S&T BANCORP INC
Form 10-Q
November 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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)

800-325-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)
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 x 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 (Section 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 x 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	x	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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common Stock, $2.50 Par Value - 35,006,587 shares as of October 31, 2018

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

INDEX
S&T BANCORP, INC. AND SUBSIDIARIES

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands, except per share data)	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $68,018 and $61,965 at September 30, 2018 and December 31, 2017	$132,650	$117,152
Securities, at fair value	682,535	698,291
Loans held for sale	4,207	4,485
Portfolio loans, net of unearned income	5,807,807	5,761,449
Allowance for loan losses	(60,556)	(56,390)
Portfolio loans, net	5,747,251	5,705,059
Bank owned life insurance	73,626	72,150
Premises and equipment, net	41,403	42,702
Federal Home Loan Bank and other restricted stock, at cost	31,178	29,270
Goodwill	287,446	291,670
Other intangible assets, net	2,725	3,677
Other assets	102,342	95,799
Total Assets	$7,105,363	$7,060,255
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,412,127	$1,387,712
Interest-bearing demand	561,191	603,141
Money market	1,367,181	1,146,156
Savings	817,545	893,119
Certificates of deposit	1,309,465	1,397,763
Total Deposits	5,467,509	5,427,891
Securities sold under repurchase agreements	45,200	50,161
Short-term borrowings	535,000	540,000
Long-term borrowings	45,434	47,301
Junior subordinated debt securities	45,619	45,619
Other liabilities	46,820	65,252
Total Liabilities	6,185,582	6,176,224
SHAREHOLDERS’ EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at September 30, 2018 and December 31, 2017	90,326	90,326
Outstanding— 35,006,587 shares at September 30, 2018 and 34,971,929 shares at December 31, 2017		
Additional paid-in capital	209,685	216,106
Retained earnings	684,361	628,107
Accumulated other comprehensive loss	(33,253)	(18,427)
Treasury stock (1,123,893 shares at September 30, 2018 and 1,158,551 shares at December 31, 2017, at cost)	(31,338)	(32,081)

Total Shareholders’ Equity	919,781	884,031
Total Liabilities and Shareholders’ Equity	$7,105,363	$7,060,255

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2018	2017	2018	2017
INTEREST INCOME				
Loans, including fees	$68,631	$62,450	$198,296	$179,908
Investment Securities:				
Taxable	3,649	2,988	10,597	8,783
Tax-exempt	857	896	2,603	2,744
Dividends	490	389	1,741	1,352
Total Interest Income	73,627	66,723	213,237	192,787
INTEREST EXPENSE				
Deposits	10,871	6,748	27,883	18,103
Borrowings and junior subordinated debt securities	3,494	2,519	10,758	6,779
Total Interest Expense	14,365	9,267	38,641	24,882
NET INTEREST INCOME	59,262	57,456	174,596	167,905
Provision for loan losses	462	2,850	12,279	12,901
Net Interest Income After Provision for Loan Losses	58,800	54,606	162,317	155,004
NONINTEREST INCOME				
Net gain on sale of securities	—	—	—	3,987
Service charges on deposit accounts	3,351	3,207	9,765	9,218
Debit and credit card	3,141	3,067	9,487	8,952
Wealth management	2,483	2,406	7,782	7,237
Mortgage banking	700	872	2,133	2,280
Insurance	101	1,318	404	4,232
Gain on sale of a majority interest of insurance business	—	—	1,873	—
Other	2,266	2,681	6,642	6,906
Total Noninterest Income	12,042	13,551	38,086	42,812
NONINTEREST EXPENSE				
Salaries and employee benefits	19,769	20,325	57,195	60,770
Data processing and information technology	2,906	2,284	7,610	6,670
Net occupancy	2,722	2,692	8,399	8,258
Furniture, equipment and software	2,005	1,890	6,096	5,746
Other taxes	1,341	1,208	4,928	3,268
Professional services and legal	1,181	869	3,120	2,868
Marketing	1,023	766	2,916	2,468
FDIC insurance	746	1,152	2,592	3,461
Other	5,392	5,367	16,174	16,451
Total Noninterest Expense	37,085	36,553	109,030	109,960
Income Before Taxes	33,757	31,604	91,373	87,856
Provision for income taxes	2,876	8,883	12,893	24,182
Net Income	$30,881	$22,721	$78,480	$63,674
Earnings per share—basic	$0.89	$0.65	$2.26	$1.83
Earnings per share—diluted	$0.88	$0.65	$2.24	$1.82
Dividends declared per share	$0.25	$0.20	$0.72	$0.60

