

STIFEL FINANCIAL CORP  
Form 10-Q  
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2016

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: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware 43-1273600  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
501 N. Broadway, St. Louis, Missouri 63102-2188

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

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 (“the Exchange Act”) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant’s common stock, \$0.15 par value per share, as of the close of business on November 1, 2016, was 66,253,838.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Statements of Financial Condition as of September 30, 2016 (unaudited) and December 31, 2015</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and September 30, 2015 (unaudited)</u>	5
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and September 30, 2015 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	9
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	50
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	78
<u>Item 4. Controls and Procedures</u>	82

PART II – OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	82
<u>Item 1A. Risk Factors</u>	82
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
<u>Item 6. Exhibits</u>	83
<u>Signatures</u>	84

2

---

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition

(in thousands)	September 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$675,057	\$811,019
Cash segregated for regulatory purposes	166	227,727
Receivables:		
Brokerage clients, net	1,443,492	1,599,218
Brokers, dealers, and clearing organizations	548,470	601,831
Securities purchased under agreements to resell	297,827	160,423
Financial instruments owned, at fair value	1,148,785	749,443
Available-for-sale securities, at fair value	3,145,267	1,629,907
Held-to-maturity securities, at amortized cost	2,241,203	1,855,399
Loans held for sale, at lower of cost or market	217,316	189,921
Bank loans, net	4,956,676	3,143,515
Investments, at fair value	153,595	181,017
Fixed assets, net	173,874	181,966
Goodwill	989,126	915,602
Intangible assets, net	92,638	63,177
Loans and advances to financial advisors and other employees, net	407,233	401,293
Deferred tax assets, net	254,587	285,127
Other assets	459,596	329,466
<b>Total Assets</b>	<b>\$17,204,908</b>	<b>\$13,326,051</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition (continued)

	September 30, 2016 (Unaudited)	December 31, 2015
(in thousands, except share and per share amounts)		
<b>Liabilities and Shareholders' Equity</b>		
Payables:		
Brokerage clients	\$931,358	\$1,000,422
Brokers, dealers, and clearing organizations	464,617	438,031
Drafts	59,909	183,857
Securities sold under agreements to repurchase	261,734	278,674
Bank deposits	9,885,441	6,638,356
Financial instruments sold, but not yet purchased, at fair value	665,757	521,744
Accrued compensation	242,714	363,791
Accounts payable and accrued expenses	404,208	349,040
Federal Home Loan Bank advances	500,000	148,000
Borrowings	234,200	89,084
Senior notes	795,780	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
<b>Total liabilities</b>	<b>14,513,218</b>	<b>10,833,635</b>
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; 6,000 issued	150,000	—
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,507,842		
shares, respectively	10,426	10,426
Additional paid-in-capital	1,824,066	1,820,772
Retained earnings	852,422	805,685
Accumulated other comprehensive loss	(34,119 )	(39,533 )
	2,802,795	2,597,350
Treasury stock, at cost, 3,286,400 and 2,483,071 shares, respectively	(111,105 )	(104,934 )
<b>Total Shareholders' Equity</b>	<b>2,691,690</b>	<b>2,492,416</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,204,908</b>	<b>\$13,326,051</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		Nine Months	
	September 30, 2016	2015	Ended September 30, 2016	2015
<b>Revenues:</b>				
Commissions	\$ 171,272	\$ 194,083	\$ 551,306	\$ 562,249
Principal transactions	117,002	95,593	364,376	281,794
Investment banking	144,799	118,753	378,582	400,302
Asset management and service fees	144,206	130,636	433,305	364,442
Interest	74,881	43,376	203,488	129,964
Other income	9,209	18,930	33,804	44,471
Total revenues	661,369	601,371	1,964,861	1,783,222
Interest expense	19,383	9,796	50,756	32,914
Net revenues	641,986	591,575	1,914,105	1,750,308
<b>Non-interest expenses:</b>				
Compensation and benefits	434,236	404,205	1,305,372	1,169,896
Occupancy and equipment rental	62,453	53,282	178,455	145,798
Communications and office supplies	31,182	35,678	105,268	96,026
Commissions and floor brokerage	10,777	12,430	34,653	31,623
Other operating expenses	75,356	63,632	202,669	176,480
Total non-interest expenses	614,004	569,227	1,826,417	1,619,823
Income from operations before income tax expense	27,982	22,348	87,688	130,485
Provision for income taxes	10,168	5,169	33,048	49,321
Net income	17,814	17,179	54,640	81,164
Preferred dividends	1,563	-	1,563	-
Net income available to common shareholders	\$ 16,251	\$ 17,179	\$ 53,077	\$ 81,164
<b>Earnings per common share:</b>				
Basic	\$0.24	\$0.25	\$0.79	\$1.18
Diluted	\$0.21	\$0.22	\$0.69	\$1.04
<b>Weighted-average number of common shares outstanding:</b>				
Basic	66,482	69,633	66,950	68,675
Diluted	77,544	79,759	76,612	78,326

See accompanying Notes to Consolidated Financial Statements.



## STIFEL FINANCIAL CORP.

## Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
Net income	\$17,814	\$17,179	\$54,640	\$81,164
Other comprehensive income/(loss), net of tax: <sup>1</sup>				
Changes in unrealized gains/(losses) on available-for-sale securities <sup>2</sup>	4,494	(1,827)	14,915	1,770
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	1,633	1,216	2,942	3,491
Changes in unrealized gains/(losses) on cash flow hedging instruments <sup>3</sup>	4,279	(289)	(4,128)	199
Foreign currency translation adjustment	(1,036)	(2,935)	(8,315)	(1,620)
Total other comprehensive income/(loss), net of tax	9,370	(3,835)	5,414	3,840
Comprehensive income	\$27,184	\$13,344	\$60,054	\$85,004

<sup>(1)</sup>Net of tax expense of \$5.8 million and \$2.4 million for the three months ended September 30, 2016 and 2015, respectively. Net of tax expense of \$3.4 million and tax expense of \$2.4 million for the nine months ended September 30, 2016 and 2015, respectively.

<sup>(2)</sup>There were no reclassifications to earnings during the three and nine months ended September 30, 2016. Amounts are net of reclassifications to earnings of realized gains of \$0.2 million and \$2.1 million for the three and nine months ended September 30, 2015, respectively.

<sup>(3)</sup>Amounts are net of reclassifications to earnings of losses of \$1.4 million and \$0.9 million for the three months ended September 30, 2016 and 2015, respectively. Amounts are net of reclassifications to earnings of losses of \$4.3 million and \$3.1 million for the nine months ended September 30, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.



## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Net income	\$54,640	\$81,164
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	31,928	27,386
Amortization of loans and advances to financial advisors and other employees	53,046	50,529
Amortization of premium on investment portfolio	8,561	2,557
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	11,402	5,509
Amortization of intangible assets	10,558	5,952
Deferred income taxes	26,448	8,814
Excess tax deficit/(tax benefits) from stock-based compensation	5,797	(17,031 )
Stock-based compensation	149,093	110,569
Losses on sale of investments	3,680	10,102
Gain on extinguishment of Stifel Financial Capital Trust	(5,607 )	—
Other, net	4,479	278
<b>Decrease/(increase) in operating assets, net of assets acquired:</b>		
Cash segregated for regulatory purposes and restricted cash	226,903	49,325
<b>Receivables:</b>		
Brokerage clients	149,744	(112,106 )
Brokers, dealers, and clearing organizations	36,681	33,517
Securities purchased under agreements to resell	(137,404 )	(33,389 )
Financial instruments owned, including those pledged	(399,342 )	31,484
Mortgages originated as held for sale	(1,919,714)	(1,347,547)
Proceeds from mortgages held for sale	1,893,352	1,317,242
Loans and advances to financial advisors and other employees	(61,660 )	(68,468 )
Other assets	(135,030 )	19,619
<b>Increase/(decrease) in operating liabilities, net of liabilities assumed:</b>		
<b>Payables:</b>		
Brokerage clients	(69,064 )	102,353
Brokers, dealers, and clearing organizations	(42,812 )	50,028
Drafts	(123,948 )	(5,682 )
Financial instruments sold, but not yet purchased	144,013	(74,942 )
Other liabilities and accrued expenses	(142,799 )	(248,703 )
Net cash used in operating activities	\$(227,055 )	\$(1,440 )

See accompanying Notes to Consolidated Financial Statements.



## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2016	2015
<b>Cash Flows From Investing Activities:</b>		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	\$ 140,453	\$ 853,441
Calls and principal paydowns of held-to-maturity securities	163,913	82,941
Sale or maturity of investments	33,615	52,959
Disposition of business, net	12,597	—
Increase in bank loans, net	(1,821,877)	(375,194)
Payments for:		
Purchase of available-for-sale securities	(1,637,419)	(423 )
Purchase of held-to-maturity securities	(551,984 )	—
Purchase of investments	(9,873 )	(17,086 )
Purchase of fixed assets	(21,315 )	(61,663 )
Acquisitions, net of cash received	(71,924 )	18,456
Net cash provided by/(used in) investing activities	(3,763,814)	553,431
<b>Cash Flows From Financing Activities:</b>		
Proceeds from borrowings, net	145,116	86,617
Proceeds from Federal Home Loan Bank advances, net	352,000	96,000
Payment of contingent consideration	—	(29,598 )
Proceeds from issuance of senior notes, net	201,632	—
Proceeds from issuance of preferred stock, net	145,275	—
(Decrease)/increase in securities sold under agreements to repurchase	(16,940 )	67,757
Increase/(decrease) in bank deposits, net	3,247,085	(673,270)
Increase in securities loaned	69,055	42,752
Excess (tax deficit)/tax benefits from stock-based compensation	(5,797 )	17,031
Proceeds from stock option exercises	214	343
Repurchase of common stock	(113,462 )	(65,858 )
Cash dividends on preferred stock	(1,563 )	—
Extinguishment of Stifel Financial Capital Trust	(9,393 )	—
Repayment of senior notes	(150,000 )	(175,000)
Net cash provided by financing activities	3,863,222	(633,226)
Effect of exchange rate changes on cash	(8,315 )	(1,447 )
Decrease in cash and cash equivalents	(135,962 )	(82,682 )
Cash and cash equivalents at beginning of period	811,019	689,782
Cash and cash equivalents at end of period	\$ 675,057	\$ 607,100
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes, net of refunds	\$ 22,063	\$ 45,115
Cash paid for interest	46,617	29,673
Noncash financing activities:		

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Unit grants, net of forfeitures	158,345	132,145
Issuance of common stock for acquisitions	11,427	80,981
Shares surrendered into treasury	—	223

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

Stifel Financial Corp. (the “Company”), through its wholly owned subsidiaries, is principally engaged in retail brokerage; securities trading; investment banking; investment advisory; retail, consumer, and commercial banking; and related financial services. We have offices throughout the United States and Europe. Our major geographic area of concentration is throughout the United States, with a growing presence in Europe. Our company’s principal customers are individual investors, corporations, municipalities, and institutions.

On January 4, 2016, the Company completed the acquisition of Eaton Partners, LLC (“Eaton Partners”), a global fund placement and advisory firm. Eaton Partners will retain its brand name and will be run as a Stifel company. The acquisition was funded with cash from operations and our common stock.

On May 5, 2016, the Company completed the acquisition of ISM Capital LLP (“ISM”), an independent investment bank focused on international debt capital markets. The acquisition of ISM adds to the Company’s debt capital markets origination, sales and research capabilities in Europe, including an end-to-end platform for convertible securities and other equity-linked debt instruments. The acquisition was funded with cash from operations.

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (“Stifel”), Keefe, Bruyette & Woods, Inc., and Stifel Bank & Trust (“Stifel Bank”). All material intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms “we,” “us,” “our,” or “our company” in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management’s opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2015 on file with the SEC.

Certain amounts from prior periods have been reclassified to conform to the current period’s presentation. The effect of these reclassifications on our company’s previously reported consolidated financial statements was not material.

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2015.



## NOTE 2 – Recently Issued Accounting Guidance

### Financial Instruments – Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” For trade receivables, loans, and held-to-maturity debt securities, the current probable loss recognition methodology is being replaced by an expected credit loss model. For available-for-sale debt securities, the recognition model on credit losses is generally unchanged, except the losses will be presented as an adjustable allowance. The guidance is effective for fiscal years beginning after December 15, 2019 (January 1, 2020 for our Company), including interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

### Share-Based Payments

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”) that requires an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. The guidance is effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for our company). We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

### Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases” that requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The guidance is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company). Early adoption is permitted. We are currently evaluating the transition method that will be elected and the effect that the new guidance will have on our consolidated financial statements.

### Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” that will change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The guidance is effective for fiscal years beginning after December 15, 2017 (January 1, 2018 for our company). We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

### Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share

In May 2015, the FASB issued ASU No. 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)” (“ASU 2015-07”). The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical

expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 (January 1, 2016 for our company). See Note 4 – Fair Value Measurements.

#### Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for fiscal years beginning after December 15, 2015 (January 1, 2016 for our company) and is required to be applied retrospectively to all periods presented beginning in the year of adoption. Upon the adoption of ASU 2015-03 by our company on January 1, 2016, the impact was a reduction in both other assets and senior notes of \$9.9 million. In accordance with ASU No. 2015-03, previously reported amounts have been conformed to the current presentation, as reflected in the consolidated



statements of financial condition. The impact as of December 31, 2015 was a reduction to both total assets and total liabilities of \$9.9 million.

#### Revenue Recognition

In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" that amends the revenue guidance in ASU 2014-09 on identifying performance obligations. The effective date of the new guidance will coincide with ASU 2014-09 during the first quarter 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08") that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09") that supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application not permitted. We are currently evaluating the impact the new guidance will have on our consolidated financial statements.

#### NOTE 3 – Receivables From and Payables to Brokers, Dealers, and Clearing Organizations

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2016 and December 31, 2015, included (in thousands):

	September 30, 2016	December 31, 2015
Deposits paid for securities borrowed	\$ 428,274	\$ 318,105
Securities failed to deliver	60,777	23,649
Receivables from clearing organizations	59,419	260,077

\$ 548,470 \$ 601,831

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2016 and December 31, 2015, included (in thousands):

	September 30, 2016	December 31, 2015
Deposits received from securities loaned	\$ 398,741	\$ 329,670
Payable to clearing organizations	36,317	92,008
Securities failed to receive	29,559	16,353
	\$ 464,617	\$ 438,031

Deposits paid for securities borrowed approximate the market value of the securities. Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received on settlement date.

#### NOTE 4 – Fair Value Measurements

We measure certain financial assets and liabilities at fair value on a recurring basis, including financial instruments owned, available-for-sale securities, investments, financial instruments sold, but not yet purchased, and derivatives.

We generally utilize third-party pricing services to value Level 1 and Level 2 available-for-sale investment securities, as well as certain derivatives designated as cash flow hedges. We review the methodologies and assumptions used by the third-party pricing services and evaluate the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. We may occasionally adjust certain values provided by the third-party pricing service when we believe, as the result of our review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

#### Financial Instruments Owned and Available-For-Sale Securities

When available, the fair value of financial instruments is based on quoted prices in active markets and reported in Level 1. Level 1 financial instruments include highly liquid instruments with quoted prices, such as equity securities listed in active markets, corporate fixed income securities, and U.S. government securities.

If quoted prices are not available for identical instruments, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs, such as the present value of estimated cash flows, and reported as Level 2. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level 2 financial instruments include U.S. government agency securities, mortgage-backed securities, corporate fixed income securities infrequently traded, state and municipal securities, asset-backed securities, and equity securities not actively traded.

We have identified Level 3 financial instruments to include certain equity securities with unobservable pricing inputs and certain non-agency mortgage-backed securities. Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

#### Investments

Investments carried at fair value primarily include U.S. government securities, corporate equity securities, auction-rate securities ("ARS"), and private company investments.

Corporate equity securities and U.S. government securities are valued based on quoted prices in active markets and reported in Level 1.

ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs. ARS are reported as Level 3 assets.

Direct investments in private companies may be valued using the market approach and were valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance, and legal restrictions on disposition, among other factors. The fair value derived from the methods used are evaluated and weighted, as appropriate, considering

the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation, and amortization (“EBITDA”) multiples. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

#### Investments in Funds That Are Measured at Net Asset Value Per Share

Investments at fair value include investments in funds, including certain money market funds, that are measured at NAV. The Company uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value. The Company adopted ASU No. 2015-07 in January 2016 and, as required, disclosures in the paragraphs and tables below are limited to only those investments in

funds that are measured at NAV. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation.

The Company's investments in funds measured at NAV include private company investments, partnership interests, mutual funds, private equity funds, and money market funds. Private equity funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, growth investments and distressed investments. The private equity funds are primarily closed-end funds in which the Company's investments are generally not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated or distributed.

The general and limited partnership interests in investment partnerships were primarily valued based upon NAVs received from third-party fund managers. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the funds to utilize pricing/valuation information, including independent appraisals, from third-party sources. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used as an input to value these investments.

The tables below present the fair value of our investments in, and unfunded commitments to, funds that are measured at NAV (in thousands):

	September 30, 2016	
	Fair value of	Unfunded commitments
	investments	
Private company investments	\$28,868	\$ 9,169
Partnership interests	17,030	1,822
Mutual funds	15,373	—
Private equity funds	9,326	9,335
Money market funds	19,946	—
Total	\$90,543	\$ 20,326

	December 31, 2015	
	Fair value of	Unfunded commitments
	investments	
Private company investments	\$34,385	\$ 14,178
Partnership interests	22,502	2,018
Mutual funds	20,399	—
Private equity funds	12,970	9,352
Money market funds	77,097	—
Total	\$167,353	\$ 25,548

Financial Instruments Sold, But Not Yet Purchased

Financial instruments sold, but not purchased, recorded at fair value based on quoted prices in active markets and other observable market data include highly liquid instruments with quoted prices, such as U.S. government securities, corporate fixed income securities, and equity securities listed in active markets, which are reported as Level 1.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs, such as the present value of estimated cash flows, and reported as Level 2. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level 2 financial instruments include U.S. government agency securities, mortgage-backed securities not actively traded, corporate fixed income and equity securities, and state and municipal securities.

## Derivatives

Derivatives are valued using quoted market prices for identical instruments when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments, included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2016, are presented below (in thousands):

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial instruments owned:</b>				
U.S. government securities	\$19,616	\$19,616	\$—	\$—
U.S. government agency securities	226,632	—	226,632	—
<b>Mortgage-backed securities:</b>				
Agency	295,666	—	295,666	—
Non-agency	35,369	—	34,213	1,156
<b>Corporate securities:</b>				
Fixed income securities	271,785	5,099	266,407	279
Equity securities	27,995	26,984	545	466
State and municipal securities	271,722	—	271,722	—
<b>Total financial instruments owned</b>	<b>1,148,785</b>	<b>51,699</b>	<b>1,095,185</b>	<b>1,901</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	4,446	402	4,044	—
State and municipal securities	73,860	—	73,860	—
<b>Mortgage-backed securities:</b>				
Agency	365,636	—	365,636	—
Commercial	77,271	—	77,271	—
Non-agency	2,091	—	2,091	—
Corporate fixed income securities	828,770	—	828,770	—
Asset-backed securities	1,793,193	—	1,793,193	—
<b>Total available-for-sale securities</b>	<b>3,145,267</b>	<b>402</b>	<b>3,144,865</b>	<b>—</b>
<b>Investments:</b>				
Corporate equity securities	26,385	22,040	—	4,345
<b>Auction rate securities:</b>				
Equity securities	50,607	—	—	50,607
Municipal securities	1,356	—	—	1,356
Other <sup>1</sup>	4,650	—	383	4,267
Investments in funds measured at NAV	70,597	—	—	—
<b>Total investments</b>	<b>153,595</b>	<b>22,040</b>	<b>383</b>	<b>60,575</b>
Cash equivalents measured at NAV	19,946	—	—	—
	<b>\$4,467,593</b>	<b>\$74,141</b>	<b>\$4,240,433</b>	<b>\$62,476</b>

<sup>1</sup>Includes certain private company and other investments.

