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, 2020
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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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, 2020:

Common Stock, $2.50 par value – 899,373,103

The number of shares outstanding of each of the registrant's classes of common stock as of February 22, 2021:
Common Stock, $2.50 par value –39,293,583

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of S&T Bancorp, Inc., to be filed pursuant to Regulation 14A for the annual meeting of shareholders to be held May 17, 2021, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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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 including 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, 2020, we had approximately $9.0 billion in assets, $7.2 billion in loans, $7.4 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 including 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 $2.1 billion at December 31, 2020.

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

Human Capital Management

As part of our mission to become the financial services provider of choice within the markets that we serve, we strive to employ talented people who are based in these communities and are dedicated to providing the best financial products and services to our customers. Our commitment to every customer starts with a talented team. To attract and retain our talented team we strive to make S&T an inclusive, safe and healthy workplace that provides our employees with opportunities to grow and develop. We consider our employees to be the bedrock of the company and instrumental in assisting our customers address the challenges facing our markets, in particular, during the COVID-19 pandemic in 2020 and beyond. As of December 31, 2020, we had approximately 1,174 full time equivalent employees.

Our Team and Culture

Our team strives to embody values to encourage a culture that has enabled us to be named a top workplace. The specific words or phrases that serve as the basis for our culture and values are as follows:

- Serve Our Customers
- Challenge the Status Quo
- Communicate
- Empower Employees

- Work as a Team
- Trust Each Other
- Develop People
- Reward Success
- Measure Results
- Support Our Communities

Diversity and Inclusion

S&T Bank fosters a diverse work culture where employees work together to better our company, services and community. We are committed to promoting a diverse workforce and developing all people through:

- Equal Opportunity Employment
- Educating our employees
- Fostering a culture to address customers' needs

Talent Development and Training

Our Corporate Training Department maintains oversight of all training to ensure that it is implemented and monitored properly and encourages career development for our employees. Our training program offers a blended learning approach comprised of classroom and online course delivery. In 2020, we converted to online webinars and learning management system delivery for all regulatory, compliance, skill-based, technology, leadership and career development training. In 2020, our employees logged nearly 53,000 training hours, consistent with 2019 and 2018.

Safety, Health and Wellness

The safety, health and wellness of our employees is a top priority. We offer our employees and their families access to a variety of flexible and convenient health and welfare programs that provide resources to help them maintain and/or improve their physical and mental health. We also have a financial wellness program that assists our employees and their families with budgeting and various personal financial content consisting of an online personal financial program and internally produced webinars.

Beginning in March 2020, we aggressively developed a plan to mitigate the potential risks and impact of the COVID-19 pandemic on S&T and to promote the health and safety of our employees and the customers and communities that we serve. We have taken preventive health measures for our employees through rigorous sanitation, social distancing, wearing masks and remote working where feasible. We provided COVID-19 incentive pay to employees who were not able to work remote and funded an ongoing childcare assistance program to supplement childcare costs during this time. We also amended our defined contribution plan to allow eligible COVID-19 related withdrawals under the CARES Act. In addition, we employ extensive safety measures at our branches and encourage our customers to use our online and mobile banking solutions. Our solution center hours have been extended to allow for customer consultation without entering a branch. Much of this plan has continued into 2021.

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, 2020, 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 Credit Risk Committee, the Executive Committee, the Nominating and Corporate Governance Committee, the Risk Committee and the Trust and Revenue Oversight Committee, as well as the Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters ("Whistleblower Policy"), the Code of Conduct for the CEO and CFO, the General Code of Conduct, the Shareholder Communications Policy, and the Corporate Governance Guidelines 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 the 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 non-banking 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 derivative 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 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 due to our recent financial performance.

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.

Item 1. BUSINESS -- continued

Capital

The Federal Reserve Board and the FDIC have issued substantially similar minimum risk-based and leverage capital rules applicable to the banking organizations they supervise. At December 31, 2020, 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, 2020						
Leverage Ratio						
S&T	$ 825,515	9.43 %	$ 350,311	4.00 %	$ 437,889	5.00 %
S&T Bank	810,636	9.27 %	349,739	4.00 %	437,174	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
S&T	796,515	11.33 %	316,338	4.50 %	456,933	6.50 %
S&T Bank	810,636	11.55 %	315,792	4.50 %	456,144	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
S&T	825,515	11.74 %	421,784	6.00 %	562,379	8.00 %
S&T Bank	810,636	11.55 %	421,056	6.00 %	561,408	8.00 %
Total Capital (to Risk-Weighted Assets)						
S&T	944,686	13.44 %	562,379	8.00 %	702,974	10.00 %
S&T Bank	922,007	13.14 %	561,408	8.00 %	701,760	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, 2020 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 credit losses, or ACL, 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 in "Other Safety and Soundness Regulations".

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. In connection with our reduced net income and our inability to fully fund the dividend from earnings over the prior year, due in substantial part to the customer fraud that occurred in the second quarter of 2020, we received non-objection letters from the Federal Reserve to continue to pay our dividends declared in the third and fourth quarter of 2020. 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, 2020, 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 which includes requirements to (1) identify and verify, subject to certain exceptions, the identity of the beneficial owners of all legal entity customers at the time a new account is opened, and (2) include in its anti-money laundering program, risk-based procedures for conducting ongoing customer due diligence, which are to include procedures that (a) assist in understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (b) require ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. 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, potentially impacting our business, results of operations, financial condition and cash flows. However, other factors not discussed below or elsewhere in this Annual Report on Form 10-K could adversely affect our businesses, results of operations and financial condition. Therefore, the risk factors below do necessarily include all risks that we may face.

Risks Related to the COVID-19 Pandemic

The duration and severity of the COVID-19 pandemic, in our principal area of operations, nationally and globally, has adversely impacted and will likely continue to adversely impact S&T's business, results of operations and financial condition. While it is difficult to predict the further impact of the COVID-19 pandemic (or any other outbreak) on the economy and S&T, the future impacts may include, but are not limited to, the following:

- Our results of operations may continue to be negatively impacted by general economic or business conditions and uncertainty, including the strength of economic conditions in our principal area of operations impacting the demand for our products and services.
- The low interest rate environment will continue to negatively impact our net interest income and net interest margin.
- Credit losses may be higher and our provision for credit losses may continue to increase, due to deterioration in the financial condition of S&T's commercial and consumer loan customers.
- Declining asset and collateral values may necessitate increases in our provision for credit losses and net charge-offs.
- Continued negative impact on the hospitality industry and our hotel portfolio, which could result in additional credit losses and net charge-offs.
- Expense management will be impacted by the uncertainty of the effects of the pandemic and S&T's continued efforts to promote the health and safety of our employees, and the customers and communities we serve.
- We may have an interruption or cessation of an important service provided by a third-party provider.
- S&T's liquidity and regulatory capital could be adversely impacted.
- Any new or revised regulations regarding capital and liquidity adopted in response to the COVID-19 pandemic may require us to maintain materially more capital or liquidity.
- Investors may have less confidence in the equity markets in general and in financial services industry in particular, which could have a negative impact on S&T's stock price and resulting market valuation.
- The economic downturn caused by the pandemic may be deeper and last longer in the areas where we do business, relative to other areas of the country, which could negatively affect our relative financial performance.
- We face heightened cyber security risk in connection with our operation in a remote working environment.
- It may become harder to maintain our corporate culture, which is somewhat dependent on a level of in-person interaction.

Even after the COVID-19 pandemic subsides, the U.S. economy will likely require time to recover. It is uncertain how long this recovery will take. As a result, we anticipate our business may be adversely affected during this recovery.

To the extent the COVID-19 pandemic continues to adversely affect the global economy it may also increase the likelihood and/or magnitude of other risks described in this section.

The impact that the COVID-19 pandemic will have on S&T's credit losses is uncertain, and continued economic uncertainty and deterioration in the forward looking economic forecasts used to estimate credit losses, as well as the potential inability of our credit models to accurately predict the relevant financial metrics, may adversely affect our ACL.

S&T calculates the ACL in accordance with Current Expected Credit Loss, or CECL, accounting standard adopted January 1, 2020. The CECL methodology reflects expected credit losses and requires consideration of a broad range of reasonable and supportable information to form credit loss estimates. The CECL accounting standard bases the measurement of expected credit losses on historical loss experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. S&T's ability to assess expected credit losses may be impaired if the models and approaches we use become less predictive of future behaviors. In particular, the reliance on supportable economic forecasts in light of the COVID-19 pandemic has had and is expected to have an impact on the estimates of our ACL. These forecasts have deteriorated this year and continue to reflect adverse economic conditions and economic uncertainty. Given the unprecedented nature of the COVID-19 pandemic, if our credit models fail to adequately predict or forecast relevant financial metrics during and after the pandemic and these forecasts deteriorate and contain economic uncertainty, our ACL may be adversely affected.

Risks Related to Fraudulent Activity

Fraudulent activity associated with our products and services could adversely affect our results of operations, financial condition and stock price, negatively impact our brand and reputation, and result in regulatory intervention or sanctions.

As a financial institution we are exposed to operational risk in the form of fraudulent activity that may be committed by customers, other third parties, or employees, targeting us and our customers. The risk of fraud continues to increase for the financial services industry. Fraudulent activity has escalated, become more sophisticated, and continues to evolve, as there are more options to access financial services. In our Form 8-K filed May 26, 2020, we disclosed that we discovered customer fraud resulting from a check kiting scheme by a business customer of S&T. We recognized a pre-tax loss of $58.7 million during the second quarter of 2020 related to this customer fraud. As a result of our internal review of the fraud, we have made process and monitoring enhancements. While we believe we have operational risk controls in place to prevent or detect future instances of fraud or to mitigate the impact of any fraud, we cannot provide assurance that we can prevent or detect fraud or that we will not experience future fraud losses or incur costs or other damage related to such fraud, at levels that adversely affect our results of operation, financial condition, or stock price. Furthermore, fraudulent activity could negatively impact our brand and reputation, which could also adversely affect our results of operation, financial condition, or stock price. Fraudulent activity could also lead to regulatory intervention or regulatory sanctions.

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 loans 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 ACL 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 ACL sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and an inadequate ACL. As our assessment of inherent losses changes, we may need to increase or decrease our ACL, 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, resulted in a significant change in how we recognize credit losses. If the assumptions or estimates we used 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 U.S. generally accepted accounting principles, or 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 which delayed recognition until it was probable a loss had been incurred. Upon origination of a loan, the estimate of expected credit losses, and any subsequent changes to such estimate, will be recorded through provision for credit losses in our consolidated statement of income. The CECL model may create more volatility in the level of our 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. Actual credit losses may exceed our estimate of expected 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 we used in developing our estimate of expected credit losses require updating over time, there may be a material adverse impact on our results of operations and financial condition.

For additional information on our 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 and 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 and although not material, 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 present 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 due to the underlying credit of the issuer. 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. We may experience disruption and incur unexpected expenses in integrating acquisitions. These failures could adversely impact our future prospects and results of operation.

The transition in our CEO position will be critical to our success and our business could be negatively impacted if we do not successfully manage this transition.

On October 2, 2020, we announced that Todd D. Brice will retire as Chief Executive Officer of S&T and S&T Bank, and as a member of the Boards of Directors of S&T and S&T Bank, effective March 31, 2021. We are currently engaged in a search for a new Chief Executive Officer (CEO). Our future performance will depend, in part, on the successful transition of our new Executive. The departure of key leadership personnel, such as a CEO, can take from the company significant knowledge and experience. This loss of knowledge and experience can be mitigated through successful hiring and transition, but there can be no assurance that we will be successful in such efforts. Any failure to timely hire a qualified CEO could hinder the Company’s strategic planning, execution and future performance. The ability of a new CEO to quickly expand their knowledge of our business plans, operations and strategies will be critical to their ability to make informed decisions about our strategy and operations. Further, if our new CEO formulates different or changed views, the future strategy and plans of the Company may differ materially from those of the past. While Mr. Brice entered into a letter agreement intended to facilitate a smooth transition under which he has agreed to provide advisory services to S&T and S&T Bank during the period from his retirement until the third anniversary thereof, if we do not successfully manage this transition, it could be viewed negatively by our customers, employees or investors and could have an adverse impact on our business and strategic direction.

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 policies 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, operating, risk management and corporate governance policies and procedures. Any system of controls, policies and procedures, 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 internal controls, disclosure controls and procedures, or operating, risk management and corporate governance policies and procedures, whether as a result of human error, misconduct or malfeasance, or failure to comply with regulations related to controls and policies and procedures could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we may in the future discover areas of our internal controls, disclosure controls and procedures, or operating, risk management and corporate governance policies and procedures that need improvement. Failure to maintain effective controls or to timely implement any necessary improvement of our internal and disclosure controls, or operating, risk management and corporate governance policies and procedures, could, among other things, result in losses from errors, harm our reputation, or cause investors to lose confidence in our reported financial information, all of which could have a material adverse effect on our results of operations and financial condition.

As a participating lender in the Paycheck Protection Program, or PPP, we are subject to risks of litigation from our customers or other parties in connection with our processing of loans for the PPP and risks that the Small Business Administration may not fund some or all PPP loans.

We participate as a lender in the PPP. Due to the short timeframe between the passing of the CARES Act and the opening of the PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the program, which exposes us to risks relating to noncompliance with the PPP. Since the opening of the PPP, several large banks have been subject to litigation relating to the policies and procedures they used in processing applications for the program. We may be exposed to the risk of litigation, from both customers and non-customers who approached us requesting PPP loans, regarding the process and procedures used by us in processing applications for the PPP. Any such litigation filed against us may be costly, regardless of the outcome, and result in significant financial liability or adversely affect our reputation.

In addition, while the PPP loans are fully guaranteed by the Small Business Administration, or SBA, and we believe that the majority of these loans will be forgiven, there can be no assurance that the borrowers will use or have used the funds appropriately or will have satisfied the staffing or payment requirements to qualify for forgiveness in whole or in part. Any portion of the loan that is not forgiven must be repaid by the borrower. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded or serviced by us, which may or may not be related to an ambiguity in the laws, rules or guidance regarding operation of the PPP, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if we have already been paid under the guaranty, seek recovery from us of any loss related to the deficiency.

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.

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.

We may be adversely impacted by the transition from LIBOR as a reference rate.

On July 27, 2017, the Financial Conduct Authority in the United Kingdom announced that it would phase out LIBOR as a benchmark by the end of 2021. In late 2020, the ICE Benchmark Administration (IBA) extended the cessation date for submission and publication of rates for all LIBOR currency-tenor pairs until June 30, 2023, except for the one-week and two-month USD LIBOR tenors, which will cease on December 31, 2021. U.S. regulators, including the U.S. Federal Reserve, published a statement supporting the IBA's plans but also urged banks to phase out LIBOR as soon as practicable. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, has identified the Secured Overnight Financing Rate, or SOFR, a new index calculated by short-term repurchase agreements, backed by Treasury securities, as its preferred alternative rate for LIBOR.

Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR or if the phase-out could cause LIBOR to perform differently than in the past. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, 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

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.

General Risk Factors

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.

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, 2020, 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, 2021, we had approximately 2,784 shareholders of record. The number of record-holders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees.

As discussed under "*Our ability to pay dividends on our common stock may be limited.*" included in Item 1A. Risk Factors in Part I, the amount and timing of dividends is subject to the discretion of the Board and depends upon business conditions and regulatory requirements. The Board has the discretion to change the dividend at any time for any reason.

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 2020:

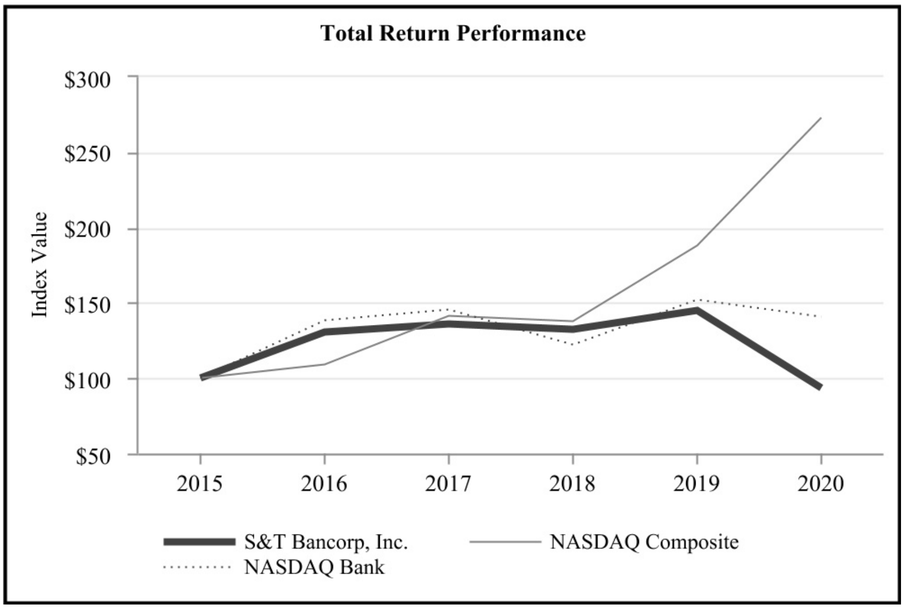
Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan[1]	Approximate dollar value of shares that may yet be purchased under the plan
10/1/2020 - 10/31/2020	—	$ —	—	$ 37,441,683
11/1/2020 - 11/30/2020	—	—	—	37,441,683
12/1/2020 - 12/31/2020	—	—	—	37,441,683
Total	**—**	**$ —**	**—**	**$ 37,441,683**

[1]On September 16, 2019, our Board of Directors authorized a $50 million share repurchase plan. This 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. Repurchase activity was suspended in March 2020 as the impact of the COVID-19 pandemic spread.

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, 2015 and the reinvestment of dividends.



	Period Ending					
Index	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**
S&T Bancorp, Inc.	100.00	130.40	135.91	132.27	144.82	93.56
NASDAQ Composite[(1)]	100.00	108.92	141.36	137.39	187.87	272.51
NASDAQ Bank[(2)]	100.00	137.97	145.50	121.96	151.69	140.31

[(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 our insurance business on January 1, 2018 and the effects of the enactment of the Tax Act in 2017.

CONSOLIDATED BALANCE SHEETS

	December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Total assets	$ 8,967,897	$ 8,764,649	$ 7,252,221	$ 7,060,255	$ 6,943,053
Securities, at fair value	773,693	784,283	684,872	698,291	693,487
Loans held for sale	18,528	5,256	2,371	4,485	3,793
Portfolio loans, net of unearned income	7,225,860	7,137,152	5,946,648	5,761,449	5,611,419
Goodwill	373,424	371,621	287,446	291,670	291,670
Total deposits	7,420,538	7,036,576	5,673,922	5,427,891	5,272,377
Securities sold under repurchase agreements	65,163	19,888	18,383	50,161	50,832
Short-term borrowings	75,000	281,319	470,000	540,000	660,000
Long-term borrowings	23,681	50,868	70,314	47,301	14,713
Junior subordinated debt securities	64,083	64,277	45,619	45,619	45,619
Total shareholders' equity	1,154,711	1,191,998	935,761	884,031	841,956

CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Interest income	$ 320,464	$ 320,484	$ 289,826	$ 260,642	$ 227,774
Interest expense	41,076	73,693	55,388	34,909	24,515
Provision for credit losses	131,424	14,873	14,995	13,883	17,965
Net Interest Income After Provision for Credit Losses	**147,964**	**231,918**	**219,443**	**211,850**	**185,294**
Noninterest income	59,719	52,558	49,181	55,462	54,635
Noninterest expense	186,644	167,116	145,445	147,907	143,232
Net Income Before Taxes	**21,039**	**117,360**	**123,179**	**119,405**	**96,697**
Provision for income taxes	(1)	19,126	17,845	46,437	25,305
Net Income	**$ 21,040**	**$ 98,234**	**$ 105,334**	**$ 72,968**	**$ 71,392**

Item 6. SELECTED FINANCIAL DATA - continued

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,				
	2020	2019	2018	2017	2016
Per Share Data					
Earnings per common share—basic	$ 0.54	$ 2.84	$ 3.03	$ 2.10	$ 2.06
Earnings per common share—diluted	$ 0.53	$ 2.82	$ 3.01	$ 2.09	$ 2.05
Dividends declared per common share	$ 1.12	$ 1.09	$ 0.99	$ 0.82	$ 0.77
Dividend payout ratio	200.89 %	38.03 %	32.79 %	39.15 %	37.52 %
Common book value	$ 29.38	$ 30.13	$ 26.98	$ 25.28	$ 24.12
Common tangible book value (non-GAAP)	$ 19.71	$ 20.52	$ 18.63	$ 16.87	$ 15.67
Profitability Ratios					
Common return on average assets	0.23 %	1.32 %	1.50 %	1.03 %	1.08 %
Common return on average equity	1.80 %	9.98 %	11.60 %	8.37 %	8.67 %
Common return on average tangible common equity (non-GAAP)	2.92 %	14.41 %	17.14 %	12.77 %	13.71 %
Capital Ratios					
Common equity/assets	12.88 %	13.60 %	12.90 %	12.52 %	12.13 %
Tangible common equity/tangible assets (non-GAAP)	9.02 %	9.68 %	9.28 %	8.72 %	8.23 %
Tier 1 leverage ratio	9.43 %	10.29 %	10.05 %	9.17 %	8.98 %
Common equity tier 1	11.33 %	11.43 %	11.38 %	10.71 %	10.04 %
Risk-based capital—tier 1	11.74 %	11.84 %	11.72 %	11.06 %	10.39 %
Risk-based capital—total	13.44 %	13.22 %	13.21 %	12.55 %	11.86 %
Asset Quality Ratios					
Nonaccrual loans/loans	2.03 %	0.76 %	0.77 %	0.42 %	0.76 %
Nonperforming assets/loans plus OREO	2.06 %	0.81 %	0.83 %	0.42 %	0.77 %
Allowance for credit losses/total portfolio loans	1.63 %	0.87 %	1.03 %	0.98 %	0.94 %
Allowance for credit losses/nonperforming loans	80 %	115 %	132 %	236 %	124 %
Net loan charge-offs/average loans	1.40 %	0.22 %	0.18 %	0.18 %	0.25 %