Comprehensive Income	$28,573	$22,975	$67,943	$64,854

See Notes to Consolidated Financial Statements

3

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(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 January 1, 2017	$90,326	$213,098	$585,891	$ (13,784)	$(33,575)	$841,956
Net income for nine months ended September 30, 2017	—	—	63,674	—	—	63,674
Other comprehensive income, net of tax	—	—	—	1,180	—	1,180
Cash dividends declared ($0.60 per share)	—	—	(20,899)	—	—	(20,899)
Treasury stock issued for restricted awards (90,115 shares, net of 23,946 forfeitures)	—	—	(2,383)	—	1,695	(688)
Recognition of restricted stock compensation expense	—	2,353	—	—	—	2,353
Balance at September 30, 2017	$90,326	$215,451	$626,283	$ (12,604)	$(31,880)	$887,576
Balance at January 1, 2018	$90,326	$216,106	$628,107	$ (18,427)	$(32,081)	$884,031
Net income for nine months ended September 30, 2018	—	—	78,480	—	—	78,480
Other comprehensive loss, net of tax	—	—	—	(10,537)	—	(10,537)
Reclassification of tax effects from the Tax Act[1]	—	—	3,427	(3,427)	—	—
Reclassification of net unrealized gains on equity securities[2]	—	—	862	(862)	—	—
Cash dividends declared ($0.72 per share)	—	—	(25,115)	—	—	(25,115)
Treasury stock issued for restricted awards (75,608 shares, net of 40,950 forfeitures)	—	—	(1,400)	—	743	(657)
Repurchase of warrant	—	(7,652)	—	—	—	(7,652)
Recognition of restricted stock compensation expense	—	1,231	—	—	—	1,231
Balance at September 30, 2018	$90,326	$209,685	$684,361	$ (33,253)	$(31,338)	$919,781

See Notes to Consolidated Financial Statements

[1]Reclassification due to the adoption of ASU No. 2018-02, $(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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	2018	2017
OPERATING ACTIVITIES		
Net income	$78,480	$63,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,279	12,901
Recovery for unfunded loan commitments	(39)	(546)
Net depreciation, amortization and accretion	3,309	1,597
Net amortization of discounts and premiums on securities	2,387	3,065
Stock-based compensation expense	1,231	2,353
Gain on sale of securities	—	(3,987)
Mortgage loans originated for sale	(68,898)	(66,535)
Proceeds from the sale of mortgage loans	70,371	66,604
Gain on the sale of mortgage loans, net	(1,195)	(1,061)
Gain on the sale of majority interest of insurance business	(1,873)	—
Pension contribution	(20,420)	—
Net increase in interest receivable	(1,506)	(3,886)
Net increase in interest payable	803	448
Net decrease in other assets	352	8,735
Net increase in other liabilities	9,904	69
Net Cash Provided by Operating Activities	85,185	83,431
INVESTING ACTIVITIES		
Purchases of securities	(79,068)	(69,699)
Proceeds from maturities, prepayments and calls of securities	71,433	58,601
Proceeds from sales of securities	—	7,751
Net (purchases) sales of Federal Home Loan Bank stock	(1,909)	1,304
Net increase in loans	(64,387)	(268,132)
Proceeds from sale of loans not originated for resale	7,695	3,581
Purchases of premises and equipment	(2,588)	(3,646)
Proceeds from the sale of premises and equipment	135	376
Proceeds from the sale of majority interest of insurance business	4,540	—
Net Cash Used in Investing Activities	(64,149)	(269,864)
FINANCING ACTIVITIES		
Net increase in core deposits	127,917	109,637
Net (decrease) increase in certificates of deposit	(88,203)	61,048
Net decrease in securities sold under repurchase agreements	(4,961)	(10,909)
Net (decrease) increase in short-term borrowings	(5,000)	25,000
Repayments of long-term borrowings	(1,867)	(1,802)
Treasury shares issued-net	(657)	(688)
Cash dividends paid to common shareholders	(25,115)	(20,899)
Repurchase of warrant	(7,652)	—
Net Cash (Used) Provided by Financing Activities	(5,538)	161,387
Net increase (decrease) in cash and cash equivalents	15,498	(25,046)
Cash and cash equivalents at beginning of period	117,152	139,486

Cash and Cash Equivalents at End of Period	$132,650	$114,440
Supplemental Disclosures		
Loans transferred to held for sale	$7,695	$43,151
Deposits transferred to held for sale	$—	$38,960
Interest paid	$37,838	$24,682
Income taxes paid, net of refunds	$15,728	$21,096
Transfer net assets to investment in insurance company partnership	$1,917	$—
Transfers of loans to other real estate owned	$647	$2,116

See Notes to Consolidated Financial Statements

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

The interim Consolidated Financial Statements include the accounts of S&T Bancorp, Inc., or 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.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, or SEC, on March 1, 2018. In the opinion of management, the accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

On January 1, 2018, we sold a 70 percent majority interest in the assets of our wholly-owned subsidiary S&T Evergreen Insurance, LLC. We transferred our remaining 30 percent ownership interest in the net assets of S&T Evergreen Insurance, LLC to a new entity for a 30 percent ownership interest in a new insurance entity (see Note 13: 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.