14

---



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	September 30, 2016			Level 3
	Total	Level 1	Level 2	
<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$319,219	\$319,219	\$—	\$ —
Agency mortgage-backed securities	116,506	—	116,506	—
<b>Corporate securities:</b>				
Fixed income securities	207,080	1,487	205,593	—
Equity securities	22,905	22,905	—	—
State and municipal securities	47	—	47	—
<b>Total financial instruments sold, but not yet purchased</b>	<b>665,757</b>	<b>343,611</b>	<b>322,146</b>	<b>—</b>
Derivative contracts <sup>2</sup>	10,599	—	10,599	—
	<b>\$676,356</b>	<b>\$343,611</b>	<b>\$332,745</b>	<b>\$ —</b>

<sup>2</sup>Included in accounts payable and accrued expenses in the consolidated statements of financial condition. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015, are presented below (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b>Financial instruments owned:</b>				
U.S. government securities	\$45,167	\$45,167	\$—	\$—
U.S. government agency securities	116,949	—	116,949	—
<b>Mortgage-backed securities:</b>				
Agency	205,473	—	205,473	—
Non-agency	33,319	—	31,843	1,476
<b>Corporate securities:</b>				
Fixed income securities	203,910	13,203	190,707	—
Equity securities	31,642	29,388	1,635	619
State and municipal securities	112,983	—	112,983	—
<b>Total financial instruments owned</b>	<b>749,443</b>	<b>87,758</b>	<b>659,590</b>	<b>2,095</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,698	—	1,698	—
State and municipal securities	74,167	—	74,167	—
<b>Mortgage-backed securities:</b>				
Agency	304,893	—	304,893	—
Commercial	11,310	—	11,310	—
Non-agency	2,518	—	2,518	—
Corporate fixed income securities	319,408	—	319,408	—
Asset-backed securities	915,913	—	915,913	—
<b>Total available-for-sale securities</b>	<b>1,629,907</b>	<b>—</b>	<b>1,629,907</b>	<b>—</b>

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Investments:				
Corporate equity securities	30,737	26,436	—	4,301
U.S. government securities	102	102	—	—
Auction rate securities:				
Equity securities	55,710	—	5,268	50,442
Municipal securities	1,315	—	—	1,315
Other <sup>1</sup>	2,897	4	2,873	20
Investments measured at NAV	90,256			
Total investments	181,017	26,542	8,141	56,078
Cash equivalents measured at NAV	77,097			
	\$2,637,464	\$114,300	\$2,297,638	\$58,173

<sup>1</sup>Includes certain private company and other investments.

15

---

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Financial instruments sold, but not yet purchased:				
U.S. government securities	\$186,030	\$186,030	\$—	\$—
Agency mortgage-backed securities	50,830	—	50,830	—
Corporate securities:				
Fixed income securities	255,700	3,601	252,099	—
Equity securities	29,184	22,894	6,290	—
Total financial instruments sold, but not yet purchased	521,744	212,525	309,219	—
Derivative contracts <sup>2</sup>	3,591	—	3,591	—
	\$525,335	\$212,525	\$312,810	\$—

<sup>2</sup>Included in accounts payable and accrued expenses in the consolidated statements of financial condition. The following table summarizes the changes in fair value associated with Level 3 financial instruments during the three months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016						
	Financial instruments owned			Investments			
	Mortgage-			Auction Rate		Auction Rate	
	Backed	Securities	Equity	Corporate Securities	Equity	Municipal	Other <sup>1</sup>
Balance at June 30, 2016	\$1,235	292	\$ 619	\$4,529	\$ 50,750	\$ 1,355	\$1,240
Unrealized gains/(losses):							
Included in changes in net assets <sup>2</sup>	—	—	(406 )	816	57	1	—
Included in OCI <sup>3</sup>	—	—	—	—	—	—	—
Realized gains/(losses) <sup>2</sup>	42	—	—	(999 )	—	—	—
Purchases	—	—	253	—	50	—	3,027
Sales	(1 )	—	—	(1 )	—	—	—
Redemptions	(120 )	(13 )	—	—	(250 )	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—
Net change	(79 )	(13 )	(153 )	(184 )	(143 )	1	3,027
Balance at September 30, 2016	\$1,156	\$ 279	\$ 466	\$4,345	\$ 50,607	\$ 1,356	\$4,267

<sup>1</sup>Includes private company and other investments.

<sup>2</sup>Realized and unrealized gains related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.

<sup>3</sup>Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial condition.

The following table summarizes the change in fair value associated with Level 3 financial instruments during the nine months ended September 30, 2016 (in thousands):

16

---

Nine Months Ended September 30, 2016  
 Financial instruments owned Investments  
 Mortgage-

	Backed		Auction Rate				
	Securities		Auction Rate		Auction Rate		
	Non-Agency Securities	Fixed Income Securities	Equity Securities	Corporate Equity Securities	Securities – Equity	Securities – Municipal	Securities – Other <sup>1</sup>
Balance at December 31, 2015	\$1,476	—	\$ 619	\$2,942	\$ 50,442	\$ 1,315	\$20
Unrealized gains/(losses):							
Included in changes in net assets <sup>2</sup>	(18 )	—	(406 )	2,403	840	41	—
Included in OCI <sup>3</sup>	—	—	—	—	—	—	—
Realized gains/(losses) <sup>2</sup>	51	—	—	(999 )	—	—	—
Purchases	—	292	253	—	50	—	3,782
Sales	(1 )	—	—	(1 )	—	—	—
Redemptions	(352 )	(13 )	—	—	(725 )	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	465
Out of Level 3	—	—	—	—	—	—	—
Net change	(320 )	279	(153 )	1,403	165	41	4,247
Balance at September 30, 2016	\$1,156	\$ 279	\$ 466	\$4,345	\$ 50,607	\$ 1,356	\$4,267

<sup>1</sup>Includes private company and other investments.

<sup>2</sup>Realized and unrealized gains related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.

<sup>3</sup>Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments during the nine months ended September 30, 2016 were principally a result of purchases of partnership interests. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2016, relating to Level 3 assets still held at September 30, 2016, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of September 30, 2016.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	1.8 - 11.7%	5.8%
		Workout period	1 - 3 years	2.5 years
Municipal securities	Discounted cash flow	Discount rate	0.0 - 10.4%	4.9%
		Workout period	1 - 4 years	2.1 years

The fair value of certain Level 3 assets was determined using various methodologies, as appropriate, including third-party pricing vendors and broker quotes. These inputs are evaluated for reasonableness through various procedures, including due diligence reviews of third-party pricing vendors, variance analyses, consideration of current market environment, and other analytical procedures.

The fair value for our auction rate securities was determined using an income approach based on an internally developed discounted cash flow model. The discounted cash flow model utilizes two significant unobservable inputs: discount rate and workout period. The discount

rate was calculated using credit spreads of the underlying collateral or similar securities. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and our company's own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. On an ongoing basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

#### Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were \$0.3 million and \$1.5 million of transfers of financial assets from Level 2 to Level 1 during the three and nine months ended September 30, 2016, respectively, primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were \$3.7 million and \$6.2 million of transfers of financial assets from Level 1 to Level 2 during the three and nine months ended September 30, 2016, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were \$0.5 million of transfers into Level 3 during the nine months ended September 30, 2016.

#### Fair Value of Financial Instruments

The following reflects the fair value of financial instruments as of September 30, 2016 and December 31, 2015, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$675,057	\$675,057	\$811,019	\$811,019
Cash segregated for regulatory purposes	166	166	227,727	227,727
Securities purchased under agreements to resell	297,827	297,827	160,423	160,423
Financial instruments owned	1,148,785	1,148,785	749,443	749,443
Available-for-sale securities	3,145,267	3,145,267	1,629,907	1,629,907
Held-to-maturity securities	2,241,203	2,300,092	1,855,399	1,874,998
Loans held for sale	217,316	217,316	189,921	189,921
Bank loans	4,956,676	5,027,419	3,143,515	3,188,402
Investments	153,595	153,595	181,017	181,017
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$261,734	\$261,734	\$278,674	\$278,674
Bank deposits	9,885,441	9,683,872	6,638,356	6,627,818
Financial instruments sold, but not yet purchased	665,757	665,757	521,744	521,744
Derivative contracts <sup>1</sup>	10,599	10,599	3,591	3,591
Borrowings	234,200	234,200	89,084	89,084
Federal Home Loan Bank advances	500,000	500,000	148,000	148,000
Senior notes	795,780	809,971	740,136	736,135
Debentures to Stifel Financial Capital Trusts	67,500	49,466	82,500	72,371

<sup>1</sup>Included in accounts payable and accrued expenses in the consolidated statements of financial condition.  
18

---



The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$655,111	\$655,111	\$—	\$—
Cash segregated for regulatory purposes	166	166	—	—
Securities purchased under agreements to resell	297,827	282,202	15,625	—
Held-to-maturity securities	2,300,092	—	2,078,767	221,325
Loans held for sale	217,316	—	217,316	—
Bank loans	5,027,419	—	5,027,419	—
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$261,734	\$—	\$261,734	\$—
Bank deposits	9,683,872	—	9,683,872	—
Borrowings	234,200	—	234,200	—
Federal Home Loan Bank advances	500,000	500,000	—	—
Senior notes	809,971	809,971	—	—
Debentures to Stifel Financial Capital Trusts	49,466	—	—	49,466
	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$733,922	\$733,922	\$—	\$—
Cash segregated for regulatory purposes	227,727	227,727	—	—
Securities purchased under agreements to resell	160,423	160,423	-	—
Held-to-maturity securities	1,874,998	—	1,317,582	557,416
Loans held for sale	189,921	—	189,921	—
Bank loans	3,188,402	—	3,188,402	—
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$278,674	\$278,674	\$—	\$—
Bank deposits	6,627,818	—	6,627,818	—
Borrowings	89,084	—	89,084	—
Federal Home Loan Bank advances	148,000	148,000	—	—
Senior notes	736,135	736,135	—	—
Debentures to Stifel Financial Capital Trusts	72,371	—	—	72,371

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of September 30, 2016 and December 31, 2015.

#### Financial Assets

##### Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2016 and December 31, 2015 approximate fair value due to their short-term nature.

#### Held-to-Maturity Securities

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include agency mortgage-backed securities, asset-backed securities, consisting of collateralized loan obligation securities and corporate fixed income securities. The estimated fair value, included in the above table, is determined using several factors; however, primary weight is given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

#### Loans Held for Sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or market value. Market value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices.

#### Bank Loans

The fair values of mortgage loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans, with similar remaining maturities, would be made and considering liquidity spreads applicable to each loan portfolio based on the secondary market.

#### Financial Liabilities

##### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2016 and December 31, 2015 approximate fair value due to the short-term nature.

##### Bank Deposits

The fair value of interest-bearing deposits, including certificates of deposits, demand deposits, savings, and checking accounts, was calculated by discounting the future cash flows using discount rates based on the replacement cost of funding of similar structures and terms.

##### Borrowings

The carrying amount of borrowings approximates fair value due to the relative short-term nature of such borrowings. In addition, Stifel Bank's FHLB advances reflect terms that approximate current market rates for similar borrowings.

##### Senior Notes

The fair value of our senior notes is estimated based upon quoted market prices.

##### Debentures to Stifel Financial Capital Trusts

The fair value of our trust preferred securities is based on the discounted value of contractual cash flows. We have assumed a discount rate based on the coupon achieved in our 4.250% senior notes due 2024.

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.



## NOTE 5 – Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

The components of financial instruments owned and financial instruments sold, but not yet purchased, at September 30, 2016 and December 31, 2015 are as follows (in thousands):

	September 30, 2016	December 31, 2015
<b>Financial instruments owned:</b>		
U.S. government securities	\$19,616	\$45,167
U.S. government agency securities	226,632	116,949
<b>Mortgage-backed securities:</b>		
Agency	295,666	205,473
Non-agency	35,369	33,319
<b>Corporate securities:</b>		
Fixed income securities	271,785	203,910
Equity securities	27,995	31,642
State and municipal securities	271,722	112,983
	\$1,148,785	\$749,443
<b>Financial instruments sold, but not yet purchased:</b>		
U.S. government securities	\$319,219	\$186,030
Agency mortgage-backed securities	116,506	50,830
<b>Corporate securities:</b>		
Fixed income securities	207,080	255,700
Equity securities	22,905	29,184
State and municipal securities	47	—
	\$665,757	\$521,744

At September 30, 2016 and December 31, 2015, financial instruments owned in the amount of \$711.4 million and \$508.5 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

Financial instruments sold, but not yet purchased, represent obligations of our company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices in future periods. We are obligated to acquire the securities sold short at prevailing market prices in future periods, which may exceed the amount reflected in the consolidated statements of financial condition.

## NOTE 6 – Available-for-Sale and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains <sup>1</sup>	Losses <sup>1</sup>	Fair Value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$4,440	\$ 8	\$ (2 )	\$4,446
State and municipal securities	75,707	45	(1,892 )	73,860
<b>Mortgage-backed securities:</b>				
Agency	366,610	820	(1,794 )	365,636
Commercial	77,752	78	(559 )	77,271
Non-agency	2,244	-	(153 )	2,091
Corporate fixed income securities	819,843	9,247	(320 )	828,770
Asset-backed securities	1,785,675	9,834	(2,316 )	1,793,193
	\$3,132,271	\$ 20,032	\$ (7,036 )	\$3,145,267
<b>Held-to-maturity securities <sup>2</sup></b>				
<b>Mortgage-backed securities:</b>				
Agency	\$1,643,479	\$ 48,873	\$ (398 )	\$1,691,954
Commercial	59,566	3,701	—	63,267
Non-agency	701	—	(13 )	688
Asset-backed securities	497,362	7,873	(1,312 )	503,923
Corporate fixed income securities	40,095	165	—	40,260
	\$2,241,203	\$ 60,612	\$ (1,723 )	\$2,300,092
	December 31, 2015			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains <sup>1</sup>	Losses <sup>1</sup>	Fair Value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$1,700	\$ 1	\$ (3 )	\$1,698
State and municipal securities	75,953	28	(1,814 )	74,167
<b>Mortgage-backed securities:</b>				
Agency	306,309	125	(1,541 )	304,893
Commercial	11,177	134	(1 )	11,310
Non-agency	2,679	2	(163 )	2,518
Corporate fixed income securities	321,017	743	(2,352 )	319,408

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Asset-backed securities	922,563	774	(7,424 )	915,913
	\$1,641,398	\$ 1,807	\$ (13,298 )	\$1,629,907
Held-to-maturity securities <sup>2</sup>				
Mortgage-backed securities:				
Agency	\$1,257,808	\$ 23,346	\$ (3,105 )	\$1,278,049
Commercial	59,521	1,832	—	61,353
Non-agency	929	—	(15 )	914
Asset-backed securities	496,996	2,076	(4,139 )	494,933
Corporate fixed income securities	40,145	—	(396 )	39,749
	\$1,855,399	\$ 27,254	\$ (7,655 )	\$1,874,998

<sup>1</sup>Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss.

<sup>2</sup>Held-to-maturity securities are carried in the consolidated statements of financial condition at amortized cost, and the changes in the value of these securities, other than impairment charges, are not reported on the consolidated financial statements.

During the three and nine months ended September 30, 2016, there were no sales of available-for-sale securities. For the three and nine months ended September 30, 2015, we received proceeds of \$89.0 million and \$641.6 million, respectively, from the sale of available-for-sale securities, which resulted in net realized gains of \$0.1 million and \$3.2 million, respectively.

During the three months ended September 30, 2016, unrealized gains, net of deferred taxes, of \$4.4 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the three months ended September 30, 2015, unrealized losses, net of deferred taxes, of \$1.8 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

During the nine months ended September 30, 2016, unrealized gains, net of deferred taxes, of \$14.9 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the nine months ended September 30, 2015, unrealized gains, net of deferred taxes, of \$1.8 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

The table below summarizes the amortized cost and fair values of debt securities by contractual maturity. Expected maturities may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2016			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>Debt securities</b>				
Within one year	\$23,542	\$23,575	\$	\$
After one year through three years	272,434	274,519	40,095	40,260
After three years through five years	400,553	406,700	—	—
After five years through ten years	618,997	620,642	—	—
After ten years	1,370,139	1,374,833	497,361	503,923
<b>Mortgage-backed securities</b>				
Within one year	23	23	—	—
After one year through three years	—	—	—	—
After three years through five years	—	—	59,566	63,267
After five years through ten years	59,143	58,674	181,413	183,657
After ten years	387,440	386,301	1,462,768	1,508,985
	\$3,132,271	\$3,145,267	\$2,241,203	\$2,300,092



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at September 30, 2016, are as follows (in thousands):

	Within 1 Year		5-10 Years	After 10 Years	Total
<b>Available-for-sale: <sup>1</sup></b>					
U.S. government agency securities	\$ 1,428	\$ 3,018	\$—	\$—	\$4,446
State and municipal securities	—	—	17,337	56,523	73,860
Mortgage-backed securities:	—	—	-	-	
Agency	—	—	517	365,119	365,636
Commercial	—	—	58,157	19,114	77,271
Non-agency	23	—	—	2,068	2,091
Corporate fixed income securities	22,146	678,202	128,422	—	828,770
Asset-backed securities	—	—	474,884	1,318,309	1,793,193
	\$23,597	\$681,220	\$679,317	\$1,761,133	\$3,145,267
<b>Held-to-maturity:</b>					
<b>Mortgage-backed securities:</b>					
Agency	\$—	\$—	\$181,413	\$1,462,066	\$1,643,479
Commercial	—	59,566	—	—	59,566
Non-agency	—	—	—	701	701
Asset-backed securities	—	—	—	497,362	497,362
Corporate fixed income securities	—	40,095	—	—	40,095
	\$—	\$99,661	\$181,413	\$1,960,129	\$2,241,203

<sup>1</sup>Due to the immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax-equivalent basis.

At September 30, 2016 and December 31, 2015, securities of \$1.9 billion and \$1.4 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At September 30, 2016 and December 31, 2015, securities of \$1.7 billion and \$1.1 billion, respectively, were pledged with the Federal Reserve discount window.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2016 (in thousands):

	Less than 12 months		12 months or more		Total
Gross	Estimated	Gross	Estimated	Gross	Estimated
Unrealized	Fair	Unrealized	Fair	Unrealized	Fair
Losses	Value	Losses	Value	Losses	Value

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

<b>Available-for-sale securities</b>						
U.S. government securities	\$(2 )	\$1,808	\$—	\$—	\$(2 )	\$1,808
State and municipal securities	(33 )	9,467	(1,859)	61,659	(1,892)	71,126
<b>Mortgage-backed securities:</b>						
Agency	(1,739)	224,447	(55 )	7,550	(1,794)	231,997
Commercial	(559 )	75,379	—	—	(559 )	75,379
Non-agency	—	23	(153 )	2,016	(153 )	2,039
Corporate fixed income securities	(320 )	175,119	—	—	(320 )	175,119
Asset-backed securities	(2,233)	241,700	(83 )	11,375	(2,316)	253,075
	\$(4,886)	\$727,943	\$(2,150)	\$82,600	\$(7,036)	\$810,543
<b>Held-to-maturity securities</b>						
<b>Mortgage-backed securities:</b>						
Agency	\$(377 )	\$192,269	\$(21 )	\$1,595	\$(398 )	\$193,864
Non-agency	—	—	(13 )	689	(13 )	689
Asset-backed securities	(80 )	49,920	(1,232)	61,718	(1,312)	111,638
Corporate fixed income securities	—	—	—	—	—	—
	\$(457 )	\$242,189	\$(1,266)	\$64,002	\$(1,723)	\$306,191

24

At September 30, 2016, the amortized cost of 73 securities classified as available for sale exceeded their fair value by \$7.0 million, of which \$2.2 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at September 30, 2016, was \$810.5 million, which was 25.8% of our available-for-sale portfolio.

At September 30, 2016, the carrying value of 21 securities held to maturity exceeded their fair value by \$1.7 million, of which \$1.3 million related to securities held to maturity that have been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

#### Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment (“OTTI”) assessment is a subjective process requiring the use of judgments and assumptions. There was no credit-related OTTI recognized during the three and nine months ended September 30, 2016 and 2015.

We believe the gross unrealized losses of \$8.8 million related to our investment portfolio, as of September 30, 2016, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

## NOTE 7 – Bank Loans

Our loan portfolio consists primarily of the following segments:

**Securities-based loans.** Securities-based loans allow clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through Stifel’s Pledged Asset (“SPA”) program. The allowance methodology for securities-based lending considers the collateral type underlying the loan, including the liquidity and trading volume of the collateral, position concentration and other borrower specific factors such as personal guarantees.

**Commercial and industrial (C&I).** C&I loans primarily include commercial and industrial lending used for general corporate purposes, working capital and liquidity, and “event-driven.” “Event-driven” loans support client merger, acquisition or recapitalization activities. C&I lending is structured as revolving lines of credit, letter of credit facilities, term loans and bridge loans. Risk factors considered in determining the allowance for corporate loans include the borrower’s financial strength, seniority of the loan, collateral type, leverage, volatility of collateral value, debt cushion, and covenants.

**Real Estate.** Real estate loans include commercial real estate, residential real estate non-conforming loans, residential real estate conforming loans and home equity lines of credit. The allowance methodology real estate loans considers several factors, including, but not limited to, loan-to-value ratio, FICO score, home price index, delinquency status, credit limits, and utilization rates.

**Consumer.** Consumer loans allow customers to purchase non-investment goods and services.

**Construction and land.** Short-term loans used to finance the development of a real estate project.

The following table presents the balance and associated percentage of each major loan category in our bank loan portfolio at September 30, 2016 and December 31, 2015 (in thousands, except percentages):

	September 30, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
Residential real estate	\$1,804,112	36.1 %	\$429,132	13.5 %
Commercial and industrial	1,558,284	31.2	1,216,656	38.2
Securities-based loans	1,452,913	29.1	1,388,953	43.7
Consumer	92,574	1.9	36,846	1.2
Commercial real estate	63,680	1.3	92,623	2.9
Home equity lines of credit	14,414	0.3	12,475	0.4
Construction and land	11,067	0.2	3,899	0.1
Gross bank loans	4,997,044	100.0 %	3,180,584	100.0 %
Unamortized loan premium/(discount), net	739		(5,296)	
Unamortized loan fees, net of loan fees	(2,401)		(1,567)	
Loans in process	439		(419)	
Allowance for loan losses	(39,145)		(29,787)	
Bank loans, net	\$4,956,676		\$3,143,515	

At September 30, 2016 and December 31, 2015, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$0.5 million and \$2.0 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$8.6 million and \$7.2 million, respectively.

At September 30, 2016 and December 31, 2015, we had mortgage loans held for sale of \$217.3 million and \$189.9 million, respectively. For the three months ended September 30, 2016 and 2015, we recognized gains of \$4.9 million and \$3.5 million, respectively, from the sale of originated loans, net of fees and costs. For the nine months ended September 30, 2016 and 2015, we recognized gains of \$11.7 million and \$6.1 million, respectively, from the sale of originated loans, net of fees and costs.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 (in thousands).

	Three Months Ended September 30, 2016				
	Beginning				Ending
	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial and industrial	\$29,816	\$ 2,631	\$ (267 )	\$ —	\$32,180
Securities-based loans	1,731	172	—	—	1,903
Consumer	107	203	(16 )	1	295
Residential real estate	1,529	346	—	—	1,875
Commercial real estate	512	(8 )	—	—	504
Home equity lines of credit	283	2	—	—	285
Construction and land	144	59	—	—	203
Qualitative	1,744	156	—	—	1,900
	\$35,866	\$ 3,561	\$ (283 )	\$ 1	\$39,145

	Nine Months Ended September 30, 2016				
	Beginning				Ending
	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial and industrial	\$24,748	\$ 7,699	\$ (267 )	\$ —	\$32,180
Securities-based loans	1,607	296	—	—	1,903
Consumer	105	205	(16 )	1	295
Residential real estate	1,241	644	(13 )	3	1,875
Commercial real estate	264	233	—	7	504
Home equity lines of credit	290	(5 )	—	—	285
Construction and land	78	125	—	—	203
Qualitative	1,454	446	—	—	1,900
	\$29,787	\$ 9,643	\$ (296 )	\$ 11	\$39,145

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2016 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually		Collectively	Individually		Collectively
	Evaluated for	Not Evaluated for	Total	Evaluated for	Not Evaluated for	Total
Commercial and industrial	\$2,415	\$ 29,765	\$32,180	\$17,938	\$ 1,540,346	\$ 1,558,284
Securities-based loans	—	1,903	1,903	—	1,452,913	1,452,913
Consumer	7	288	295	9	92,565	92,574

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Residential real estate	24	1,851	1,875	509	1,803,603	1,804,112
Commercial real estate	—	504	504	9,522	54,158	63,680
Home equity lines of credit	149	136	285	323	14,091	14,414
Construction and land	—	203	203	—	11,067	11,067
Qualitative	—	1,900	1,900	—	—	—
	\$2,595	\$ 36,550	\$39,145	\$28,301	\$ 4,968,743	\$4,997,044

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 (in thousands).

	Three Months Ended September 30, 2015				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$19,297	\$ 3,117	\$ —	\$ —	\$22,414
Securities-based loans	1,445	61	—	—	1,506
Consumer	123	(22 )	—	6	107
Residential real estate	904	197	(27 )	48	1,122
Commercial real estate	286	(36 )	—	14	264
Home equity lines of credit	265	(20 )	—	8	253
Construction and land	—	47	—	—	47
Qualitative	1,603	391	—	—	1,994
	\$23,923	\$ 3,735	\$ (27 )	\$ 76	\$27,707

	Nine Months Ended September 30, 2015				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$16,609	\$ 5,805	\$ —	\$ —	\$22,414
Securities-based loans	1,099	407	—	—	1,506
Consumer	156	(55 )	—	6	107
Residential real estate	787	425	(142 )	52	1,122
Commercial real estate	232	(24 )	—	56	264
Home equity lines of credit	267	(22 )	—	8	253
Construction and land	—	47	—	—	47
Qualitative	1,581	413	—	—	1,994
	\$20,731	\$ 6,996	\$ (142 )	\$ 122	\$27,707

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2015 (in thousands):

	Allowance for Loan Losses		Recorded Investment in Loans		
	Individually	Collectively	Individually	Collectively	
	Evaluated for	Evaluated for	Evaluated for	Evaluated for	
	Impairment	Total	Impairment	Total	
Commercial and industrial	\$—	\$ 22,414	\$—	\$ 1,121,643	\$ 1,121,643



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Securities-based loans	—	1,506	1,506	—	1,004,142	1,004,142
Consumer	21	86	107	21	22,034	22,055
Residential real estate	24	1,098	1,122	945	260,013	260,958
Commercial real estate	—	264	264	—	19,811	19,811
Home equity lines of credit	149	104	253	323	10,937	11,260
Construction and land	—	47	47	—	2,474	2,474
Qualitative	—	1,994	1,994	—	—	—
	\$194	\$ 27,513	\$27,707	\$1,289	\$ 2,441,054	\$2,442,343

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2015 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually		Total	Individually		Total
	Evaluation	Allocated for		Evaluation	Allocated for	
	Impairment	Impairment	Impairment	Impairment	Impairment	Total
Commercial and industrial	\$—	\$ 24,748	\$24,748	\$—	\$ 1,216,656	\$1,216,656
Securities-based loans	—	1,607	1,607	—	1,388,953	1,388,953
Consumer	14	91	105	14	36,832	36,846
Residential real estate	24	1,217	1,241	182	428,950	429,132
Commercial real estate	—	264	264	—	92,623	92,623
Home equity lines of credit	149	141	290	323	12,152	12,475
Construction and land	—	78	78	—	3,899	3,899
Qualitative	—	1,454	1,454	—	—	—
	\$187	\$ 29,600	\$29,787	\$519	\$ 3,180,065	\$ 3,180,584

In determining the amount of our allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient to cover future loan losses and we may experience significant increases to our provision.

There are two components of the allowance for loan losses: the inherent allowance component and the specific allowance component.

The inherent allowance component of the allowance for loan losses is used to estimate the probable losses inherent in the loan portfolio and includes non-homogeneous loans that have not been identified as impaired and portfolios of smaller balance homogeneous loans. The Company maintains methodologies by loan product for calculating an allowance for loan losses that estimates the inherent losses in the loan portfolio. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations. The allowance for loan losses is maintained at a level reasonable to ensure that it can adequately absorb the estimated probable losses inherent in the portfolio.

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring (“TDR”), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At September 30, 2016, we had \$28.3 million of impaired loans, net of discounts, which included \$9.8 million in troubled debt restructurings, for which there was a specific allowance of \$2.6 million. At December 31, 2015, we had \$1.1 million of impaired loans, net of discounts, which included \$0.3 million in troubled debt restructurings, for which there was a specific allowance of \$0.2 million. The gross interest income related to impaired loans, which would have been recorded, had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2016 and 2015, were insignificant to the consolidated financial statements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The tables below present loans that were individually evaluated for impairment by portfolio segment at September 30, 2016 and December 31, 2015, including the average recorded investment balance (in thousands):

	September 30, 2016					
	Unpaid	Recorded	Recorded			
	Contractual	Investment	Investment	Total		Average
	Principal	with No	with	Recorded	Related	Recorded
	Balance	Allowance	Allowance	Investment	Allowance	Investment
Commercial and industrial	\$ 17,938	\$ —	\$ 17,938	\$ 17,938	\$ 2,415	\$ 24,338
Securities-based loans	—	—	—	—	—	—
Consumer	802	2	7	9	7	10
Residential real estate	419	329	180	509	24	562
Commercial real estate	10,503	9,522	-	9,522	-	8,915
Home equity lines of credit	323	-	323	323	149	323
Construction and land	—	—	—	—	—	—
Total	\$ 29,985	\$ 9,853	\$ 18,448	\$ 28,301	\$ 2,595	\$ 34,148

29

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

December 31, 2015						
	Unpaid	Recorded	Recorded			
	Contract	Investment	Investment	Total		Average
	Principal	with No	with	Recorded	Related	Recorded
	Balance	Allowance	Allowance	Investment	Allowance	Investment
Commercial and industrial	\$—	\$ —	\$ —	\$ —	\$ —	\$ —
Securities-based loans	—	—	—	—	—	—
Consumer	944	—	15	15	15	23
Residential real estate	776	524	182	706	24	752
Commercial real estate	—	—	—	—	—	—
Home equity lines of credit	342	19	323	342	149	342
Construction and land	—	—	—	—	—	—
Total	\$2,062	\$ 543	\$ 520	\$ 1,063	\$ 188	\$ 1,117

The following table presents the aging of the recorded investment in past due loans at September 30, 2016 and December 31, 2015 by portfolio segment (in thousands):

As of September 30, 2016					
30 – 89					
Days					
	90 or More	Total Past	Current		
	Past	Past	Balance	Total	
	Due	Days Past Due	Due	Balance	Total
Commercial and industrial	\$—	\$ —	\$ —	\$1,558,284	\$1,558,284
Securities-based loans	—	—	—	1,452,913	1,452,913
Consumer	2	2	4	92,570	92,574
Residential real estate	2,716	238	2,954	1,801,158	1,804,112
Commercial real estate	—	—	—	63,680	63,680
Home equity lines of credit	195	—	195	14,219	14,414
Construction and land	—	—	—	11,067	11,067
Total	\$2,913	\$ 240	\$ 3,153	\$4,993,891	\$4,997,044

As of September 30, 2016 *		
	Non-Accrued	Total
Commercial and industrial	\$17,938	\$ 17,938
Securities-based loans	—	—
Consumer	9	9
Residential real estate	369	509
Commercial real estate	9,522	9,522
Home equity lines of credit	323	323

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Construction and land	—	—	—
Total	\$28,161	\$ 140	\$28,301

\*There were no loans past due 90 days and still accruing interest at September 30, 2016.

	As of December 31, 2015				
	30 – 89				
	Days				
		90 or More	Total	Current	
	Past				
	Due	Days Past Due	Past Due	Balance	Total
Commercial and industrial	\$—	\$ —	\$ —	\$1,216,656	\$1,216,656
Securities-based loans	—	—	—	1,388,953	1,388,953
Consumer	7	7	14	36,832	36,846
Residential real estate	3,310	450	3,760	425,372	429,132
Commercial real estate	—	—	—	92,623	92,623
Home equity lines of credit	323	19	342	12,133	12,475
Construction and land	—	—	—	3,899	3,899
Total	\$3,640	\$ 476	\$ 4,116	\$3,176,468	\$3,180,584

30

	As of December 31, 2015*		
	Non-Accruing	Restructured	Total
Commercial and industrial	\$—	\$ —	\$—
Securities-based loans	—	—	—
Consumer	15	—	15
Residential real estate	380	326	706
Commercial real estate	—	—	—
Home equity lines of credit	342	—	342
Construction and land	—	—	—
Total	\$737	\$ 326	\$1,063

\*There were no loans past due 90 days and still accruing interest at December 31, 2015.

#### Credit quality indicators

Loans meet the definition of Pass when they are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss. A loan is determined to be impaired when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued (“non-accrual status”), and any accrued and unpaid interest income is reversed.

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At September 30, 2016 and December 31, 2015, 97.6 % and 97.2% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction. The Company uses the following definitions for risk ratings:

**Pass.** A credit exposure rated pass has a continued expectation of timely repayment, all obligations of the borrower are current, and the obligor complies with material terms and conditions of the lending agreement.

**Special Mention.** Extensions of credit that have potential weakness that deserve management’s close attention, and if left uncorrected may, at some future date, result in the deterioration of the repayment prospects or collateral position.

**Substandard.** Obligor has a well-defined weakness that jeopardizes the repayment of the debt and has a high probability of payment default with the distinct possibility that the Company will sustain some loss if noted deficiencies are not corrected.

**Doubtful.** Inherent weakness in the exposure makes the collection or repayment in full, based on existing facts, conditions and circumstances, highly improbable, and the amount of loss is uncertain.

Doubtful loans are considered impaired. Substandard loans are regularly reviewed for impairment. When a loan is impaired the impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or as a practical expedient, the observable market price of the loan or the fair value of the

collateral if the loan is collateral dependent.

31

---

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Based on the most recent analysis performed, the risk category of our loan portfolio was as follows: (in thousands):

	As of September 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 1,495,499	\$ 38,914	\$ 23,871	\$ —	\$ 1,558,284
Securities-based loans	1,452,913	—	\$ —	—	1,452,913
Consumer	92,563	2	9	—	92,574
Residential real estate	1,803,734	140	238	—	1,804,112
Commercial real estate	54,158	—	9,522	—	63,680
Home equity lines of credit	14,403	11	—	—	14,414
Construction and land	11,067	—	—	—	11,067
Total	\$ 4,924,337	\$ 39,067	\$ 33,640	\$ —	\$ 4,997,044

	As of December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 1,191,030	\$ 11,320	\$ 14,306	\$ —	\$ 1,216,656
Securities-based loans	1,388,939	—	14	—	1,388,953
Consumer	36,846	—	—	—	36,846
Residential real estate	427,950	1,182	—	—	429,132
Commercial real estate	92,623	—	—	—	92,623
Home equity lines of credit	12,456	—	19	—	12,475
Construction and land	3,899	—	—	—	3,899
Total	\$ 3,153,743	\$ 12,502	\$ 14,339	\$ —	\$ 3,180,584

NOTE 8 – Goodwill and Intangible Assets

The carrying amount of goodwill and intangible assets attributable to each of our reporting segments is presented in the following table (in thousands):

	December			September	
	31, 2015	Adjustments	Write-off	30, 2016	
<b>Goodwill</b>					
Global Wealth Management	\$ 269,384	\$ (24,605 )	\$ —	\$ 244,779	
Institutional Group	646,218	100,729	(2,600 )	744,347	
	\$ 915,602	\$ 76,124	\$ (2,600 )	\$ 989,126	
<b>Intangible assets</b>					
Global Wealth Management	\$ 27,964	\$ 18,420	\$ (5,147 )	\$ 41,237	



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Institutional Group	35,213	21,599	(5,411 )	51,401
	\$ 63,177	\$ 40,019	\$ (10,558 )	\$ 92,638

The adjustments to goodwill and intangible assets during the nine months ended September 30, 2016, are primarily attributable to the acquisitions of ISM, which closed on May 5, 2016, and Eaton Partners, which closed on January 4, 2016. The allocation of the purchase price for these acquisitions is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of the acquisitions as of the respective acquisition dates and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from the preliminary estimate reflected herein. Goodwill for certain of our acquisitions is deductible for tax purposes. Goodwill and intangible assets were also impacted by the completion of the purchase price allocation for the Sterne Agee acquisition and the write-off of goodwill and intangibles related to the certain Sterne businesses that were disposed of on July 1, 2016.

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and non-compete agreements that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016		December 31, 2015	
	Gross		Gross	
	Carrying Value	Accumulated Amortization	Carrying Value	Accumulated Amortization
Customer relationships	\$ 122,484	\$ 45,271	\$ 78,580	\$ 37,322
Trade name	20,794	8,625	24,456	6,969
Investment banking backlog	7,635	7,635	7,440	7,388
Non-compete agreements	1,953	815	2,517	255
	\$ 152,866	\$ 62,346	\$ 112,993	\$ 51,934

Amortization expense related to intangible assets was \$2.6 million and \$1.9 million for the three months ended September 30, 2016 and 2015, respectively. Amortization expense related to intangible assets was \$10.6 million and \$6.0 million for the nine months ended September 30, 2016 and 2015, respectively.

The weighted-average remaining lives of the following intangible assets at September 30, 2016, are: customer relationships, 7.9 years; trade name, 9.8 years; non-compete agreements, 4.1 years; and backlog within the next 3 months. As of September 30, 2016, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
Remainder of 2016	\$ 2,569
2017	9,284
2018	8,651
2019	8,419
2020	8,201
Thereafter	53,396
	\$ 90,520

#### NOTE 9 – Borrowings and Federal Home Loan Bank Advances

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, committed bank line financing on an unsecured basis, advances from the Federal Home Loan Bank, term loans, and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in

the consolidated statements of financial condition.

The following table details the components of borrowings (in thousands):

	September 30, 2016	December 31, 2015
Borrowings on secured lines of credit	\$ 234,200	\$ 30,000
Term loans	-	59,084
	\$ 234,200	89,084

Our uncommitted secured lines of credit at September 30, 2016, totaled \$980.0 million with six banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was \$525.7 million during the nine months ended September 30, 2016. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are generally utilized to finance certain fixed income securities. At September 30, 2016, our uncommitted secured lines of credit were collateralized by company-owned securities valued at \$479.6 million.

Our committed bank line financing at September 30, 2016, consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate (“LIBOR”) plus 2.00%, as defined in the revolving credit facility. At September 30, 2016, we had no advances on our revolving credit facility and were in compliance with all covenants.

The Federal Home Loan advances as of September 30, 2016 are floating-rate advances. The weighted average interest rates on these advances during the three months ended September 30, 2016 was 1.11%. The advances are secured by Stifel Bank’s residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

As of December 31, 2015, a subsidiary of the Parent was a party to two Term Loans (“Term Loans”). The Term Loans were paid-off in July 2016.

#### NOTE 10 – Senior Notes

The following table summarizes our senior notes as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
4.250% senior notes, due 2024 <sup>3</sup>	\$ 500,000	\$ 300,000
3.50% senior notes, due 2020 <sup>1</sup>	300,000	300,000
5.375% senior notes, due 2022 <sup>2</sup>	-	150,000
	800,000	750,000
Debt issuance costs, net	(4,220 )	(9,864 )
	\$ 795,780	\$ 740,136

<sup>1</sup>In December 2015, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 3.50% senior notes due December 2020. Interest on these senior notes is payable semi-annually in arrears. We may redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption.

<sup>2</sup>In December 2012, we sold in a registered underwritten public offering, \$150.0 million in aggregate principal amount of 5.375% senior notes due December 2022. Interest on these senior notes is payable quarterly in arrears. We could redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date. The notes were redeemed in July 2016.

<sup>3</sup>In July 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024. Interest on these senior notes is payable semi-annually in arrears. We may

redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. In July 2016, we issued an additional \$200.0 million in aggregate principal amount of 4.25% senior notes due 2024.

Our senior notes mature as follows, based upon contractual terms (in thousands):

2016	\$—
2017	—
2018	—
2019	—
2020	300,000
Thereafter	500,000
	\$ 800,000

## NOTE 11 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016	December 31, 2015
Money market and savings accounts	\$9,804,434	\$6,429,780
Demand deposits (interest-bearing)	69,068	185,275
Certificates of deposit	4,963	15,087
Demand deposits (non-interest-bearing)	6,976	8,214
	<b>\$9,885,441</b>	<b>\$6,638,356</b>

The weighted-average interest rate on deposits was 0.19% and 0.17% at September 30, 2016 and December 31, 2015, respectively.

Scheduled maturities of certificates of deposit at September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016	December 31, 2015
Certificates of deposit, less than \$100:		
Within one year	\$ 1,674	\$ 4,863
One to three years	969	2,356
Three to five years	—	145
Over five years	—	—
	<b>\$ 2,643</b>	<b>\$ 7,364</b>
Certificates of deposit, \$100 and greater:		
Within one year	\$ 1,372	\$ 5,464
One to three years	647	1,975
Three to five years	301	284
Over five years	—	—
	<b>2,320</b>	<b>7,723</b>
	<b>\$ 4,963</b>	<b>\$ 15,087</b>

At September 30, 2016 and December 31, 2015, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of \$9.9 billion and \$6.6 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.2 million and \$0.3 million, respectively.

NOTE 12 – Derivative Instruments and Hedging Activities

We use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our company making fixed payments. Our policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements.

35

---

The following table provides the notional values and fair values of our derivative instruments as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Asset Derivatives		Liability Derivatives	
	Positive		Negative	
	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet
	Fair	Fair	Fair	Fair
	Value	Value	Location	Value
Notional Value				
Derivatives designated as hedging instruments under Topic 815:				
			Accounts payable and accrued expenses	
Cash flow interest rate contracts	\$923,285	Other assets	\$ —	\$(10,599)
	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
	Positive		Negative	
	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet
	Fair	Fair	Fair	Fair
	Value	Value	Location	Value
Notional Value				
Derivatives designated as hedging instruments under Topic 815:				
			Accounts payable and accrued expenses	
Cash flow interest rate contracts	\$179,110	Other assets	\$ —	\$(3,591)

#### Cash Flow Hedges

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting floating rate debt to a fixed rate debt. The swaps have an average remaining life of 3.6 years.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. The loss recognized during the three and nine months ended September 30, 2016 and 2015, respectively, related to ineffectiveness was insignificant.



Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that \$4.2 million will be reclassified as an increase to interest expense.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

Three Months Ended September 30, 2016					
	Location of		Location of		
Gain/(Loss)	Loss	Loss	Loss	Gain/(Loss)	
Recognized					
in	Reclassified	Reclassified	Recognized in	Recognized	
OCI	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$5,552	Interest expense	\$ 1,391	None	\$ 1
Three Months Ended September 30, 2015					
	Location of		Location of		
Gain/(Loss)	Loss	Loss	Loss	Loss	
Recognized					
in	Reclassified	Reclassified	Recognized in	Recognized	
OCI	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$(1,418)	Interest expense	\$ 853	None	\$ —
Nine Months Ended September 30, 2016					
	Location of		Location of		
Gain/(Loss)	Loss	Loss	Loss	Loss	
Recognized					
in	Reclassified	Reclassified	Recognized in	Recognized	
OCI	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$(10,973)	Interest expense	\$ 4,273	None	\$ 45
Nine Months Ended September 30, 2015					
	Location of		Location of		
Gain/(Loss)	Loss	Loss	Loss	Loss	
Recognized					
in	Reclassified	Reclassified	Recognized in	Recognized	
OCI	From OCI	From OCI	OCI	Due to	

	OCI	From OCI	Into Income	OCI	Ineffectiveness
	(Effectiveness)		Income	(Ineffectiveness)	
Cash flow interest rate contracts	\$(2,816 )	Interest expense	\$ 3,060	None	\$ —

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 4 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

#### Credit Risk-Related Contingency Features

We have agreements with our derivative counterparties containing provisions where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We have agreements with certain of our derivative counterparties that contain provisions where if our shareholders' equity declines below a specified threshold or if we fail to maintain a specified minimum shareholders' equity, then we could be declared in default on our derivative obligations.

Certain of our agreements with our derivative counterparties contain provisions where if a specified event or condition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

### Regulatory Capital-Related Contingency Features

Certain of our derivative instruments contain provisions that require us to maintain our capital adequacy requirements. If we were to lose our status as “adequately capitalized,” we would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of September 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$10.6 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$17.6 million against our obligations under these agreements. If we had breached any of these provisions at September 30, 2016, we would have been required to settle our obligations under the agreements at the termination value.

### Counterparty Risk

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our counterparties for interest rate swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period.

### NOTE 13 – Disclosures About Offsetting Assets and Liabilities

The following table provides information about financial assets and derivative assets that are subject to offset as of September 30, 2016 and December 31, 2015 (in thousands):

			Gross amounts not offset			
			in the Statement of			
Gross	Gross	Net	Financial Condition	Available	Net	
Amounts of	Amounts	Amounts	Amounts available for offset	collateral	Amount	
Recognized	Offset in	Presented in				
Assets	the Statement	the Statement				
	of Financial	of Financial				

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

		Condition	Condition				
As of September 30, 2016:							
Securities borrowing <sup>1</sup>	\$ 428,274	\$ —	\$ 428,274	\$(263,591)	\$(153,144)	\$11,539	
Reverse repurchase agreements <sup>2</sup>	297,827	—	297,827	(192,385)	(105,442)	—	
	\$ 726,101	\$ —	\$ 726,101	\$(455,976)	\$(258,586)	\$11,539	
As of December 31, 2015:							
Securities borrowing <sup>1</sup>	\$ 318,105	\$ —	\$ 318,105	\$(182,399)	\$(123,309)	\$12,397	
Reverse repurchase agreements <sup>2</sup>	160,423	—	160,423	(160,423)	—	—	
	\$ 478,528	\$ —	\$ 478,528	\$(342,822)	\$(123,309)	\$12,397	

<sup>1</sup> Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 3 in the notes to consolidated financial statements for additional information on receivables from brokers, dealers, and clearing organizations.

<sup>2</sup> Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of September 30, 2016 and December 31, 2015 (in thousands):

	Gross		Net		Gross amounts not offset  in the Statement of  Financial Condition		
	Amounts	Amounts	Amounts	Amounts			
	Gross	Offset in	Presented in				
	Amounts of	the Statement	the Statement				
	Recognized	of Financial	of Financial	Amounts	Collateral	Net	
	Liabilities	Condition	Condition	available	Pledged	Amount	
				for offset			
As of September 30, 2016:							
Securities lending <sup>3</sup>	\$ (398,741 )	\$ —	\$ (398,741 )	\$ 263,591	\$ 125,907	\$ (9,243 )	
Repurchase agreements <sup>4</sup>	(261,734 )	—	(261,734 )	192,385	69,349	—	
Cash flow interest rate contracts	(10,599 )	—	(10,599 )	—	10,599	—	
	\$ (671,074 )	\$ —	\$ (671,074 )	\$ 455,976	\$ 205,855	\$ (9,243 )	
As of December 31, 2015:							
Securities lending <sup>3</sup>	\$ (329,670 )	\$ —	\$ (329,670 )	\$ 182,399	\$ 132,784	\$ (14,487)	
Repurchase agreements <sup>4</sup>	(278,674 )	—	(278,674 )	160,423	118,251	—	
Cash flow interest rate contracts	(3,591 )	—	(3,591 )	—	3,591	—	
	\$ (611,935 )	\$ —	\$ (611,935 )	\$ 342,822	\$ 254,626	\$ (14,487)	

<sup>3</sup>Securities lending transactions are included in payables to brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 3 in the notes to consolidated financial statements for additional information on payables to brokers, dealers, and clearing organizations.

<sup>4</sup>Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included on the consolidated statements of financial condition unless we default.

#### NOTE 14 – Commitments, Guarantees, and Contingencies

##### Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2016, had no material effect on the consolidated

financial statements.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our liability under these agreements is not quantifiable and may exceed the cash and securities we have posted as collateral. However, the potential requirement for us to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

#### Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 19 in the notes to consolidated financial statements for further details.

We have committed capital to certain entities, and these commitments generally have no specified call dates. We had \$20.3 million of commitments outstanding at September 30, 2016, of which \$9.2 million relate to commitments to certain strategic relationships with Business Development Corporations.

#### Concentration of Credit Risk

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for

certain products and are continually monitored in light of changing customer and market conditions. As of September 30, 2016 and December 31, 2015, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

#### NOTE 15 – Legal Proceedings

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations, and regulatory investigations. In view of the number and diversity of claims against our company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be.

We have established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations, and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, including the matters described below, the ultimate resolution of these matters will not have a material adverse impact on our financial position and results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, based on currently available information, we believe that such losses will not have a material effect on our consolidated financial statements.

#### SEC/Wisconsin Lawsuit

A civil lawsuit was filed against our company by the SEC in connection with our role in the sale of collateralized debt obligations (“CDOs”) investments to five Southeastern Wisconsin school districts (the “school districts”) in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The SEC has asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2), and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. We answered, denied the substantive allegations of the amended complaint, and asserted various affirmative defenses. In January 2016, the parties filed motions for summary judgment and at the pretrial conference on August 31, 2016, the court denied those motions. On September 9, 2016, the court was informed of a tentative settlement subject to Commission



approval. The trial, which was previously scheduled to commence on September 12, 2016, was adjourned, and a status conference with the court has been scheduled for November 16, 2016.

Certain settlements or judgments associated with the Company's disclosed matters may not be deductible for tax purposes to the extent they constitute penalties. The Company has not established a provision for the non-deductibility of such amounts where the amounts are uncertain.

The civil lawsuit filed against Stifel Nicolaus & Company, Incorporated by the Securities and Exchange Commission ("SEC") in connection with the sale of collateralized debt obligations to five Southwestern Wisconsin school districts was adjourned when the court was informed on September 9, 2016 of a tentative settlement subject to SEC approval. The tentative settlement with the SEC, as disclosed above, could potentially impact the Company's provision for income taxes by approximately \$9.0 million due to the non-deductibility of the settlement.

#### EDC Bond Issuance Matter

We have been named, along with other parties, in a lawsuit filed in Wisconsin state court asserting various claims by LDF Acquisition LLC ("LDF"), a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively "Saybrook") and by the Lac Du Flambeau Band of Lake Superior Chippewa Indians and its Lake of the Torches Economic Development Corporation (the "Tribe") in which, among other things, Saybrook seeks repayment from the Tribe for the proceeds from a \$50 million 2008 bond offering ("the bonds") and in which the Tribe seeks to avoid repayment, as well as other claims against us and others. We were the initial purchaser

of the bonds, which were immediately sold to LDF. The claims asserted against Stifel are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, intentional and negligent misrepresentations relating to those matters. Saybrook seeks rescissionary relief as well as restitutionary damages, including the amounts paid for the bonds, plus costs. The claims have been bifurcated by the Court, and the first phase of the trial commenced on October 17, 2016. A second phase is currently scheduled to commence on January 30, 2017. While there can be no assurance that we will be successful, we intend to vigorously defend the claims.

Broyles, et al. v. Cantor Fitzgerald & Co. et al. Matter

In December 2013, Stone & Youngberg, LLC (“Stone & Youngberg”) was named in an Amended Complaint filed in U.S. District Court for the Middle District of Louisiana alleging fraud on the part of Stone & Youngberg in connection with the 2007 formation of the Collybus CDO, which was manufactured by Cantor Fitzgerald & Co. (“Cantor”) and purchased by Commonwealth Advisors (“CA”) on behalf of several CA funds, as well as in connection with, among other things, Stone & Youngberg’s facilitation of subsequent trades of Collybus CDO securities by CA on behalf of the CA funds during 2007 and 2008. The plaintiffs are six hedge funds and the Amended Complaint alleges that they lost over \$200 million during the financial crisis through mismanagement of the CA funds.

In addition to the claims asserted against Stone & Youngberg, the Amended Complaint seeks to hold our company and Stifel liable for Stone & Youngberg’s alleged wrongdoing under theories of successor and alter ego liability, arising out of our company’s purchase of the membership interests of Stone & Youngberg in 2011 and the subsequent operation of that business, notwithstanding that the stand-alone ability of Stone & Youngberg to address creditors’ claims is greater today than it was immediately prior to our 2011 purchase of Stone & Youngberg.

The original Complaint named Cantor, CA, and CA’s CEO, Walter Morales. The CA funds filed a Chapter 11 bankruptcy petition which stayed the original lawsuit until the reorganization plan was entered by the court in the fall of 2013. Shortly thereafter, the CA funds filed their first Amended Complaint, which is the first complaint that asserted claims against Stone & Youngberg, our company or Stifel. The action is now proceeding under a Fourth Amended Complaint. On September 29, 2016, the court postponed the trial for an extended, but undefined, period to consider various motions and other matters that will impact, among other things, the ultimate trial date and the issues to be tried. While there can be no assurance of success, Stone & Youngberg intends to vigorously defend the claims against it, and our company and Stifel intend to vigorously defend the claims seeking to hold us responsible for Stone & Youngberg’s alleged liability.

#### NOTE 16 – Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC’s Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC’s Customer Protection Rule (Rule 15c3-3). Our other broker-dealer subsidiaries calculate their net capital under the aggregate indebtedness method, whereby their aggregate indebtedness may not be greater than fifteen times their net capital (as defined).

At September 30, 2016, Stifel had net capital of \$295.5 million, which was 17.3% of aggregate debit items and \$261.4 million in excess of its minimum required net capital. At September 30, 2016, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiary is subject to the regulatory supervision and requirements of the Financial Conduct Authority ("FCA") in the United Kingdom. At September 30, 2016, our international subsidiary's capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal and state banking agencies. Failure to meet 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 company's and Stifel Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank 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 company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Our company and Stifel Bank are subject to Basel III. Under the Basel III rules, the quantity and quality of regulatory capital increased, a capital conservation buffer was established, selected changes were made to the calculation of risk-weighted assets, and a new ratio, common equity Tier 1 was introduced, all of which are applicable to both our company and Stifel Bank. Various aspects of Basel III will be subject to multi-year transition periods through December 31, 2018.

Our company and Stifel Bank are required to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Tier 1 capital to average assets (as defined), and under rules defined in Basel III, Common equity Tier 1 capital to risk-weighted assets. Our company and Stifel Bank each calculate these ratios in order to assess compliance with both regulatory requirements and their internal capital policies. At current capital levels, our company and Stifel Bank are each categorized as “well capitalized” under the regulatory framework for prompt corrective action.

To be categorized as “well capitalized,” our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the tables below (in thousands, except ratios).

Stifel Financial Corp. – Federal Reserve Capital Amounts  
September 30, 2016

	Actual		For Capital		To Be Well Capitalized	
	Amount	Ratio	Adequacy Purposes		Action Provisions	
			Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	\$1,544,935	19.5 %	\$357,316	4.5 %	\$516,123	6.5 %
Tier 1 capital	1,748,315	22.0 %	476,421	6.0 %	635,228	8.0 %
Total capital	1,788,163	22.5 %	635,228	8.0 %	794,035	10.0 %
Tier 1 leverage	1,748,315	11.8 %	594,689	4.0 %	743,361	5.0 %

Stifel Bank – Federal Reserve Capital Amounts  
September 30, 2016

	Actual		For Capital		To Be Well Capitalized	
	Amount	Ratio	Adequacy Purposes		Action Provisions	
			Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	\$741,927	13.7 %	\$243,061	4.5 %	\$351,087	6.5 %
Tier 1 capital	741,927	13.7 %	324,081	6.0 %	432,108	8.0 %
Total capital	781,829	14.5 %	432,108	8.0 %	540,135	10.0 %
Tier 1 leverage	741,927	7.5 %	396,416	4.0 %	495,520	5.0 %

## NOTE 17 – Interest Income and Interest Expense

The components of interest income and interest expense are as follows (in thousands):

	Three Months		Nine Months Ended	
	Ended September		September 30,	
	30,		2016	2015
	2016	2015	2016	2015
<b>Interest income:</b>				
Bank loans, net	\$35,484	\$20,705	\$91,517	\$60,460
Investment securities	27,161	10,641	73,968	38,674
Margin balances	7,438	6,183	24,135	15,668
Other	4,798	5,847	13,868	15,162
	\$74,881	\$43,376	\$203,488	\$129,964
<b>Interest expense:</b>				
Senior notes	\$12,164	\$5,408	\$28,518	\$19,364
Bank deposits	3,628	1,783	10,763	5,945
Other	3,591	2,605	11,475	7,605
	\$19,383	\$9,796	\$50,756	\$32,914

(1) Includes \$3.0 million related to the write-off of debt issuance costs as a result of the redemption of the Company's \$150.0 million 5.375% senior notes in July 2016.

## NOTE 18 – Employee Incentive, Deferred Compensation, and Retirement Plans

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance award, stock units and debentures to our employees. We are permitted to issue new shares under all stock award

plans approved by shareholders or to reissue our treasury shares. Awards under our company's incentive stock award plans are granted at market value at the date of grant. The awards generally vest ratably over a three- to nine-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 6.7 million shares at September 30, 2016.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$56.6 million and \$29.6 million for the three months ended September 30, 2016 and 2015, respectively. The tax impact related to stock-based compensation recognized in shareholders' equity was a provision of \$0.6 million and a benefit of \$3.8 million for the three months ended September 30, 2016 and 2015, respectively.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$151.4 million and \$107.6 million for the nine months ended September 30, 2016 and 2015, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was a provision of \$5.8 million and a benefit of \$17.0 million for the nine months ended September 30, 2016 and 2015, respectively.

During 2016, the Company's Board of Directors removed the continuing service requirements associated with restricted stock units that were granted to certain employees of Barclays in December 2015. As a result of the modification, the awards were expensed at date of modification resulting in a charge of \$36.0 million during the second quarter of 2016 and \$22.6 million during the third quarter of 2016. The fair value of the awards is based upon the closing price of our company's common stock on the date of the grant of the awards. These charges are included in compensation and benefits in the consolidated statement of operations for the three and nine months ended September 30, 2016.

#### Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next one to nine years and are distributable, if vested, at future specified dates. The Company began granting Performance-based Restricted Stock Units ("PRSUs") to its executive officers in 2016. Under the terms of the grants, the number of PRSUs that will vest and convert to shares will be based on the Company's achievement of the pre-determined performance objectives during the performance period. The PRSUs will be measured over a 4-year performance period and vested over a 5-year period. The number of shares converted has the potential to range from 0% to 200% based on how the Company performs during the performance period. Compensation expense is amortized on a straight-line basis over the service period based on the fair value of the award on the grant date. The Company's pre-determined performance objectives must be met for the awards to vest. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense. At September 30, 2016, the total number of stock units outstanding was 22.1 million, of which 18.6 million were unvested. At September 30, 2016, the total number of PRSUs was 0.5 million, of which all were unvested.

At September 30, 2016, there was unrecognized compensation cost for stock units of approximately \$374.7 million, which is expected to be recognized over a weighted-average period of 3.3 years.

## Deferred Compensation Plans

The Wealth Accumulation Plan (the “Plan”) is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units and debentures. Participants may elect to defer a portion of their incentive compensation. Deferred awards generally vest over a three- to nine-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested.

Additionally, the Plan allows Stifel’s financial advisors who achieve certain levels of production to defer a certain percentage of their gross commissions. As stipulated by the Plan, the financial advisors will defer 5% of their gross commissions. They have the option to have up to 3%, of their 5% deferral in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. In addition, they can elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of \$10.2 million and \$15.5 million at September 30, 2016 and December 31, 2015, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At September 30, 2016 and December 31, 2015, the deferred compensation liability related to the mutual fund option of \$7.5 million and \$12.4 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

In addition, certain financial advisors, upon joining our company, may receive company stock units in lieu of transition cash payments. Deferred compensation related to these awards generally vests over a five- to nine-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period.

#### Profit Sharing Plan

Eligible employees of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the “401(k) Plan”). Employees are permitted within limitations imposed by tax law to make pre-tax contributions to the 401(k) Plan. We may match certain employee contributions or make additional contributions to the 401(k) Plan at our discretion. Our contributions to the 401(k) Plan were \$1.6 million and \$1.6 million for the three months ended September 30, 2016 and 2015, respectively and \$4.5 million and \$4.8 million for the nine months ended September 30, 2016 and 2015, respectively.

#### NOTE 19 – Off-Balance Sheet Credit Risk

In the normal course of business, we execute, settle, and finance customer and proprietary securities transactions. These activities expose our company to off-balance sheet risk in the event that customers or other parties fail to satisfy their obligations.

In accordance with industry practice, securities transactions generally settle within three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, we may be required to purchase or sell securities at unfavorable market prices.

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis, utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties’ positions, and where deemed necessary, we may require a deposit of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

We manage our risks associated with the aforementioned transactions through position and credit limits and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2016 and December 31, 2015, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.6 billion and \$2.4 billion, respectively, and the fair value of the collateral that had been sold or repledged was \$261.7 million and \$278.7 million, respectively.



We enter into interest rate derivative contracts to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are principally used to manage differences in the amount, timing, and duration of our known or expected cash payments related to certain variable-rate affiliated deposits. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments. Our interest rate hedging strategies may not work in all market environments and, as a result, may not be effective in mitigating interest rate risk.

Derivatives' notional contract amounts are not reflected as assets or liabilities in the consolidated statements of financial condition. Rather, the market or fair value of the derivative transactions are reported in the consolidated statements of financial condition as other assets or accounts payable and accrued expenses, as applicable.

For a complete discussion of our activities related to derivative instruments, see Note 12 in the notes to consolidated financial statements.

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit, and lines of credit. Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established by the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent

future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At September 30, 2016 and December 31, 2015, Stifel Bank had outstanding commitments to originate loans aggregating \$301.1 million and \$130.5 million, respectively. The commitments extended over varying periods of time, with all commitments at September 30, 2016, scheduled to be disbursed in the following three months.

Through Stifel Bank, in the normal course of business, we originate residential mortgage loans and sell them to investors. We may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that were sold to investors in the event that there was inadequate underwriting or fraud, or in the event that the loans become delinquent shortly after they are originated. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2016 and December 31, 2015, Stifel Bank had outstanding letters of credit totaling \$87.9 million and \$38.7 million, respectively. A majority of the standby letters of credit commitments at September 30, 2016, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2016 and December 31, 2015, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$510.9 million and \$403.2 million, respectively.

#### NOTE 20 – Segment Reporting

We currently operate through the following three business segments: Global Wealth Management, Institutional Group, and various corporate activities combined in the Other segment.

Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their clients through Stifel Bank. Stifel Bank segment provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions, with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, compensation expense associated with the expensing of restricted stock awards with no continuing service requirements in conjunction with recent acquisitions, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration and acquisition charges.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Information concerning operations in these segments of business for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues: <sup>(1)</sup>				
Global Wealth Management	\$390,032	\$357,306	\$1,155,875	\$1,030,097
Institutional Group	258,800	232,125	760,996	729,269
Other	(6,846 )	2,144	(2,766 )	(9,058 )
	\$641,986	\$591,575	\$1,914,105	\$1,750,308
Income/(loss) before income taxes:				
Global Wealth Management	\$109,079	\$97,227	\$307,466	\$290,049
Institutional Group	44,923	25,853	116,628	100,124
Other	(126,020)	(100,732)	(336,406 )	(259,688 )
	\$27,982	\$22,348	\$87,688	\$130,485

<sup>1</sup>No individual client accounted for more than 10 percent of total net revenues for the three and nine months ended September 30, 2016 or 2015.

The following table presents our company's total assets on a segment basis at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Global Wealth Management	\$13,581,542	\$10,519,575
Institutional Group	2,832,332	2,193,781
Other	791,034	612,695
	\$17,204,908	\$13,326,051

We have operations in the United States, United Kingdom, and Europe. The Company's foreign operations are conducted through its wholly owned subsidiary, SNEL. Substantially all long-lived assets are located in the United States.

Revenues, classified by the major geographic areas in which they are earned for the three and nine months ended September 30, 2016 and 2015, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

United States	\$602,422	\$567,153	\$1,796,143	\$1,654,500
United Kingdom	37,139	22,174	110,731	88,022
Other European	2,425	2,248	7,231	7,786
	\$641,986	\$591,575	\$1,914,105	\$1,750,308

NOTE 21 – Earnings Per Share (“EPS”)

Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted earnings per share include dilutive stock options and stock units under the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$17,814	\$17,179	\$54,640	\$81,164
Preferred dividends	1,563	—	1,563	—
Net income available to common shareholders	\$16,251	\$17,179	\$53,077	\$81,164
Shares for basic and diluted calculation:				
Average shares used in basic computation	66,482	69,633	66,950	68,675
Dilutive effect of stock options and units <sup>(1)</sup>	11,062	10,126	9,662	9,651
Average shares used in diluted computation	77,544	79,759	76,612	78,326
Earnings per common share:				
Basic	\$0.24	\$0.25	\$0.79	\$1.18
Diluted	\$0.21	\$0.22	\$0.69	\$1.04

<sup>1</sup>Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. For the three and nine months ended September 30, 2016 and 2015, the anti-dilutive effect from restricted stock units was immaterial.

## NOTE 22 – Shareholders’ Equity

### Share Repurchase Program

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2016, the maximum number of shares that may yet be purchased under this plan was 7.4 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the three and nine months ended September 30, 2016, we repurchased \$18.3 million and \$113.5 million, or 0.6 million and 3.4 million shares, respectively, using existing Board authorizations at an average price of \$30.52 and \$33.22 per share, respectively, to meet obligations under our company’s employee benefit plans and for general corporate purposes. There were no repurchases during the three and nine months ended September 30, 2015.

### Issuance of Common Stock

On January 4, 2016, we issued 0.3 million shares related to the purchase of Eaton Partners.

During the nine months ended September 30, 2016, we issued 2.6 million shares, which were reissued from treasury. Share issuances were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration in our acquisition of Eaton Partners.

#### Issuance of Preferred Stock

On July, 11, 2016, the company issued \$150.0 million of perpetual 6.25% Non-Cumulative Perpetual Preferred Stock, Series A, \$1.00 par value, with a liquidation preference of \$25,000 per share (equivalent to \$25 liquidation preference per depositary share).

When, as, and if declared by the board of directors of the company, dividends will be payable at an annual rate of 6.25%, payable quarterly, in arrears. The company may redeem the Series A preferred stock at its option, subject to regulatory approval, on or after July 15, 2021 or following a regulatory capital treatment event, as defined.

#### NOTE 23 – Variable Interest Entities

Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts, and our issuance of a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of \$150.3 million at September 30, 2016. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee

arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2016 and 2015. In addition, our direct investment interest in these entities is insignificant at September 30, 2016 and December 31, 2015.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of \$332.9 million at September 30, 2016. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at September 30, 2016. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2016 and 2015.

For the entities noted above that were determined to be VIEs, we have concluded that we are not the primary beneficiary, and therefore, we are not required to consolidate these entities. Additionally, for certain other entities, we reviewed other relevant accounting guidance, which states the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either: (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause, or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria are not met, the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation.

#### Debenture to Stifel Financial Capital Trusts

We have completed private placements of cumulative trust preferred securities through Stifel Financial Capital Trust II, Stifel Financial Capital Trust III, and Stifel Financial Capital Trust IV (collectively, the "Trusts"). The Trusts are non-consolidated wholly owned business trust subsidiaries of our company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to our company.

The trust preferred securities represent an indirect interest in junior subordinated debentures purchased from our company by the Trusts, and we effectively provide for the full and unconditional guarantee of the securities issued by the Trusts. We make timely payments of interest to the Trusts as required by contractual obligations, which are sufficient to cover payments due on the securities issued by the Trusts, and believe that it is unlikely that any circumstances would occur that would make it necessary for our company to make payments related to these Trusts other than those required under the terms of the debenture agreements and the trust preferred securities agreements. The Trusts were determined to be VIEs because the holders of the equity investment at risk do not have adequate decision-making ability over the Trust's activities. Our investment in the Trusts is not a variable interest, because equity interests are variable interests only to the extent that the investment is considered to be at risk. Because our investment was funded by the Trusts, it is not considered to be at risk.

#### Interest in FSI Group, LLC ("FSI")

We have provided financing of \$18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. In



February 2013, the convertible promissory note was amended and restated. The convertible promissory note matures in April 2018; however, FSI has three five-year extension options. The note is convertible at our election into a 49.9% interest in FSI only after the last extension option. The convertible promissory note has a minimum coupon rate equal to 8% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not required to consolidate this entity.

Our company's exposure to loss is limited to the carrying value of the note with FSI at September 30, 2016, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at September 30, 2016. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of September 30, 2016. Our company's involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 24 – Subsequent Events

We evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, we did not identify any recognized subsequent events that would have required adjustment to the consolidated financial statements. Based on the evaluation, we did not identify any recognized subsequent events that would have required adjustment to the consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at [www.stifel.com](http://www.stifel.com) and at the SEC web site at [www.sec.gov](http://www.sec.gov).

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events, unless we are obligated to do so under federal securities laws.

Unless otherwise indicated, the terms "we," "us," "our" or "our company" in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

### Executive Summary

We operate as a financial services and bank holding company. We have built a diversified business serving private clients, institutional investors, and investment banking clients located across the United States and in Europe. Our principal activities are: (i) private client services, including securities transaction and financial planning services; (ii) institutional equity and fixed income sales, trading and research, and municipal finance; (iii) investment banking services, including mergers and acquisitions, public offerings, and private placements; and (iv) retail and commercial banking, including personal and commercial lending programs. Our major geographic area of concentration is throughout the United States, with a growing presence in the United Kingdom and Europe. Our company's principal customers are individual investors, corporations, municipalities, and institutions.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional and corporate clients quality, personalized service, with the theory that if we place clients' needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the leading brokerage and investment banking firms off Wall Street. We have grown our business both organically and through opportunistic acquisitions. These acquisitions have positively impacted our results.

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on

providing quality client management and product diversification. In executing our growth strategy, we will continue to seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our Global Wealth Management and Institutional Group businesses.

Our ability to attract and retain highly skilled and productive employees is critical to the success of our business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

On January 4, 2016, the Company completed the acquisition of Eaton Partners, LLC (“Eaton Partners”), a global fund placement and advisory firm. Eaton Partners will retain its brand name and will be run as a Stifel company. The acquisition was funded with cash from operations and our common stock.

On May 5, 2016, the Company completed the acquisition of ISM Capital LLP (“ISM”), an independent investment bank focused on international debt capital markets. The acquisition of ISM adds to the Company’s debt capital markets origination, sales and research

capabilities in Europe, including an end-to-end platform for convertible securities and other equity-linked debt instruments. The acquisition was funded with cash from operations.

On July 1, 2016, the Company completed the sale of Sterne Agee, LLC's legacy independent brokerage and clearing businesses to INTL FCStone Inc. pursuant to two separate stock purchase agreements dated June 24, 2016. The closing of the sale of Sterne Agee, LLC's legacy RIA business occurred on August 1, 2016. Pursuant to the two stock purchase agreements, the Company agreed to sell Sterne Agee Financial Services, Inc.; Sterne Agee Clearing, Inc.; Sterne Agee & Leach, Inc.; Sterne Agee Asset Management, Inc.; and Sterne Agee Investment Advisor Services, Inc. for cash consideration equal to approximately \$50 million.

On July 11, 2016, the Company completed an underwritten registered public offering of \$150 million perpetual 6.25% Non-Cumulative Perpetual Preferred Stock, Series A, and issued \$200.0 million principal amount of the Company's 4.25% Senior Notes due 2024.

#### Results for the three and nine months ended September 30, 2016

For the three months ended September 30, 2016, net revenues increased 8.5% to \$642.0 million from \$591.6 million during the comparable period in 2015. Net income increased 3.7% to \$17.8 million, or \$0.21 per diluted common share for the three months ended September 30, 2016, compared to \$17.2 million, or \$0.22 per diluted common share during the comparable period in 2015.

For the nine months ended September 30, 2016, net revenues increased 9.4% to \$1.9 billion compared to \$1.8 billion during the comparable period in 2015. Net income decreased 32.7% to \$54.6 million, or \$0.69 per diluted common share for the nine months ended September 30, 2016, compared to \$81.2 million, or \$1.04 per diluted common share during the comparable period in 2015.

Our revenue growth for the three months ended September 30, 2016 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; an increase in principal transaction revenues; higher net interest income as a result of an increase in interest-earning assets at Stifel Bank and investment banking revenues; offset by lower other income and commission revenues.

Our revenue growth for the nine months ended September 30, 2016 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; an increase in principal transaction revenues, and higher net interest income as a result of an increase in interest-earning assets at Stifel Bank; offset by lower investment banking revenues, commission revenues, and other revenues.

#### External Factors Impacting our Business

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management. The municipal underwriting market is challenging as state and local governments reduce their debt levels. Investors are showing a lack of demand for longer-dated municipals and are reluctant to take on credit or liquidity risks.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At September 30, 2016, the Dow Jones Industrial Average, NASDAQ, and S&P 500 closed 5.1%, 6.1%, and 6.1% higher than their December 31, 2015 closing prices, respectively.

As a participant in the financial services industry, we are subject to complicated and extensive regulation of our business. The recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially intensify the regulation of the financial services industry and may significantly impact us.

## RESULTS OF OPERATIONS

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

The following table presents consolidated financial information for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2016	2015	Change %	2016	2015
<b>Revenues:</b>					
Commissions	\$ 171,272	\$ 194,083	(11.8 )	26.7 %	32.8 %
Principal transactions	117,002	95,593	22.4	18.2	16.2
Investment banking	144,799	118,753	21.9	22.6	20.1
Asset management and service fees	144,206	130,636	10.4	22.5	22.1
Interest	74,881	43,376	72.6	11.7	7.3
Other income	9,209	18,930	(51.4 )	1.4	3.2
Total revenues	661,369	601,371	10.0	103.0	101.7
Interest expense	19,383	9,796	97.9	3.0	1.7
Net revenues	641,986	591,575	8.5	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	434,236	404,205	7.4	67.6	68.3
Occupancy and equipment rental	62,453	53,282	17.2	9.7	9.0
Communication and office supplies	31,182	35,678	(12.6 )	4.9	6.0
Commissions and floor brokerage	10,777	12,430	(13.3 )	1.7	2.1
Other operating expenses	75,356	63,632	18.4	11.7	10.8
Total non-interest expenses	614,004	569,227	7.9	95.6	96.2
Income before income taxes	27,982	22,348	25.2	4.4	3.8
Provision for income taxes	10,168	5,169	96.7	1.6	0.9
Net Income	\$ 17,814	\$ 17,179	3.7	2.8 %	2.9 %





Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

The following table presents consolidated financial information for the periods indicated (in thousands, except percentages):

	Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2016	2015	Change	2016	2015
			%		
<b>Revenues:</b>					
Commissions	\$551,306	\$562,249	(1.9 )	28.8 %	32.1 %
Principal transactions	364,376	281,794	29.3	19.0	16.1
Investment banking	378,582	400,302	(5.4 )	19.8	22.9
Asset management and service fees	433,305	364,442	18.9	22.6	20.8
Interest	203,488	129,964	56.6	10.6	7.4
Other income	33,804	44,471	(24.0 )	1.8	2.6
Total revenues	1,964,861	1,783,222	10.2	102.7	101.9
Interest expense	50,756	32,914	54.2	2.7	1.9
Net revenues	1,914,105	1,750,308	9.4	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	1,305,372	1,169,896	11.6	68.2	66.8
Occupancy and equipment rental	178,455	145,798	22.4	9.3	8.3
Communication and office supplies	105,268	96,026	9.6	5.5	5.5
Commissions and floor brokerage	34,653	31,623	9.6	1.8	1.8
Other operating expenses	202,669	176,480	14.8	10.6	10.1
Total non-interest expenses	1,826,417	1,619,823	12.8	95.4	92.5
Income before income taxes	87,688	130,485	(32.8 )	4.6	7.5
Provision for income taxes	33,048	49,321	(33.0 )	1.7	2.8
Net Income	\$54,640	\$81,164	(32.7 )	2.9 %	4.7 %

NET REVENUES

The following table presents consolidated net revenues for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
			%			%
<b>Net revenues:</b>						
Commissions	\$171,272	\$194,083	(11.8 )	\$551,306	\$562,249	(1.9 )
Principal transactions	117,002	95,593	22.4	364,376	281,794	29.3
<b>Investment banking:</b>						
Capital raising	58,477	68,997	(15.2 )	178,193	237,465	(25.0 )
Advisory fees	86,322	49,756	73.5	200,389	162,837	23.1

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	144,799	118,753	21.9	378,582	400,302	(5.4 )
Asset management and service fees	144,206	130,636	10.4	433,305	364,442	18.9
Net interest	55,498	33,580	65.3	152,732	97,050	57.4
Other income	9,209	18,930	(51.4 )	33,804	44,471	(24.0 )
Total net revenues	\$641,986	\$591,575	8.5	\$1,914,105	\$1,750,308	9.4

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors and the growth of Stifel Bank in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment, as a result of the following acquisitions: Sterne Agee, which closed in June 2015; Barclays, which closed in December 2015; and Eaton Partners, which closed in January 2016.

Commissions – Commission revenues are primarily generated from agency transactions in OTC and listed equity securities, insurance products and options. In addition, commission revenues also include distribution fees for promoting and distributing mutual funds.

For the three months ended September 30, 2016, commission revenues decreased 11.8% to \$171.3 million from \$194.1 million in the comparable period in 2015. For the nine months ended September 30, 2016, commission revenues decreased 1.9% to \$551.3 million

from \$562.2 million in the comparable period in 2015. The decrease is primarily attributable to a decrease in agency transactions from the comparable period in 2015.

Principal transactions – Principal transaction revenues are gains and losses on secondary trading, principally fixed income brokerage revenues.

For the three months ended September 30, 2016, principal transactions revenues increased 22.4% to \$117.0 million from \$95.6 million in the comparable period in 2015. For the nine months ended September 30, 2016, principal transactions revenues increased 29.3% to \$364.4 million from \$281.8 million in the comparable period in 2015.

Investment banking – Investment banking revenues include: (i) capital raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements and other investment banking advisory fees.

For the three months ended September 30, 2016, investment banking revenues increased 21.9% to \$144.8 million from \$118.8 million in the comparable period in 2015.

Capital raising revenues decreased 15.2% to \$58.5 million for the three months ended September 30, 2016 from \$69.0 million in the comparable period in 2015. For the three months ended September 30, 2016, fixed income capital raising revenues decreased 19.8% to \$26.0 million from \$32.4 million in the comparable period in 2015. During the third quarter of 2016, equity capital raising revenues decreased 11.2% to \$32.5 million from \$36.6 million in the comparable period in 2015.

Advisory fee revenues increased 73.5% to \$86.3 million for the three months ended September 30, 2016 from \$49.8 million in the comparable period in 2015. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2015.

For the nine months ended September 30, 2016, investment banking revenues decreased 5.4% to \$378.6 million from \$400.3 million in the comparable period in 2015.

Capital raising revenues decreased 25.0% to \$178.2 million for the nine months ended September 30, 2016 from \$237.5 million in the comparable period in 2015. For the nine months ended September 30, 2016, fixed income capital raising revenues decreased 18.0% to \$82.5 million from \$100.5 million in the comparable period in 2015. During the nine months ended September 30, 2016, equity capital raising revenues decreased 30.1% to \$95.7 million from \$137.0 million in the comparable period in 2015.

Advisory fee revenues increased 23.1% to \$200.4 million for the nine months ended September 30, 2016 from \$162.8 million in the comparable period in 2015. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2015.

Asset management and service fees – Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the three months ended September 30, 2016, asset management and service fee revenues increased 10.4% to \$144.2 million from \$130.6 million in the comparable period in 2015. For the nine months ended September 30, 2016, asset management and service fee revenues increased 18.9% to \$433.3 million from \$364.4 million in the comparable period in 2015. The increase is primarily a result of an increase in the number and value of fee-based accounts and the

acquisition of Barclays in December 2015. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the three months ended September 30, 2016, other income decreased 51.4% to \$9.2 million from \$18.9 million during the comparable period in 2015. For the nine months ended September 30, 2016, other income decreased 24.0% to \$33.8 million from \$44.5 million during the comparable period in 2015. Other income primarily includes investment gains and losses and loan originations fees from Stifel Bank. Other income was positively impacted by a gain recognized on the extinguishment of \$15.0 million of debentures during the third quarter of 2016.

## NET INTEREST INCOME

The following tables present average balance data and operating interest revenue and expense data, as well as related interest yields for the periods indicated (in thousands, except rates):

	Three Months Ended September 30, 2016			September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances	\$1,235,107	\$7,438	2.41 %	\$678,157	\$6,183	3.65 %
Interest-earning assets (Stifel Bank)	9,799,243	62,725	2.56 %	4,754,951	31,590	2.66 %
Financial instruments owned	1,117,616	4,895	1.75 %	878,895	5,120	2.33 %
Other		(177 )			483	
Total interest revenue		\$74,881			\$43,376	
Interest-bearing liabilities:						
Short-term borrowings	\$110,598	\$475	1.72 %	\$155,568	\$451	1.16 %
Interest-bearing liabilities (Stifel Bank)	9,216,847	3,628	0.16 %	4,362,543	1,783	0.16 %
Senior notes (Stifel Financial)	794,022	12,164	6.13 %	450,000	5,408	4.81 %
Stifel Capital Trusts	67,500	426	2.52 %	82,500	436	2.11 %
Other		2,690			1,718	
Total interest expense		\$19,383			\$9,796	
Net interest income		\$55,498			\$33,580	

	Nine Months Ended September 30, 2016			September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances	\$1,251,700	\$24,136	2.57 %	\$672,511	\$15,668	3.11 %
Interest-earning assets (Stifel Bank)	8,598,098	166,033	2.57 %	5,019,080	99,797	2.65 %
Financial instruments owned	949,114	13,912	1.95 %	799,826	13,512	2.25 %
Other		(593 )			987	
Total interest revenue		\$203,488			\$129,964	
Interest-bearing liabilities:						
Short-term borrowings	\$180,170	\$2,501	1.85 %	\$115,822	\$740	0.85 %
Interest-bearing liabilities (Stifel Bank)	8,093,394	10,763	0.18 %	4,614,064	5,945	0.17 %
Senior notes (Stifel Financial)	764,781	28,518	4.97 %	477,222	19,364	5.41 %
Stifel Capital Trusts	74,124	1,331	2.39 %	82,500	1,286	2.08 %
Other		7,643			5,579	
Total interest expense		\$50,756			\$32,914	
Net interest income		\$152,733			\$97,050	

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended September 30, 2016, net interest income increased to \$55.5 million from \$33.6 million during the comparable period in 2015. For the nine months ended September 30, 2016, net interest income increased to \$152.7 million from \$97.1 million during the comparable period in 2015.

For the three months ended September 30, 2016, interest revenue increased 72.6% to \$74.9 million from \$43.4 million in the comparable period in 2015, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to \$9.8 billion during the three months ended September 30, 2016 compared to \$4.8 billion during the comparable period in 2015 at average interest rates of 2.56% and 2.66%, respectively.

For the nine months ended September 30, 2016, interest revenue increased 56.6% to \$203.5 million from \$130.0 million in the comparable period in 2015, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel

Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to \$8.6 billion during the nine months ended September 30, 2016 compared to \$5.0 billion during the comparable period in 2015 at average interest rates of 2.57% and 2.65%, respectively.

For the three months ended September 30, 2016, interest expense increased 97.9% to \$19.4 million from \$9.8 million during the comparable period in 2015. For the nine months ended September 30, 2016, interest expense increased 54.2% to \$50.8 million from \$32.9 million in the comparable period in 2015. The increase is primarily attributable to an increase in the cost to fund margin debits. Interest expense was also impacted by our December 2015 issuance of \$300.0 million of 3.50% senior notes. Interest expense for the three and nine months ended September 30, 2016 was impacted by the write-off of debt issuance costs as a result of the redemption of our \$150.0 million 5.375% senior notes in July 2016.

#### NON-INTEREST EXPENSES

The following table presents consolidated non-interest expenses for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Non-interest expenses:						
Compensation and benefits	\$434,236	\$404,205	7.4	\$1,305,372	\$1,169,896	11.6
Occupancy and equipment rental	62,453	53,282	17.2	178,455	145,798	22.4
Communications and office supplies	31,182	35,678	(12.6 )	105,268	96,026	9.6
Commissions and floor brokerage	10,777	12,430	(13.3 )	34,653	31,623	9.6
Other operating expenses	75,356	63,632	18.4	202,669	176,480	14.8
Total non-interest expenses	\$614,004	\$569,227	7.9	\$1,826,417	\$1,619,823	12.8

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, both organically and through acquisitions, and increased administrative overhead to support the growth in our segments.

Compensation and benefits – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, transition pay, benefits, amortization of stock-based compensation, employment taxes and other employee-related costs. A significant portion of compensation expense is comprised of production-based variable compensation, including discretionary bonuses, which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, including base salaries, stock-based compensation amortization, and benefits, are more fixed in nature.

For the three months ended September 30, 2016, compensation and benefits expense increased 7.4% to \$434.2 million from \$404.2 million during the comparable period in 2015. For the nine months ended September 30, 2016, compensation and benefits expense increased 11.6% to \$1.3 billion from \$1.2 billion during the comparable period in 2015. The increase is principally due to the following: 1) the recognition of unit amortization charges related to the removal of the service requirement on restricted awards issued to certain employees of Barclays in 2016 of \$22.6 million and \$58.6 million during the three and nine months ended September 30, 2016, respectively; 2) increased variable compensation as a result of increased revenue production; and 3) an increase in fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 67.6% and 68.2% for the three and nine months ended September 30, 2016, respectively, compared to 68.3% and 66.8% for the three and nine months ended September 30, 2015, respectively.

Occupancy and equipment rental – For the three months ended September 30, 2016, occupancy and equipment rental expense increased 17.2% to \$62.5 million from \$53.3 million during the three months ended September 30, 2015. For the nine months ended September 30, 2016, occupancy and equipment rental expense increased 22.4% to \$178.5 million from \$145.8 million during the comparable period in 2015. The increase is primarily due to the increase in rent expense as a result of the growth of our office locations from the comparative period in 2015. As of September 30, 2016, we have 396 locations compared to 391 at September 30, 2015.

Communications and office supplies – Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended September 30, 2016, communications and office supplies expense decreased 12.6% to \$31.2 million from \$35.7 million during the third quarter of 2015. For the nine months ended September 30, 2016, communications and office supplies expense increased 9.6% to \$105.3 million from \$96.0 million during



the comparable period in 2015. The decrease from the third quarter of 2015 is primarily attributable to a decrease in quote equipment and office supplies as a result of cost saving initiatives. The year-over-year increase is primarily attributable to our continued expansion and the addition of revenue producers and support staff through acquisitions, offset by savings as a result of cost reduction initiatives.

Commissions and floor brokerage – For the three months ended September 30, 2016, commissions and floor brokerage expense decreased 13.3% to \$10.8 million from \$12.4 million during the comparable period in 2015. For the nine months ended September 30, 2016, commissions and floor brokerage expense increased 9.6% to \$34.7 million from \$31.6 million during the comparable period in 2015. The decrease from the third quarter of 2015 is primarily attributable to a decrease in clearing expenses. The year-over-year increase is primarily attributable to an increase in Electronic Communication Network fees as a result of an increase in volume of transactions.

Other operating expenses – Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of amounts we reserve and/or pay out related to legal and regulatory matters, travel and entertainment, promotional expenses and expenses for professional services.

For the three months ended September 30, 2016, other operating expenses increased 18.4% to \$75.4 million from \$63.6 million during the three months ended September 30, 2015. For the nine months ended September 30, 2016, other operating expenses increased 14.8% to \$202.7 million from \$176.5 million during the comparable period in 2015. The increase is primarily attributable to an increase in professional service fees as a result of maintaining compliance with regulatory requirements, travel and promotion, and subscriptions expenses.

Provision for income taxes – For the three and nine months ended September 30, 2016, our provision for income taxes was \$10.2 million and \$33.0 million, representing an effective tax rate of 36.3% and 37.7%, respectively, compared to \$5.2 million and \$49.3 million for the comparable periods in 2015, representing an effective tax rate of 23.1% and 37.8%, respectively. The effective tax rate for the third quarter of 2015 was positively impacted by a decrease in the Company's FIN 48 reserve and adjustments associated with the filing of the 2014 corporate tax return.

Certain settlements or judgments associated with the Company's disclosed matters may not be deductible for tax purposes to the extent they constitute penalties. The Company has not established a provision for the non-deductibility of such amounts where the amounts are uncertain.

The civil lawsuit filed against Stifel Nicolaus & Company, Incorporated by the Securities and Exchange Commission ("SEC") in connection with the sale of collateralized debt obligations to five Southwestern Wisconsin school districts was adjourned when the court was informed on September 9, 2016 of a tentative settlement subject to SEC approval. The tentative settlement with the SEC, as disclosed above, could potentially impact the Company's provision for income taxes by approximately \$9.0 million due to the non-deductibility of the settlement.

## SEGMENT ANALYSIS

Our reportable segments include Global Wealth Management, Institutional Group, and Other.

Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank, which provides residential, consumer, and commercial lending, as well as Federal Depository Insurance Corporation ("FDIC")-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration.

We evaluate the performance of our segments and allocate resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

Results of Operations – Global Wealth Management

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2016	2015	Change %	2016	2015
<b>Revenues:</b>					
Commissions	\$117,596	\$134,476	(12.6 )	30.2 %	37.6 %
Principal transactions	47,879	34,843	37.4	12.3	9.8
Asset management and service fees	143,152	129,032	10.9	36.7	36.1
Investment banking	12,212	10,146	20.4	3.1	2.8
Interest	71,114	39,214	81.3	18.2	11.0
Other income	5,212	12,483	(58.2 )	1.3	3.5
Total revenues	397,165	360,194	10.3	101.8	100.8
Interest expense	7,133	2,888	147.0	1.8	0.8
Net revenues	\$390,032	\$357,306	9.2	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	\$215,151	203,959	5.5	55.2	57.1
Occupancy and equipment rental	23,357	20,790	12.3	6.0	5.8
Communication and office supplies	13,244	12,419	6.6	3.4	3.5
Commissions and floor brokerage	4,979	5,256	(5.3 )	1.3	1.5
Other operating expenses	24,222	17,655	37.2	6.2	4.9
Total non-interest expenses	280,953	260,079	8.0	72.1	72.8
Income before income taxes	\$109,079	\$97,227	12.2	27.9 %	27.2 %

	September 30, 2016	September 30, 2015
Branch offices (actual)	359	351
Financial advisors (actual)	2,155	2,091
Independent contractors (actual)	125	755

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (in thousands, except percentages):

	Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2016	2015	Change %	2016	2015
<b>Revenues:</b>					
Commissions	\$376,390	\$375,811	0.2	32.6 %	36.5 %
Principal transactions	134,228	110,531	21.4	11.6	10.7
Asset management and service fees	431,864	362,432	19.2	37.4	35.2
Investment banking	30,123	35,374	(14.8 )	2.6	3.4
Interest	192,954	119,173	61.9	16.7	11.6
Other income	13,234	34,246	(61.4 )	1.1	3.3
Total revenues	\$1,178,793	\$1,037,567	13.6	102.0	100.7
Interest expense	22,918	7,470	206.8	2.0	0.7
Net revenues	\$1,155,875	\$1,030,097	12.2	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	655,119	583,436	12.3	56.7	56.6
Occupancy and equipment rental	73,056	59,501	22.8	6.3	5.8
Communication and office supplies	41,567	35,861	15.9	3.6	3.5
Commissions and floor brokerage	15,325	12,710	20.6	1.3	1.2
Other operating expenses	63,342	48,540	30.5	5.5	4.7
Total non-interest expenses	\$848,409	\$740,048	14.6	73.4	71.8
Income before income taxes	\$307,466	\$290,049	6.0	26.6 %	28.2 %

#### NET REVENUES

For the three months ended September 30, 2016, Global Wealth Management net revenues increased 9.2% to a record \$390.0 million from \$357.3 million for the comparable period in 2015. For the nine months ended September 30, 2016, Global Wealth Management net revenues increased 12.2% to a record \$1.2 billion from \$1.0 billion for the comparable period in 2015. The increase in net revenues for the three months ended September 30, 2016 over the comparable period in 2015, is primarily attributable to growth in asset management and service fees; an increase in net interest income, higher principal transaction and investment banking revenues, offset by a decrease in commission revenues and other income.

The increase in net revenues for the nine months ended September 30, 2016 over the comparable period in 2015 is primarily attributable to growth in asset management and service fees; an increase in net interest income and higher principal transactions revenues, offset by a decrease in other income and a decline in investment banking revenues.

Commissions – For the three months ended September 30, 2016, commission revenues decreased 12.6% to \$117.6 million from \$134.5 million in the comparable period in 2015. For the nine months ended September 30, 2016, commission revenues increased 0.2% to \$376.4 million from \$375.8 million in the comparable period in 2015. The

decrease is primarily attributable to a decrease in agency transactions in equities, insurance products, and mutual funds and the impact of the sale of certain Sterne Agee businesses during the third quarter of 2016; offset by the contribution from the Barclays transaction, which closed in December 2015.

Principal transactions – For the three months ended September 30, 2016, principal transactions revenues increased 37.4% to \$47.9 million from \$34.8 million in the comparable period in 2015. For the nine months ended September 30, 2016, principal transactions revenues increased 21.4% to \$134.2 million from \$110.5 million in the comparable period in 2015. The increase is primarily attributable to an increase in the fixed income brokerage business and the contribution from the Barclays transaction.

Asset management and service fees – For the three months ended September 30, 2016, asset management and service fees increased 10.9% to \$143.2 million from \$129.0 million in the comparable period in 2015. For the nine months ended September 30, 2016, asset management and service fees increased 19.2% to \$431.9 million from \$362.4 million in the comparable period in 2015. The increase is primarily a result of an increase in assets under management in our fee-based accounts, our continued expansion in the asset management business with the acquisition of Barclays in December 2015, and an increase in the Federal Funds rate.

Fee-based account revenues for the three months ended September 30, 2016 and 2015 are primarily billed based on values as of June 30, 2016 and 2015, respectively. The value of assets in fee-based accounts including Asset Management at September 30, 2016 increased 21.7% to \$67.9 billion from \$55.8 billion at September 30, 2015. The increase in fee-based assets from September 30, 2015 was primarily attributable to the Barclays acquisition.

Investment banking – Investment banking, which represents sales credits for investment banking underwritings, increased 20.4% to \$12.2 million for the three months ended September 30, 2016 from \$10.1 million during the comparable period in 2015. For the nine months ended September 30, 2016, investment banking revenues decreased 14.8% to \$30.1 million from \$35.4 million during the comparable period in 2015. See “Investment banking” in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue – For the three months ended September 30, 2016, interest revenue increased 81.3% to \$71.1 million from \$39.2 million in the comparable period in 2015. For the nine months ended September 30, 2016, interest revenue increased 61.9% to \$193.0 million from \$119.2 million during the comparable period in 2015. The increase is primarily due to a growth of interest-earning assets at Stifel Bank, offset by a slight decrease in the weighted-average yield. See “Net Interest Income – Stifel Bank” below for a further discussion of the changes in net revenues.

Other income – For the three months ended September 30, 2016, other income decreased 58.2% to \$5.2 million from \$12.5 million during the comparable period in 2015. For the nine months ended September 30, 2016, other income decreased 61.4% to \$13.2 million from \$34.2 million during the comparable period in 2015. The decrease is primarily attributable to an increase in investment losses.

Interest expense – For the three months ended September 30, 2016, interest expense increased 147.0% to \$7.1 million from \$2.9 million during the comparable period in 2015. For the nine months ended September 30, 2016, interest expense increased 206.8% to \$22.9 million from \$7.5 million during the comparable period in 2015. The increase in interest expense from the comparable period in 2015 is primarily attributable to an increase in borrowings to fund the increase in the client margin debit book from the comparable periods in 2015.

## NET INTEREST INCOME – STIFEL BANK

The following tables present average balance data and operating interest revenue and expense data for Stifel Bank, as well as related interest yields for the periods indicated (in thousands, except rates):

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Interest-bearing cash and federal funds sold	\$67,034	\$80	0.48 %	\$53,789	\$35	0.26 %
<b>State and political subdivisions:</b>						
Non-taxable (1)	75,622	675	3.57	76,189	675	3.55
Mortgage-backed securities	1,970,335	8,601	1.75	929,384	5,081	2.19
Corporate bonds	781,540	4,331	2.22	236,939	1,266	2.14
Asset-backed securities	1,978,843	13,073	2.64	628,604	3,619	2.30
Federal Home Loan Bank ("FHLB") and other capital stock	48,606	481	3.95	17,508	209	4.78
Loans (2)	-					
Securities-based loans	1,437,613	8,717	2.43	981,651	5,382	2.19
Commercial and industrial	1,678,975	14,303	3.41	1,184,917	9,366	3.16
Residential real estate	1,396,970	9,628	2.76	426,687	4,051	3.80
Commercial real estate	64,022	543	3.39	20,120	270	5.37
Consumer	42,013	302	2.87	21,566	89	1.65
Home equity lines of credit	14,399	111	3.08	11,694	80	2.74
Construction and land	8,786	77	3.53	225	1	1.78
Loans held for sale	234,485	1,803	3.08	165,678	1,466	3.54
Total interest-earning assets (3)	\$9,799,243	\$62,725	2.56 %	\$4,754,951	\$31,590	2.66 %
Cash and due from banks	4,754			2,345		
Other non interest-earning assets	106,240			78,972		
Total assets	\$9,910,237			\$4,836,268		
<b>Liabilities and stockholder's equity:</b>						
<b>Deposits:</b>						
Money market	\$8,389,810	1,689	0.08 %	\$4,182,664	1,567	0.15 %
Demand deposits	137,000	19	0.06	56,463	8	0.06
Time deposits	6,539	25	1.55	27,750	141	2.03
Savings	13	-	-	4	-	0.01
FHLB advances	683,485	1,895	1.11	95,662	67	0.28
Total interest-bearing liabilities (3)	9,216,847	3,628	0.16 %	4,362,543	1,783	0.16 %
Non interest-bearing liabilities	6,540			18,689		
Other non-interest bearing liabilities	55,137			33,075		
Total liabilities	9,278,524			4,414,307		
Stockholder's equity	631,713			421,961		
Total liabilities and stockholder's equity	\$9,910,237			\$4,836,268		
Net interest margin		\$59,097	2.40 %		\$29,807	2.50 %

(1)

Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

<sup>(2)</sup>Loans on non-accrual status are included in average balances.

<sup>(3)</sup>See Net Interest Income table included in “Results of Operations” for additional information on our company’s average balances and operating interest and expenses.



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following tables present average balance data and operating interest revenue and expense data for Stifel Bank, as well as related interest yields for the periods indicated (in thousands, except rates):

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
<b>Assets:</b>						
Interest-bearing cash and federal funds sold	\$ 148,437	\$548	0.49 %	\$64,706	\$ 114	0.23 %
<b>State and political subdivisions:</b>						
Non-taxable (1)	75,763	2,029	3.57	76,328	2,031	3.55
Mortgage-backed securities	1,847,846	27,773	2.00	1,093,248	18,325	2.24
Corporate bonds	614,110	10,264	2.23	316,291	4,951	2.09
Asset-backed securities	1,708,266	32,841	2.56	805,878	13,367	2.21
Federal Home Loan Bank ("FHLB") and other capital stock	43,409	1,061	3.26	18,264	549	4.01
<b>Loans (2)</b>						
Securities-based loans	1,390,549	25,878	2.48	888,898	14,758	2.21
Commercial and industrial	1,523,309	38,738	3.39	1,112,065	25,911	3.11
Residential real estate	937,410	19,600	2.79	416,107	14,466	4.64
Commercial real estate	77,212	1,806	3.12	18,914	633	4.46
Consumer	36,977	768	2.77	21,235	252	1.58
Home equity lines of credit	13,561	312	3.07	12,549	255	2.71
Construction and land	7,022	177	3.36	77	1	1.74
Loans held for sale	174,227	4,238	3.24	174,521	4,183	3.20
Total interest-earning assets (3)	\$8,598,098	\$ 166,033	2.57 %	\$5,019,080	\$99,796	2.65 %
Cash and due from banks	4,251			3,029		
Other non interest-earning assets	88,498			80,169		
Total assets	\$8,690,847			\$5,102,278		
<b>Liabilities and stockholder's equity:</b>						
<b>Deposits:</b>						
Money market	\$7,322,760	5,091	0.09 %	\$4,409,359	4,891	0.15 %
Demand deposits	142,109	251	0.24	41,907	27	0.09
Time deposits	10,198	133	1.74	46,075	772	2.23
Savings	16	0	0.08	20	0	0.05
FHLB advances	618,311	5,288	1.14	116,703	255	0.29
Total interest-bearing liabilities (3)	8,093,394	10,763	0.18 %	4,614,064	5,945	0.17 %
Non interest-bearing liabilities	10,198			19,837		
Other non-interest bearing liabilities	42,112			57,803		
Total liabilities	8,145,704			4,691,704		
Stockholder's equity	545,143			410,574		
Total liabilities and stockholder's equity	\$8,690,847			\$5,102,278		
Net interest margin		\$ 155,270	2.39 %		\$93,851	2.48 %

(1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

(2) Loans on non-accrual status are included in average balances.

(3) See Net Interest Income table included in "Results of Operations" for additional information on our company's average balances and operating interest and expenses.



The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three month period ended September 30, 2016 compared to the three month period ended September 30, 2015 (in thousands):

	Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015 Increase/(decrease) due to:			Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015 Increase/(decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest income:</b>						
Interest-bearing cash and federal funds sold	\$10	\$35	\$45	\$235	\$199	\$434
State and political - non-taxable				(16 )	14	(2 )
Mortgage-backed securities	4,292	(772 )	3,520	11,112	(1,664)	9,448
Corporate bonds	3,016	49	3,065	4,956	357	5,313
Asset-backed securities	8,847	607	9,454	17,052	2,422	19,474
FHLB and other capital stock	302	(30 )	272	593	(81 )	512
Loans		-				
Securities-based loans	2,716	619	3,335	9,158	1,962	11,120
Commercial and industrial	4,161	776	4,937	10,284	2,543	12,827
Residential real estate	6,341	(764 )	5,577	7,529	(2,395)	5,134
Commercial real estate	328	(55 )	273	1,300	(127 )	1,173
Consumer	119	94	213	257	259	516
Home equity lines of credit	20	11	31	22	35	57
Construction and land	76	-	76	176	-	176
Loans held for sale	1,425	(1,088)	337	(11 )	66	55
	\$31,653	\$(518 )	\$31,135	\$62,647	\$3,590	\$66,237
<b>Interest expense:</b>						
<b>Deposits:</b>						
Money market	\$4,063	\$(3,941)	\$122	\$3,238	\$(3,038)	\$200
Demand deposits	12	(1 )	11	129	94	223
Time deposits	(89 )	(27 )	(116 )	(501 )	(138 )	(639 )
FHLB advances	1,234	594	1,828	3,000	2,034	5,034
	\$5,220	\$(3,375)	\$1,845	\$5,866	\$(1,048)	\$4,818

Increases and decreases in interest revenue and interest expense result from changes in average balances (volume) of interest-earning bank assets and liabilities, as well as changes in average interest rates. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies.

For the three months ended September 30, 2016, interest revenue of \$62.7 million was generated from average interest-earning assets of \$9.8 billion at an average interest rate of 2.56%. Interest revenue of \$31.6 million for the comparable period in 2015 was generated from average interest-earning assets of \$4.8 billion at an average interest rate of 2.66%.

For the nine months ended September 30, 2016, interest revenue of \$166.0 million was generated from average interest-earning assets of \$8.6 billion at an average interest rate of 2.57%. Interest revenue of \$99.8 million for the comparable period in 2015 was generated from average interest-earning assets of \$5.0 billion at an average interest rate of 2.65%.

Interest expense represents interest on customer money market accounts, interest on time deposits and other interest expense. The average balance of interest-bearing liabilities during the three months ended September 30, 2016 was \$9.2 billion at an average interest rate of 0.16%. The average balance of interest-bearing liabilities for the comparable period in 2015 was \$4.4 billion at an average interest rate of 0.16%. The average balance of interest-bearing liabilities during the nine months ended September 30, 2016 was \$8.1 billion at an average interest rate of 0.18%. The average balance of interest-bearing liabilities for the comparable period in 2015 was \$4.6 billion at an average interest rate of 0.17%.

The growth in Stifel Bank has been primarily funded by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At September 30, 2016, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$9.9 billion compared to \$4.1 billion at September 30, 2015.

See “Net Interest Income – Stifel Bank” above for more information regarding average balances, interest income and expense, and average interest rate yields.

#### NON-INTEREST EXPENSES

For the three months ended September 30, 2016, Global Wealth Management non-interest expenses increased 8.0% to \$281.0 million from \$260.1 million for the comparable period in 2015. For the nine months ended September 30, 2016, Global Wealth Management non-interest expenses increased 14.6% to \$848.4 million from \$740.0 million for the comparable period in 2015.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of September 30, 2016, we have 359 branch offices compared to 351 at September 30, 2015. In addition, since September 30, 2015, we have added 236 financial advisors and 429 support staff.

Compensation and benefits – For the three months ended September 30, 2016, compensation and benefits expense increased 5.5% to \$215.2 million from \$204.0 million during the three months ended September 30, 2015. For the nine months ended September 30, 2016, compensation and benefits expense increased 12.3% to \$655.1 million from \$583.4 million during the nine months ended September 30, 2015. The increase is principally due to increased variable compensation as a result of the Barclays and Sterne acquisitions. Compensation and benefits expense as a percentage of net revenues was 55.2% and 56.7% for the three and nine months ended September 30, 2016, respectively, compared to 57.1% and 56.6% for the comparable periods in 2015, respectively.

Occupancy and equipment rental – For the three months ended September 30, 2016, occupancy and equipment rental expense increased 12.3% to \$23.4 million from \$20.8 million during the comparable period in 2015. For the nine months ended September 30, 2016, occupancy and equipment rental expense increased 22.8% to \$73.1 million from \$59.5 million during the comparable period in 2015. The increase is primarily due to the increase in office locations.

Communications and office supplies – For the three months ended September 30, 2016, communications and office supplies expense increased 6.6% to \$13.2 million from \$12.4 million during the comparable period in 2015. For the nine months ended September 30, 2016, communications and office supplies expense increased 15.9% to \$41.6 million from \$35.9 million during the comparable period in 2015. The increase is primarily attributable to an increase in office supplies expense, as a result of the acquisitions of Sterne Agee and Barclays during the second half of 2015.

Commissions and floor brokerage – For the three months ended September 30, 2016, commissions and floor brokerage expense decreased 5.3% to \$5.0 million from \$5.3 million during the comparable period in 2015. For the nine months ended September 30, 2016, commissions and floor brokerage expense increased 20.6% to \$15.3 million from \$12.7 million during the comparable period in 2015. The increase is consistent with the increase in commission revenues.

Other operating expenses – For the three months ended September 30, 2016, other operating expenses increased 37.2% to \$24.2 million from \$17.7 million during the comparable period in 2015. For the nine months ended September 30, 2016, other operating expenses increased 30.5% to \$63.3 million from \$48.5 million during the comparable period in 2015. The increase in other operating expenses is primarily attributable to an increase in insurance and the provision for loan loss as a result of the growth of Stifel Bank.

#### INCOME BEFORE INCOME TAXES

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

For the three months ended September 30, 2016, income before income taxes increased 12.2% to \$109.1 million from \$97.2 million during the comparable period in 2015. For the nine months ended September 30, 2016, income before income taxes increased 6.0% to \$307.5 million from \$290.0 million during the comparable period in 2015.

Profit margins (income before income taxes as a percent of net revenues) have increased to 27.9% for the three months ended September 30, 2016 from 27.2% during the comparable period in 2015 as a result of the sale of the Sterne Agee independent contractor business, which operated at lower margins than private client business.

Profit margins decreased to 26.6% for the nine months ended September 30, 2016, from 28.2% during the comparable period in 2015, as a result of an increase in operating expenses.

## Results of Operations – Institutional Group

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2016	2015	Change %	2016	2015
<b>Revenues:</b>					
Commissions	\$53,676	\$59,607	(10.0 )	20.7 %	25.7 %
Principal transactions	69,122	60,750	13.8	26.7	26.2
Brokerage revenues	122,798	120,357	2.0	47.3	51.9
Capital raising	46,265	59,466	(22.2 )	17.9	25.6
Advisory fees	86,323	49,142	75.7	33.4	21.2
Investment banking	132,588	108,608	22.1	51.2	46.8
Interest	4,743	4,303	10.2	1.8	1.9
Other income	3,124	843	270.6	1.2	0.3
Total revenues	263,253	234,111	12.4	101.7	100.9
Interest expense	4,453	1,986	124.2	1.7	0.9
Net revenues	258,800	232,125	11.5	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	158,126	143,911	9.9	61.1	62.0
Occupancy and equipment rental	12,872	13,056	(1.4 )	5.0	5.6
Communication and office supplies	13,800	17,327	(20.4 )	5.3	7.5
Commissions and floor brokerage	5,797	7,174	(19.2 )	2.2	3.1
Other operating expenses	23,282	24,804	(6.1 )	9.0	10.7
Total non-interest expenses	\$213,877	\$206,272	3.7	82.6	88.9
Income before income taxes	\$44,923	\$25,853	73.8	17.4 %	11.1 %

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (in thousands, except percentages):

	Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2016	2015	Change %	2016	2015
<b>Revenues:</b>					
Commissions	\$ 174,916	\$ 182,637	(4.2 )	23.0 %	25.0 %
Principal transactions	230,148	175,064	31.5	30.2	24.0
Brokerage revenues	405,064	357,701	13.2	53.2	49.0
Capital raising	147,260	203,154	(27.5 )	19.4	27.9
Advisory fees	201,199	161,773	24.4	26.4	22.2
Investment banking	348,459	364,927	(4.5 )	45.8	50.1
Interest	11,991	11,499	4.3	1.6	1.6
Other income	6,219	1,706	264.5	0.9	0.2
Total revenues	771,733	735,833	4.9	101.4	100.9
Interest expense	10,737	6,564	63.6	1.4	0.9
Net revenues	760,996	729,269	4.4	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	462,115	453,399	1.9	60.7	62.2
Occupancy and equipment rental	38,546	36,059	6.9	5.1	4.9
Communication and office supplies	47,396	48,757	(2.8 )	6.2	6.7
Commissions and floor brokerage	19,328	18,913	2.2	2.5	2.6
Other operating expenses	76,983	72,017	6.9	10.1	9.9
Total non-interest expenses	\$ 644,368	\$ 629,145	2.4	84.7	86.3
Income before income taxes	\$ 116,628	\$ 100,124	16.5	15.3 %	13.7 %

#### NET REVENUES

For the three months ended September 30, 2016, Institutional Group net revenues increased 11.5% to \$258.8 million from \$232.1 million for the comparable period in 2015. For the nine months ended September 30, 2016, Institutional Group net revenues increased 4.4% to \$761.0 million from \$729.3 million during the comparable period in 2015.

The increase in net revenues for the three and months ended September 30, 2016 over the comparable periods in 2015 was primarily attributable to an increase in fixed income and equity brokerage revenues; advisory fees; and other income, offset by decreases in fixed income and equity capital raising revenues.

**Commissions** – For the three months ended September 30, 2016, commission revenues decreased 10.0% to \$53.7 million from \$59.6 million in the comparable period in 2015. For the nine months ended September 30, 2016, commission revenues decreased 4.2% to \$174.9 million from \$182.6 million in the comparable period in 2015.



Principal transactions – For the three months ended September 30, 2016, principal transactions revenues increased 13.8% to \$69.1 million from \$60.8 million in the comparable period in 2015. For the nine months ended September 30, 2016, principal transaction revenues increased 31.5% to \$230.1 million from \$175.1 million in the comparable period in 2015.

Brokerage revenues – For the three months ended September 30, 2016, institutional brokerage revenues increased 2.0% to \$122.8 million from \$120.4 million in the comparable period in 2015. For the nine months ended September 30, 2016, institutional brokerage revenues increased 13.2% to \$405.1 million from \$357.7 million in the comparable period in 2015.

For the three months ended September 30, 2016, fixed income institutional brokerage revenues increased 18.5% to \$71.8 million from \$60.6 million in the comparable period in 2015. For the nine months ended September 30, 2016, fixed income brokerage revenues increased 33.5% to \$236.8 million from \$177.4 million in the comparable period in 2015. The increase is primarily attributable to an improvement in fixed income trading volumes from the comparable period in 2015 and the contribution from the Sterne acquisition in June 2015.

For the three months ended September 30, 2016, equity institutional brokerage revenues decreased 14.7% to \$51.0 million from \$59.8 million during the comparable period in 2015. For the nine months ended September 30, 2016, equity brokerage revenues decreased 6.7% to \$168.3 million from \$180.3 million during the comparable period in 2015. The decrease is primarily attributable to market volatility and investor uncertainty.

Investment banking – For the three months ended September 30, 2016, investment banking revenues increased 22.1% to \$132.6 million from \$108.6 million during the comparable period in 2015. For the nine months ended September 30, 2016, investment banking revenues decreased 4.5% to \$348.5 million from \$364.9 million during the comparable period in 2015. The quarter-over-quarter increase is primarily attributable to an increase in advisory fee revenues, offset by a decline in equity and fixed income capital raising revenues during the comparable period in 2015. The year-over-year decrease is primarily attributable to a decline in equity capital raising revenues, offset by an increase in fixed income capital raising revenues and advisory fee revenues during the comparable period in 2015.

For the three months ended September 30, 2016, capital raising revenues decreased 22.2% to \$46.3 million from \$59.5 million in the comparable period in 2015. For the nine months ended September 30, 2015, capital raising revenues decreased 27.5% to \$147.3 million from \$203.2 million in the comparable period in 2015.

For the three months ended September 30, 2016, fixed income capital raising revenues decreased 2.5% to \$25.5 million from \$26.1 million during the comparable period in 2015. For the nine months ended September 30, 2016, fixed income capital raising revenues increased 0.7% to \$80.5 million from \$80.0 million during the comparable period in 2015. The decrease is primarily attributable to a decrease in the municipal bond origination business.

For the three months ended September 30, 2016, equity capital raising revenues decreased 37.7% to \$20.8 million from \$33.3 million during the comparable period in 2015. For the nine months ended September 30, 2016, equity capital raising revenues decreased 45.8% to \$66.7 million from \$123.2 million during the comparable period in 2015. The decrease was primarily attributable to a decrease in the number of transactions over the comparable period in 2015.

For the three months ended September 30, 2016, advisory fee revenues increased 75.7% to \$86.3 million from \$49.1 million in the comparable period in 2015. For the nine months ended September 30, 2016, advisory fees increased 24.4% to \$201.2 million from \$161.8 million in the comparable period in 2015. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2015.

Other income – For the three months ended September 30, 2016, other income increased 270.6% to \$3.1 million from \$0.8 million in the comparable period in 2015. For the nine months ended September 30, 2016, other income increased 264.5% to \$6.2 million from \$1.7 million during the comparable period in 2015.

#### NON-INTEREST EXPENSES

For the three months ended September 30, 2016, Institutional Group non-interest expenses increased 3.7% to \$213.9 million from \$206.3 million for the comparable period in 2015. For the nine months ended September 30, 2016, Institutional Group non-interest expenses increased 2.4% to \$644.4 million from \$629.1 million during the comparable period in 2015.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have added 169 revenue producers and 88 support staff since September 30, 2015.

Compensation and benefits – For the three months ended September 30, 2016, compensation and benefits expense increased 9.9% to \$158.1 million from \$143.9 million during the comparable period in 2015. For the nine months ended September 30, 2016, compensation and benefits expense increased 1.9% to \$462.1 million from \$453.4 million during the comparable period in 2015. The increase is principally due to an increase in variable compensation as a result of higher revenues, offset by a decrease in fixed compensation.

Compensation and benefits expense as a percentage of net revenues was 61.1% and 60.7% for the three and nine months ended September 30, 2016, respectively, compared to 62.0% and 62.2% for comparable periods in 2015, respectively.

Occupancy and equipment rental – For the three months ended September 30, 2016, occupancy and equipment rental expense decreased 1.4% to \$12.9 million from \$13.1 million during the comparable period in 2015. For the nine months ended September 30, 2016, occupancy and equipment rental expense increased 6.9% to \$38.5 million from \$36.1 million during the comparable period in 2015. The decrease from the third quarter of 2015 is primarily attributable to lower data processing equipment rental expense, offset

by an increase in rent expense. The year-over-year increase is primarily attributable to an increase in rent expense, offset by a decrease in data processing equipment rental expense.

Communications and office supplies – For the three months ended September 30, 2016, communications and office supplies expense decreased 20.4% to \$13.8 million from \$17.3 million during the comparable period in 2015. For the nine months ended September 30, 2016, communications and office supplies expense decreased 2.8% to \$47.4 million from \$48.8 million during the comparable period in 2015. The decrease is primarily attributable to a decline in communication and quote equipment expense.

Commissions and floor brokerage – For the three months ended September 30, 2016, commissions and floor brokerage expense decreased 19.2% to \$5.8 million from \$7.2 million during the comparable period in 2015. For the nine months ended September 30, 2016, commissions and floor brokerage expense increased 2.2% to \$19.3 million from \$18.9 million during the comparable period in 2015. The decrease from the third quarter of 2015 is primarily attributable to a decline in clearing expenses. The year-over-year increase is primarily attributable to an increase in Electronic Communication Network fees as a result of an increase in volume of transactions, offset by a decline in clearing expenses.

Other operating expenses – For the three months ended September 30, 2016, other operating expenses decreased 6.1% to \$23.3 million from \$24.8 million during the comparable period in 2015. For the nine months ended September 30, 2016, other operating expenses increased 6.9% to \$77.0 million from \$72.0 million during the comparable period in 2015. The decrease from the third quarter of 2015 is primarily attributable to a decline in legal expenses and travel and promotion expenses, offset by an increase in professional service fees. The year-over-year increase is primarily attributable to an increase in legal expenses and professional service fees, offset by a decline in travel and promotion expenses.