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 an 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 an 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 an 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)	**2020**	**2019**	**2018**	**2017**	**2016**
Common tangible book value (non-GAAP)					
Total shareholders' equity	1,154,711	1,191,998	935,761	884,031	841,956
Less: goodwill and other intangible assets	(382,099)	(382,540)	(290,047)	(295,347)	(296,580)
Tax effect of other intangible assets	1,822	2,293	546	1,287	1,719
Tangible common equity (non-GAAP)	774,434	811,751	646,260	589,971	547,095
Common shares outstanding	39,298	39,560	34,684	34,972	34,913
Common tangible book value (non-GAAP)	**19.71**	**20.52**	**18.63**	**16.87**	**15.67**
Common return on average tangible common shareholders' equity (non-GAAP)					
Net income	21,040	98,234	105,334	72,968	71,392
Plus: amortization of intangibles	2,532	836	861	1,233	1,615
Tax effect of amortization of intangibles	(532)	(176)	(181)	(432)	(565)
Net income before amortization of intangibles	23,040	98,894	106,014	73,769	72,442
Total average shareholders' equity (GAAP Basis)	**1,169,489**	**983,908**	**908,355**	**872,130**	**823,607**
Less: average goodwill and average other intangible assets	(382,907)	(298,228)	(290,380)	(295,937)	(297,377)
Tax effect of other intangible assets	2,061	639	614	1,493	1,992
Tangible average common shareholders' equity (non-GAAP)	788,643	686,319	618,589	577,686	528,222
Common return on average tangible common shareholders' equity (non-GAAP)	**2.92 %**	**14.41 %**	**17.14 %**	**12.77 %**	**13.71 %**
Efficiency Ratio (non-GAAP)					
Noninterest expense	186,644	167,116	145,445	147,907	143,232
Less: merger related expenses	(2,342)	(11,350)	—	—	—
Noninterest expense excluding nonrecurring items	184,302	155,766	145,445	147,907	143,232
Net interest income per Consolidated Statements of Net Income	279,388	246,791	234,438	225,733	203,259
Plus: taxable equivalent adjustment	3,202	3,757	3,804	7,493	7,043
Noninterest income	59,719	52,558	49,181	55,462	54,635
Less: securities (gains) losses, net	(142)	26	—	(3,000)	—
Net interest income (FTE) (non-GAAP) plus noninterest income	342,167	303,132	287,423	285,688	264,938
Efficiency ratio (non-GAAP)	**53.86 %**	**51.39 %**	**50.60 %**	**51.77 %**	**54.06 %**
Tangible common equity (non-GAAP)					
Total shareholders' equity (GAAP basis)	1,154,711	1,191,998	935,761	884,031	841,956
Less: goodwill and other intangible assets	(382,099)	(382,540)	(290,047)	(295,347)	(296,580)
Tax effect of other intangible assets	1,822	2,293	546	1,287	1,719
Tangible common equity (non-GAAP)	774,434	811,751	646,260	589,971	547,095
Total assets (GAAP basis)	8,967,897	8,764,649	7,252,221	7,060,255	6,943,053
Less: goodwill and other intangible assets	(382,099)	(382,540)	(290,047)	(295,347)	(296,580)
Tax effect of other intangible assets	1,822	2,293	546	1,287	1,719
Tangible assets (non-GAAP)	8,587,620	8,384,402	6,962,720	6,766,195	6,648,192
Tangible common shareholders' equity/tangible assets (non-GAAP)	**9.02 %**	**9.68 %**	**9.28 %**	**8.72 %**	**8.23 %**

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:

	December 31,	
(dollars in thousands)	2020	2019
Diluted Earnings Per Share		
Net income	$ 21,040	$ 98,234
Adjust for merger related expenses	2,342	11,350
Tax effect of merger related expenses	(492)	(2,106)
Net income excluding merger related expenses (non-GAAP)	**$ 22,890**	**$ 107,478**
Average shares outstanding - diluted	39,070	34,723
Diluted adjusted earnings per share (non-GAAP)	**$ 0.59**	**$ 3.09**
Common Return on Average Tangible Common Shareholders' Equity (non-GAAP)		
Net income	$ 21,040	$ 98,234
Adjust for merger related expenses	2,342	11,350
Tax effect of merger related expenses	(492)	(2,106)
Net income excluding merger related expenses	**22,890**	**107,478**
Plus: amortization of intangibles	2,532	836
Tax effect of amortization of intangibles	(532)	(176)
Adjusted net income	**24,890**	**108,138**
Total average shareholders’ equity (GAAP Basis)	1,169,489	983,908
Less: average goodwill and average other intangible assets	(382,907)	(298,228)
Tax effect of other intangible assets	2,061	639
Tangible average common shareholders' equity (non-GAAP)	**$ 788,643**	**$ 686,319**
Common return on average tangible common shareholders' equity (non-GAAP)	**3.16 %**	**15.76 %**
Return on Average Assets (non-GAAP)		
Net income excluding merger related expenses	$ 22,890	$ 107,478
Average total assets	9,152,747	7,435,536
Return on average assets (non-GAAP)	**0.25 %**	**1.45 %**
Return on Average Shareholders' Equity (non-GAAP)		
Net income excluding merger related expenses	$ 22,890	$ 107,478
Average total shareholders' equity	1,169,489	983,908
Return on average shareholders' equity (non-GAAP)	**1.96 %**	**10.92 %**

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 and the credit risk of our commercial and consumer loan products; changes in the level of charge-offs and changes in estimates of the adequacy of the allowance for credit losses, or ACL; cyber security concerns; rapid technological developments and changes; operational risks or risk management failures by us or critical third parties, including fraud risk; our ability to manage our reputational risks; 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; the transition from LIBOR as a reference rate; regulatory supervision and oversight, including changes in regulatory capital requirements and our ability to address those requirements; unanticipated changes in our liquidity position; 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; an interruption or cessation of an important service by a third-party provider; our ability to attract and retain talented executives and employees; our ability to successfully manage our CEO transition; general economic or business conditions, including the strength of regional economic conditions in our market area; the duration and severity of the coronavirus ("COVID-19") pandemic, both in our principal area of operations and nationally, including the ultimate impact of the pandemic on the economy generally and on our operations; our participation in the Paycheck Protection Program; 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; the stability of our core deposit base and access to contingency funding; 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 ACL, goodwill and other intangible assets and accounting for acquisitions to be critical accounting policies. We have updated our ACL policy in response to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. During 2019, we identified accounting for business combinations 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 Credit Losses

The ACL is a valuation reserve established and maintained by charges against operating income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The ACL for homogeneous loans is calculated using a life-time loss rate methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ACL model is comprised of six distinct portfolio segments: 1) Construction, 2) Commercial Real Estate, or CRE, 3) Commercial and Industrial, or C&I, 4) Business Banking, 5) Consumer Real Estate and 6) Other Consumer. Each segment has a distinct set of risk characteristics monitored by management. We further evaluate the ACL at a disaggregated level which includes type of collateral and our internal risk rating system for the commercial segments and type of collateral, lien position, and FICO score, for the consumer segments. Historical credit loss experience is the basis for the estimation of expected credit losses. Our quantitative model uses historic data back to the second quarter of 2009. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on the unemployment forecast and management judgment. For periods beyond our two year reasonable and supportable forecast, we revert to historical loss rates utilizing a straight-line method over a one year reversion period. The qualitative adjustments for current conditions are based upon changes in lending policies and practices, experience and ability of lending staff, quality of the bank’s loan review system, value of underlying collateral, the existence of and changes in concentrations and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit, and any needed reserve is recorded in other liabilities.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. We evaluate all commercial loans greater than $0.5 million that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, 3) any commercial troubled debt restructuring, or TDR, or any loan reasonably expected to become a TDR whether on accrual or nonaccrual status and 4) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 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 when the loan is collateral dependent. Our individual loan 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 loan is less than the recorded investment in the loan balance.

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

Although we believe our process for determining the ACL appropriately considers all 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 provision for credit losses could be required and could adversely affect our earnings or financial position in future periods.

Allowance for Loan Losses

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, we calculated our allowance for loan losses, or ALL, using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

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 prior to 2020, we 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 the period in which impairment occurs.

The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if events and circumstances indicate that it may be impaired. We test for impairment by comparing the fair value of our Community Banking reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

Determining the fair value of a reporting unit is judgmental and involves the use of significant estimates and assumptions. The fair value of the reporting unit is determined by using both a discounted cash flow model and market based models. The discounted cash flow model has many assumptions including future earnings projections, a long-term growth rate and discount rate. The market based method calculates the fair value based on observed price multiples for similar companies. The fair values of each method are then weighted based on the relevance and reliability in the current economic environment.

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, 2020, 2019 and 2018.

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 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 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 ACL. 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.

Acquired loans, including those acquired in a business combination, are evaluated to determine if they have experienced more-than-insignificant deterioration in credit quality since origination. When the condition exists, these loans are referred to as purchased credit deteriorated, or PCD. An allowance is recognized for a PCD loan by adding it to the purchase price or fair value in a business combination. There is no provision for credit losses, or PCL, recognized upon acquisition of a PCD loan since the initial allowance is established through the purchase accounting. After initial recognition, the accounting for a PCD loan follows the credit loss model that applies to that type of asset. Purchased financial loans that do not have a more-than-significant deterioration in credit quality since origination are accounted for in a manner consistent with originated loans. An ACL is recorded with a corresponding charge to PCL. Subsequent to the acquisition date, the methods utilized to estimate the required ACL for these loans is similar to the method used for originated loans.

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the methods utilized to estimate the required ALL for acquired loans was similar to the method used for originated loans; however, we recorded a provision for credit losses only when the required allowance exceeded the remaining fair value adjustment. Acquired loans were considered impaired if there was evidence of credit deterioration since origination and if it was probable at time of acquisition that all contractually required payments would not be collected.

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 and the expected impact of accounting pronouncements recently issued or proposed, but not yet required to be adopted.

Executive Overview

We are a bank holding company that is headquartered in Indiana, Pennsylvania with assets of $9.0 billion at December 31, 2020. We operate in five markets including Western Pennsylvania, Eastern Pennsylvania, Northeast Ohio, Central Ohio and Upstate New York.

We provide a full range of financial services with retail and commercial banking products, cash management services, trust and brokerage services. Our common stock trades on the NASDAQ Global Select Market under the symbol "STBA".

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 credit 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 be a high performing regional community bank. We strive to do this by delivering exceptional service and value. 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. 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.

As we continue to navigate through the uncertainty resulting from the COVID-19 pandemic, our first priority is the safety of both our employees and customers. Our financial performance has been negatively impacted in many ways due to the COVID-19 pandemic. We are closely monitoring our asset quality with a focus on the portfolios that have been significantly impacted by the COVID-19 pandemic, including our hotel portfolio. We have increased our ACL to be responsive to this additional risk within our loan portfolio. Our balance sheet is asset sensitive so we have experienced a negative impact to our net interest income and net interest margin, or NIM, as interest rates declined in the first half of 2020. Our net interest income is also being impacted by declining loan balances as new loan originations have decreased in the current environment. Offsetting this impact was the origination of $555.9 million of Paycheck Protection Program, or PPP, loans during 2020. Our noninterest income has also been negatively impacted due to changes in our customers' behavior during these times which has been somewhat mitigated by strong mortgage banking income due to significant refinance activity. We are taking a prudent approach to capital management given the economic uncertainty. Our internally-run capital stress test results demonstrate that we have adequate capital cushions. We are well capitalized and we believe that we have sufficient excess capital to manage through the uncertainty resulting from the COVID-19 pandemic.

In response to the current economic environment as a result of the COVID-19 pandemic, we completed an interim quantitative goodwill impairment analysis as of November 30, 2020 and updated our analysis as of December 31, 2020. Based upon our impairment analysis, we determined that our goodwill of $373.4 million was not impaired at December 31, 2020.

We experienced a pre-tax loss of $58.7 million related to a customer fraud resulting from a check kiting scheme during 2020. This matter was disclosed in our Form 8-K filed on May 26, 2020. The fraud was perpetrated by a single business customer and the customer has plead guilty in a criminal investigation. This fraud loss reduced net income by $46.3 million, or $1.19 per diluted share, in 2020. We continue to pursue all available sources of recovery to mitigate the loss. An internal review of the matter has been completed and various process and monitoring enhancements have been implemented. The customer also had a lending relationship of $14.8 million, including a $14.0 million CRE loan and an $0.8 million line of credit. We recognized a $8.9 million charge-off related to this lending relationship during 2020.

Results of Operations
Year Ended December 31, 2020

COVID-19 Update

S&T has monitored the impact of the COVID-19 pandemic throughout the year and has taken steps to mitigate the potential risks and impact on S&T and to promote the health and safety of our employees, and the customers and communities that we serve. We have taken preventive health measures for our employees through rigorous sanitation, social distancing, wearing masks, remote work where feasible and providing access to financial wellness programs. We reopened our branches with extensive safety measures and are encouraging our customers to use online and mobile banking solutions. We have also extended our solution center hours to allow for customer consultation without entering a branch. Our Business Continuity teams were activated and have guided our efforts to respond to the rapidly developing situation.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security, or CARES Act was signed into law. It contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act included the Paycheck Protection Program, or PPP, a $349 billion program designed to aid small and medium sized businesses through federally guaranteed loans distributed through banks. The Paycheck Protection Program and Health Care Enhancement Act, or PPP/HCEA, was signed into law on April 24, 2020. The PPP/HCEA authorized an additional $310 billion of funding under the CARES Act for PPP loans among other provisions. On July 4, 2020, legislation was passed to extend the application period for the PPP through August 8, 2020. These loans are intended to cover eight weeks of payroll and other permitted expenses to help those businesses remain viable.

As of December 31, 2020, we originated $555.9 million of PPP loans. PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted expenses in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00 percent and a term of two years, or five years for loans approved by the SBA, on or after June 5, 2020. Payments are deferred for at least six months of the loan. The loans are 100 percent guaranteed by the SBA.

The extent to which COVID-19 may adversely impact our business depends on future developments which are highly uncertain and unpredictable. The COVID-19 pandemic has had, and we expect that it will continue to have, negative impacts on S&T's commercial and consumer loan customers and the economy as a whole. The pandemic caused, among other things, an increase in the provision for credit losses, a higher ACL as a percentage of total portfolio loans for each of the quarters ended in 2020 compared to December 31, 2019, and exclusive of the increase in portfolio loans due to the PPP portfolio, a decrease in portfolio loans compared to December 31, 2019. The severity and length of the COVID-19 pandemic's impact on S&T and the U.S. and global economies continues to be unknown.

In order to assist our customers through this difficult period, we have provided the following assistance, which may have an adverse impact on our results in the short term, but which we believe will provide better outcomes in the long term for our customers and for S&T.

- We provided needs-based payment deferrals and modifications to interest only periods to commercial loans during 2020 totaling $1.2 billion. Only $195.6 million remain on deferral at December 31, 2020.
- We provided loan payment deferrals, with no negative credit bureau reporting, to mortgage and consumer loans during 2020 totaling $69.0 million. No loans remain on deferral at December 31, 2020.
- We paused foreclosures/repossessions for mortgages and consumer loans.

Earnings Summary

Net income decreased $77.2 million, or 78.6 percent, to $21.0 million, or $0.53 per diluted share, in 2020 compared to $98.2 million, or $2.82 per diluted share in 2019. Net income in 2020 was significantly impacted by a $46.3 million after-tax, or $1.19 per diluted share, fraud loss. 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.

Net interest income increased $32.6 million, or 13.2 percent, to $279.4 million compared to $246.8 million in 2019 primarily due to the merger with DNB in late 2019. Average interest-earnings assets increased $1.5 billion, or 21.6 percent, to $8.4 billion compared to 2019. Average interest-bearing liabilities increased $862.2 million, or 17.7 percent, to $5.7 billion compared to 2019 with increases in average interest-bearing deposits of $923.1 million offset by decreases in borrowings of $61.0 million. Net interest margin, on a fully taxable-equivalent, or FTE, basis (non-GAAP), decreased 26 basis points to
3.38 percent for 2020 compared to 3.64 percent for 2019.

Net interest margin is reconciled to net interest income adjusted to an FTE basis below in the "Net Interest Income" section of this MD&A.

The provision for credit losses was $131.4 million for 2020 compared to $14.9 million in 2019. Excluding the customer fraud loss of $58.7 million, the provision for credit losses increased $57.8 million to $72.7 million for 2020 compared to $14.9 million in 2019. The significant increase in the provision for credit losses during the year was mainly due to the impact of the COVID-19 pandemic and our adoption of CECL on January 1, 2020. The COVID-19 pandemic has negatively impacted the hospitality industry resulting in deterioration in our $248 million hotel portfolio. Net loan charge-offs increased $89.7 million to $103.4 million, or 1.40 percent of average loans, for 2020 compared to $13.6 million, or 0.22 percent of average loans, in 2019. Excluding the customer fraud, net loan charge-offs were $44.7 million, or 0.60 percent in 2020.

Total noninterest income increased $7.1 million to $59.7 million compared to $52.6 million in 2019. Total noninterest income includes a full-year impact of the DNB merger for 2020 compared to one month in 2019. Additionally, the increase in noninterest income related to an increase of $8.4 million in mortgage banking income to $10.9 million compared to 2019 due to the strong refinance activity in the current interest rate environment.

Noninterest expense increased $19.5 million to $186.6 million for 2020 compared to $167.1 million for 2019. Total noninterest expense includes a full-year impact of the DNB merger for 2020 compared to one month in 2019 with increases in most noninterest expense categories. FDIC insurance increased $4.3 million due to the DNB merger, the impact of recent financial results on certain components of the assessment calculation and Small Bank Assessment Credits received in 2019. These increases were offset by a $9.0 million decrease in merger related expenses compared to 2019.

The income tax provision decreased to nearly zero for 2020 compared to an expense of $19.1 million in 2019. The decrease in our income tax provision was mainly due to a $96.3 million decrease in taxable income in 2020 compared to 2019.

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 an 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 and the dividend-received deduction for equity securities. 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 an FTE basis for the periods presented:

	Years Ended December 31,		
(dollars in thousands)	**2020**	**2019**	**2018**
Total interest income	$ 320,464	$ 320,484	$ 289,826
Total interest expense	41,076	73,693	55,388
Net interest income per Consolidated Statements of Net Income	279,388	246,791	234,438
Adjustment to FTE basis	3,202	3,757	3,803
Net Interest Income (FTE) (non-GAAP)	**$ 282,590**	**$ 250,548**	**$ 238,241**
Net interest margin	3.34 %	3.58 %	3.58 %
Adjustment to FTE basis	0.04	0.06	0.06
Net Interest Margin (FTE) (non-GAAP)	**3.38 %**	**3.64 %**	**3.64 %**

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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:

	2020			2019			2018		
(dollars in thousands)	**Average Balance**	**Interest**	**Rate**	**Average Balance**	**Interest**	**Rate**	**Average Balance**	**Interest**	**Rate**
ASSETS									
Interest-bearing deposits with banks	$ 179,887	$ 515	0.29 %	$ 59,941	$ 1,233	2.06 %	$ 56,210	$ 1,042	1.85 %
Securities at fair value[(2)(3)]	764,311	19,011	2.49 %	678,069	17,876	2.64 %	682,806	17,860	2.62 %
Loans held for sale	5,105	160	3.13 %	2,169	84	3.88 %	1,515	85	5.60 %
Commercial real estate	3,347,234	140,288	4.19 %	2,945,278	144,877	4.92 %	2,779,096	132,139	4.75 %
Commercial and industrial	2,018,318	77,752	3.85 %	1,575,485	79,429	5.04 %	1,441,560	67,770	4.70 %
Commercial construction	442,088	16,702	3.78 %	278,665	14,237	5.11 %	314,265	15,067	4.79 %
Total commercial loans	**5,807,640**	**234,742**	**4.04 %**	**4,799,428**	**238,543**	**4.97 %**	**4,534,921**	**214,976**	**4.74 %**
Residential mortgage	964,740	40,998	4.25 %	765,604	33,889	4.43 %	696,849	29,772	4.27 %
Home equity	539,461	21,469	3.98 %	475,149	25,208	5.31 %	474,538	22,981	4.84 %
Installment and other consumer	80,032	5,248	6.56 %	72,283	5,173	7.16 %	67,047	4,594	6.85 %
Consumer construction	13,484	594	4.40 %	10,896	593	5.44 %	5,336	267	5.00 %
Total consumer loans	**1,597,717**	**68,309**	**4.28 %**	**1,323,932**	**64,863**	**4.90 %**	**1,243,770**	**57,614**	**4.63 %**
Total portfolio loans	**7,405,357**	**303,051**	**4.09 %**	**6,123,360**	**303,406**	**4.95 %**	**5,778,691**	**272,590**	**4.72 %**
Total Loans[(1)(2)]	**7,410,462**	**303,211**	**4.09 %**	**6,125,529**	**303,490**	**4.95 %**	**5,780,206**	**272,675**	**4.72 %**
Federal Home Loan Bank and other restricted stock	18,234	929	5.10 %	21,833	1,642	7.52 %	30,457	2,052	6.74 %
Total Interest-earning Assets	**8,372,894**	**304,140**	**3.87 %**	**6,885,372**	**324,241**	**4.71 %**	**6,549,679**	**293,629**	**4.48 %**
Noninterest-earning assets	779,853			550,164			494,149		
Total Assets	**$ 9,152,747**			**$ 7,435,536**			**$ 7,043,828**		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing demand	$ 961,823	$ 2,681	0.28 %	$ 641,403	$ 3,915	0.61 %	$ 570,459	$ 1,883	0.33 %
Money market	2,040,116	11,645	0.57 %	1,691,910	30,236	1.79 %	1,299,185	18,228	1.40 %
Savings	899,717	972	0.11 %	766,142	1,928	0.25 %	836,747	1,773	0.21 %
Certificates of deposit	1,517,643	20,688	1.36 %	1,396,706	26,947	1.93 %	1,328,985	18,972	1.43 %
Total Interest-bearing deposits	**5,419,299**	**35,986**	**0.66 %**	**4,496,161**	**63,026**	**1.40 %**	**4,035,376**	**40,856**	**1.01 %**
Securities sold under repurchase agreements	57,673	169	0.29 %	16,863	110	0.65 %	45,992	221	0.48 %
Short-term borrowings	155,753	1,434	0.92 %	255,264	6,416	2.51 %	525,172	11,082	2.11 %
Long-term borrowings	47,953	1,201	2.50 %	66,392	1,831	2.76 %	47,986	1,129	2.35 %
Junior subordinated debt securities	64,092	2,286	3.57 %	47,934	2,310	4.82 %	45,619	2,100	4.60 %
Total borrowings	**325,471**	**5,090**	**1.56 %**	**386,453**	**10,667**	**2.76 %**	**664,769**	**14,532**	**2.19 %**
Total Interest-bearing Liabilities	**5,744,770**	**41,076**	**0.72 %**	**4,882,614**	**73,693**	**1.51 %**	**4,700,145**	**55,388**	**1.18 %**
Noninterest-bearing liabilities	2,238,488			1,569,014			1,435,328		
Shareholders' equity	1,169,489			983,908			908,355		
Total Liabilities and Shareholders' Equity	**$ 9,152,747**			**$ 7,435,536**			**$ 7,043,828**		
Net Interest Income [(2)(3)]		**$ 282,590**			**$ 250,548**			**$ 238,241**	
Net Interest Margin [(2)(3)]			**3.38 %**			**3.64 %**			**3.64 %**

[(1)]Nonaccruing loans are included in the daily average loan amounts outstanding.
[(2)]Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21 percent .
[(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:

	2020 Compared to 2019 Increase (Decrease) Due to			2019 Compared to 2018 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	$ 2,467	$ (3,185)	$ (718)	$ 69	$ 122	$ 191
Securities at fair value[2][3]	2,274	(1,139)	1,135	(124)	140	16
Loans held for sale	114	(38)	76	37	(38)	(1)
Commercial real estate	19,772	(24,361)	(4,589)	7,902	4,836	12,738
Commercial and industrial	22,326	(24,003)	(1,677)	6,296	5,363	11,659
Commercial construction	8,349	(5,884)	2,465	(1,707)	877	(830)
Total commercial loans	**50,447**	**(54,248)**	**(3,801)**	**12,491**	**11,076**	**23,567**
Residential mortgage	8,815	(1,706)	7,109	2,937	1,180	4,117
Home equity	3,412	(7,151)	(3,739)	30	2,197	2,227
Installment and other consumer	555	(480)	75	359	220	579
Consumer construction	141	(140)	1	278	48	326
Total consumer loans	**12,923**	**(9,477)**	**3,446**	**3,604**	**3,645**	**7,249**
Total portfolio loans	**63,370**	**(63,725)**	**(355)**	**16,095**	**14,721**	**30,816**
Total loans [1][2]	**63,484**	**(63,763)**	**(279)**	**16,132**	**14,683**	**30,815**
Federal Home Loan Bank and other restricted stock	(271)	(442)	(713)	(581)	171	(410)
Change in Interest Earned on Interest-earning Assets	**$ 67,954**	**$ (68,529)**	**$ (575)**	**$ 15,496**	**$ 15,116**	**$ 30,612**
Interest paid on:						
Interest-bearing demand	$ 1,956	$ (3,190)	$ (1,234)	$ 234	$ 1,798	$ 2,032
Money market	6,223	(24,814)	(18,591)	5,510	6,498	12,008
Savings	336	(1,292)	(956)	(150)	305	155
Certificates of deposit	2,333	(8,592)	(6,259)	967	7,008	7,975
Total interest-bearing deposits	**10,848**	**(37,888)**	**(27,040)**	**6,561**	**15,609**	**22,170**
Securities sold under repurchase agreements	266	(207)	59	(140)	29	(111)
Short-term borrowings	(2,501)	(2,481)	(4,982)	(5,696)	1,030	(4,666)
Long-term borrowings	(509)	(121)	(630)	433	269	702
Junior subordinated debt securities	779	(803)	(24)	107	103	210
Total borrowings	**(1,965)**	**(3,612)**	**(5,577)**	**(5,296)**	**1,431**	**(3,865)**
Change in Interest Paid on Interest-bearing Liabilities	**$ 8,883**	**$ (41,500)**	**$ (32,617)**	**$ 1,265**	**$ 17,040**	**$ 18,305**
Change in Net Interest Income	**$ 59,071**	**$ (27,029)**	**$ 32,042**	**$ 14,231**	**$ (1,924)**	**$ 12,307**

[1]Nonaccruing loans are included in the daily average loan amounts outstanding.
[2]Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21 percent.
[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 an FTE basis (non-GAAP) increased $32.0 million, or 12.8 percent, compared to 2019. Net interest income was favorably impacted by purchase accounting fair value adjustments of $4.8 million mainly related to the DNB merger. The net interest margin on an FTE basis (non-GAAP) decreased 26 basis points to 3.38% compared to 2019. This is mostly due to decreases in short-term interest rates of approximately 225 basis points. Purchase accounting fair value adjustments favorably impacted the net interest margin rate on an FTE basis by 6 basis points for 2020.

Interest income on an FTE basis (non-GAAP) decreased $0.6 million, or 0.2 percent, compared to 2019. The change was primarily due to increases in average interest-earning assets of $1.5 billion offset by lower short-term interest rates compared to 2019. Average loan balances increased $1.3 billion compared to 2019 due to the DNB merger and organic loan growth. PPP loans contributed $380.1 million of the average increase in loans. The average rate earned on loans decreased 86 basis points primarily due to lower short-term interest rates. Average interest-bearing deposits with banks increased $119.9 million and the average rate earned decreased 177 basis points compared to 2019. Average investment securities increased $86.2 million and the average rate earned decreased 15 basis points. Overall, the FTE rate on interest-earning assets (non-GAAP) decreased 84 basis points compared to 2019.

Interest expense decreased $32.6 million compared to 2019. The decrease was primarily due to lower short-term interest rates. Average interest-bearing deposits increased $923.1 million compared to 2019 due to the DNB merger and organic deposit growth. We experienced deposit growth throughout 2020 due to customer PPP loans and stimulus payments along with customers conservatively holding cash deposits in these uncertain times. The average rate paid decreased 74 basis points compared to 2019 primarily due to lower short-term interest rates. Average borrowings decreased $61.0 million due to increased deposits and the average rate paid decreased 120 basis points due to lower short-term interest rates. Overall, the cost of interest-bearing liabilities decreased 79 basis points compared to 2019.

Provision for Credit Losses

The provision for credit losses, which includes a provision for losses on loans and on unfunded loan commitments, is a charge to earnings to maintain the ACL at a level consistent with management's assessment of expected losses in the loan portfolio at the balance sheet date. The provision for credit losses increased $116.5 million to $131.4 million for 2020 compared to $14.9 million for 2019.

We recognized a charge-off of $58.7 million related to a customer fraud from a check kiting scheme during the second quarter of 2020. The fraud was perpetrated by a single business customer and the customer has plead guilty in a criminal investigation. We continue to pursue all available sources of recovery to mitigate the loss. The customer also had a lending relationship of $14.8 million, including a $14.0 million commercial real estate loan and an $0.8 million line of credit which resulted in an additional $8.9 million charge-off in 2020. At December 31, 2020, $5.9 million remains outstanding as a nonperforming loan that has been fully charged down to the estimated sale price of the collateral.

Excluding the customer fraud loss of $58.7 million, the provision for credit losses increased $57.8 million to $72.7 million for 2020 compared to $14.9 million in 2019. The significant increase in the provision for credit losses during the year was mainly due to the impact of the COVID-19 pandemic and our adoption of CECL on January 1, 2020. The COVID-19 pandemic has negatively impacted the hospitality industry resulting in deterioration in our $248 million hotel portfolio.

The impact of COVID-19 was captured in our quantitative reserve as certain impacted loans were downgraded to special mention and substandard and in our qualitative reserve through our economic forecast and other qualitative adjustments. Commercial special mention, substandard and doubtful loans increased $281 million to $572 million compared to $290 million at December 31, 2019, with an increase of $162 million in substandard loans, $113 million in special mention loans and $11.4 million in doubtful loans. The increase in both special mention and substandard loans was mainly due to downgrades in our hotel portfolio. Specific reserves on loans individually assessed increased $11.3 million to $13.5 million compared to $2.2 million in 2019. Included in the $13.5 million of specific reserves was $6.7 million for loans in our hotel portfolio. Specific reserves for hotels were based on liquidation values from appraisals received in the fourth quarter of 2020. Our qualitative reserve increased $14.1 million in 2020 which included $8.6 million for the economic forecast and $3.2 million for portfolio allocations made in our hotel, business banking and C&I portfolios due to the COVID-19 pandemic. The change in reserve attributed to the economic forecast reflected reductions in the second and third quarters due to an improved economic forecast. Our forecast covers a period of two years and is driven primarily by national unemployment data. The change attributed to the portfolio allocations was primarily due to $3.0 million of ACL added for our business banking portfolio.

Net loan charge-offs were $103.4 million, or 1.40% of average loans, in 2020 compared to $13.6 million, or 0.22% of average loans, during 2019. Excluding the customer fraud, net loan charge-offs were $44.7 million, or 0.60% in 2020.

Refer to the Credit Quality section of this MD&A for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	**2020**	**2019**	**$ Change**	**% Change**
Securities gains, net	$ 142	$ (26)	$ 168	NM
Debit and credit card	15,093	13,405	1,688	12.6 %
Service charges on deposit accounts	11,704	13,316	(1,612)	(12.1) %
Mortgage banking	10,923	2,491	8,432	338.5 %
Wealth management	9,957	8,623	1,334	15.5 %
Commercial loan swap income	4,740	5,503	(763)	(13.9) %
Other	7,160	9,246	(2,086)	(22.6) %
Total Noninterest Income	**$ 59,719**	**$ 52,558**	**$ 7,161**	**13.6 %**

NM- percentage change not meaningful

Noninterest income increased $7.2 million, or 13.6 percent, in 2020 compared to 2019. Total noninterest income includes a full-year impact of the DNB merger for 2020 compared to one month in 2019. Our noninterest income has been negatively impacted due to changes in our customers' behavior during the pandemic. The increase in noninterest income primarily related to higher mortgage banking income of $8.4 million compared to 2019 due to an increase in the volume of loans originated for sale in the secondary market resulting from a decline in mortgage interest rates. Debit and credit card fees increased $1.7 million compared to the prior year due to increased debit and credit card usage and the Merger. Wealth management fees increased $1.3 million due to the Merger. The $2.1 million decrease in other noninterest income was attributable to a change in the valuation of a deferred compensation plan, which has a corresponding offset in salaries and benefit expense resulting in no impact to net income, a change in the equity securities portfolio and a change in the credit valuation adjustment for our commercial loan swaps for risk associated with our hotel loan portfolio. Service charges on deposit accounts also decreased $1.6 million due to reduced activity related to the COVID-19 pandemic.

Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	**2020**	**2019**	**$ Change**	**% Change**
Salaries and employee benefits	$ 90,115	$ 83,986	$ 6,129	7.3 %
Data processing and information technology	15,499	14,468	1,031	7.1 %
Net occupancy	14,529	12,103	2,426	20.0 %
Merger-related expenses	2,342	11,350	(9,008)	NM
Furniture, equipment and software	11,050	8,958	2,092	23.4 %
Marketing	5,996	4,631	1,365	29.5 %
Professional services and legal	6,394	4,244	2,150	50.7 %
Other taxes	6,622	3,364	3,258	96.8 %
FDIC insurance	5,089	758	4,331	571.4 %
Other expenses:				
Loan related expenses	5,044	3,250	1,794	55.2 %
Joint venture amortization	3,215	2,648	567	21.4 %
Supplies	1,318	1,159	159	13.7 %
Postage	1,262	1,082	180	16.6 %
Amortization of intangibles	2,531	836	1,695	202.8 %
Other	15,638	14,279	1,359	9.5 %
Total Other Noninterest Expense	**29,008**	**23,254**	**5,754**	**24.7 %**
Total Noninterest Expense	**$ 186,644**	**$ 167,116**	**$ 19,528**	**11.7 %**

NM - percentage not meaningful

Noninterest expense increased $19.5 million, or 11.7 percent, to $186.6 million in 2020 compared to 2019. Total noninterest expense includes a full-year impact of the DNB merger for 2020 compared to one month in 2019. Total merger expenses decreased $9.0 million compared to 2019. Total merger related expenses of $2.3 million in 2020 were comprised of $1.4 million of salaries and employee benefits, $0.4 million for data processing, $0.2 million for professional services and $0.3 million in various other expenses. The increases in net occupancy expense, furniture, equipment and software and other taxes related to the DNB merger. The increase in FDIC insurance of $4.3 million was due to the impact of recent results on certain components of the assessment calculation, such as our net loss in the second quarter of 2020 and also the Small Bank Assessment Credits that were received by all banking institutions with assets of less than $10 billion in third quarter 2019 that were not received in 2020. Also in addition to the merger, the increase of $3.3 million in other taxes was due to a one-time adjustment related to a state sales tax assessment in 2019. Salaries and employee benefits increased $6.1 million during 2020 primarily due to additional employees, mainly related to the merger, annual merit increases and higher pension expense due to an increase in retirees electing lump-sum distributions. Partially offsetting these increases were a decrease in restricted stock of $1.7 million and $3.0 million of deferred origination costs due to PPP loans and increased mortgage activity. Loan related expenses increased $1.8 million due to the customer fraud and increased mortgage volume. Professional services and legal expenses increased $2.1 million mainly due to higher legal expense.

Federal Income Taxes

The income tax provision was nearly zero compared to $19.1 million in 2019. The decrease in our income tax provision was mainly due to a $96.3 million decrease in net income before taxes in 2020 compared to 2019.

The effective tax rate, which is total tax expense as a percentage of net income before taxes, decreased 16.3 percent in 2020 to a nominal negative annual effective tax rate compared to 16.3 percent in 2019. The decrease in the effective tax rate was primarily due to significantly lower net income before taxes in 2020 compared to 2019. Historically, we have generated an annual effective tax rate that is less than the statutory rate 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, 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 an 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 interest 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 decrease $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 an 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 an 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[(1)(2)]	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 an 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.

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

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

Interest income on an 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
Service charges on deposit accounts	13,316	13,096	220	1.7 %
Debit and credit card	13,405	12,679	726	5.7 %
Wealth management	8,623	10,084	(1,461)	(14.5) %
Commercial loan swap income	5,503	1,225	4,278	349.2 %
Insurance	355	505	(150)	(29.7) %
Mortgage banking	2,491	2,762	(271)	(9.8) %
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 interest 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 %**

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 an 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 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 net income before taxes, 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 net income before taxes in 2019 compared to 2018. Historically, we have generated an annual effective tax rate that is less than the statutory rate 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.

Financial Condition
December 31, 2020

Total assets increased $203.2 million to $9.0 billion at December 31, 2020 compared to $8.8 billion at December 31, 2019. Total portfolio loans increased $88.7 million to $7.2 billion at December 31, 2020 compared to $7.1 billion at December 31, 2019. The increase in portfolio loans primarily related to growth in the commercial loan portfolio of $160.9 million with increases of $233.6 million in C&I, which included $465.5 million of loans from the PPP, and $98.8 million in commercial construction offset by a decrease of $171.5 million in the CRE portfolio compared to December 31, 2019. Excluding the PPP loans, portfolio loans decreased $376.8 million compared to December 31, 2019 due to decreased activity related to the COVID-19 pandemic. Consumer loans decreased $72.2 million compared to December 31, 2019 primarily due to a decrease in the residential mortgage portfolio of $80.2 million.

Securities decreased $10.6 million to $773.7 million at December 31, 2020 from $784.3 million at December 31, 2019. The decrease in securities is primarily due to a reduction in overall investing activities mainly during the first half of the year due to the declining interest rate environment. These reductions were partially offset by increases in unrealized gains. The bond portfolio had an unrealized gain of $33.4 million at December 31, 2020 compared to $10.7 million at December 31, 2019 due to a decrease in interest rates.

Our deposits increased $384.0 million, with total deposits of $7.4 billion at December 31, 2020 compared to $7.0 billion at December 31, 2019. Customer deposits increased $676.2 million from December 31, 2019. The increase in customer deposits primarily related to PPP and stimulus programs along with customers conservatively holding cash deposits during these uncertain times. Customer noninterest-bearing demand deposits increased $563.9 million, interest-bearing demand increased $102.4 million, money market deposits increased $37.4 million and savings increased $138.6 million offset by a decrease in certificates of deposit of $166.1 million. Total brokered deposits decreased $292.2 million from December 31, 2019 due to the customer deposit growth. 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.

Total borrowings decreased $188.5 million to $227.9 million at December 31, 2020 compared to $416.4 million at December 31, 2019 due to an increase in deposits. The decrease in borrowings primarily related to a decline in short-term borrowings of $206.3 million offset by an increase in securities sold under repurchase agreements of $45.3 million due to demand for the product by our REPO customers.

Total shareholders' equity decreased by $37.3 million to $1.2 billion at December 31, 2020 compared to $1.2 billion at December 31, 2019. The decrease was primarily due to the previously disclosed fraud loss, net of tax, of $46.3 million that significantly decreased net income to $21.0 million for 2020. Net income was offset by decreases from the cumulative-effect adjustment related to the adoption of ASU 2016-13, Credit Losses, of $22.6 million, share repurchases of $12.6 million, and dividends of $43.9 million and increased by a $20.6 million increase in other comprehensive income. The increase in other comprehensive income was primarily due to a $18.0 million increase in unrealized gains on our available-for-sale securities, net of tax, and a $2.8 million change in the funded status of our employee benefit plans.

Securities Activity

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

	2020		2019		2018	
(dollars in thousands)	**Balance**	**Weighted-Average Yield**	**Balance**	**Weighted-Average Yield**	**Balance**	**Weighted-Average Yield**
U.S. Treasury securities	$ 10,282	1.87 %	$ 10,040	1.87 %	$ 9,736	1.87 %
Obligations of U.S. government corporations and agencies	82,904	2.28 %	157,697	2.20 %	128,261	2.30 %
Collateralized mortgage obligations of U.S. government corporations and agencies	209,296	2.23 %	189,348	2.68 %	148,659	2.71 %
Residential mortgage-backed securities of U.S. government corporations and agencies	67,778	1.26 %	22,418	2.95 %	24,350	3.43 %
Commercial mortgage-backed securities of U.S. government corporations and agencies	273,681	2.41 %	275,870	2.42 %	246,784	2.38 %
Corporate securities	2,025	3.90 %	7,627	4.35 %	—	— %
Obligations of states and political subdivisions [(1)]	124,427	3.49 %	116,133	3.45 %	122,266	3.43 %
Marketable equity securities	3,300	2.90 %	5,150	2.77 %	4,816	3.02 %
Total Securities	**$ 773,693**	**2.42 %**	**$ 784,283**	**2.56 %**	**$ 684,872**	**2.65 %**

[(1)] *Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent for 2020, 2019 and 2018.*

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 decreased $10.6 million to $773.7 million at December 31, 2020 from $784.3 million at December 31, 2019. The decrease in securities is primarily due to a reduction in overall investing activities mainly during the first half of the year due to the declining interest rate environment. These reductions were partially offset by increases in unrealized gains.

At December 31, 2020 our bond portfolio was in a net unrealized gain position of $33.4 million compared to a net unrealized gain position of $10.7 million at December 31, 2019. At December 31, 2020, total gross unrealized gains in the bond portfolio were $33.5 million compared to December 31, 2019, when total gross unrealized gains were $11.7 million offset by gross unrealized losses of $1.0 million. Management evaluates the securities portfolio to determine if an ACL is needed each quarter. We did not record an ACL related to the securities portfolio at December 31, 2020.

Management evaluates the bond portfolio for impairment 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, 2020. 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 recognize any impairment charges on our securities portfolio in 2020, 2019 or 2018. 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, 2020 and the weighted average yields of such securities. Taxable-equivalent adjustments for 2020 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	$ —	— %	$ 10,282	1.87 %	$ —	— %	$ —	— %	$ —	— %
Obligations of U.S. government corporations and agencies	10,152	2.17 %	72,752	2.29 %	—	— %	—	— %	—	—%
Collateralized mortgage obligations of U.S. government corporations and agencies	—	— %	13,947	2.51 %	89,887	2.80 %	105,462	1.71 %	—	—%
Residential mortgage-backed securities of U.S. government corporations and agencies	—	— %	744	5.06 %	5,400	2.70 %	61,634	1.09 %	—	—%
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	— %	190,345	2.47 %	83,336	2.28 %	—	—	—	—%
Obligations of states and political subdivisions [(1)]	30,854	3.90 %	26,009	3.25 %	43,765	3.51 %	23,799	3.13 %	—	— %
Corporate Bonds	18	8.25 %	499	3.42 %	1,508	4.01 %	—	— %	—	—%
Marketable equity securities	—	— %	—	— %	—	— %	—	— %	3,300	2.90 %
Total	**$ 41,024**		**$ 314,578**		**$ 223,896**		**$ 190,895**		**$ 3,300**	
Weighted Average Yield		**3.47 %**		**2.48 %**		**2.75 %**		**1.69 %**		**2.90 %**

[(1)] *Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent for 2020.*

Lending Activity

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

	2020		2019		2018		2017		2016	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial										
Commercial real estate	$ 3,244,974	44.91 %	$ 3,416,518	47.87 %	$ 2,921,832	49.13 %	$ 2,685,994	44.62 %	$ 2,498,476	44.53 %
Commercial and industrial	1,954,453	27.05 %	1,720,833	24.11 %	1,493,416	25.11 %	1,433,266	24.88 %	1,401,035	24.97 %
Commercial construction	474,280	6.56 %	375,445	5.26 %	257,197	4.33 %	384,334	6.67 %	455,884	8.12 %
Total Commercial Loans	**5,673,707**	**78.52 %**	**5,512,796**	**77.24 %**	**4,672,445**	**78.57 %**	**4,503,594**	**78.17 %**	**4,355,395**	**77.62 %**
Consumer										
Residential mortgage	918,398	12.71 %	998,585	13.99 %	726,679	12.22 %	698,774	12.13 %	701,982	12.51 %
Home equity	535,165	7.41 %	538,348	7.54 %	471,562	7.93 %	487,326	8.46 %	482,284	8.59 %
Installment and other consumer	80,915	1.11 %	79,033	1.10 %	67,546	1.13 %	67,204	1.17 %	65,852	1.17 %
Consumer construction	17,675	0.24 %	8,390	0.12 %	8,416	0.14 %	4,551	0.08 %	5,906	0.11 %
Total Consumer Loans	**1,552,153**	**21.48 %**	**1,624,356**	**22.76 %**	**1,274,203**	**21.43 %**	**1,257,855**	**21.83 %**	**1,256,024**	**22.38 %**
Total Portfolio Loans	**$ 7,225,860**	**100.00 %**	**$ 7,137,152**	**100.00 %**	**$ 5,946,648**	**100.00 %**	**$ 5,761,449**	**100.00 %**	**$ 5,611,419**	**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 $88.7 million, or 1.2 percent, to $7.2 billion at December 31, 2020 compared to $7.1 billion at December 31, 2019. Commercial and industrial loans, or C&I, included $465.5 million of loans originated under the PPP at December 31, 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security, or CARES Act was signed into law. The CARES Act included the PPP, a program designed to aid small and medium sized businesses through federally guaranteed loans distributed through banks. PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted expenses in accordance with the requirements of the PPP. The loans are 100 percent guaranteed by the SBA. These loans carry a fixed rate of 1.00 percent and a term of two years, or five years for loans approved by the SBA, on or after June 5, 2020. Payments are deferred for at least six months of the loan. The SBA pays us a processing fee ranging from 1 percent to 5 percent based on the size of the loan. Interest is accrued as earned and loan origination fees and direct costs are deferred and accreted or amortized into interest income over the life of the loan using the level yield method. When a PPP loan is paid off or forgiven by the SBA, the remaining unaccreted or unamortized net origination fees or costs will be immediately recognized into income.

Commercial loans, including CRE, C&I and commercial construction, comprised 78.5 percent of total portfolio loans at December 31, 2020 and 77.2 percent at December 31, 2019. The increase of $160.9 million in commercial loans related to $233.6 million in C&I, which included $465.5 million of loans from the PPP, and $98.8 million in commercial construction loans offset by a decrease of $171.5 million in CRE compared to December 31, 2019. Excluding the PPP loans, portfolio loans decreased $376.8 million compared to December 31, 2019 due to decreased activity related to the COVID-19 pandemic.

Consumer loans represent 21.5 percent of our total portfolio loans at December 31, 2020 and 22.8 percent at December 31, 2019. Consumer loans decreased $72.2 million compared to December 31, 2019 with decreases of $80.2 million in residential mortgages and $3.2 million in home equity loans offset by increases in consumer construction of $9.3 million and installment and other consumer of $1.9 million. 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 continue to be important. 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 or balloon 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 2020 and 2019, we sold $345.1 million and $94.5 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 $718.2 million at December 31, 2020 compared to $509.2 million at December 31, 2019.

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 commercial and consumer loans outstanding as of December 31, 2020:

	Maturity			
(dollars in thousands)	**Within One Year**	**After One But Within Five Years**	**After Five Years**	**Total**
Fixed interest rates	$ 593,709	$ 790,383	$ 401,829	$ 1,785,921
Variable interest rates	784,722	1,549,532	1,553,533	3,887,787
Total Commercial Loans	**$ 1,378,431**	**$ 2,339,915**	**$ 1,955,362**	**$ 5,673,708**
Fixed interest rates	65,145	190,800	279,026	534,971
Variable interest rates	462,809	111,106	443,266	1,017,181
Total Consumer Loans	**$ 527,954**	**$ 301,906**	**$ 722,292**	**$ 1,552,152**
Total Portfolio Loans	**$ 1,906,385**	**$ 2,641,821**	**$ 2,677,654**	**$ 7,225,860**

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)	2020	2019	2018	2017	2016
Nonperforming Loans					
Commercial real estate	$ 87,951	$ 22,427	$ 11,085	$ 2,501	$ 15,526
Commercial and industrial	13,430	13,287	5,763	2,449	3,578
Commercial construction	384	737	11,780	1,460	4,497
Residential mortgage	11,567	6,697	3,543	3,580	4,850
Home equity	4,057	1,961	2,719	2,736	2,485
Installment and other consumer	96	36	33	62	101
Consumer construction	—	—	—	—	—
Total Nonperforming Loans	**117,485**	**45,145**	**34,923**	**12,788**	**31,037**
Nonperforming Troubled Debt Restructurings					
Commercial real estate	17,062	6,713	967	646	3,548
Commercial and industrial	9,907	695	3,197	4,493	1,570
Commercial construction	—	—	2,413	430	1,265
Residential mortgage	1,441	822	3,585	5,068	665
Home Equity	879	678	979	954	523
Installment and other consumer	—	4	9	7	88
Total Nonperforming Troubled Debt Restructurings	**29,289**	**8,912**	**11,150**	**11,598**	**7,659**
Total Nonperforming Loans	**146,774**	**54,057**	**46,073**	**24,386**	**38,696**
OREO	2,155	3,525	3,092	469	679
Total Nonperforming Assets	**$ 148,929**	**$ 57,582**	**$ 49,165**	**$ 24,855**	**$ 39,375**
Nonperforming loans as a percent of total loans	2.03 %	0.76 %	0.77 %	0.42 %	0.76 %
Nonperforming assets as a percent of total loans plus OREO	2.06 %	0.81 %	0.83 %	0.42 %	0.77 %

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 $0.5 million of loans 90 days or more past due and still accruing at December 31, 2020 related to the DNB merger and $3.8 million of loans 90 days or more past due and still accruing at December 31, 2019. The DNB merger loans were recorded at fair value at the time of acquisition.

Nonperforming loans increased $92.7 million to $146.8 million at December 31, 2020 compared to $54.1 million at December 31, 2019. The significant increase in nonperforming loans primarily related to the addition of $56.3 million of hotel loans which moved to nonperforming during the fourth quarter of 2020 as a result of continued deterioration due to the COVID-19 pandemic. Also moving to nonperforming during 2020 were $11.3 million and $6.7 million CRE relationships, which experienced financial deterioration that led to cash flow shortfalls, a $5.9 million CRE relationship, which was associated with the customer fraud and a $15.1 million C&I relationship, which experienced financial deterioration that led to cash flow shortfalls. The $11.3 million CRE relationship became a performing TDR in the third quarter of 2019. The relationship then moved to nonperforming in the first quarter of 2020 when the borrower experienced financial deterioration that led to cash flow issues.

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 commercial TDRs are individually evaluated and all consumer TDRs are reserved for at the pool level based on their similar risk characteristics. For all commercial TDRs, regardless of size, we conduct further analysis to determine the loss and assign a specific reserve to the loan if deemed appropriate. 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 of the maturity date, 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 will be individually evaluated. 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.

TDRs increased $0.8 million to $46.7 million at December 31, 2020 compared to $45.9 million at December 31, 2019. Total TDRs of $46.7 million at December 31, 2020 included $17.4 million, or 37.3 percent, that were performing and $29.3 million, or 62.7 percent, that were not performing. This is an increase from December 31, 2019 when we had $45.9 million in TDRs, including $37.0 million that were performing and $8.9 million that were nonperforming. The significant increase in nonperforming TDRs during 2020 primarily related to an $11.3 million CRE relationship that moved to nonperforming in the first quarter of 2020 due to financial deterioration that led to cash flow shortfalls. The loan was modified to reduce monthly payments and became a TDR during the third quarter of 2019. During the third quarter of 2020, $10.1 million was charged-off when the customer notified the bank they planned to cease operations. The increase in nonperforming TDRs during 2020 was also attributed to the addition of a $9.6 million C&I loan that was modified during the fourth quarter of 2020. The modification granted a concession to the borrower that resulted in a payment delay.

Loan modifications resulting in new TDRs during 2020 included 40 modifications for $22.7 million compared to 53 modifications for $32.2 million of new TDRs in 2019. Included in the 2020 new TDRs were 23 loans totaling $1.0 million related to consumer bankruptcy filings that were not reaffirmed, thus resulting in discharged debt, which compares to 36 loans totaling $1.1 million in 2019.

The following represents delinquency as of December 31:

	2020		2019		2018		2017		2016	
(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	$ 105,014	3.24 %	$ 29,140	0.85 %	$ 12,052	0.41 %	$ 3,468	0.13 %	$ 16,172	0.65 %
Commercial and Industrial	23,337	1.19 %	13,982	0.81 %	8,960	0.60 %	5,646	0.39 %	8,071	0.58 %
Commercial construction	384	0.08 %	737	0.20 %	14,193	5.52 %	3,873	1.01 %	4,927	1.08 %
Residential mortgage	13,008	1.42 %	7,519	0.75 %	7,128	0.98 %	7,165	1.03 %	9,918	1.41 %
Home equity	4,935	0.92 %	2,639	0.49 %	3,698	0.78 %	3,715	0.76 %	3,439	0.71 %
Installment and other consumer	96	0.12 %	40	0.05 %	42	0.06 %	71	0.11 %	108	0.16 %
Consumer construction	—	— %	—	— %	—	— %	—	— %	—	— %
Total Loans	**$ 146,774**	**2.03 %**	**$ 54,057**	**0.76 %**	**$ 46,073**	**0.77 %**	**$ 23,938**	**0.42 %**	**$ 42,635**	**0.74 %**
30 to 89 days:										
Commercial real estate	$ 415	0.01 %	$ 10,311	0.28 %	$ 5,783	0.20 %	$ 1,131	0.04 %	$ 2,791	0.11 %
Commercial and industrial	1,161	0.04 %	4,886	0.17 %	1,983	0.13 %	866	0.06 %	1,488	0.11 %
Commercial construction	3,641	0.01 %	2,119	0.25 %	—	— %	2,493	0.65 %	547	0.12 %
Residential mortgage	2,156	0.05 %	3,743	0.20 %	2,104	0.29 %	4,414	0.63 %	2,429	0.35 %
Home equity	1,274	0.18 %	2,200	0.38 %	2,712	0.58 %	2,655	0.54 %	1,979	0.41 %
Installment and other consumer	205	0.21 %	718	0.54 %	223	0.33 %	363	0.54 %	220	0.33 %
Consumer construction	—	— %	—	— %	—	— %	—	— %	—	— %
Loans held for sale	—	— %	—	— %	—	— %	—	— %	—	— %
Total Loans	**$ 8,852**	**0.12 %**	**$ 23,977**	**0.34 %**	**$ 12,805**	**0.22 %**	**$ 11,922**	**0.21 %**	**$ 9,454**	**0.16 %**

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 $92.7 million compared to December 31, 2019 and represented 2.03 percent of total loans at December 31, 2020. The change in loans past due 90 days or more is explained above. Loans past due by 30 to 89 days decreased $15.1 million and represented 0.12 percent of total loans at December 31, 2020.

Allowance for Credit Losses

We maintain an ACL at a level determined to be adequate to absorb estimated expected credit losses within the loan portfolio over the contractual life of a loan that considers our historical loss experience, current conditions and forecasts of future economic conditions as of the balance sheet date. We develop and document a systematic ACL methodology based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Business Banking, 5) Consumer Real Estate and 6) Other Consumer.

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 down 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 four years presented below:

(dollars in thousands)	Years Ended December 31, 2020	2019[(1)]	2018[(1)]	2017[(1)]
ACL Balance at Beginning of Year:	$ 62,224	$ 60,996	$ 56,390	$ 52,775
Charge-offs:				
	(27,512)	(3,664)	(372)	(2,304)
Commercial and industrial	(75,408)	(8,928)	(8,574)	(4,709)
Commercial construction	(454)	(406)	(2,630)	(2,571)
Consumer real estate	(1,101)	(1,353)	(1,319)	(2,274)
Other consumer	(1,890)	(1,838)	(1,694)	(1,638)
Total	**(106,365)**	**(16,189)**	**(14,589)**	**(13,496)**
Recoveries:				
Commercial real estate	348	137	309	810
Commercial and industrial	1,733	1,388	1,723	654
Commercial construction	183	5	1,135	851
Consumer real estate	233	637	541	342
Other consumer	489	377	492	571
Total	**2,986**	**2,544**	**4,200**	**3,228**
Net Charge-offs	**(103,379)**	**(13,645)**	**(10,389)**	**(10,268)**
Impact of CECL adoption	27,346	—	—	—
Provision for credit losses	131,421	14,873	14,995	13,883
ACL Balance at End of Year:	**$ 117,612**	**$ 62,224**	**$ 60,996**	**$ 56,390**

[(1)]*Represents ALL for year presented*

Net loan charge-offs for 2020 were $103.4 million, or 1.40 percent of average loans, compared to $13.6 million, or 0.22 percent of average loans for 2019. In addition to the $58.7 million charge-off from the customer fraud and the $8.9 million loan charge-off for the lending relationship with this customer, the most significant charge-offs during 2020 were a $10.1 million CRE relationship and a $9.9 million C&I relationship that occurred in the first quarter of 2020. We obtained information on the C&I relationship subsequent to filing our Annual Report on Form 10-K for the year ended December 31, 2019 but before the end of the first quarter of 2020; therefore, we recorded a $9.9 million specific reserve in the day one CECL adjustment. The updated information supported a loss existed at January 1, 2020.

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

	2020	2019	2018	2017	2016
Commercial real estate	0.81 %	0.10 %	NM	0.06 %	0.10 %
Commercial and industrial	3.65 %	0.44 %	0.48 %	0.28 %	0.45 %
Commercial construction	0.06 %	0.11 %	0.48 %	0.40 %	0.46 %
Consumer real estate	0.06 %	0.05 %	0.07 %	0.16 %	0.11 %
Other consumer	1.75 %	1.85 %	1.79 %	1.54 %	2.69 %
Net charge-offs to average loans outstanding	1.40 %	0.22 %	0.18 %	0.18 %	0.25 %
Allowance for credit losses as a percentage of total portfolio loans	1.63 %	0.87 %	1.03 %	0.98 %	0.94 %
Allowance for credit losses as a percentage of total portfolio loans excluding PPP	1.74 %	— %	— %	— %	— %
Allowance for credit losses to total nonperforming loans	80 %	115 %	132 %	236 %	124 %
Provision for credit losses as a percentage of net loan charge-offs	127 %	109 %	144 %	135 %	135 %

NM - percentage not meaningful

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

	2020		2019		2018		2017		2016	
(dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial real estate	$ 65,656	56 %	$ 30,577	49 %	$ 33,707	55 %	$ 27,235	48 %	$ 19,976	38 %
Commercial and industrial	16,100	14 %	15,681	25 %	11,596	19 %	8,966	16 %	10,810	20 %
Commercial construction	7,239	6 %	7,900	13 %	7,983	13 %	13,167	23 %	13,999	26 %
Business banking	15,917	14 %								
Consumer real estate	10,014	9 %	6,337	10 %	6,187	10 %	5,479	10 %	6,095	12 %
Other consumer	2,686	2 %	1,729	3 %	1,523	3 %	1,543	3 %	1,895	4 %
Total	**117,612**	**100 %**	**62,224**	**100 %**	**60,996**	**100 %**	**56,390**	**100 %**	**52,775**	**100 %**

Significant to our ACL 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 ACL balance as of December 31:

(dollars in thousands)	2020	2019	2018	2017	2016
Collectively Evaluated	$ 104,048	$ 60,024	$ 59,233	$ 56,313	$ 51,977
Individually Evaluated	13,564	2,200	1,763	77	798
Total Allowance for Credit Losses	**$ 117,612**	**$ 62,224**	**$ 60,996**	**$ 56,390**	**$ 52,775**

The ACL was $117.6 million, or 1.63 percent of total portfolio loans, at December 31, 2020 compared to $62.2 million, or 0.87 percent of total portfolio loans, at December 31, 2019. The increase in the ACL of $55.4 million was primarily due to a $44.1 million increase in the reserve for loans collectively evaluated and an increase of $11.3 million in specific reserves for loans individually evaluated at December 31, 2020 compared to December 31, 2019. The significant increase in the ACL during the year was mainly due to the impact of the COVID-19 pandemic and our adoption of CECL on January 1, 2020.

The adoption of CECL resulted in an increase to our ACL of $27.3 million on January 1, 2020. The increase included $8.2 million for S&T legacy loans and $9.3 million for acquired loans from the DNB merger. We also recorded a day one adjustment of $9.9 million primarily related to the C&I relationship that was charged off in the first quarter of 2020. We obtained information on this relationship subsequent to filing our Annual Report on Form 10-K for the year ended December 31, 2019 but before the end of the first quarter of 2020. The updated information supported a loss existed at January 1, 2020.

Federal Home Loan Bank and Other Restricted Stock

At December 31, 2020 and 2019, we held FHLB of Pittsburgh stock of $12.0 million and $21.9 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 impairment at December 31, 2020. The FHLB exceeds all required capital ratios. Additionally, we considered that the FHLB has been paying dividends and actively redeeming stock throughout 2020 and 2019. Accordingly, we believe sufficient evidence exists to conclude that no impairment existed at December 31, 2020.

Deposits

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

(dollars in thousands)	2020	2019	$ Change
Customer deposits			
Noninterest-bearing demand	$ 2,261,994	$ 1,698,082	$ 563,912
Interest-bearing demand	864,510	762,111	102,399
Money market	1,887,051	1,849,684	37,367
Savings	969,508	830,919	138,589
Certificates of deposit	1,369,239	1,535,305	(166,066)
Total customer deposits	**7,352,302**	**6,676,101**	**676,201**
Brokered deposits			
Interest-bearing demand	—	200,220	(200,220)
Money market	50,012	100,127	(50,115)
Certificates of deposit	18,224	60,128	(41,904)
Total brokered deposits	**68,236**	**360,475**	**(292,239)**
Total Deposits	**$ 7,420,538**	**$ 7,036,576**	**$ 383,962**

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, 2020 increased $384.0 million, or 5.5 percent, from December 31, 2019. Total customer deposits at December 31, 2020 increased $676.2 million. The increase in customer deposits primarily related to PPP and stimulus programs along with customers conservatively holding cash deposits during these uncertain times. 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.

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

	2020		2019		2018	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest-bearing demand	$ 2,072,310		$ 1,475,960		$ 1,376,329	
Interest-bearing demand	844,331	0.19 %	561,756	0.41 %	565,273	0.31 %
Money market	1,960,741	0.57 %	1,474,841	1.69 %	1,040,214	1.24 %
Savings	899,717	0.11 %	766,142	0.25 %	836,747	0.21 %
Certificates of deposit	1,482,127	1.34 %	1,322,643	1.91 %	1,202,781	1.37 %
Brokered deposits	232,384	1.02 %	370,779	2.32 %	390,360	2.05 %
Total	**$ 7,491,610**	**0.48 %**	**$ 5,972,121**	**1.06 %**	**$ 5,411,704**	**0.76 %**

CDs of $100,000 and over accounted for 9.3 percent of total deposits at December 31, 2020 and 12.6 percent of total deposits at December 31, 2019 and primarily represent deposit relationships with local customers in our market area.

Maturities of CDs of $100,000 or more outstanding at December 31, 2020 are summarized as follows:

(dollars in thousands)	2020
Three months or less	$ 276,548
Over three through six months	207,059
Over six through twelve months	135,482
Over twelve months	69,089
Total	**$ 688,178**

Borrowings

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

(dollars in thousands)	**2020**	**2019**	**$ Change**
Securities sold under repurchase agreements, retail	$ 65,163	$ 19,888	$ 45,275
Short-term borrowings	75,000	281,319	(206,319)
Long-term borrowings	23,681	50,868	(27,187)
Junior subordinated debt securities	64,083	64,277	(194)
Total Borrowings	**$ 227,927**	**$ 416,352**	**$ (188,425)**

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, 2020, long-term borrowings decreased $27.2 million compared to December 31, 2019. Short-term borrowings decreased $206.3 million as compared to December 31, 2019 primarily due to increased deposits. At December 31, 2020, our long-term borrowings outstanding of $23.7 million included $20.6 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)	**2020**	**2019**	**2018**
Balance at December 31	$ 65,163	$ 19,888	$ 18,383
Average balance during the year	$ 57,673	$ 16,863	$ 45,992
Average interest rate during the year	0.29 %	0.65 %	0.48 %
Maximum month-end balance during the year	$ 92,159	$ 23,427	$ 54,579
Average interest rate at December 31	0.25 %	0.74 %	0.46 %

	Short-Term Borrowings		
(dollars in thousands)	**2020**	**2019**	**2018**
Balance at December 31	$ 75,000	$ 281,319	$ 470,000
Average balance during the year	$ 155,753	$ 255,264	$ 525,172
Average interest rate during the year	0.92 %	2.51 %	2.11 %
Maximum month-end balance during the year	$ 410,240	$ 425,000	$ 690,000
Average interest rate at December 31	0.19 %	1.84 %	2.65 %

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

	Long-Term Borrowings		
(dollars in thousands)	**2020**	**2019**	**2018**
Balance at December 31	$ 23,681	$ 50,868	$ 70,314
Average balance during the year	47,953	$ 66,392	$ 47,986
Average interest rate during the year	$ —	$ —	$ —
Maximum month-end balance during the year	$ 50,635	$ 70,418	$ 70,314
Average interest rate at December 31	2.03 %	2.61 %	2.84 %

	Junior Subordinated Debt Securities		
(dollars in thousands)	**2020**	**2019**	**2018**
Balance at December 31	$ 64,083	$ 64,277	$ 45,619
Average balance during the year	$ 64,092	$ 47,934	$ 45,619
Average interest rate during the year	3.57 %	4.82 %	3.65 %
Maximum month-end balance during the year	$ 64,848	$ 64,277	$ 45,619
Average interest rate at December 31	3.01 %	4.42 %	5.25 %

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, 2020, 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 $2.1 billion from $2.0 billion as of December 31, 2019. Assets under administration consisted of $1.2 billion in S&T Trust, $0.7 billion in S&T Financial Services and $0.2 billion in Stewart Capital Advisors.

Capital Resources

Shareholders' equity decreased $37.3 million, or 3.1 percent, to $1.2 billion at December 31, 2020 compared to $1.2 billion at December 31, 2019. The decrease was primarily due to the previously disclosed fraud loss, net of tax, of $46.3 million, the cumulative-effect adjustment related to the adoption of ASU 2016-13, Credit Losses, of $22.6 million, share repurchases of $12.6 million and dividends of $43.9 million, offset by a $20.6 million increase in other comprehensive income. The increase in other comprehensive income was due to a $17.8 million increase in unrealized gains on our available-for-sale securities, net of tax, and a $2.8 million change in the funded status of our employee benefit plan.

We continue to maintain our capital position with a leverage ratio of 9.43 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 11.33 percent compared to the regulatory guideline of 6.50 percent to be well-capitalized. Our risk-based Tier 1 and Total capital ratios were 11.74 percent and 13.44 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.

On March 27, 2020, the regulators issued interim final rule, or IFR, "Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances" in response to the disrupted economic activity from the spread of COVID-19. The IFR provides financial institutions that adopt CECL during 2020 with the option to delay for two years the estimated impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided by the initial two-year delay ("five year transition"). We adopted CECL effective January 1, 2020 and elected to implement the five year transition.

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, 2020, 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, 2020 significant fixed and determinable contractual obligations to third parties by payment date:

	Payments Due In				
(dollars in thousands)	**2021**	**2022-2023**	**2024-2025**	**Later Years**	**Total**
Deposits without a stated maturity[1]	$ 6,033,075	$ —	$ —	$ —	$ 6,033,075
Certificates of deposit[1]	1,182,938	150,421	50,564	3,540	1,387,463
Securities sold under repurchase agreements[1]	65,163	—	—	—	65,163
Short-term borrowings[1]	75,000	—	—	—	75,000
Long-term borrowings[1]	1,251	8,153	13,461	816	23,681
Junior subordinated debt securities[1]	—	—	—	64,083	64,083
Operating and capital leases	5,058	9,968	9,801	67,554	92,381
Purchase obligations	20,643	38,141	42,619	—	101,403
Total	**$ 7,383,128**	**$ 206,683**	**$ 116,445**	**$ 135,993**	**$ 7,842,249**

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

(dollars in thousands)	**2020**	**2019**
Commitments to extend credit	$ 2,185,752	$ 1,910,805
Standby letters of credit	89,095	80,040
Total	**$ 2,274,847**	**$ 1,990,845**

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 ACL. The balance in the allowance for unfunded commitments increased $1.4 million to $4.5 million at December 31, 2020 compared to $3.1 million at December 31, 2019. The increase in the reserve for unfunded commitments at December 31, 2020 was primarily related to the adoption of ASU 2016-13 on January 1, 2020.

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 ALCO for the 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, 2020, we had $639.4 million in highly liquid assets, which consisted of $158.7 million in interest-bearing deposits with banks, $462.1 million in unpledged securities and $18.5 million in loans held for sale. This resulted in a highly liquid assets to total assets ratio of 7.1 percent at December 31, 2020. Also, at December 31, 2020, we had a remaining borrowing availability of $2.5 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.

In order 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, 2020			December 31, 2019		
	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	15.8 %	28.5 %	28.5 %	9.6 %	14.4 %	(1.8)%
300	11.7	21.3	29.0	7.2	10.8	2.8
200	7.7	14.3	25.6	5.0	7.6	5.5
100	4.4	8.0	17.7	2.7	4.2	5.1
(100)	(2.8)	(5.7)	(28.2)	(4.3)	(6.4)	(10.8)

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 1-12 month and 13-24 month rates up and rates down scenarios when comparing December 31, 2020 to December 31, 2019. 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, 2020 to December 31, 2019. The EVE decline is due to the low interest rate environment, which negatively impacts the value of our non-maturity deposits.

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)	**2020**	**2019**
ASSETS		
Cash and due from banks, including interest-bearing deposits of $158,903 and $124,491 at December 31, 2020 and 2019	$ 229,666	$ 197,823
Securities, at fair value	773,693	784,283
Loans held for sale	18,528	5,256
Portfolio loans, net of unearned income	7,225,860	7,137,152
Allowance for credit losses	(117,612)	(62,224)
Portfolio loans, net	7,108,248	7,074,928
Bank owned life insurance	82,303	80,473
Premises and equipment, net	55,614	56,940
Federal Home Loan Bank and other restricted stock, at cost	13,030	22,977
Goodwill	373,424	371,621
Other intangible assets, net	8,675	10,919
Other assets	304,716	159,429
Total Assets	**$ 8,967,897**	**$ 8,764,649**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 2,261,994	$ 1,698,082
Interest-bearing demand	864,510	962,331
Money market	1,937,063	1,949,811
Savings	969,508	830,919
Certificates of deposit	1,387,463	1,595,433
Total Deposits	**7,420,538**	**7,036,576**
Securities sold under repurchase agreements	65,163	19,888
Short-term borrowings	75,000	281,319
Long-term borrowings	23,681	50,868
Junior subordinated debt securities	64,083	64,277
Other liabilities	164,721	119,723
Total Liabilities	**7,813,186**	**7,572,651**
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value) Authorized—50,000,000 shares Issued—41,449,444 shares at December 31, 2020 and 2019 Outstanding—39,298,007 shares at December 31, 2020 and 39,560,304 shares at December 31, 2019	103,623	103,623
Additional paid-in capital	400,668	399,944
Retained earnings	710,061	761,083
Accumulated other comprehensive income (loss)	8,971	(11,670)
Treasury stock—2,151,437 shares at December 31, 2020 and 1,889,140 shares at December 31, 2019, at cost	(68,612)	(60,982)
Total Shareholders' Equity	**1,154,711**	**1,191,998**
Total Liabilities and Shareholders' Equity	**$ 8,967,897**	**$ 8,764,649**

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)	**2020**	**2019**	**2018**
INTEREST AND DIVIDEND INCOME			
Loans, including fees	$ 300,960	$ 300,625	$ 269,811
Investment securities:			
Taxable	14,918	14,733	14,342
Tax-exempt	3,497	3,302	3,449
Dividends	1,089	1,824	2,224
Total Interest and Dividend Income	**320,464**	**320,484**	**289,826**
INTEREST EXPENSE			
Deposits	35,986	63,026	40,856
Borrowings and junior subordinated debt securities	5,090	10,667	14,532
Total Interest Expense	**41,076**	**73,693**	**55,388**
NET INTEREST INCOME	**279,388**	**246,791**	**234,438**
Provision for credit losses	131,424	14,873	14,995
Net Interest Income After Provision for Credit Losses	**147,964**	**231,918**	**219,443**
NONINTEREST INCOME			
Net gain (loss) on sale of securities	142	(26)	—
Debit and credit card	15,093	13,405	12,679
Service charges on deposit accounts	11,704	13,316	13,096
Mortgage banking	10,923	2,491	2,762
Wealth management	9,957	8,623	10,084
Commercial loan swap income	4,740	5,503	1,225
Gain on sale of majority interest of insurance business	—	—	1,873
Other	7,160	9,246	7,462
Total Noninterest Income	**59,719**	**52,558**	**49,181**
NONINTEREST EXPENSE			
Salaries and employee benefits	90,115	83,986	76,108
Data processing and information technology	15,499	14,468	10,633
Net occupancy	14,529	12,103	11,097
Furniture, equipment and software	11,050	8,958	8,083
Other taxes	6,622	3,364	6,183
Professional services and legal	6,394	4,244	4,132
Marketing	5,996	4,631	4,192
FDIC insurance	5,089	758	3,238
Merger related expenses	2,342	11,350	—
Other	29,008	23,254	21,779
Total Noninterest Expense	**186,644**	**167,116**	**145,445**
Income Before Taxes	**21,039**	**117,360**	**123,179**
Income taxes (benefit) expense	(1)	19,126	17,845
Net Income	**$ 21,040**	**$ 98,234**	**$ 105,334**
Earnings per common share—basic	$ 0.54	$ 2.84	$ 3.03
Earnings per common share—diluted	$ 0.53	$ 2.82	$ 3.01
Dividends declared per common share	$ 1.12	$ 1.09	$ 0.99

See Notes to Consolidated Financial Statements

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

	Years ended December 31,		
(dollars in thousands)	**2020**	**2019**	**2018**
Net Income	**$ 21,040**	**$ 98,234**	**$ 105,334**
Other Comprehensive Income (Loss), Before Tax:			
Net change in unrealized gains (losses) on available-for-sale securities [(1)]	22,683	15,793	(6,794)
Net available-for-sale securities losses reclassified into earnings [(2)]	—	26	—
Adjustment to funded status of employee benefit plans	3,549	(1,282)	6,297
Other Comprehensive Income (Loss), Before Tax	**26,232**	**14,537**	**(497)**
Income tax (expense) benefit related to items of other comprehensive income	(5,591)	(3,100)	106
Other Comprehensive Income (Loss), After Tax	**20,641**	**11,437**	**(391)**
Comprehensive Income	**$ 41,681**	**$ 109,671**	**$ 104,943**

[(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.*

[(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, 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 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**
Net income for 2020	—	—	21,040	—	—	21,040
Other comprehensive income (loss), net of tax	—	—	—	20,641	—	20,641
Impact of adoption of CECL	—	—	(22,590)	—		(22,590)
Cash dividends declared ($1.12 per share)	—	—	(43,949)	—	—	(43,949)
Treasury stock repurchased (411,430 shares)	—	—	—	—	(12,559)	(12,559)
Treasury stock issued (149,133 shares, net)	—	—	(5,523)	—	4,929	(594)
Recognition of restricted stock compensation expense	—	724	—	—	—	724
Balance at December 31, 2020	**$ 103,623**	**$ 400,668**	**$ 710,061**	**$ 8,971**	**$ (68,612)**	**$ 1,154,711**

[(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

	Years ended December 31,		
(dollars in thousands)	**2020**	**2019**	**2018**
OPERATING ACTIVITIES			
Net Income	$ 21,040	$ 98,234	$ 105,334
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	131,424	14,873	14,995
Provision for unfunded loan commitments	—	436	(54)
Depreciation and amortization	7,645	8,411	7,300
Net amortization of discounts and premiums	4,205	3,243	3,180
Stock-based compensation expense	724	2,441	1,891
Securities (gains) losses	(142)	26	—
Deferred income taxes	(4,402)	(381)	3,509
(Gain) Loss on sale of fixed assets	(23)	37	(81)
Gain on the sale of loans, net	(8,998)	(1,887)	(1,537)
Gain on the sale of majority interest of insurance business	—	—	(1,873)
Pension Contribution	(115)	—	(20,420)
Net change in:			
Mortgage loans originated for sale	(361,704)	(109,624)	(90,142)
Proceeds from sale of mortgage loans	357,613	109,082	93,793
Net increase in interest receivable	(2,560)	(3,768)	(1,635)
Net (decrease) increase in interest payable	(3,178)	(2,223)	2,353
Net (increase) decrease in other assets	(138,470)	(4,973)	7,247
Net increase in other liabilities	50,392	24,496	4,157
Net Cash Provided by Operating Activities	**53,451**	**138,423**	**128,017**
INVESTING ACTIVITIES			
Purchases of securities available-for-sale	(178,389)	(129,973)	(92,597)
Proceeds from maturities, prepayments and calls of securities available-for-sale	205,606	92,412	89,833
Proceeds from sales of securities available-for-sale	1,349	59,934	—
Net proceeds from (purchases of) the redemption of Federal Home Loan Bank stock	9,947	6,615	(165)
Net increase in loans	(194,768)	(298,741)	(207,233)
Proceeds from the sale of loans not originated for resale	547	520	7,695
Purchases of premises and equipment	(5,416)	(5,153)	(4,172)
Proceeds from the sale of premises and equipment	23	71	135
Net cash acquired from bank acquisitions	—	63,759	—
Proceeds from the sale of majority interest of insurance business	—	—	4,540
Net Cash Used in Investing Activities	**(161,101)**	**(210,556)**	**(201,964)**
FINANCING ACTIVITIES			
Net increase in core deposits	591,932	423,203	231,756
Net (decrease) increase in certificates of deposit	(207,106)	(27,632)	14,397
Net increase (decrease) in securities sold under repurchase agreements	45,275	1,505	(31,778)
Net decrease in short-term borrowings	(206,319)	(200,000)	(70,000)
Proceeds from long-term borrowings	—	10,000	25,000
Repayments of long-term borrowings	(27,187)	(35,936)	(1,987)
Treasury shares issued - net	(594)	(915)	(657)
Sale of treasury shares	(12,559)	(18,222)	(12,256)
Costs to issue equity securities	—	(176)	—
Cash dividends paid to common shareholders	(43,949)	(37,360)	(34,539)
Repurchase warrant	—	—	(7,652)
Net Cash Provided by Financing Activities	**139,493**	**114,467**	**112,284**
Net increase in cash and cash equivalents	31,843	42,334	38,337
Cash and cash equivalents at beginning of year	197,823	155,489	117,152
Cash and Cash Equivalents at End of Year	**$ 229,666**	**$ 197,823**	**$ 155,489**

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

	Years ended December 31,		
(dollars in thousands)	2020	2019	2018
Supplemental Disclosures			
Interest paid	$ 44,353	$ 75,278	$ 53,035
Income taxes paid, net of refunds	$ 6,231	$ 14,663	$ 15,728
Loans transferred to held for sale	$ 640	$ 456	$ —
Loans transferred to portfolio from held for sale	$ —	$ —	$ 7,695
Leased right-of-use operating assets and lease liabilities added to Balance Sheet	$ 91	$ 49,490	$ —
Transfer net asset to investment in insurance company partnership	$ —	$ —	$ 1,917
Net assets (liabilities) from acquisitions, excluding cash and cash equivalents	$ —	$ 43,637	$ —
Transfers to other real estate owned and other repossessed assets	$ 631	$ 2,592	$ 870

See Notes to Consolidated Financial Statements

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

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 non-banking 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. Refer to 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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related allowance for credit losses, or ACL. 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.

Acquired loans, including those acquired in a business combination, are evaluated to determine if they have experienced more-than-insignificant deterioration in credit quality since origination. When the condition exists, these loans are referred to as purchased credit deteriorated, or PCD. An allowance is recognized for a PCD loan by adding it to the purchase price or fair value in a business combination. There is no provision for credit losses, or PCL, recognized upon acquisition of a PCD loan since the initial allowance is established through the purchase accounting. After initial recognition, the accounting for a PCD loan follows the credit loss model that applies to that type of asset. Purchased financial loans that do not have a more-than-significant deterioration in credit quality since origination are accounted for in a manner consistent with originated loans. An ACL is recorded with a corresponding charge to PCL. Subsequent to the acquisition date, the methods utilized to estimate the required ACL for these loans is similar to the method used for originated loans.

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the methods utilized to estimate the required allowance for loan losses, or ALL for acquired loans was similar to the method used for originated loans; however, we recorded a provision for credit losses only when the required allowance exceeded the remaining fair value adjustment. Acquired loans were considered impaired if there was evidence of credit deterioration since origination and if it was probable at time of acquisition that all contractually required payments would not be collected.

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, individually assessed 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.

Securities Held in a Deferred Compensation Plan

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.

Loans Individually Evaluated

Loans that are individually evaluated to determine whether a specific allocation of ACL is needed are reported at fair value. Fair value is determined using the following 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. Loans carried at fair value are classified as

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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. 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 mortgage banking in 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

Our methodology to fair value loans includes an exit price notion. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Collateral Receivable

The carrying amount included in other assets on our Consolidated Balance Sheets approximates fair 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.

A determination will be made on whether a decline in the fair value below the amortized cost basis is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in Other Comprehensive Income, or OCI, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet with a corresponding adjustment in noninterest income in the Consolidated Statements of Net Income. Both the allowance and the adjustment to net income can be reversed if conditions change. Our policy for credit impairment 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 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.

Realized gains and losses on the sale of these securities are determined using the specific-identification method and are recorded within noninterest income in the Consolidated Statements of Net Income. Bond premiums are amortized to the call date and bond discounts are accreted to the maturity date, both on a level yield basis.

Equity securities are measured at fair value with net unrealized gains and losses recognized in noninterest income in the Consolidated Statements of Net Income.

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 ACL. 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 ACL. 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 ACL 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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 Credit Losses

The ACL is a valuation reserve established and maintained by charges against operating income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The ACL for homogeneous loans is calculated using a life-time loss rate methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ACL model is comprised of six distinct portfolio segments: 1) Construction, 2) Commercial Real Estate, or CRE, 3) Commercial and Industrial, or C&I, 4) Business Banking, 5) Consumer Real Estate and 6) Other Consumer. Each segment has a distinct set of risk characteristics monitored by management. We further evaluate the ACL at a disaggregated level which includes type of collateral and our internal risk rating system for the commercial segments and type of collateral, lien position, and FICO score, for the consumer segments. Historical credit loss experience is the basis for the estimation of expected credit losses. Our quantitative model uses historic data back to the second quarter of 2009. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on the unemployment forecast and management judgment. For periods beyond our two year reasonable and supportable forecast, we revert to historical loss rates utilizing a straight-line method over a one year reversion period. The qualitative adjustments for current conditions are based upon changes in lending policies and practices, experience and ability of lending staff, quality of the bank's loan review system, value of underlying collateral, the existence of and changes in concentrations and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit, and any needed reserve is recorded in other liabilities.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. We evaluate all commercial loans greater than $0.5 million that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, 3) any commercial TDR, or any loan reasonably expected to become a TDR whether on accrual or nonaccrual status and 4) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 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 when the loan is collateral dependent. Our individual loan 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 loan is less than the loan balance.

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

Although we believe our process for determining the ACL appropriately considers all 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 provision for credit losses could be required and could adversely affect our earnings or financial position in future periods.

Allowance for Loan Losses

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, we calculated our ALL using an incurred loan loss methodology. The following policy related to the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

ALL in prior periods.

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) CRE, 2) 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 for 2019, 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
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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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. Depreciation expense is included in net occupancy on the Consolidated Statements of Net Income. 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 right-of-use, or 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.

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 impairment when events and circumstance indicate that impairment could exist.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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 impairment when events and circumstance indicate that impairment could exist.

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 the period in which impairment occurs.

The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if events and circumstances indicate that it may be impaired. We test for impairment by comparing the fair value of our Community Banking reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

Determining the fair value of a reporting unit is judgmental and involves the use of significant estimates and assumptions. The fair value of the reporting unit is determined by using both a discounted cash flow model and a market based model. The discounted cash flow model has many assumptions including future earnings projections, a long-term growth rate and discount rate. The market based model calculates fair value based on observed price multiples for similar companies. The fair values of each method are then weighted based on relevance and reliability in the current economic environment.

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, 2020, 2019 and 2018.

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 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.

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. Our investments in Low Income Housing Partnerships, or LIHPs, represent unconsolidated variable interest entities, or VIEs, and the assets and liabilities of the partnerships are not recorded on our balance sheet. We have determined that we are not the primary beneficiary of these VIEs because we do not 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. We use the cost method to account for these partnerships. These investments are recorded in other assets on our balance sheet. Amortization expense is included in other noninterest expense in the Consolidated Statements of Net Income.

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 ACL. 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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 determined using a similar methodology as our ACL methodology except that we apply a probability to fund assumption. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. The reserve is calculated by applying historical loss rates and qualitative adjustments to our unfunded commitments. The provision for unfunded commitments is included in the provision for credit losses on the Consolidated Statement of Net Income.

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 service 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 and 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 includes 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. 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.

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 10 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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, accrued taxes, and the current period's income tax expense and can be significant to our operating results.

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 restricted stock.

Recently Adopted Accounting Standards Updates, or ASU or Update

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 Financial Accounting Standards Board, or 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. 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.

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. We adopted this ASU on January 1, 2020. The amendments in this Update required us to change our Fair Value disclosures beginning with the disclosures included in Form 10-Q for the period ended March 31, 2020. The amendments in this ASU did not materially impact our Consolidated Balance Sheets or Consolidated Statements of Net Income. Refer to Note 4 Fair Value Measurements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

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. This Update is effective for any interim and annual impairment tests in reporting periods in fiscal years beginning after December 15, 2019. 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

On January 1, 2020, we adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology for determining our provision for credit losses, and ACL, with an expected loss methodology that is referred to as the CECL model. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including our loans and off-balance sheet credit exposures. In addition, ASU 2016-13 made changes to the accounting for available-for-sale debt securities. Credit losses related to available-for-sale debt securities will be measured in a manner similar to the present guidance, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities.

We adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

We made the accounting policy election to not measure an ACL for accrued interest receivables for loans and securities. Accrued interest deemed uncollectible will be written off through interest income.

The majority of our available-for-sale debt securities are government agency-backed securities for which the risk of loss is minimal, and accordingly the ACL is immaterial.

In connection with our adoption of ASU 2016-13, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Refer to Note 9 Allowance for Credit Losses for further discussion of these portfolio segments. Our new segmentation breaks out business banking loans from our other loan segments: CRE, C&I, Commercial Construction, Consumer Real Estate and Other Consumer. Business banking loans are commercial loans made to small businesses that are standard, non-complex products and evaluated through a streamlined credit approval process that has been designed to maximize efficiency while maintaining high credit quality standards.

The following table details the impact of ASU 2016-13 and the reclassification of loans for the identification of new portfolio loan segments under CECL:

	January 1, 2020		
(dollars in thousands)	**As Reported Under ASU 2016-13**	**Pre-ASU 2016-13**	**Impact of ASU 2016-13 Adoption**
Assets:			
Loans held for investment (outstanding balance)			
Commercial real estate	$ 2,946,319	$ 3,416,518	$ (470,199)
Commercial and industrial	1,458,541	1,720,833	(262,292)
Commercial construction	345,263	375,445	(30,182)
Business banking	1,092,908	—	1,092,908
Consumer real estate	1,235,352	1,545,323	(309,971)
Other consumer	58,769	79,033	(20,264)
Allowance for credit losses on loans	(89,577)	(62,224)	(27,353)
Total loans held for investment, net	$ 7,047,575	$ 7,074,928	$ (27,353)
Net deferred tax asset	$ 19,317	$ 13,206	$ 6,111
Liabilities:			
Allowance for credit losses on unfunded loan commitments	$ 4,462	$ 3,113	$ 1,349
Equity:			
Retained earnings	$ 738,493	$ 761,083	$ (22,590)

The adoption of ASU 2016-13 resulted in an increase to our ACL of $27.4 million on January 1, 2020. The increase included $8.2 million for S&T legacy loans and $9.3 million for acquired loans from the DNB merger. Under the previously applicable accounting guidance, a credit reserve was not recorded for acquired loans upon acquisition, however, ASU 2016-13 requires an ACL to be recognized for acquired loans similar to originated loans. We also recorded a day one adjustment of $9.9 million primarily related to a C&I relationship that was charged off in the first quarter of 2020. We obtained information on the relationship subsequent to filing our December 31, 2019 Form 10-K, but before the end of the first quarter of 2020. The updated information supported a loss existed at January 1, 2020. As of January 1, 2020, we recorded a cumulative-effect adjustment of $22.6 million to decrease retained earnings related to the adoption of ASU 2016-13.

Accounting Standards Issued But Not Yet Adopted

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 Financial Statements.

Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this ASU simplifies the accounting for income taxes by removing certain exceptions and improves the consistent application of GAAP by clarifying and amending other existing guidance. The amendments in this ASU were effective on January 1, 2021 and will have no impact on our Consolidated Financial Statements.

Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. Modified contracts that meet certain scope guidance are eligible for relief from the modification accounting requirements in US GAAP. The optional guidance generally allows for the modified contract to be accounted for as a continuation of the existing contract and does not require contract remeasurement at the modification date or reassessment of a previous accounting determination.

In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): The amendments in this ASU are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of the reference rate reform. The amendments also optionally apply to all entities that designate receive-variable-rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform.

The amendments in these ASUs are effective as of March 12, 2020 through December 31, 2022. We are evaluating the impact of these ASUs and we expect LIBOR transition to impact our business operations, but we have not yet determined the impact to our Consolidated Financial Statements.

Codification Improvements to Subtopic 310-20, Receivables--Nonrefundable Fees and Other Costs

In October 2020, the FASB issued ASU No. 2020-08, Codification Improvements to Subtopic 310-20, Receivables--Nonrefundable Fees and Other Costs. The amendments in this ASU affect the guidance in ASU No. 2017-08, relating to Premium Amortization of Purchased Callable Debt Securities and clarify the Board's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within scope of paragraph 310-20-35-33 for each reporting period. For each reporting period, to the extent that the amortized cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the next call date, the excess shall be amortized to the next call date. If there is no remaining premium or if there are no further call dates, the entity shall reset the effective yield using the payment terms of the debt security. The amendments in this ASU were effective on January 1, 2021 and did not materially impact our Consolidated Financial Statements.

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 beginning on December 1, 2019. Goodwill of $86.0 million at December 31, 2020 was calculated as the excess of the consideration exchanged over the fair value of the identifiable net assets acquired. All of the goodwill was assigned to our Community Banking segment. The goodwill recognized is not deductible for tax purposes.

Measurement period adjustments were $1.8 million as of November 30, 2020 which reflect facts and circumstances in existence as of the closing date of the acquisition. These measurement period adjustments primarily related to a $2.4 million reduction in the fair value of loans, a $0.3 million reduction in the fair value of borrowings, a $0.1 million reduction of other liabilities, a $0.1 million reduction in other assets and a $0.3 million increase in deferred income tax assets. The accounting for the acquisition was finalized on November 30, 2020.

NOTE 2. BUSINESS COMBINATIONS - continued

The following table presents the fair value adjustments and the measurement period adjustments as of the dates presented:

	November 30, 2019			November 30, 2020	
	As Recorded by DNB	**Fair Value Adjustments**	**As Recorded by S&T**	**Measurement Period Adjustments**	**As Recorded by S&T**
Fair Value of Assets Acquired					
Cash and cash equivalents	$ 64,119	$ —	$ 64,119	$ —	$ 64,119
Securities and other investments	108,715	183	108,898	—	108,898
Loans	917,127	(8,143)	908,984	(2,377)	906,607
Allowance for credit losses	(6,487)	6,487	—	—	—
Goodwill	15,525	(15,525)	—	—	—
Premises and equipment	6,782	8,090	14,872	—	14,872
Accrued interest receivable	4,138	—	4,138	—	4,138
Deferred income taxes	2,017	(3,298)	(1,281)	311	(970)
Core deposits and other intangible assets	269	(269)	—	—	—
Other assets	24,883	(4,278)	20,605	(116)	20,489
Total Assets Acquired	1,137,088	(16,753)	1,120,335	(2,182)	1,118,153
Fair Value of Liabilities Assumed					
Deposits	966,263	1,002	967,265	—	967,265
Borrowings	37,617	(276)	37,341	(257)	37,084
Accrued interest payable and other liabilities	11,157	(3,184)	7,973	(122)	7,851
Total Liabilities Assumed	1,015,037	(2,458)	1,012,579	(379)	1,012,200
Total Net Assets Acquired	$ 122,051	$ (14,295)	$ 107,756	$ (1,803)	$ 105,953
Core Deposit Intangible Asset			$ 7,288	$ —	$ 7,288
Wealth Management Intangible Asset			1,772	—	1,772
Total Fair Value of Net Assets Acquired and Identified			$ 116,816	$ (1,803)	$ 115,013
Consideration Paid					
Cash			$ 360	$ —	$ 360
Common stock			200,631	—	200,631
Fair Value of Total Consideration			$ 200,991	$ —	$ 200,991
Goodwill			$ 84,175	$ 1,803	$ 85,978

Loans acquired in the Merger were recorded at fair value with no carryover of the related ACL 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 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. During the measurement period ended November 30, 2020, the fair value of acquired loans was reduced by $2.4 million as we finalized our evaluation of the loan portfolio to reflect facts and circumstances in existence as of the acquisition date.

As of December 31, 2020, direct costs related to the DNB merger of $13.7 million were recognized and expensed as incurred. During the year ended December 31, 2020, we recognized $2.3 million of merger related expenses including $0.2 million in legal and professional fees, $1.4 million in severance payments and stay-bonuses, $0.4 million for data processing and $0.3 million in other expenses. 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.

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 2020 and 2019 and was used to determine reported diluted earnings per share. In 2018, the treasury stock method was more dilutive 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)	**2020**	**2019**	**2018**
Numerator for Earnings per Common Share—Basic:			
Net income	$ 21,040	$ 98,234	$ 105,334
Less: Income allocated to participating shares	68	260	304
Net Income Allocated to Common Shareholders	**$ 20,972**	**$ 97,974**	**$ 105,030**
Numerator for Earnings per Common Share—Diluted:			
Net income	**$ 21,040**	**$ 98,234**	**$ 105,334**
Denominators:			
Weighted Average Common Shares Outstanding—Basic	**39,070,439**	**34,628,191**	**34,775,784**
Add: Dilutive potential common shares	43,193	94,763	199,625
Denominator for Treasury Stock Method—Diluted	**39,113,632**	**34,722,954**	**34,975,409**
Weighted Average Common Shares Outstanding—Basic	**39,070,439**	**34,628,191**	**34,775,784**
Add: Average participating shares outstanding	2,780	51,287	100,733
Denominator for Two-Class Method—Diluted	**39,073,219**	**34,679,478**	**34,876,517**
Earnings per common share—basic	$ 0.54	$ 2.84	$ 3.03
Earnings per common share—diluted	$ 0.53	$ 2.82	$ 3.01
Warrants considered anti-dilutive excluded from dilutive potential common shares - exercise price $31.53 per share, expires January 2019[(1)]	—	—	267,106
Restricted stock considered anti-dilutive excluded from dilutive potential common shares	1,242	12,686	81,587

[(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, 2020 and 2019. Interest rate lock commitments to borrowers were transferred from Level 2 to Level 3 during the year ended December 31, 2020 due to pull-through factors being a significant unobservable input. There were no transfers between levels for items measured at fair value on a recurring basis at December 31, 2019.

	December 31, 2020			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$ —	$ 10,282	$ —	$ 10,282
Obligations of U.S. government corporations and agencies	—	82,904	—	82,904
Collateralized mortgage obligations of U.S. government corporations and agencies	—	209,296	—	209,296
Residential mortgage-backed securities of U.S. government corporations and agencies	—	67,778	—	67,778
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	273,681	—	273,681
Corporate obligations	—	2,025	—	2,025
Obligations of states and political subdivisions	—	124,427	—	124,427
Total Debt Securities Available-for-Sale	**—**	**770,393**	**—**	**770,393**
Marketable equity securities	3,228	72	—	3,300
Total Securities	**3,228**	**770,465**	**—**	**773,693**
Securities held in a deferred compensation plan	6,794	—	—	6,794
Derivative financial assets:				
Interest rate swaps	—	78,319	—	78,319
Interest rate lock commitments	—	—	2,900	2,900
Total Assets	**$ 10,022**	**$ 848,784**	**$ 2,900**	**$ 861,706**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$ —	$ 79,033	$ —	$ 79,033
Forward sale contracts	—	385	—	385
Total Liabilities	**$ —**	**$ 79,418**	**$ —**	**$ 79,418**

	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 obligations	—	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 deferred compensation plan	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

Assets Recorded at Fair Value on a Nonrecurring Basis

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, 2020 or December 31, 2019.

For Level 3 assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	December 31, 2020	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average [(1) (2) (3)]
Loans individually evaluated	$ 67,402	Collateral method	Appraisal adjustment	0% - 47%	16.90%
Other real estate owned	1,953	Collateral method	Costs to sell	4% - 7.00%	4.92%
Mortgage servicing rights	4,976	Discounted cash flow method	Discount rate	9.24% - 12.55%	9.42%
			Constant prepayment rates	8.82% - 14.58%	13.37%
Loans held for sale	586	Collateral method	none	NA	NA
Total Assets	**$ 74,917**				

NA - not applicable

(dollars in thousands)	December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average [(1) (2) (3)]
Loans individually evaluated	$ 38,697	Collateral method	Appraisal adjustment	0% - 20%	8.55%
		Discounted cash flow method	Discount rate	4.75% - 5.50%	5.28%
Other real estate owned	3,231	Collateral method	Costs to sell	7.00%	7.00%
Mortgage servicing rights	1,134	Discounted cash flow method	Discount rate	9.39% - 12.54%	9.49%
			Constant prepayment rates	7.46% - 12.74%	9.73%
Total Assets	**$ 43,062**				

[(1)]*Weighted averages for loans individually evaluated were weighted by loan amounts.*
[(2)]*Weighted averages for other real estate owned were weighted by OREO balances.*
[(3)]*Weighted averages for mortgage services rights discount rate and prepayment rates were weighted based on note rate tranches.*

NOTE 4. FAIR VALUE MEASUREMENTS -- continued

The carrying values and fair values of our financial instruments at December 31, 2020 and 2019 are presented in the following tables:

		Fair Value Measurements at December 31, 2020			
(dollars in thousands)	Carrying Value[(1)]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 229,666	$ 229,666	$ 229,666	$ —	$ —
Securities	773,693	773,693	3,228	770,465	—
Loans held for sale	18,528	18,528	—	—	18,528
Portfolio loans, net	7,108,248	7,028,446	—	—	7,028,446
Bank owned life insurance	82,303	82,303	—	82,303	—
FHLB and other restricted stock	13,030	13,030	—	—	13,030
Collateral receivable	77,936	77,936	77,936	—	—
Securities held in a deferred compensation plan	6,794	6,794	6,794	—	—
Mortgage servicing rights	4,976	4,976	—	—	4,976
Interest rate swaps	78,319	78,319	—	78,319	—
Interest rate lock commitments	2,900	2,900	—	—	2,900
LIABILITIES					
Deposits	$ 7,420,538	$ 7,422,894	$ 6,033,075	$ 1,389,819	$ —
Securities sold under repurchase agreements	65,163	65,163	65,163	—	—
Short-term borrowings	75,000	75,000	75,000	—	—
Long-term borrowings	23,681	24,545	4,494	20,051	—
Junior subordinated debt securities	64,083	64,083	64,083	—	—
Interest rate swaps	79,033	79,033	—	79,033	—
Forward sale contracts	385	385	—	385	—

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

		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 deferred compensation plan	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	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*

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 $15.5 million for 2020, $43.9 million for 2019 and $38.8 million for 2018. The decrease in the required reserve average from 2019 to 2020 was due to the Federal Reserve reducing the reserve requirement ratio to zero percent effective on March 26, 2020. The Federal Reserve maintained this reserve requirement ratio for the remainder of 2020.

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. In connection with our reduced net income and our inability to fully fund the dividend from earnings over the prior year, due in substantial part to the customer fraud that occurred in the second quarter of 2020, we received non-objection letters from the Federal Reserve to continue to pay our dividends declared in the third and fourth quarter of 2020. 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)	**2020**	**2019**
Debt securities available-for-sale	$ 770,393	$ 779,133
Marketable equity securities	3,300	5,150
Total Securities	**$ 773,693**	**$ 784,283**

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, 2020 and December 31, 2019:

	December 31, 2020				December 31, 2019			
(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	$ 9,980	$ 302	$ —	$ 10,282	$ 9,969	$ 71	$ —	$ 10,040
Obligations of U.S. government corporations and agencies	78,755	4,149	—	82,904	155,969	1,773	(45)	157,697
Collateralized mortgage obligations of U.S. government corporations and agencies	202,975	6,410	(89)	209,296	186,879	2,773	(304)	189,348
Residential mortgage-backed securities of U.S. government corporations and agencies	66,960	818	—	67,778	22,120	321	(23)	22,418
Commercial mortgage-backed securities of U.S. government corporations and agencies	258,875	14,806	—	273,681	273,771	2,680	(581)	275,870
Corporate Obligations	2,021	5	(1)	2,025	7,603	24	—	7,627
Obligations of states and political subdivisions	117,439	6,988	—	124,427	112,116	4,017	—	116,133
Total Debt Securities Available-for-Sale	**$ 737,005**	**$ 33,478**	**$ (90)**	**$ 770,393**	**$ 768,427**	**$ 11,659**	**$ (953)**	**$ 779,133**

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)	2020	2019	2018
Gross realized gains	$ 219	$ 41	$ —
Gross realized losses	(77)	(67)	—
Net Realized Gains/(Losses)	**$ 142**	**$ (26)**	**$ —**

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, 2020								
	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	—	—	—	—	—	—	—	—	—
Collateralized mortgage obligations of U.S. government corporations and agencies	2	35,697	(89)	—	—	—	2	35,697	(89)
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities of U.S. government corporations and agencies				—	—	—	—	—	—
Corporate Obligations	1	499	(1)	—	—	—	1	499	(1)
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Total	**3**	**$ 36,196**	**$ (90)**	**—**	**$ —**	**$ —**	**3**	**$ 36,196**	**$ (90)**

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

	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	**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.*

We evaluate securities with unrealized losses quarterly to determine if the decline in fair value has resulted from credit loss or other factors. We do not believe any individual unrealized loss as of December 31, 2020 represents an impairment. At December 31, 2020, there were 3 debt securities and at December 31, 2019 there were 27 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. We concluded that the ACL for debt securities was immaterial at December 31, 2020. Prior to the adoption of ASU 2016-13 there was no other than temporary impairment, or OTTI, recorded during the year ended December 31, 2019.

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, 2020						December 31, 2019					
(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	$	33,478	$	(90)	$	33,388	$	11,659	$	(953)	$	10,706
Income tax (expense) benefit		(7,128)		19		(7,109)		(2,486)		203		(2,283)
Net Unrealized Gains/(Losses), Net of Tax Included in Accumulated Other Comprehensive Income/(Loss)	**$**	**26,350**	**$**	**(71)**	**$**	**26,279**	**$**	**9,173**	**$**	**(750)**	**$**	**8,423**

The amortized cost and fair value of debt securities available-for-sale at December 31, 2020 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.

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

(dollars in thousands)	December 31, 2020 Amortized Cost	December 31, 2020 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	$ 40,495	$ 41,006
Due after one year through five years	103,119	109,043
Due after five years through ten years	41,370	43,765
Due after ten years	21,190	23,799
Debt Securities Available-for-Sale With Maturities	**206,174**	**217,613**
Collateralized mortgage obligations of U.S. government corporations and agencies	202,975	209,296
Residential mortgage-backed securities of U.S. government corporations and agencies	66,960	67,778
Commercial mortgage-backed securities of U.S. government corporations and agencies	258,875	273,681
Corporate Obligations	2,021	2,025
Total Debt Securities Available-for-Sale	**$ 737,005**	**$ 770,393**

At December 31, 2020 and 2019, debt securities with carrying values of $308 million and $286 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:

(dollars in thousands)	Years ended December 31, 2020	2019	2018
Marketable Equity Securities			
Net market (losses)/gains recognized	$ (500)	$ 334	$ (328)
Less: Net gains recognized for equity securities sold	142	—	—
Unrealized (Losses)/Gains on Equity Securities Still Held	**$ (642)**	**$ 334**	**$ (328)**

NOTE 8. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $16.0 million and $4.6 million at December 31, 2020 and 2019 and net of a discount related to purchase accounting fair value adjustments of $8.6 million and $12.3 million at December 31, 2020 and December 31, 2019.

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

(dollars in thousands)	December 31, 2020	December 31, 2019
Commercial		
Commercial real estate	$ 2,791,947	$ 3,059,592
Commercial and industrial	1,559,552	1,480,529
Commercial construction	466,077	370,060
Business banking	1,160,067	846,790
Total Commercial Loans	**5,977,643**	**5,756,971**
Consumer		
Consumer Real Estate	1,167,332	1,295,207
Other Consumer	80,885	84,974
Total Consumer Loans	**1,248,217**	**1,380,181**
Total Portfolio Loans	**7,225,860**	**7,137,152**
Loans held for sale	18,528	5,256
Total Loans[(1)]	**$ 7,244,388**	**$ 7,142,408**

(1) *Excludes interest receivable of $24.7 million at December 31, 2020 and $22.1 million at December 31, 2019. Interest receivable is included in other assets in the Consolidated Balance Sheets.*

Commercial and industrial loans, or C&I, included $465 million of loans originated under the Paycheck Protection Program, or PPP, at December 31, 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security, or CARES Act was signed into law. The CARES Act included the PPP, a program designed to aid small and medium sized businesses through federally guaranteed loans distributed through banks. PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted expenses in accordance with the requirements of the PPP. The loans are 100 percent guaranteed by the Small Business Administration, or SBA. These loans carry a fixed rate of 1.00 percent and a term of two years, or five years for loans approved by the SBA, on or after June 5, 2020. Payments are deferred for at least six months of the loan. The SBA pays us a processing fee ranging from 1.0 percent to 5.0 percent based on the size of the loan. Interest is accrued as earned and loan origination fees and direct costs are deferred and accreted or amortized into interest income over the contractual life of the loan using the level yield method. When a PPP loan is paid off or forgiven by the SBA, the remaining unaccreted or unamortized net origination fees or costs will be immediately recognized into income.

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 79 percent of total portfolio loans at December 31, 2020 and 77 percent at December 31, 2019. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised $3.7 billion or 66 percent of total commercial loans and 51 percent of total portfolio loans at December 31, 2020 and comprised $3.8 billion or 69 percent of total commercial loans and 53 percent of total portfolio loans at December 31, 2019. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of 15 percent of both total CRE and Commercial Construction loans at December 31, 2020 and 11 percent at December 31, 2019.

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 5.9 percent of the combined portfolios at December 31, 2020 and 5.4 percent at December 31, 2019. Exposure of total portfolio loans was 3.0 percent at December 31, 2020 compared to 2.9 percent of total portfolio loans at December 31, 2019.

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

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

	December 31, 2020		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$ 14	$ 16,654	$ 16,668
Commercial and industrial	7,090	9,885	16,975
Commercial construction	3,267	—	3,267
Business banking	1,503	430	1,933
Consumer real estate	5,581	2,319	7,900
Other consumer	5	—	5
Total[(1)]	**$ 17,460**	**$ 29,289**	**$ 46,748**

[(1)] *Refer to Note 1, Basis of Presentation for details of reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

	December 31, 2019		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$ 22,233	$ 6,713	$ 28,946
Commercial and industrial	6,909	695	7,604
Commercial construction	1,425	—	1,425
Residential mortgage	2,013	822	2,835
Home equity	4,371	678	5,049
Other consumer	9	4	13
Total	**$ 36,960**	**$ 8,912**	**$ 45,872**

The significant increase in nonperforming TDRs at December 31, 2020 compared to December 31, 2019 was primarily related to a $21.3 million CRE relationship that went nonaccrual in the first quarter of 2020 and was charged down by $10.0 million in the third quarter of 2020, leaving a remaining outstanding balance of $11.3 million and an $11.2 million C&I relationship that went nonaccrual and was charged down by $1.6 million during the fourth quarter of 2020 leaving a remaining outstanding balance of $9.6 million. Both relationships experienced continued deterioration as a result of the COVID-19 pandemic.

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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:

	2020			
(dollars in thousands)	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				
Payment deferral	1	5,292	4,791	(501)
Total Commercial Real Estate	**1**	**5,292**	**4,791**	**(501)**
Business Banking				
Maturity date extension	1	333	165	(168)
Total Business Banking	**1**	**333**	**165**	**(168)**
Commercial and Industrial				
Maturity date extension	1	11,195	9,605	(1,590)
Maturity date extension and interest rate reduction	1	3,735	3,735	—
Payment delay and below market interest rate	2	362	354	(8)
Payment deferral	1	93	22	(71)
Total Commercial and Industrial	**5**	**15,385**	**13,716**	**(1,669)**
Commercial Construction				
Maturity date extension	3	2,592	2,329	(263)
Total Commercial Construction	**3**	**2,592**	**2,329**	**(263)**
Consumer Real Estate				
Consumer bankruptcy[2]	22	988	956	(32)
Maturity date extension and reduction in payment	6	670	660	(10)
Payment deferral	1	30	29	(1)
Total Consumer Real Estate	**29**	**1,688**	**1,645**	**(43)**
Other Consumer				
Consumer bankruptcy[2]	1	5	4	(1)
Total Other Consumer	**1**	**$ 5**	**$ 4**	**$ (1)**
Totals by Concession Type				
Payment deferral	3	5,415	4,842	(573)
Maturity date extension	5	14,120	12,099	(2,021)
Maturity date extension and interest rate reduction	1	3,735	3,735	—
Payment delay and below market interest rate	2	362	354	(8)
Consumer bankruptcy[2]	23	993	960	(33)
Maturity date extension and reduction in payment	6	670	660	(10)
Total[3]	**40**	**$ 25,295**	**$ 22,650**	**$ (2,645)**

[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.

[3] Refer to Note 1, Basis of Presentation for details of reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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

	2019			
(dollars in thousands)	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 and interest rate reduction	1	150	145	(6)
Principal deferral	3	23,517	23,059	(458)
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**
Commercial and Industrial				
Maturity date extension and interest rate reduction	1	4,751	4,136	(616)
Principal deferral	1	1,250	1,250	—
Principal deferral and maturity date extension	1	292	275	(17)
Total Commercial and Industrial	**3**	**6,294**	**5,661**	**(633)**
Residential Mortgage				
Principal deferral and maturity date extension	3	183	183	—
Consumer bankruptcy[2]	3	165	157	(9)
Total Residential Mortgage	**6**	**348**	**340**	**(9)**
Home equity				
Principal deferral and maturity date extension	2	39	39	—
Interest rate reduction	2	190	188	(2)
Consumer bankruptcy[2]	29	886	810	(77)
Total Home Equity	**33**	**1,116**	**1,037**	**(79)**
Installment and Other Consumer				
Consumer bankruptcy[2]	4	16	11	(5)
Total Installment and Other Consumer	**4**	**$ 16**	**$ 11**	**$ (5)**
Totals by Concession Type				
Maturity date extension and interest rate reduction	2	4,902	4,280	(622)
Principal deferral	4	24,767	24,309	(458)
Principal deferral and Maturity date extension	7	950	933	(17)
Interest rate reduction	2	190	188	(2)
Below market interest rate	2	569	1,519	950
Consumer bankruptcy[2]	36	1,068	977	(91)
Total[3]	**53**	**$ 32,446**	**$ 32,206**	**$ (240)**

[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.*

[3] *Refer to Note 1, Basis of Presentation for details of reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

In response to the coronavirus, or COVID-19, pandemic and its economic impact on our customers, we implemented a short-term modification program that complies with the CARES Act to provide temporary payment relief to those borrowers directly impacted by COVID-19 who were not more than 30 days past due as of December 31, 2019. This program allows for a deferral of payments for 90 days and up to a maximum of 180 days for our commercial customers. The customer remains responsible for deferred payments along with any additional interest accrued during the deferral period. For our consumer customers, interest does not accrue during the deferral period and the maturity date is extended by the length of the deferral period. Under the applicable guidance, none of these loans were considered restructured during 2020. We had 52 loans that were modified totaling $195.6 million at December 31, 2020.

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

We had 20 commitments for $0.8 million to lend additional funds on TDRs at December 31, 2020 compared to 24 commitments for $4.6 million at December 31, 2019. We had one TDR with a total loan balance of $0.1 million that returned to accruing status during 2020. We returned six TDRs totaling $0.5 million to accruing status during 2019.

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place that were restructured within the last 12 months prior to defaulting. There were six TDRs totaling $11.8 million that defaulted during the year ended December 31, 2020 compared to no TDRs that defaulted during 2019. The increase in defaulted TDRs was primarily related to a $21.3 million CRE relationship that went nonaccrual in the first quarter of 2020 and charged down by $10.0 million in the third quarter of 2020, leaving a remaining outstanding balance of $11.3 million. The relationship experienced continued deterioration as a result of the COVID-19 pandemic.

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

	December 31,	
(dollars in thousands)	**2020**	**2019**
Nonperforming Assets		
Nonaccrual loans	$ 117,485	$ 45,145
Nonaccrual TDRs	29,289	8,912
Total nonaccrual loans	146,774	54,057
OREO	2,155	3,525
Total Nonperforming Assets	**$ 148,929**	**$ 57,582**

NPAs increased $91.3 million to $148.9 million during 2020 compared to $57.6 million at December 31, 2019. The significant increase in nonperforming loans primarily related to the addition of $56.3 million of hotel loans that moved to nonperforming during the fourth quarter of 2020 as a result of continued deterioration due to the COVID-19 pandemic. Also moving to nonperforming during 2020 were $11.3 million and $6.7 million CRE relationships that experienced financial deterioration that led to cash flow shortfalls, a $5.9 million CRE relationship that was associated with the customer fraud and a $15.1 million C&I relationship that experienced financial deterioration that led to cash flow shortfalls.

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:

	2020	**2019**
Balance at beginning of year	$ 8,225	$ 8,682
New loans	3,343	2,442
Repayments or no longer considered a related party	(5,239)	(2,899)
Balance at end of year	**$ 6,329**	**$ 8,225**

NOTE 9. ALLOWANCE FOR CREDIT LOSSES

We maintain an ACL at a level determined to be adequate to absorb estimated expected credit losses within the loan portfolio over the contractual life of an instrument that considers our historical loss experience, current conditions and forecasts of future economic conditions as of the balance sheet date. We develop and document a systematic ACL methodology based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Business Banking, 5) Consumer Real Estate and 6) 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, retail, multifamily and health care. The primary sources of repayment for these loans are the operations of the individual projects and global cash flows of the debtors. 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. The primary source of repayment for these loans is cash flow from the operations of the company. 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.

Business Banking—Commercial loans made to small businesses that are standard, non-complex products evaluated through a streamlined credit approval process that has been designed to maximize efficiency while maintaining high credit quality standards that meet small business market customers' needs. The business banking portfolio is monitored by utilizing a standard and closely managed process focusing on behavioral and performance criteria. 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 business.

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. 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.

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

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 within the pass rating generally have a lower risk of loss than loans risk rated as special mention or substandard.

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.

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

The following table presents loan balances by year of origination and internally assigned risk rating for our portfolio segments as of December 31, 2020:

	Risk Rating								
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015 and Prior**	**Revolving**	**Revolving-Term**	**Total**
Commercial Real Estate									
Pass	$ 334,086	$ 422,800	$ 394,963	$ 277,724	$ 307,321	$ 615,217	$ 46,330	—	$ 2,398,441
Special Mention	—	35,499	10,200	22,502	55,174	75,022	—	—	198,397
Substandard	—	17,259	12,781	19,914	50,700	83,792	1,500	—	185,946
Doubtful	—	645	—	—	1,989	6,529	—	—	9,163
Total Commercial Real Estate	**334,086**	**476,203**	**417,944**	**320,140**	**415,184**	**780,560**	**47,830**	**—**	**2,791,947**
Commercial and Industrial									
Pass	454,131	199,453	140,049	68,607	27,645	206,782	383,082	—	1,479,749
Special Mention	3,697	8,211	2,628	697	768	1,046	23,527	—	40,574
Substandard	—	7,793	2,613	8,544	75	13,781	2,022	—	34,828
Doubtful	—	—	—	4,401	—	—	—	—	4,401
Total Commercial and Industrial	**457,828**	**215,457**	**145,290**	**82,249**	**28,488**	**221,609**	**408,631**	**—**	**1,559,552**
Commercial Construction									
Pass	131,235	224,794	59,649	2,420	6,346	4,555	12,778	—	441,777
Special Mention	1,578	2,533	3,886	—	—	8,593	—	—	16,590
Substandard	—	3,580	—	501	—	3,629	—	—	7,710
Doubtful	—	—	—	—	—	—	—	—	—
Total Commercial Construction	**132,813**	**230,907**	**63,535**	**2,921**	**6,346**	**16,777**	**12,778**	**—**	**466,077**
Business Banking									
Pass	296,254	154,335	123,207	86,552	77,238	266,042	103,571	291	1,107,490
Special Mention	—	1,060	1,147	1,602	1,084	6,866	637	123	12,519
Substandard	103	1,078	3,896	3,209	3,880	25,871	1,341	680	40,058
Doubtful	—	—	—	—	—	—	—	—	—
Total Business Banking	**296,357**	**156,473**	**128,250**	**91,363**	**82,202**	**298,779**	**105,549**	**1,094**	**1,160,067**
Consumer Real Estate									
Pass	120,736	122,171	67,700	63,653	73,805	243,939	438,888	22,667	1,153,559
Special Mention	—	—	1,489	—	—	150	132	—	1,771
Substandard	—	373	742	1,480	2,449	6,958	—	—	12,002
Doubtful	—	—	—	—	—	—	—	—	—
Total Consumer Real Estate	**120,736**	**122,544**	**69,931**	**65,133**	**76,254**	**251,047**	**439,020**	**22,667**	**1,167,332**
Other consumer									
Pass	18,849	13,162	6,784	3,395	2,082	687	26,647	2,767	74,373
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	15	—	—	—	—	3,367	744	2,386	6,512
Doubtful	—	—	—	—	—	—	—	—	—
Total Other Consumer	**18,864**	**13,162**	**6,784**	**3,395**	**2,082**	**4,054**	**27,391**	**5,153**	**80,885**
Total Loan Balance	**$ 1,360,684**	**$ 1,214,746**	**$ 831,734**	**$ 565,201**	**$ 610,556**	**$ 1,572,826**	**$ 1,041,199**	**$ 28,914**	**$ 7,225,860**

We monitor the delinquent status of the commercial and consumer portfolios 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.

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

The following table presents loan balances by year of origination and performing and nonperforming status for our portfolio segments as of December 31, 2020:

(dollars in thousands)	2020	2019	2018	2017	2016	2015 and Prior	Revolving	Revolving-Term	Total
Commercial Real Estate									
Performing	$ 334,086	$ 459,799	$ 417,944	$ 313,465	$ 394,972	$ 722,782	$ 47,830	$ —	$ 2,690,879
Nonperforming	—	16,404	—	6,675	20,212	57,778	—	—	101,070
Total Commercial Real Estate	**334,086**	**476,203**	**417,944**	**320,140**	**415,184**	**780,560**	**47,830**	**—**	**2,791,947**
Commercial and Industrial									
Performing	457,828	214,144	143,706	69,411	28,426	220,701	408,350	—	1,542,566
Nonperforming	—	1,313	1,584	12,838	62	908	281	—	16,985
Total Commercial and Industrial	**457,828**	**215,457**	**145,290**	**82,249**	**28,488**	**221,609**	**408,631**	**—**	**1,559,552**
Commercial Construction									
Performing	132,813	230,907	63,535	2,921	6,346	16,393	12,778	—	465,692
Nonperforming	—	—	—	—	—	384	—	—	384
Total Commercial Construction	**132,813**	**230,907**	**63,535**	**2,921**	**6,346**	**16,777**	**12,778**	**—**	**466,077**
Business Banking									
Performing	296,327	156,164	126,432	90,414	80,106	286,970	105,494	1,037	1,142,944
Nonperforming	30	309	1,818	949	2,096	11,809	55	57	17,123
Total Business Banking	**296,357**	**156,473**	**128,250**	**91,363**	**82,202**	**298,779**	**105,549**	**1,094**	**1,160,067**
Consumer Real Estate									
Performing	120,736	122,315	69,225	63,647	74,690	245,331	438,702	21,572	1,156,216
Nonperforming	—	229	706	1,486	1,564	5,716	318	1,096	11,116
Total Consumer Real Estate	**120,736**	**122,544**	**69,931**	**65,133**	**76,254**	**251,047**	**439,020**	**22,667**	**1,167,332**
Other Consumer									
Performing	18,864	13,162	6,784	3,395	2,082	3,958	27,391	5,153	80,789
Nonperforming	—	—	—	—	—	96	—	—	96
Total Other Consumer	**18,864**	**13,162**	**6,784**	**3,395**	**2,082**	**4,054**	**27,391**	**5,153**	**80,885**
Performing	1,360,654	1,196,491	827,625	543,253	586,622	1,496,135	1,040,544	27,762	7,079,086
Nonperforming	30	18,254	4,108	21,948	23,934	76,691	654	1,153	146,774
Total Loan Balance	**$ 1,360,684**	**$ 1,214,746**	**$ 831,734**	**$ 565,201**	**$ 610,556**	**$ 1,572,826**	**$ 1,041,199**	**$ 28,914**	**$ 7,225,860**

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

	December 31, 2020[2]						
(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	$ 2,690,877	$ —	$ —	$ —	$ 101,070	$ 101,070	$ 2,791,947
Commercial and industrial	1,542,567	—	—	—	16,985	16,985	1,559,552
Commercial construction	462,094	19	3,580	—	384	3,983	466,077
Business banking	1,140,581	1,614	379	371	17,122	19,486	1,160,067
Consumer real estate	1,153,028	1,087	1,968	132	11,117	14,304	1,167,332
Other consumer	80,583	168	37	—	96	302	80,885
Total	**$ 7,069,730**	**$ 2,888**	**$ 5,965**	**$ 503**	**$ 146,774**	**$ 156,130**	**$ 7,225,860**

[1] *Represents acquired loans that were recorded at fair value at the acquisition date and remain performing at December 31, 2020.*
[2] *We had 52 loans that were modified totaling $195.6 million under the CARES Act at December 31, 2020. These customers were not considered past due as a result of their delayed payments. Upon exiting the loan modification deferral program, the measurement of loan delinquency will resume where it left off upon entry into the program. Due to the modification program, this delinquency table may not accurately reflect the credit risk associated with these loans.*

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

	December 31, 2019						
(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	$ 3,025,505	$ 7,749	$ 71	$ 911	$ 25,356	$ 34,087	$ 3,059,592
Commercial and industrial	1,466,460	126	1,589	1,443	10,911	14,069	1,480,529
Commercial construction	367,204	956	1,163	—	737	2,856	370,060
Business banking	830,735	5,093	1,099	—	9,863	16,055	846,790
Consumer real estate	1,283,591	2,620	1,758	1,175	6,063	11,616	1,295,207
Other consumer	81,866	1,448	305	228	1,127	3,108	84,974
Total	**$ 7,055,361**	**$ 17,992**	**$ 5,985**	**$ 3,757**	**$ 54,057**	**$ 81,791**	**$ 7,137,152**

The following table presents loans on nonaccrual status and loans past due 90 days or more and still accruing by class of loan:

	December 31, 2020				December 31, 2020 For the twelve months ended
(dollars in thousands)	Beginning of Period Nonaccrual	End of Period Nonaccrual	Nonaccrual With No Related Allowance	Past Due 90+ Days Still Accruing	Interest Income Recognized on Nonaccrual[(1)]
Commercial real estate	$ 25,356	$ 101,070	$60,401	$ —	$22
Commercial and industrial	10,911	16,985	6,436	—	101
Commercial construction	737	384	285	—	—
Business banking	9,863	17,122	3,890	371	275
Consumer real estate	6,063	11,117	398	132	423
Other consumer	1,127	96	—	—	4
Total	**$ 54,057**	**$ 146,774**	**$71,410**	**$ 503**	**$826**

[(1)] *Represents only cash payments received and applied to interest on nonaccrual loans.*

The following table presents collateral-dependent loans by class of loan:

	December 31, 2020 Type of Collateral			
(dollars in thousands)	Real Estate	Blanket Lien	Investment/Cash	Other
Commercial real estate	$100,450	$—	$—	$—
Commercial and industrial	1,040	15,080	—	—
Commercial construction	3,552	—	—	—
Business banking	3,085	1,619	—	689
Consumer real estate	398	—	—	—
Total	**$108,525**	**$16,699**	**$—**	**$689**

The following table presents activity in the ACL for year ended December 31, 2020:

	Twelve Months Ended December 31, 2020						
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial [(2)]	Commercial Construction	Business Banking[(1)]	Consumer Real Estate	Other Consumer	Total Loans
Allowance for credit losses on loans:							
Balance at beginning of period	$ 30,577	$ 15,681	$ 7,900	$ —	$ 6,337	$ 1,729	$ 62,224
Impact of CECL adoption	4,810	7,853	(3,376)	12,898	4,525	636	27,346
Provision for credit losses on loans	56,489	65,288	2,986	5,303	(368)	1,723	131,421
Charge-offs	(26,460)	(74,282)	(454)	(2,612)	(667)	(1,890)	(106,365)
Recoveries	240	1,560	183	328	187	488	2,986
Net (Charge-offs)/Recoveries	**(26,220)**	**(72,722)**	**(271)**	**(2,284)**	**(480)**	**(1,402)**	**(103,379)**
Balance at End of Period	**$ 65,656**	**$ 16,100**	**$ 7,239**	**$ 15,917**	**$ 10,014**	**$ 2,686**	**$ 117,612**

[(1)] *In connection with our adoption of ASU 2016-13, we made changes to our loan portfolio segments to align with the methodology applied in determining the*

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

allowance under CECL. Our new segmentation breaks out business banking loans from our other loan segments: CRE, C&I, commercial construction, consumer real estate and other consumer. The business banking allowance balance at the beginning of period is included in the other segments and reclassified to business banking through the impact of CECL adoption line.
(2) During the three months ended June 30, 2020, we experienced a pre-tax loss of $58.7 million related to a customer fraud resulting from a check kiting scheme.

The adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments resulted in an increase to our ACL of $27.4 million on January 1, 2020. The increase included $8.2 million for S&T legacy loans and $9.3 million for acquired loans from the DNB merger. We also recorded a day one adjustment of $9.9 million primarily related to a C&I relationship that was charged off in the first quarter of 2020. We obtained information on the relationship subsequent to filing our December 31, 2019 10-K, but before the end of the first quarter of 2020. The updated information supported a loss existed at January 1, 2020.

We recognized a charge-off of $58.7 million related to a customer fraud from a check kiting scheme during the second quarter of 2020. The fraud was perpetrated by a single business customer and the customer has plead guilty in an ongoing criminal investigation. We continue to pursue all available sources of recovery to mitigate the loss. The customer also had a lending relationship of $14.8 million, including a $14.0 million commercial real estate loan and an $0.8 million line of credit which resulted in an additional $8.9 million charge-off in 2020. At December 31, 2020, $5.9 million remains outstanding as a nonperforming loan that has been fully charged down to the estimated sale price of the collateral.

The impact of COVID-19 was captured in our quantitative reserve as certain impacted loans were downgraded to special mention and substandard and in our qualitative reserve through our economic forecast and other qualitative adjustments. Commercial special mention, substandard and doubtful loans increased $281 million to $571 million compared to $290 million at December 31, 2019, with an increase of $162 million in substandard loans, $113 million in special mention loans and $11.4 million in doubtful loans. The increase in both special mention and substandard loans was mainly due to downgrades in our hotel portfolio. Specific reserves on loans individually assessed increased $11.3 million to $13.5 million compared to $2.2 million in 2019. Included in the $13.5 million of specific reserves was $6.7 million for loans in our hotel portfolio. Specific reserves for hotels were based on liquidation values from appraisals received in the fourth quarter of 2020. Our qualitative reserve increased $14.1 million in 2020 which included $8.6 million for the economic forecast, $3.2 million for portfolio allocations made in our hotel, business banking and C&I portfolios due to the COVID-19 pandemic, and $2.3 million for current conditions. The change in reserve attributed to the economic forecast reflected reductions in the second and third quarters due to an improved economic forecast. Our forecast covers a period of two years and is driven primarily by national unemployment data. The change attributed to the portfolio allocations was primarily due to $3.0 million of ACL added for our business banking portfolio.

The C&I portfolio included $465.0 million of loans originated under the PPP at December 31, 2020. The loans are 100 percent guaranteed by the SBA, therefore, we have not assigned any ACL to these loans at December 31, 2020.

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, we calculated our allowance for loan losses using an incurred loan loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

The following table presents the recorded investment in commercial loan classes by internally assigned risk ratings as of the date 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 %	$ 5,254,056	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	0.1 %	55	— %	133	— %	2,211	— %
Total	**$ 3,416,518**	**100.0 %**	**$ 1,720,833**	**100.0 %**	**$ 375,445**	**100.0 %**	**$ 5,512,796**	**100.0 %**

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

The following table presents the recorded investment in consumer loan classes by performing and nonperforming status as of the date 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 %**

The following table presents investments in loans considered to be impaired and related information on those impaired loans as of December 31, 2019:

	December 31, 2019		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:			
Commercial real estate	$ 13,011	$ 14,322	$ 2,023
Commercial and industrial	10,001	10,001	55
Commercial construction	489	489	113
Consumer real estate	—	—	—
Other consumer	9	9	9
Total with a Related Allowance Recorded	**23,510**	**24,821**	**2,200**
Without a related allowance recorded:			
Commercial real estate	34,909	40,201	—
Commercial and industrial	7,605	10,358	—
Commercial construction	1,425	2,935	—
Consumer real estate	7,884	8,445	—
Other consumer	4	11	—
Total without a Related Allowance Recorded	**51,827**	**61,950**	**—**
Total:			
Commercial real estate	47,920	54,523	2,023
Commercial and industrial	17,606	20,359	55
Commercial construction	1,914	3,424	113
Consumer real estate	7,884	8,445	—
Other consumer	13	20	9
Total	**$ 75,337**	**$ 86,771**	**$ 2,200**

Note 9. ALLOWANCE FOR CREDIT LOSSES - continued

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

	For the Year Ended December 31, 2019	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:		
Commercial real estate	$ 14,018	$ —
Commercial and industrial	10,135	576
Commercial construction	489	—
Consumer real estate	—	—
Other consumer	13	1
Total with a Related Allowance Recorded	**24,655**	**577**
Without a related allowance recorded:		
Commercial real estate	35,739	943
Commercial and industrial	5,565	368
Commercial construction	1,831	131
Consumer real estate	8,190	397
Other consumer	7	—
Total without a Related Allowance Recorded	**51,332**	**1,839**
Total:		
Commercial real estate	49,757	943
Commercial and industrial	15,700	944
Commercial construction	2,320	131
Consumer real estate	8,190	397
Other consumer	20	1
Total	**$ 75,987**	**$ 2,416**

The following table details activity in the ALL for the period presented:

	2019					
(dollars in thousands)	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**

Loans acquired in the DNB merger were recorded at fair value of $909.0 million with no carryover of the related ALL.

The following table presents 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**

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

We have 51 lease contracts, including 48 operating leases and three finance leases. These leases are for our branch, loan production and support services facilities. 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 2020, 2019 and 2018.

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

(dollars in thousands)		2020		2019		2018
Operating lease expense	$	5,711	$	4,221	$	3,850
Amortization of ROU assets - finance leases		224		101		44
Interest on lease liabilities - finance leases [(1)]		84		74		11
Total Lease Expense	**$**	**6,019**	**$**	**4,396**	**$**	**3,905**

[(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:

(dollars in thousands)		2020		2019
Operating Leases				
ROU assets	$	46,245	$	47,686
Operating cash flows	$	6,489	$	5,028
Finance Leases				
ROU assets	$	1,278	$	1,513
Operating cash flows	$	84	$	47
Financing cash flows	$	180	$	57
Weighted Average Lease Term - Years				
Operating leases		18.70		19.18
Finance leases		12.09		12.16
Weighted Average Discount Rate				
Operating leases		5.90 %		5.94 %
Finance leases		5.81 %		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.

As of December 31, 2020, two operating leases were considered abandoned due to branch closures and the right-of-use asset values were reduced by $0.5 million to zero and the related liabilities were reduced by $0.2 million. We recognized additional expense of $0.3 million at the date of abandonment for these two leases.

The following table presents the maturity analysis of lease liabilities for finance and operating leases as of December 31, 2020:

(dollars in thousands)

Maturity Analysis		Finance		Operating		Total
2021	$	269	$	4,789	$	5,058
2022		225		4,855		5,080
2023		129		4,759		4,888
2024		130		4,752		4,882
2025		132		4,787		4,919
Thereafter		1,145		66,409		67,554
Total		**2,030**		**90,351**		**92,381**
Less: Present value discount		(636)		(38,402)		(39,038)
Lease Liabilities	**$**	**1,394**	**$**	**51,949**	**$**	**53,343**

NOTE 11. PREMISES AND EQUIPMENT

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

	December 31,	
(dollars in thousands)	**2020**	**2019**
Land	$ 8,651	$ 9,018
Premises	61,299	60,767
Furniture and equipment	45,072	41,713
Leasehold improvements	12,061	11,290
	127,083	**122,788**
Accumulated depreciation	(71,469)	(65,848)
Total	**$ 55,614**	**$ 56,940**

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 $0.2 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 $6.7 million in 2020, $5.4 million in 2019 and $5.0 million in 2018.

NOTE 12. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill as of the dates presented:

(dollars in thousands)	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 371,621	$ 287,446
Additions	1,803	84,175
Balance at End of Year	$ 373,424	$ 371,621

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Additional goodwill of $1.8 million and $84.2 million was recorded during 2020 and 2019 related to our acquisition of DNB. Refer to Note 2 Business Combinations for further details on the DNB merger.

Goodwill is reviewed for impairment annually or more frequently if it is determined that a triggering event has occurred. In response to the current economic environment as a result of the COVID-19 pandemic, we completed an interim quantitative goodwill impairment analysis as of August 31, 2020 and updated this analysis as of October 1, 2020, our annual goodwill impairment evaluation date. Additionally, we completed an interim quantitative goodwill impairment analysis as of November 30, 2020 and updated this analysis as of December 31, 2020. Based upon our impairment analysis, we determined that our goodwill of $373.4 million was not impaired at December 31, 2020.

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

(dollars in thousands)	December 31, 2020	December 31, 2019
Gross carrying amount at beginning of year	$ 31,052	$ 21,898
Additions	288	9,154
Accumulated amortization	(22,665)	(20,133)
Balance at End of Year	**$ 8,675**	**$ 10,919**

Intangible assets of $8.7 million at December 31, 2020 relate to core deposit and wealth management customer relationships resulting from acquisitions. The $0.3 million addition during 2020 related to acquired wealth management customer relationships. 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 2020 requiring an impairment analysis to be completed.

Amortization expense on finite-lived intangible assets totaled $2.5 million, $0.8 million and $0.9 million for 2020, 2019 and 2018.

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, 2020 and thereafter:

(dollars in thousands)	Amount
2021	$ 1,780
2022	1,518
2023	1,319
2024	1,151
2025	820
Thereafter	2,087
Total	**$ 8,675**

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)	2020	2019	2020	2019
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts—Commercial Loans				
Fair value	$ 78,319	$ 25,647	$ 79,033	$ 25,615
Notional amount	983,638	740,762	983,638	740,762
Collateral posted	—	—	77,930	26,127
Interest Rate Lock Commitments—Mortgage Loans				
Fair value	2,900	321	—	—
Notional amount	51,053	9,829	—	—
Forward Sale Contracts—Mortgage Loans				
Fair value	—	1	385	—
Notional amount	—	12,750	47,062	—

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)	2020	2019	2020	2019
Derivatives not Designated as Hedging Instruments				
Gross amounts recognized	$ 82,655	$ 26,146	$ 82,626	$ 26,114
Gross amounts offset	(4,336)	(499)	(3,593)	(499)
Net amounts presented in the Consolidated Balance Sheets	78,319	25,647	79,033	25,615
Gross amounts not offset[(1)]	—	—	(77,930)	(26,127)
Net Amount	**$ 78,319**	**$ 25,647**	**$ 1,103**	**$ (512)**

[(1)]*Amounts represent collateral 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)	2020	2019	2018
Derivatives not Designated as Hedging Instruments			
Interest rate swap contracts—commercial loans	$ (746)	$ (132)	$ 145
Interest rate lock commitments—mortgage loans	1,715	70	25
Forward sale contracts—mortgage loans	478	(54)	60
Total Derivative (Loss)/Gain	**$ 1,447**	**$ (116)**	**$ 230**

NOTE 14. MORTGAGE SERVICING RIGHTS

For the years ended December 31, 2020, 2019 and 2018, the 1-4 family mortgage loans that were sold to Fannie Mae amounted to $345.1 million, $94.5 million and $79.3 million. At December 31, 2020, 2019 and 2018 our servicing portfolio totaled $718.2 million, $509.2 million and $473.7 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, 2018	**$ 4,518**	**$ (54)**	**$ 4,464**
Additions	1,086	—	1,086
Amortization	(665)	—	(665)
Temporary recapture	—	(223)	(223)
Balance at December 31, 2019	**$ 4,939**	**$ (277)**	**$ 4,662**
Additions	2,887	—	2,887
Amortization	(1,206)	—	(1,206)
Temporary (impairment)	—	(1,354)	(1,354)
Balance at December 31, 2020	**$ 6,620**	**$ (1,631)**	**$ 4,989**

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 partnerships, or LIHPs. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. Our maximum exposure to loss associated with these investments consists of the investments' fair value plus any unfunded commitments as well as the denial of the tax credits if the project is deemed non-compliant. We do not have any loss reserves recorded related to these investments because we believe the likelihood of any loss to be remote. Our investments in LIHPs represent unconsolidated variable interest entities, or VIEs, and the assets and liabilities of the partnerships are not recorded on our Consolidated Balance Sheets. We have determined that we are not the primary beneficiary of these VIEs because we do not 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.

Our total investment in qualified affordable housing projects was $8.4 million at December 31, 2020 and $4.8 million at December 31, 2019. Amortization expense was $3.2 million, $2.6 million and $2.7 million as of December 31, 2020, 2019 and 2018. The amortization expense was offset by tax credits of $2.2 million, $4.2 million and $3.4 million as of December 31, 2020, 2019 and 2018 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, 2020, we have invested $7.1 million in this new project. No amortization expense or tax credits will be recognized for this new project until it is complete.

NOTE 16. DEPOSITS

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

	2020		2019		2018	
(dollars in thousands)	**Balance**	**Interest Expense**	**Balance**	**Interest Expense**	**Balance**	**Interest Expense**
Noninterest-bearing demand	$ 2,261,994	$ —	$ 1,698,082	$ —	$ 1,421,156	$ —
Interest-bearing demand	864,510	2,681	962,331	3,915	573,693	93
Money market	1,937,063	11,645	1,949,811	30,236	1,482,065	20,018
Savings	969,508	972	830,919	1,928	784,970	1,773
Certificates of deposit	1,387,463	20,688	1,595,433	26,947	1,412,038	18,972
Total	**$ 7,420,538**	**$ 35,986**	**$ 7,036,576**	**$ 63,026**	**$ 5,673,922**	**$ 40,856**

The aggregate of all certificates of deposits over $100,000, including brokered CDs, was $688.4 million and $754.8 million at December 31, 2020 and 2019. Certificates of deposits over $250,000, including brokered CDs, were $329.7 million and $347.5 million at December 31, 2020 and 2019.

The following table indicates the scheduled maturities of certificates of deposit at December 31, 2020:

(dollars in thousands)	**Amount**
2021	$ 1,182,938
2022	122,596
2023	27,825
2024	17,415
2025	33,149
Thereafter	3,540
Total	**$ 1,387,463**

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 $65.1 million and carrying value of $68.4 million at December 31, 2020 and amortized cost of $22.7 million and carrying value of $23.0 million at December 31, 2019 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:

	2020			2019			2018		
(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	$ 65,163	0.25 %	$ 169	$ 19,888	0.74 %	$ 110	$ 18,383	0.46 %	$ 222
FHLB advances	75,000	0.19 %	1,434	281,319	1.84 %	6,416	470,000	2.65 %	11,082
Total Short-term Borrowings	**$ 140,163**	**0.22 %**	**$ 1,603**	**$ 301,207**	**1.76 %**	**$ 6,526**	**$ 488,383**	**2.57 %**	**$ 11,304**

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 $22.3 million as of December 31, 2020 and $49.3 million as of December 31, 2019. Long-term FHLB advances are secured by the same loans as short-term FHLB advances. Total loans pledged as collateral at the FHLB were $4.1 billion at December 31, 2020. We were eligible to borrow up to an additional $2.5 billion based on qualifying collateral and up to a maximum borrowing capacity of $2.9 billion at December 31, 2020.

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)	**2020**	**2019**	**2018**
Long-term borrowings	$ 23,681	$ 50,868	$ 70,314
Weighted average interest rate	2.03 %	2.60 %	2.84 %
Interest expense	$ 1,201	$ 1,831	$ 1,129

Scheduled annual maturities and average interest rates for all of our long-term debt for each of the five years subsequent to December 31, 2020 and thereafter are as follows:

(dollars in thousands)	**Balance**	**Average Rate**
2021	$ 1,251	3.67 %
2022	7,689	2.27 %
2023	464	5.72 %
2024	13,381	1.35 %
2025	80	5.82 %
Thereafter	816	6.02 %
Total	**$ 23,681**	**2.03 %**

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:

	2020		**2019**		**2018**	
(dollars in thousands)	**Balance**	**Interest Expense**	**Balance**	**Interest Expense**	**Balance**	**Interest Expense**
Junior subordinated debt	$ 34,750	$ 1,007	$ 34,753	$ 1,059	$ 25,000	$ 951
Junior subordinated debt—trust preferred securities	29,333	1,279	29,524	1,251	20,619	1,149
Total	**$ 64,083**	**$ 2,286**	**$ 64,277**	**$ 2,310**	**$ 45,619**	**$ 2,100**

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, 2020	4.06%	1.98%	4.25%	1.82%	3.72%

NOTE 18. LONG-TERM BORROWINGS AND SUBORDINATED DEBT - continued

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

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.

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.

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

(dollars in thousands)	December 31, 2020	December 31, 2019
Commitments to extend credit	$ 2,185,752	$ 1,910,805
Standby letters of credit	89,095	80,040
Total	**$ 2,274,847**	**$ 1,990,845**

Allowance for Credit Losses on Unfunded Loan Commitments

We maintain an ACL on unfunded commercial and consumer lending commitments and letters of credit to provide for the risk of loss in these arrangements.

The activity in the unfunded loan commitments reserve is summarized as of the dates presented:

(dollars in thousands)	December 31, 2020	December 31, 2019
Balance at beginning of period	$ 3,112	$ 2,139
Impact of adopting ASU 2016-13 at January 1, 2020	1,349	—
Balance after adoption of ASU 2016-13	**4,461**	**2,139**
Provision for credit losses	6	973
Total	**$ 4,467**	**$ 3,112**

The increase in the reserve for unfunded commitments at December 31, 2020 was primarily related to the adoption of ASU 2016-13 on January 1, 2020.

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.

(dollars in thousands)		Years ended December 31, 2020	2019	2018
Revenue Streams [1]	**Point of Revenue Recognition**			
Service charges on deposit accounts	Over a period of time	$ 1,797	$ 1,859	$ 1,972
	At a point in time	9,907	11,457	11,124
		$ 11,704	**$ 13,316**	**$ 13,096**
Debit and credit card	Over a period time	$ 738	$ 723	$ 657
	At a point in time	14,355	12,682	12,022
		$ 15,093	**$ 13,405**	**$ 12,679**
Wealth management	Over a period of time	$ 7,919	$ 6,939	$ 7,113
	At a point in time	2,038	1,684	2,971
		$ 9,957	**$ 8,623**	**$ 10,084**
Other fee revenue	At a point in time	$ 3,722	$ 3,836	$ 3,854

[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 (benefit) expense for the years ended December 31:

(dollars in thousands)	2020	2019	2018
Federal			
Current	$ 4,256	$ 18,918	$ 13,616
Deferred	(4,273)	(406)	3,517
Total Federal	**(17)**	**18,512**	**17,133**
State			
Current	145	589	720
Deferred	(129)	25	(8)
Total State	**16**	**614**	**712**
Total Federal and State	**$ (1)**	**$ 19,126**	**$ 17,845**

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:

	2020	2019	2018
Statutory tax rate	21.0 %	21.0 %	21.0 %
Low income housing tax credits	(11.1) %	(3.3) %	(2.5) %
Tax-exempt interest	(11.9) %	(2.1) %	(2.1) %
Bank owned life insurance	(1.8) %	(0.4) %	(0.4) %
Gain on sale of a majority interest of insurance business	— %	— %	0.7 %
Merger related expenses	— %	0.3 %	— %
Other	3.8 %	0.8 %	0.3 %
Impact of the Tax Act	— %	— %	(2.5) %
Effective Tax Rate	**— %**	**16.3 %**	**14.5 %**

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, 2020	2019
Deferred Tax Assets:		
Allowance for credit losses	$ 26,051	$ 13,798
Lease liabilities	11,368	11,257
State net operating loss carryforwards	5,489	5,134
Net adjustment to funded status of pension	4,692	5,438
Low income housing partnerships	3,996	3,494
Other employee benefits	2,050	3,039
Other	3,798	1,856
Gross Deferred Tax Assets	**57,444**	**44,016**
Less: Valuation allowance	(5,489)	(5,134)
Total Deferred Tax Assets	**51,955**	**38,882**
Deferred Tax Liabilities:		
Right-of-use lease assets	(10,141)	(10,476)
Net unrealized gains on securities available-for-sale	(7,125)	(2,570)
Deferred loan income	(6,796)	(3,555)
Prepaid pension	(5,209)	(5,971)
Purchase accounting adjustments	(1,971)	(1,269)
Depreciation on premises and equipment	(1,275)	(592)
Other	(1,245)	(1,243)
Total Deferred Tax liabilities	**(33,762)**	**(25,676)**
Net Deferred Tax Asset	**$ 18,193**	**$ 13,206**

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 $5.5 million in 2020 and $5.1 million in 2019 related to Pennsylvania income tax NOLs. The Pennsylvania NOL carryforwards total $54.9 million and will expire in the years 2021-2041.

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)	2020	2019	2018
Balance at beginning of year	$ 1,051	$ 768	$ 909
Prior period tax positions	(18)	(10)	(251)
Current period tax positions	244	293	110
Balance at End of Year	**$ 1,277**	**$ 1,051**	**$ 768**
Amount That Would Impact the Effective Tax Rate if Recognized	**$ 1,027**	**$ 848**	**$ 607**

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, 2020, no significant changes to UTB are projected; however, tax audit examinations are possible. As of December 31, 2020, all income tax returns filed for the tax years 2017 - 2019 remain subject to examination by the Internal Revenue Service. The Bank's income tax returns for the audit years, January 1, 2016 through December 31, 2018 are currently under audit by the New York Department of Taxation. This audit has remained open as of December 31, 2020.

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**
2020			
Net change in unrealized gains on debt securities available-for sale	$ 22,683	$ (4,827)	$ 17,856
Net available-for-sale securities (gains) losses reclassified into earnings	—	—	—
Adjustment to funded status of employee benefit plans	3,549	(764)	2,785
Other Comprehensive Income	**$ 26,232**	**$ (5,591)**	**$ 20,641**
2019			
Net change in unrealized gains on securities available-for-sale	$ 15,793	$ (3,367)	$ 12,426
Net available-for-sale securities (gains) 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 losses on securities available-for-sale [(1)]	$ (6,794)	$ 1,449	$ (5,345)
Net available-for-sale securities (gains) losses reclassified into earnings	—	—	—
Adjustment to funded status of employee benefit plans	6,297	(1,343)	4,954
Other Comprehensive Loss	**$ (497)**	**$ 106**	**$ (391)**

[(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.*

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 3.45 percent.

The following table summarizes the activity in the benefit obligation and Plan assets deriving the funded status:

(dollars in thousands)		**2020**		**2019**
Change in Projected Benefit Obligation				
Projected benefit obligation at beginning of year	$	113,679	$	95,200
Interest cost		3,456		3,987
Actuarial gain/(loss)		10,525		13,996
Acquisitions - DNB merger		—		6,778
Benefits paid		(10,154)		(6,282)
Projected Benefit Obligation at End of Year	**$**	**117,506**	**$**	**113,679**
Change in Plan Assets				
Fair value of plan assets at beginning of year	$	116,652	$	101,765
Actual return on plan assets		15,731		16,358
Employer contributions		115		—
Acquisitions - DNB merger		—		4,811
Benefits paid		(10,154)		(6,282)
Fair Value of Plan Assets at End of Year	**$**	**122,344**	**$**	**116,652**
Funded Status	**$**	**4,838**	**$**	**2,973**

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

(dollars in thousands)		**2020**		**2019**
Net actuarial loss		(19,572)		(23,106)
Total (Before Tax Effects)	**$**	**(19,572)**	**$**	**(23,106)**

NOTE 23. EMPLOYEE BENEFITS -- continued

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

	2020	2019
Discount rate	2.48 %	3.25 %
Rate of compensation increase[(1)]	- %	— %

[(1)]Rate of compensation increase is not applicable for 2020 and 2019 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)	2020	2019	2018
Components of Net Periodic Pension Cost			
Interest cost on projected benefit obligation	3,456	3,987	3,882
Expected return on plan assets	(3,925)	(4,731)	(6,266)
Amortization of prior service credit - DNB merger	—	7	—
Recognized net actuarial loss	1,419	1,604	2,134
Settlement charge	833	—	—
Net Periodic Pension Expense	**$ 1,783**	**$ 867**	**$ (250)**
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income (Loss)			
Net actuarial loss/(gain)	$ (1,282)	$ 2,370	$ (3,271)
Recognized net actuarial loss	(1,419)	(1,604)	(2,134)
Settlement loss recognized	(833)	—	—
Recognized prior service credit	—	—	—
Total (Before Tax Effects)	**$ (3,534)**	**$ 766**	**$ (5,405)**
Total Recognized in Net Benefit Cost and Other Comprehensive Income/(Loss) (Before Tax Effects)	**$ (1,751)**	**$ 1,633**	**$ (5,655)**

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

	2020	2019	2018
Discount rate	3.25 %	4.31 %	3.75 %
Rate of compensation increase[(1)]	- %	— %	— %
Expected return on assets	3.45 %	4.80 %	7.50 %

[(1)]Rate of compensation increase is not applicable for 2020, 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 accumulated benefit obligation for the Plan was $117.5 million at December 31, 2020 and $113.7 million at December 31, 2019.

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. 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. At this time, S&T Bank is not required to make a cash contribution to the Plan in 2021.

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
2021	$ 8,200
2022	7,535
2023	7,364
2024	7,548
2025	7,020
2026 - 2030	32,237

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 $5.6 million and $5.3 million at December 31, 2020 and 2019. 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 $0.7 million for the year ended December 31, 2020 and $0.4 million for the year ended December 31, 2019 and 0.5 million for the year ended December 31, 2018. Additionally, $2.4 million before tax was reflected in accumulated other comprehensive income (loss) at December 31, 2020 and 2019 and $1.9 million at December 31, 2018, in relation to the SERPs. Net periodic benefit cost of $0.7 million for the year ended December 31, 2020 included a settlement charge of $0.2 million. 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 $2.4 million in 2020, $2.0 million in 2019 and $1.7 million in 2018.

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, 2020 and 2019. During the years ended December 31, 2020 and 2019 there were no transfers between Level 1 and Level 2 for items of a recurring basis. There were no purchases or transfers of Level 3 plan assets in 2020 or 2019.

	December 31, 2020 Fair Value Asset Classes[(1)]			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents[(2)]	$ 1,563	$ —	$ —	$ 1,563
Fixed income[(3)]	108,583	—	—	108,583
Equities:				
Equity index mutual funds—international[(4)]	3,332	—	—	3,332
Domestic individual equities[(5)]	8,866	—	—	8,866
Total Assets at Fair Value	**$ 122,344**	**$ —**	**$ —**	**$ 122,344**

[(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

(dollars in thousands)	December 31, 2019 Fair Value Asset Classes[1] 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 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 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. Previously granted but forfeited shares are added to the shares available for issuance. As of December 31, 2020, 760,636 restricted shares have been granted of which 136,896 were forfeited shares for a total of 623,740 restricted shares granted under the 2014 Incentive Plan. As of December 31, 2020, 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. During 2020, 2019 and 2018, we granted 23,153, 11,231 and 9,264 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.

During 2020, 2019 and 2018, we granted 207,550, 73,651 and 66,733 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.

Included in the 2020 grant of 207,550 restricted shares were 83,669 shares of common stock to three Senior Executive Officers. On October 2, 2020, The 2014 Incentive Stock Plan was modified in connection with the announcement that our Chief Executive Officer will retire on March 31, 2021. Upon retirement, he will transition to an advisory service role for a three year period. According to the terms of the Letter Agreement, any unvested equity awards held at retirement will vest according to the original terms during the consulting period and subject to the terms of Letter Agreement. Original awards of 20,916 restricted shares were forfeited and new awards were granted and revalued. Compensation expense decreased $0.3 million as a result of the modification agreement. Also in 2020, 62,753 restricted shares of common stock were granted to two other Senior Executive Officers with an increase to compensation expense of $1.3 million. Pursuant to the restricted stock award agreements, these awards will vest 33 percent on October 12, 2021, 33 percent on October 12, 2022 and 34 percent on October 12, 2023.

During 2020, 2019 and 2018, we recognized compensation expense of $0.7 million, $2.4 million and $1.9 million and realized a tax benefit of $0.2 million, $0.5 million and $0.4 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, 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**
Granted	230,703		23.43
Vested	77,317		37.39
Forfeited	58,741		32.77
Non-vested at December 31, 2020	**276,680**	**$**	**24.54**

As of December 31, 2020, there was $4.2 million of total unrecognized compensation cost related to restricted stock that will be recognized as compensation expense over a weighted average period of 2.16 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, 2020 and 2019 and the results of its operations and cash flows for each of the three years ended December 31, 2020, 2019 and 2018.

BALANCE SHEETS

	December 31,	
(dollars in thousands)	**2020**	**2019**
ASSETS		
Cash	$ 6,585	$ 7,509
Investments in:		
Bank subsidiary	1,168,831	1,198,964
Non-bank subsidiaries	10,493	16,393
Other assets	8,614	9,741
Total Assets	**$ 1,194,523**	**$ 1,232,607**
LIABILITIES		
Long-term debt	$ 39,317	$ 39,277
Other liabilities	495	1,332
Total Liabilities	**39,812**	**40,609**
Total Shareholders’ Equity	**1,154,711**	**1,191,998**
Total Liabilities and Shareholders’ Equity	**$ 1,194,523**	**$ 1,232,607**

STATEMENTS OF NET INCOME

	Years ended December 31,		
(dollars in thousands)	**2020**	**2019**	**2018**
Dividends from subsidiaries	$ 59,315	$ 59,490	$ 44,988
Investment income	—	1	24
Total Income	**59,315**	**59,491**	**45,012**
Interest expense on long-term debt	1,696	1,285	1,149
Other expenses	4,464	4,325	3,988
Total Expense	**6,160**	**5,610**	**5,137**
Income before income tax and undistributed net income of subsidiaries	**53,155**	**53,881**	**39,875**
Income tax benefit	(1,315)	(1,189)	(1,093)
Income before undistributed net income of subsidiaries	**54,470**	**55,070**	**40,968**
Equity in undistributed net income (distribution in excess of net income) of:			
Bank subsidiary	(27,529)	42,683	68,385
Non-bank subsidiaries	(5,901)	481	(4,019)
Net Income	**$ 21,040**	**$ 98,234**	**$ 105,334**

NOTE 25. PARENT COMPANY CONDENSED FINANCIAL INFORMATION -- continued

STATEMENTS OF CASH FLOWS

	Years ended December 31,		
(dollars in thousands)	2020	2019	2018
OPERATING ACTIVITIES			
Net Income	$ 21,040	$ 98,234	$ 105,334
Equity in undistributed (earnings) losses of subsidiaries	33,430	(43,164)	(64,366)
Other	1,708	(99)	1,695
Net Cash Provided by Operating Activities	**56,178**	**54,971**	**42,663**
INVESTING ACTIVITIES			
Net investments in subsidiaries	—	176	—
Acquisitions	—	(10)	—
Net Cash Provided by Investing Activities	**—**	**166**	**—**
FINANCING ACTIVITIES			
Sale of treasury shares, net	(594)	(915)	(657)
Purchase of treasury shares	(12,559)	(18,222)	(12,256)
Cash dividends paid to common shareholders	(43,949)	(37,360)	(34,539)
Payment to repurchase of warrant	—	—	(7,652)
Net Cash Used in Financing Activities	**(57,102)**	**(56,497)**	**(55,104)**
Net decrease in cash	(924)	(1,360)	(12,441)
Cash at beginning of year	7,509	8,869	21,310
Cash at End of Year	**$ 6,585**	**$ 7,509**	**$ 8,869**

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 2020 and 2019.

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 ACL subject to limitation. We currently have $32.8 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, 2020 and 2019, 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, 2020						
Leverage Ratio						
S&T	$ 825,515	9.43 %	$ 350,311	4.00 %	$ 437,889	5.00 %
S&T Bank	810,636	9.27 %	349,739	4.00 %	437,174	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
S&T	796,515	11.33 %	316,338	4.50 %	456,933	6.50 %
S&T Bank	810,636	11.55 %	315,792	4.50 %	456,144	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
S&T	825,515	11.74 %	421,784	6.00 %	562,379	8.00 %
S&T Bank	810,636	11.55 %	421,056	6.00 %	561,408	8.00 %
Total Capital (to Risk-Weighted Assets)						
S&T	944,686	13.44 %	562,379	8.00 %	702,974	10.00 %
S&T Bank	922,007	13.14 %	561,408	8.00 %	701,760	10.00 %
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 %

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)	2020 Fourth Quarter	2020 Third Quarter	2020 Second Quarter	2020 First Quarter	2019 Fourth Quarter [1]	2019 Third Quarter	2019 Second Quarter	2019 First Quarter
SUMMARY OF OPERATIONS								
Interest income	$ 75,548	$ 76,848	$ 80,479	$ 87,589	$ 82,457	$ 79,813	$ 79,624	$ 78,590
Interest expense	5,620	7,572	10,331	17,553	18,045	18,617	18,797	18,234
Provision for credit losses	7,130	17,485	86,759	20,050	2,105	4,913	2,205	5,649
Net Interest Income After Provision For Credit Losses	**62,798**	**51,791**	**(16,611)**	**49,986**	**62,307**	**56,283**	**58,622**	**54,707**
Security gains (losses), net	—	—	142	—	(26)	—	—	—
Noninterest income	15,609	16,483	15,082	12,403	15,257	13,063	12,901	11,363
Noninterest expense	48,529	48,246	43,478	46,391	50,178	37,667	40,352	38,919
Income Before Taxes	**29,878**	**20,028**	**(44,865)**	**15,998**	**27,360**	**31,679**	**31,171**	**27,151**
Provision for income taxes	5,702	3,323	(11,793)	2,767	5,091	4,743	5,070	4,222
Net Income	**$ 24,176**	**$ 16,705**	**$ (33,072)**	**$ 13,231**	**$ 22,269**	**$ 26,936**	**$ 26,101**	**$ 22,929**
Per Share Data								
Common earnings per share—diluted	$ 0.62	$ 0.43	$ (0.85)	$ 0.34	$ 0.62	$ 0.79	$ 0.76	$ 0.66
Dividends declared per common share	0.28	0.28	0.28	0.28	0.28	0.27	0.27	0.27
Common book value	29.38	29.10	28.93	30.06	30.13	28.69	28.11	27.47

[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. As of December 31, 2018, we repurchased 321,731 common shares at a total cost of $12.3 million, or an average of $38.10 per share. In 2019, we repurchased 470,708 common shares at a total cost of $18.2 million, or an average of $38.71 per share. 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 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. No common shares were repurchased under the new repurchase plan as of December 31, 2019. As of December 31, 2020, we repurchased 411,430 common shares at a total cost of $12.6 million, or an average of $30.52 per share under the September 16, 2019 plan. Repurchase activity was suspended in March of 2020 due to the impact of the COVID-19 pandemic.

The specific timing, price and quantity of repurchases will be at our discretion 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.

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, 2020 and 2019, the related consolidated statements of net income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 February 26, 2021 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.

Adoption of New Accounting Standard

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company changed its method of accounting for credit losses in 2020. As explained below, auditing the Company’s allowance for credit losses was a critical audit matter.

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 Credit Losses ("ACL")

Description of the Matter	On January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments, which resulted in an increase to the allowance for credit losses (ACL) from retained earnings of $22.6 million. At December 31, 2020, the Company's gross portfolio of loans was $7.2 billion with an associated ACL of $117.6 million. As discussed in Note 1 to the consolidated financial statements, the ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers historical loss experience, current conditions and forecasts of future economic conditions. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and an individual assessment of loans that do not share risk characteristics with other loans to determine if a specific reserve or a charge-off is appropriate. The ACL for homogeneous loans is calculated using a life-time loss rate methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. Management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. The reasonable and supportable forecast adjustment is based on forecasted unemployment. The qualitative adjustments for current conditions are based upon value of underlying collateral for collateral dependent loans and the existence of and changes in concentrations for the commercial loan portfolios. Auditing the ACL involves a high degree of subjectivity due to the qualitative adjustments. Management's identification and measurement of the qualitative adjustments is highly judgmental and could have a significant effect on the ACL.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's controls over the ACL process, which include, among others, management's review and approval controls designed to assess the need for and level of qualitative adjustments 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 the basis for the adjustments and whether all relevant risks were reflected in the ACL. Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy and relevance of the underlying internal and external data utilized in management's estimate and considered the existence of additional or contrary information. We evaluated the overall ACL, inclusive of the qualitative adjustments, and whether the amount appropriately reflects a reasonable estimate of lifetime losses by comparing the overall ACL to historical losses and ACL reserves established by peer banking institutions.

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

Pittsburgh, Pennsylvania
February 26, 2021

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, 2020, 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, 2020, 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, 2020 and 2019, the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 26, 2021 expressed an unqualified opinion thereon.

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
February 26, 2021

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, 2020. 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, 2020, 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, 2020, 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, 2020, 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). Based on this assessment, management concluded that, as of December 31, 2020, 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, 2020, 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 17, 2021 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 17, 2021 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 17, 2021 annual meeting of shareholders.

Equity Compensation Plan Information

The following table provides information as of December 31, 2020 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)]	101,306 [(2)]		126,260
Equity compensation plans not approved by shareholders	—	—	—
Total	**101,306**	**$ —**	**126,260**

[(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 17, 2021 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 2021” in our proxy statement relating to our May 17, 2021 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.
—	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 December 23, 2020, 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 as Exhibit 4.1 to S&T Bancorp, Inc. Annual Report on Form 10-K for year ended December 31, 2019, and incorporated herein by reference
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	Letter Agreement, dated as of October 2, 2020, by and between S&T Bancorp, Inc. and Todd D. Brice. Filed as Exhibit 10.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 2, 2020, and incorporated herein by reference.*

(b) Exhibits	
—	Confidentiality, Trade Secrets, Non-Solicitation and Severance Agreement, dated October 14, 2020, by and between David G. Antolik and S&T Bancorp, Inc. Filed as Exhibit 10.3 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 16, 2020, and incorporated herein by reference.*
—	Restricted Stock Award Agreement David G. Antolik, dated October 12, 2020. Filed as Exhibit 10.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 16, 2020, and incorporated herein by reference.*
—	Confidentiality, Trade Secrets, Non-Solicitation and Severance Agreement, dated October 14, 2020, by and between Mark Kochvar and S&T Bancorp, Inc. Filed as Exhibit 10.4 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 16, 2020.
—	Restricted Stock Award Agreement Mark Kochvar, dated October 12, 2020. Filed as Exhibit 10.2 to S&T Bancorp, Inc. Current Report on Form 8-K filed on October 16, 2020, and incorporated herein by reference.*
10.10	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. *
10.11	Severance and General Release Agreement, dated August 4, 2020, by and between David P. Ruddock and S&T Bancorp, Inc., S&T Bank and any of their subsidiaries or affiliated business. Filed as Exhibit 10.1 to S&T Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference *
10.12	Confidentiality, Trade Secrets, Non-Solicitation and Severance Agreement, dated November 2, 2020, by and between Ernest J. Draganza and S&T Bancorp, Inc., S&T Bank and their subsidiaries and affiliated companies. Filed as Exhibit 10.2 to S&T Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, 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.
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	2/26/2021
Todd D. Brice Chief Executive Officer (Principal Executive Officer)	Date
/s/ Mark Kochvar	2/26/2021
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. Brice Todd D. Brice	Chief Executive Officer and Director (Principal Executive Officer)	2/26/2021
/s/ Mark Kochvar Mark Kochvar	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	2/26/2021
/s/ Melanie Lazzari Melanie Lazzari	Executive Vice President, Controller	2/26/2021
/s/ David G. Antolik David G. Antolik	President and Director	2/26/2021
/s/ Christine J. Toretti Christine J. Toretti	Chair of the Board and Director	2/26/2021
Lewis W. Adkins Jr.	Director	2/26/2021
/s/ Peter R. Barsz Peter R. Barsz	Director	2/26/2021

SIGNATURE	TITLE	DATE
/s/ Christina A. Cassotis Christina A. Cassotis	Director	2/26/2021
/s/ Michael J. Donnelly Michael J. Donnelly	Director	2/26/2021
/s/ James T. Gibson James T. Gibson	Director	2/26/2021
/s/ Jeffrey D. Grube Jeffrey D. Grube	Director	2/26/2021
/s/ William J. Hieb William J. Hieb	Director	2/26/2021
Jerry D. Hostetter	Director	2/26/2021
/s/ Robert E. Kane Robert E. Kane	Director	2/26/2021
James C. Miller	Director	2/26/2021
/s/ Frank J. Palermo, Jr. Frank J. Palermo, Jr.	Director	2/26/2021
/s/ Steven J. Weingarten Steven J. Weingarten	Director	2/26/2021

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 February 26, 2021 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, 2020.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
February 26, 2021

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: February 26, 2021

/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: February 26, 2021

/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, 2020 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: February 26, 2021

/s/ Todd D. Brice	/s/ Mark Kochvar
Todd D. Brice, Chief Executive Officer	Mark Kochvar, Senior Executive Vice President, Chief Financial Officer