Reclassification

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Revenue from Contracts with Customers

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

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

Service charges on deposit accounts - We recognize monthly service charges for both commercial and personal banking customers based on account fee schedules. Our performance obligation is generally satisfied and the related revenue recognized over the period in which the service is 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.

Wealth management services - Wealth management services is primarily comprised of fees earned from the management and administration of trusts, assets under management, brokerage and other financial advisory services. Fees are earned over a period of time per the related fee schedules. The fees are based on a fixed amount or a scale based on the level of services provided or assets under management.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Recently Adopted Accounting Standards Updates, or ASU or Update

Income Statement - Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board, or FASB, issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update allow a reclassification from accumulated other comprehensive income, or AOCI, to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, or Tax Act. The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users and will require certain disclosures about the stranded tax effects. This Update is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued or made available for issuance. We have elected to reclassify all tax effects related to the Tax Act from AOCI to retained earnings as of January 1, 2018. As such, we have early adopted this Update and reclassified $3.4 million for the release of stranded income tax effects relating to unrealized gains and losses on our securities portfolio and our pension plan from AOCI to retained earnings as of March 31, 2018. The adoption of this ASU had no impact on our Consolidated Statements of Comprehensive Income. Our policy for releasing income tax effects from AOCI is to release them as investments are sold or mature and liabilities are extinguished.

Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs (Topic 715). The main objective of this ASU is to provide financial statement users with clearer and disaggregated information related to the components of net periodic benefit cost and improve transparency of the presentation of net periodic benefit cost in the financial statements. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Effective March 31, 2016, our qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan; as such, the adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Assets Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The main objective of this ASU is to provide greater detail on what types of transactions should be accounted for as partial sales of nonfinancial assets. This ASU, as originally issued in ASU No. 2014-09, is intended to reduce the complexity of current GAAP requirements by clarifying which accounting guidance applies to various types of contracts that transfer assets or ownership interests to another entity. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 which is the same time that ASU No. 2014-09 was effective. Early adoption was permitted, but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The adoption of this ASU was applied to the partial sale of our insurance subsidiary in January 2018. As such, the subsidiary is no longer included in our Consolidated Financial Statements and we recognized a $1.9 million gain on the transaction.

Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business (Topic 805). The main objective of this ASU is to help financial statement preparers evaluate whether a set of transferred assets and activities (either acquired or disposed of) is a business under Topic 805, Business Combinations by changing the definition of a business. The revised definition results in fewer acquisitions being accounted for as business combinations than under previous guidance. The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted for transactions not

S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

yet reflected in financial statements that have been issued or made available for issuance. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. The main objective of this ASU is to require companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. This represents a change from previous guidance, which required companies to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized. The new guidance requires companies to defer the income tax effects only of intercompany transfers of inventory. This Update was effective for annual periods beginning after December 15, 2017. Early adoption was permitted as of the beginning of an annual period. If an entity chose to early adopt the amendments in the ASU, it had to do so in the first interim period of its annual financial statements. That is, an entity could not have adopted the amendments in the ASU in a later interim period and apply them as if they were in effect as of the beginning of the year. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance (BOLI) policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted, provided that all of the amendments are adopted in the same period. The adoption of this ASU had no material impact to the presentation of activities in our Consolidated Statements of Cash Flows.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This revenue pronouncement established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most previous revenue recognition guidance in GAAP. We adopted the new standard as of January 1, 2018. Our primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU No. 2014-09. We evaluated the nature of our contracts with customers and related revenue streams, including service charges on deposit accounts, debit and credit cards and wealth management and determined that revenue recognition did not change significantly from current practice. We evaluated certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue. The adoption of this ASU had no material impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Accounting for Financial Instruments - Overall: Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). The amendments in this ASU address the following: 1. require equity investments to be measured at fair value with changes in fair value recognized in net income; 2. simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3. eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4. require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5. require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6. require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and 7. clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU was