David G. Antolik (the "Executive") and S&T Bancorp, Inc. (the "Company").

WHEREAS, the Company and the Executive are party to a Severance Agreement (as the same may be amended from time to time, the "Severance Agreement"), pursuant to which the Executive is eligible, subject to the terms and conditions set forth in the Severance Agreement, to receive certain "Severance Benefits" (as defined in the Severance Agreement) in the event of certain qualifying terminations of employment;

WHEREAS, the Executive's employment terminated on ______ (the "Separation Date"); and

WHEREAS, as a condition to, and in consideration for, receiving Severance Benefits, the Executive is required to deliver to the Company a general release on the terms set forth herein;

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises herein contained, of other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged by the parties, it is agreed as follows:

I. Release of Claims. In consideration for the Severance Benefits provided to the Executive under the Severance Agreement, the Executive hereby expressly waives, releases, acquits and forever discharges the Company and its predecessors, successors, assigns, divisions, subsidiaries, affiliates, parents, officers, directors, employees, members, managers, supervisors, employees, partners, agents, attorneys and representatives, and each of their affiliates (hereinafter the "Released Parties"), from any and all claims, demands, and causes of action which the Executive has or claims to have, whether known or unknown, of whatever nature, which exist or may exist as of the date of this Agreement. As used in this Agreement, "claims," "demands," and "causes of action" include, but are not limited to, contract claims, equitable claims, fraud claims, tort claims, discrimination claims, harassment claims, retaliation claims, personal injury claims, emotional distress claims, public policy claims, wage claims, claims for equity compensation and/or for vesting or accelerated vesting of equity compensation, claims for severance pay, vacation pay, debts, accounts, attorneys' fees, compensatory damages, punitive damages, and/or liquidated damages, and any and all claims arising under the Americans with Disabilities Act, the Family and Medical Leave Act, , or any other federal, state or local statute governing employment, including but not limited to Title VII of the Civil Rights Act of 1964, the Equal Pay Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment Retraining and Notification Act, the Age Discrimination in Employment Act, 29 U.S.C. § 621 *et seq.*, the Older Workers Benefit Protection Act, or any amendments to the above acts. The Executive specifically agrees that this Agreement extends to claims which the Executive does not know or suspect to exist in the Executive's favor and which, if the Executive did know to exist, would have materially affected this Agreement with the Company.

II. Release of Claims for Age Discrimination. Without in any way limiting the generality or scope of the release of claims set forth in Section 1 of this Agreement, the Executive hereby understands and agrees to release any and all claims, rights or benefits the Executive may have arising out of or under the Age Discrimination in Employment Act of 1967 ("ADEA"), 29 U.S.C. § 621, *et seq.*, as amended, the Older Workers Benefit Protection Act, as amended, or any equivalent or comparable provision of federal, state or local law.

A. The Executive acknowledges that Company has advised him in writing to consult with an attorney of his choice before signing this Agreement, and the Executive has been given the opportunity to consult with an attorney of his choice before signing this Agreement.

B. The Executive acknowledges that the Executive has been given the opportunity to review and consider this Agreement for a full twenty-one (21) days before signing it, and that, if the Executive has signed this Agreement in less than that time, the Executive has done so voluntarily in order to obtain sooner the benefits of this Agreement.

C. The Executive further acknowledges that the Executive may revoke this Agreement within seven (7) days after signing it, provided that this Agreement will not become effective until such seven (7) day period has expired. To be effective, any such revocation must be in writing and delivered to the Company's principal place of business by the close of business on the seventh (7th) day after signing the Agreement and must expressly state the Executive's intention to revoke this Agreement. Provided that the Executive does not timely revoke this Agreement, the eighth (8th) day following the Executive's execution hereof shall be deemed the "Effective Date" of this Agreement.

D. The Executive and the Company also agree that the release provided by the Executive in this Agreement does not include a release for claims under the ADEA arising after the date the Executive signs this Agreement.

E. The Executive further acknowledges and agrees that the amounts the Executive is to receive under the Executive's Severance Agreement exceed the amounts to which the Executive would otherwise be entitled upon his separation from employment with Company.

F. Notwithstanding anything to the contrary in herein, this Agreement does not extend to (a) any breach by the Company of this Agreement, (b) any rights to indemnification or the Company's certificate of incorporation or by-laws, or (c) any rights that as a matter of law cannot be waived and released or to any statutory or contractual rights of indemnification, such as claims for violation of the Fair Labor Standards Act, claims for workers' compensation benefits and claims for vested retirement or welfare benefits, if any, under any Company sponsored plans.

III. No Filing of Claims. The Executive represents and warrants that the Executive does not presently have on file, and further represents and warrants to the maximum extent allowed by law that the Executive will not hereafter file, any lawsuits, claims, charges, grievances or complaints against the Company and/or the Released Parties in or with any administrative, state, federal or governmental entity, agency, board or court, or before any other tribunal or panel or arbitrators, public or private, based upon any actions or omissions by the Company and/or the

Released Parties occurring prior to the Effective Date of this Agreement. Notwithstanding the foregoing, this Agreement is not intended to and does not prevent, restrict, or interfere with Executive's rights to: (i) to challenge the validity of this Agreement under the Age Discrimination in Employment Act or the Older Workers Benefit Protection Act, (ii) file a charge or complaint with any appropriate federal, state, or local agency, including the United States Equal Employment Opportunity Commission, or (iii) participate in or cooperate with any such charge or complaint procedure. In the event that an administrative agency or court assumes jurisdiction over any charge or complaint involving claims that are released by Paragraphs 1 or 2, the Executive hereby agrees not to accept, recover, or receive any resulting money damages or other relief that otherwise would be due in excess of $500.00.

IV. No Injuries. The Executive certifies that as of the Separation Date, the Executive is not suffering from a work-related injury and that the Executive has not failed to report a work-related injury to Company.

V. Compliance With Restrictive Covenants. The Executive represents and warrants that, through the date on which the Executive executes this Agreement, the Executive has been in compliance with Section 7 and 8 of the Severance Agreement (the "Restrictive Covenants"). The Executive acknowledges and agrees that, following termination of employment; the Executive will continue to be bound by the Restrictive Covenants as provided in, and subject to the terms of, the Severance Agreement.

VI. Estoppel. The Executive agrees that in the event that the Executive chooses to file a legal claim or charge against the Company and/or any of the Releasees, that the Company and/or the Releasees may present this Agreement for purposes of having the claim or charge dismissed in its entirety without objection from Executive.

VII. Integration. This Agreement sets forth the entire agreement between the Company and the Executive pertaining to the subject matter hereof (except as otherwise set forth herein) and fully supersedes any and all prior agreements or understandings between the Company and the Executive pertaining to the subject matter hereof (except as otherwise set forth herein). This Agreement cannot be amended, modified, or supplemented in any respect except by written agreement entered into and signed by the parties hereto.

VIII. Successors and Assigns. This Agreement shall be binding upon the Executive and upon the Executive's heirs, administrators, representatives, executors, successors, and assigns, and shall inure to the benefit of the Released Parties and each of them, and to their heirs, administrators, representatives, executors, successors, and assigns. This Agreement shall be binding upon the Company and upon the Company's assigns and shall inure to the benefit of the Executive and his heirs, administrators, representatives, executors, successors, and assigns.

IX. Pennsylvania Law/Forum . This Agreement shall, in all respects, be interpreted, enforced and governed under the laws of the Commonwealth of Pennsylvania applicable to contracts executed and performed in Pennsylvania without giving effect to conflicts of law principles.

X. No Admission of Wrongdoing. This Agreement shall not in any way be construed as an admission by the Company of any acts of unlawful conduct, wrongdoing or discrimination against the Executive, and the Company specifically disclaims any liability to the Executive on the part of itself, its employees, or its agents. This Agreement shall not in any way be construed as an admission by the Executive of any acts of unlawful conduct, wrongdoing or discrimination against the Company, and the Executive specifically disclaims any liability to Company on the part of his agents.

XI. Severability. If any provision, or portion thereof, of this Agreement is held to be invalid or unenforceable or to be contrary to public policy or any law, for any reason, the remainder of the Agreement shall not be affected thereby.

XII. Voluntary Agreement. THE EXECUTIVE UNDERSTANDS AND AGREE THAT THE EXECUTIVE MAY BE WAIVING SIGNIFICANT LEGAL RIGHTS BY SIGNING THIS AGREEMENT, AND REPRESENTS THAT THE EXECUTIVE HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY, AFTER HAVING THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF THE EXECUTIVE'S OWN CHOOSING, WITH A FULL UNDERSTANDING OF AND IN AGREEMENT WITH ALL OF ITS TERMS.

XIII. Counterparts. This Agreement may be signed in counterparts, each of which shall be considered an original for all purposes, and all of which taken together shall constitute one and the same written agreement.

BY SIGNING BELOW, I AM FREELY AND KNOWINGLY ENTERING INTO THIS AGREEMENT INTENDING TO WAIVE, SETTLE AND RELEASE ALL RELEASABLE CLAIMS THAT I HAVE OR MIGHT HAVE AGAINST RELEASEES AND DO SO WITH THE UNDERSTANDING THAT NOTHING HEREIN IS INTENDED TO PREVENT ME FROM FILING A CHARGE WITH ANY APPROPRIATE FEDERAL, STATE OR LOCAL AGENCY, OR COOPERATING IN ITS INVESTIGATION. I HAVE READ THE ABOVE TERMS OF THIS GENERAL RELEASE AGREEMENT, AND AGREE TO BE LEGALLY BOUND BY THE TERMS SET FORTH HEREINABOVE.

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND HEREBY, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has executed this Agreement, on the date(s) set forth below.

S&T BANCORP, INC.	EXECUTIVE:
By: ______________________	By: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

S&T Bancorp, Inc., a Pennsylvania corporation, is a financial holding company. The table below sets forth all of our subsidiaries, except certain inactive subsidiaries, as to state or jurisdiction of organization.

Subsidiary	**State or Jurisdiction of Organization**
S&T Bank	Pennsylvania
9th Street Holdings, Inc.	Delaware
S&T Bancholdings, Inc.	Delaware
S&T Insurance Group, LLC	Pennsylvania
S&T Professional Resources Group, LLC	Pennsylvania
S&T-Evergreen Insurance, LLC (sold 1/1/2018)	Pennsylvania
S&T Settlement Services, LLC	Pennsylvania
Stewart Capital Advisors, LLC	Pennsylvania
STBA Capital Trust I	Delaware
Commonwealth Trust Credit Life Insurance Company	Arizona
DNB Capital Trust I	Delaware
DNB Capital Trust II	Delaware
DNB Financial Services, Inc.	Pennsylvania
Downco, Inc.	Pennsylvania
DN Acquisition Company, Inc.	Pennsylvania

Exhibit 23.1

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-3 No. 333-226488) of S&T Bancorp, Inc. pertaining to the automatic shelf registration filed August 1, 2018,
2) Registration Statement (Form S-3 No. 333-156555) of S&T Bancorp, Inc. pertaining to the Dividend Reinvestment and Stock Purchase Plan,
3) Registration Statement (Form S-8 No. 333-194083) of S&T Bancorp, Inc. pertaining to the 2014 Incentive Plan, and
4) Registration Statement (Form S-8 No. 333-156541) of S&T Bancorp, Inc. pertaining to the Thrift Plan for Employees of S&T Bank;

of our reports dated March 2, 2020, with respect to the consolidated financial statements of S&T Bancorp, Inc. and the effectiveness of internal control over financial reporting of S&T Bancorp, Inc. included in this Annual Report (Form 10-K) of S&T Bancorp, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 2, 2020

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
S&T Bancorp, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-207473 and 333-156555) on Form S-3 and the registration statements (No. 333-194083 and 333-156541) on Form S-8 of S&T Bancorp, Inc. of our report dated March 1, 2018, with respect to the consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2017, which report appears in the December 31, 2019 annual report on Form 10-K of S&T Bancorp, Inc.

/s/ KPMG LLP

Pittsburgh, Pennsylvania

March 2, 2020

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd D. Brice, certify that:

1. I have reviewed this Annual Report on Form 10-K of S&T Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 2, 2020

/s/ Todd D. Brice

Todd D. Brice, Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark Kochvar, certify that:

1. I have reviewed this Annual Report on Form 10-K of S&T Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ Mark Kochvar

Mark Kochvar, Senior Executive Vice President, Chief Financial Officer

Exhibit 32

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
SARBANES-OXLEY ACT SECTION 906

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the S&T Bancorp, Inc. (the “Company”) Annual Report on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Todd D. Brice, President and Chief Executive Officer of the Company, and I, Mark Kochvar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and period covered by the report.

This certificate is being made for the exclusive purpose of compliance by the Chief Executive Officer and Chief Financial Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

Date: March 2, 2020

/s/ Todd D. Brice	/s/ Mark Kochvar
Todd D. Brice,	Mark Kochvar,
Chief Executive Officer	Senior Executive Vice President, Chief Financial Officer