#### INCOME BEFORE INCOME TAXES

For the three months ended September 30, 2016, income before income taxes for the Institutional Group segment increased 73.8% to \$44.9 million from \$25.9 million during the comparable period in 2015. For the nine months ended September 30, 2016, income before income taxes for the Institutional Group segment increased 16.5% to \$116.6 million from \$100.1 million during the comparable period in 2015. Profit margins (income before income taxes as a percentage of net revenues) have improved to 17.4% and 15.3% for the three and nine months ended September 30, 2016, respectively, from 11.1% and 13.7% during the comparable periods in 2015, respectively, as a result of an increase in revenues.

#### Results of Operations – Other Segment

Three and Nine Months Ended September 30, 2016 Compared with Three and Nine Months Ended September, 2015

The following table presents consolidated financial information for the Other segment for the periods presented (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Net revenues	\$(6,846 )	\$2,144	(419.3 )	\$(2,766 )	\$(9,058 )	69.5
Non-interest expenses:						
Compensation and benefits	60,960	56,335	8.2	188,138	133,061	41.4

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Other operating expenses	58,214	46,541	25.1	145,502	117,569	23.8
Total non-interest expenses	119,174	102,876	15.8	333,640	250,630	33.1
Loss before income taxes	\$(126,020)	\$(100,732)	25.1	\$(336,406)	\$(259,688)	29.5

The other segment includes expenses related to the Company's acquisition strategy and the investments made in the Company's infrastructure and control environment.

The expenses relating to the Company's acquisition strategy, which are included in the other segment, consists of stock-based compensation and duplicative operating costs from our various acquisitions. The following shows the expenses that are part of the other segment related to acquisitions.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$30,276	\$24,153	25.4	\$90,889	\$57,829	57.2
Other operating expenses	30,436	29,151	4.4	89,249	80,476	10.9
Total non-interest expenses	\$60,712	\$53,304	13.9 %	\$180,138	\$138,305	30.2 %

The above expenses are related to the acquisitions of Eaton Partners and ISM in 2016; Barclays and Sterne in 2015; Merchant Capital, 1919 Investment Counsel, Oriel, and De La Rosa in 2014; and ZCM, the Fixed Income Sales and Trading Business from Knight Capital, and KBW in 2013.

The expenses not associated with acquisition-related activities in the other segment are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$30,684	\$32,182	(4.7 )	\$97,249	\$75,232	29.3
Other operating expenses	27,778	17,390	59.7	56,253	37,093	51.7
Total non-interest expenses	\$58,462	\$49,572	17.9 %	\$153,502	\$112,325	36.7 %

Non-interest expenses for the three months ended September 30, 2016 increased 17.9% from the comparable period in 2015. The increase consisted of a 4.7% decrease in compensation and benefits and a 59.7% increase in other operating expenses. Non-interest expenses for the nine months ended September 30, 2016 increased 36.7% from the comparable period in 2015. The increase consisted of a 29.3% increase in compensation and benefits and a 51.7% increase in other operating expenses. These increases are primarily attributable to the building out of our infrastructure and our regulatory compliance enhancement measures.

#### Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, financial instruments owned, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. As of September 30, 2016, our total assets increased 29.3% to \$17.2 billion from \$13.3 billion at December 31, 2015. Our broker-dealer subsidiary's gross assets and liabilities, including financial instruments owned, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of September 30, 2016, our liabilities were comprised primarily of borrowings of \$234.2 million, Federal Home Loan Bank advances of \$500.0 million, senior notes of \$795.8 million, net of debt issuance costs, trust preferred securities of \$67.5 million, deposits of \$9.9 billion at Stifel Bank, and payables to customers of \$931.4 million at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses of \$404.2 million, and accrued employee compensation of \$242.7 million. To meet our obligations to clients and operating needs, we had \$675.1 million in cash and cash equivalents at September 30, 2016. We also had client brokerage receivables of \$1.4 billion and \$5.2 billion in loans (including loans held for sale) at Stifel Bank.

Cash Flow

Cash and cash equivalents decreased \$135.9 million to \$675.1 million at September 30, 2016, from \$811.0 million at December 31, 2015. Operating activities used \$227.1 million of cash primarily due to an increase in operating assets and a decrease in operating liabilities, offset net income recognized during the nine months ended September 30, 2016. Investing activities used cash of \$3.8 billion due to the growth of our investment portfolio, growth of the loan portfolio, business acquisitions, and fixed asset purchases, offset by proceeds from the sale and maturity of securities in our investment portfolio and the sale of investments. Financing activities provided cash of \$3.9 billion principally due to an increase in bank deposits and proceeds received from FHLB advances, 4.25% senior note issuance, preferred stock issuance, and short-term borrowings, offset by repurchases of our common stock and the extinguishment of the Stifel Financial Capital Trust.

## Liquidity and Capital Resources

The Company's senior management establishes the liquidity and capital policies of our company. The Company's senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate sensitivity of our company's asset and liability position.

Our assets, consisting mainly of cash or assets readily convertible into cash, are our principal source of liquidity. The liquid nature of these assets provides for flexibility in managing and financing the projected operating needs of the business. These assets are financed primarily by our equity capital, corporate debt, debentures to trusts, client credit balances, short-term bank loans, proceeds from securities lending, and other payables. We currently finance our client accounts and firm trading positions through ordinary course borrowings at floating interest rates from various banks on a demand basis, securities lending, and repurchase agreements, with company-owned and client securities pledged as collateral. Changes in securities market volumes, related client borrowing demands, underwriting activity, and levels of securities inventory affect the amount of our financing requirements.

Our bank assets consist principally of available-for-sale and held-to-maturity securities, retained loans, and cash and cash equivalents. Stifel Bank's current liquidity needs are generally met through deposits from brokerage clients and equity capital. We monitor the liquidity of Stifel Bank daily to ensure its ability to meet customer deposit withdrawals, maintain reserve requirements, and support asset growth.

As of September 30, 2016, we had \$17.2 billion in assets, \$8.1 billion of which consisted of cash or assets readily convertible into cash as follows (in thousands, except average days to conversion):

	September 30, 2016	December 31, 2015	Average Conversion
Cash and cash equivalents	\$675,057	\$811,019	
Receivables from brokers, dealers, and clearing organizations	548,470	601,831	3 days
Securities purchased under agreements to resell	297,827	160,423	1 day
Financial instruments owned at fair value	1,146,884	747,348	12 days
Available-for-sale securities at fair value	3,145,267	1,629,907	3 days
Held-to-maturity securities at amortized cost	2,241,203	1,855,399	3 days
Investments	78,348	87,864	5 days
Total cash and assets readily convertible to cash	\$8,133,056	\$5,893,791	

As of September 30, 2016 and December 31, 2015, the amount of collateral by asset class is as follows (in thousands):

	September 30, 2016		December 31, 2015	
	Contractual	Contingent	Contractual	Contingent
Cash and cash equivalents	\$72,877	\$-	\$39,324	\$-
Financial instruments owned at fair value	261,734	730,670	278,674	508,538
Available-for-sale securities at fair value	—	4,943,030	—	2,032,503
Investments	—	30,652	—	35,688
	\$334,611	\$5,704,352	\$317,998	\$2,576,729



## Capital Management

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2016, the maximum number of shares that may yet be purchased under this plan was 7.4 million.

## Liquidity Risk Management

Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements, and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions, and tenor) or availability of other types of secured financing may change. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products.

As a holding company, whereby all of our operations are conducted through our subsidiaries, our cash flow and our ability to service our debt, including the notes, depend upon the earnings of our subsidiaries. Our subsidiaries are separate and distinct legal entities.

Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds to pay our obligations, whether by dividends, distributions, loans, or other payments.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or respond to other unanticipated liquidity requirements. We primarily rely on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies and repurchase our shares. Net capital rules, restrictions under our borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

The availability of outside financing, including access to the capital markets and bank lending, depends on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services sector, and our credit rating. Our cost and availability of funding may be adversely affected by illiquid credit markets and wider credit spreads. As a result of any future concerns about the stability of the markets generally and the strength of counterparties specifically, lenders may from time to time curtail, or even cease to provide, funding to borrowers.

Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material business impact. The principal elements of our liquidity management framework are: (a) daily monitoring of our liquidity needs at the holding company and significant subsidiary level, (b) stress testing the liquidity positions of Stifel and Stifel Bank, and (c) diversification of our funding sources.

Monitoring of liquidity – Senior management establishes our liquidity and capital policies. These policies include senior management’s review of short- and long-term cash flow forecasts, review of monthly capital expenditures, the monitoring of the availability of alternative sources of financing, and the daily monitoring of liquidity in our significant subsidiaries. Our decisions on the allocation of capital to our business units consider, among other factors, projected profitability and cash flow, risk, and impact on future liquidity needs. Our treasury department assists in evaluating, monitoring, and controlling the impact that our business activities have on our financial condition, liquidity, and capital structure as well as maintains our relationships with various lenders. The objectives of these policies are to support the successful execution of our business strategies while ensuring ongoing and sufficient liquidity.

Liquidity stress testing (Firm-wide) –A liquidity stress test model is maintained by the Company that measures liquidity outflows across multiple scenarios at the major operating subsidiaries and details the corresponding impact to our holding company and the overall consolidated firm. Liquidity stress tests are utilized to ensure that current exposures are consistent with the Company’s established liquidity risk tolerance and, more specifically, to identify and quantify sources of potential liquidity strain. Further, the stress tests are utilized to analyze possible impacts on the Company’s cash flows, liquidity position, profitability, and solvency. The outflows are modeled over a 30-day liquidity stress timeframe and include the impact of idiosyncratic and macro-economic stress events.

The assumptions utilized in the Company’s liquidity stress tests include, but are not limited to, the following:

- No government support
- No access to equity and unsecured debt markets within the stress horizon
- Higher haircuts and significantly lower availability of secured funding
- Additional collateral that would be required by trading counter-parties, certain exchanges, and clearing organizations related to credit rating downgrades
- Additional collateral that would be required due to collateral substitution, collateral disputes, and uncalled collateral

- Drawdowns on unfunded commitments provided to third parties
- Client cash withdrawals and reduction in customer short positions that fund long positions
- Return of securities borrowed on an uncollateralized basis
- Maturity roll-off of outstanding letters of credit with no further issuance

At September 30, 2016, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its liquidity stress test model.

Liquidity stress testing (Stifel Bank) – Stifel Bank performs three primary stress tests on its liquidity position. These stress tests are based on the following company-specific stresses: (1) the amount of deposit run-off that Stifel Bank could withstand over a one-month period of time based on its on-balance sheet liquidity and available credit, (2) Stifel Bank's ability to fund operations if all available credit were to be drawn immediately, with no additional available credit, and (3) Stifel Bank's ability to fund operations under a regulatory prompt corrective action. The goal of these stress tests is to determine Stifel Bank's ability to fund continuing operations under significant pressures on both assets and liabilities.

Under all stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers Agency mortgage-backed securities, Corporate Bonds, and Commercial mortgage-backed securities as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At September 30, 2016, available cash and highly liquid investments comprised approximately 27% of Stifel Bank's assets, which was well in excess of its internal target.

In addition to these stress tests, Stifel Bank management performs a daily liquidity review. The daily analysis provides Stifel Bank management with all major fluctuations in liquidity. The analysis also tracks the proportion of deposits that Stifel Bank is sweeping from its affiliated broker-dealer, Stifel. On a monthly basis, liquidity key performance indicators and compliance with liquidity policy limits are reported to the Board of Directors. Stifel Bank has not violated any internal liquidity policy limits.

#### Funding Sources

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, Federal Home Loan Bank advances, and federal funds agreements. At September 30, 2016, we have \$52.0 million of ARS. Any redemptions by issuers of the ARS will create liquidity during the period in which the redemption occurs. ARS redemptions have been at par, and we believe will continue to be at par.

Cash and Cash Equivalents – We held \$675.1 million of cash and cash equivalents at September 30, 2016, compared to \$811.0 million at December 31, 2015. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

Securities Available-for-Sale – We held \$3.1 billion in available-for-sale investment securities at September 30, 2016, compared to \$1.6 billion at December 31, 2015. As of September 30, 2016, the weighted-average life of the investment securities portfolio was approximately 2.1 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements.

We monitor the available-for-sale investment portfolio for other-than-temporary impairment based on a number of criteria, including the size of the unrealized loss position, the duration for which the security has been in a loss position, credit rating, the nature of the investments, and current market conditions. For debt securities, we also consider any intent to sell the security and the likelihood we will be required to sell the security before its anticipated recovery. We continually monitor the ratings of our security holdings and conduct regular reviews of our credit-sensitive assets.

Deposits – Deposits have become one of our largest funding sources. Deposits provide a stable, low-cost source of funds that we utilize to fund loan and asset growth and to diversify funding sources. We have continued to expand our deposit-gathering efforts through our existing private client network and through expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, and certificates of deposit (“CDs”).

As of September 30, 2016, we had \$9.9 billion in deposits compared to \$6.6 billion at December 31, 2015. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

Short-term borrowings – Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, committed bank line financing on an unsecured basis, advances from the Federal Home Loan Bank, term loans, and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition.

Our uncommitted secured lines of credit at September 30, 2016, totaled \$980.0 million with six banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was \$525.7 million during the nine months ended September 30, 2016. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are generally utilized to finance certain fixed income securities. At September 30, 2016, our uncommitted secured lines of credit were collateralized by company-owned securities valued at \$479.6 million.

The Federal Home Loan advances as of September 30, 2016 are floating-rate advances. The weighted average interest rates during the three months ended September 30, 2016 on these advances is 1.11%. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

Unsecured borrowings – Our committed bank line financing at September 30, 2016, consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to LIBOR plus 2.00%, as defined in the revolving credit facility.

We can draw upon this line as long as certain restrictive covenants are maintained. Under our revolving credit facility, we are required to maintain compliance with a minimum consolidated tangible net worth covenant, as defined, and a maximum consolidated total capitalization ratio covenant, as defined. At September 30, 2016, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency, and judgment defaults. In addition, Stifel, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory net capital covenant of not less than 7% of aggregate debits, as defined in the revolving credit facility.

Federal Home Loan Bank Advances and other secured financing – Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$3.2 billion at September 30, 2016 and a \$25.0 million federal funds agreement, for the purpose of purchasing short-term funds should additional liquidity be needed. At September 30, 2016, outstanding FHLB advances were \$500.0 million. Stifel Bank is eligible to participate in the Fed's discount window program; however, Stifel Bank does not view borrowings from the Fed as a primary means of funding. The credit available in this program is subject to periodic review, may be terminated or reduced at the discretion of the Fed, and is secured by securities. Stifel Bank has borrowing capacity of \$1.1 billion with the Fed's discount window at September 30, 2016. Stifel Bank receives overnight funds from excess cash held in Stifel brokerage accounts, which are deposited into a money market account. These balances totaled \$9.9 billion at September 30, 2016.

Public Offering of Senior Notes – On December 18, 2012, we issued \$150.0 million principal amount of 5.375% Senior Notes due 2022 (the "December 2012 Notes"). Interest on the December 2012 Notes is paid quarterly in arrears on January 15, April 15, July 15, and October 15 of each year. The December 2012 Notes will mature on December 31, 2022. We may redeem the December 2012 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. In January 2013, we received a BBB- rating on the December 2012 Notes.

On July 15, 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024 (the "2014 Notes"). Interest on the 2014 Notes is payable semi-annually in arrears. We may redeem the 2014 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a "make-whole" premium and accrued and unpaid interest, if any, to the date of redemption. In

July 2014, we received a BBB- rating on the 2014 Notes.

On December 1, 2015, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 3.50% senior notes due December 2020 (the “December 2015 Notes”). Interest on the December 2015 Notes is payable semi-annually in arrears. We may redeem the December 2015 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. In December 2015, we received a BBB- rating on the 2015 Notes.

On July 11, 2016, the Company completed the pricing of an additional \$200.0 million in aggregate principal amount of the Company’s 2014 Notes. The 2014 Notes mature in July 2024 and bear interest at 4.250%, payable semi-annually in arrears on January 18 and July 18. The 2015 Notes were issued with an effective yield of 4.034%. Proceeds from the 2014 Notes issuance of \$200.0 million were used to repay our outstanding December 2012 Notes and general corporate purposes.

## Credit Rating

We believe our current rating depends upon a number of factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trends and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification, and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit rating. A reduction in our credit rating could adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets, or trigger our obligations under certain financial agreements. As such, we may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all.

We believe our existing assets, most of which are liquid in nature, together with the funds from operations, available informal short-term credit arrangements, and our ability to raise additional capital will provide sufficient resources to meet our present and anticipated financing needs.

## Use of Capital Resources

During the nine months ended September 30, 2016, we repurchased \$113.5 million, or 3.4 million shares, at an average price of \$33.22 per share.

On January 4, 2016, the Company completed the acquisition of Eaton Partners, a global fund placement and advisory firm. Eaton Partners will retain its brand name and will be run as a Stifel company. The acquisition was funded with cash from operations and our common stock.

On May 5, 2016, the Company completed the acquisition of ISM, an independent investment bank focused on international debt capital markets. The acquisition of ISM adds to the Company's debt capital markets origination, sales and research capabilities in Europe, including an end-to-end platform for convertible securities and other equity-linked debt instruments. The acquisition was funded with cash from operations.

We have paid \$61.7 million in the form of upfront notes to financial advisors for transition pay during the nine months ended September 30, 2016. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may decide to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors' trailing production and assets under management. These notes are generally forgiven over a five- to ten-year period based on production. The future estimated amortization expense of the upfront notes, assuming current-year production levels and static growth for the remaining three months in 2016, and the years ended December 31, 2017, 2018, 2019, 2020, and thereafter are \$24.7 million, \$87.8 million, \$72.7 million, \$57.7 million, \$42.7 million, and \$109.7 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards, and stock units to our employees. Historically, we have granted stock units to our employees as part of our retention program. A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units generally vest over the next one to eight years after issuance and are distributed at predetermined future payable dates



once vesting occurs. At September 30, 2016, the total number of stock units outstanding was 22.1 million, of which 18.6 million were unvested. At September 30, 2016, the total number of performance-based restricted stock units was 0.5 million, of which all were unvested. At September 30, 2016, there was unrecognized compensation cost for stock units of approximately \$374.7 million, which is expected to be recognized over a weighted-average period of 3.3 years.

The future estimated compensation expense of the unvested units, assuming current year forfeiture levels and static growth for the remaining three months in 2016, and the years ended December 31, 2017, 2018, 2019, 2020, and thereafter are \$28.5 million, \$97.5 million, \$83.6 million, \$64.6 million, \$51.1 million, and \$61.6 million, respectively. These estimates could change if our forfeitures change from historical levels.

Net Capital Requirements – We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be

limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse effect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt, and/or repurchase our common stock. Our non-broker-dealer subsidiary, Stifel Bank, is also subject to various regulatory capital requirements administered by the federal banking agencies. Our broker-dealer subsidiaries and Stifel Bank have consistently operated in excess of their capital adequacy requirements.

At September 30, 2016, Stifel had net capital of \$295.5 million, which was 17.3% of aggregate debit items and \$261.4 million in excess of its minimum required net capital. At September 30, 2016, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule. At September 30, 2015, our international subsidiary's capital and reserves were in excess of the financial resources requirement under the rules of the FCA. At September 30, 2016, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 16 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

#### Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the SEC, we make assumptions, judgments, and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments, and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments, and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments, and estimates involved in the accounting policies described below have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules that require us to make assumptions, judgments, and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments, and estimates relative to our critical accounting policies and estimates have not differed materially from actual results.

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements.

#### Valuation of Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including trading securities owned, available-for-sale securities, investments, trading securities sold, but not yet purchased, and derivatives.

Trading securities owned and pledged and trading securities sold, but not yet purchased, are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected on the consolidated statements of operations.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment

used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less pricing observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions generally.

When available, we use observable market prices, observable market parameters, or broker or dealer quotes (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all

products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

Investments at fair value include investments in funds that are measured at NAV. The Company uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with Topic 820, "Fair Value Measurement and Disclosures." Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level 3. All other fair value measurements of financial instruments that do not fall within the Level 1 or Level 3 classification are considered Level 2. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management.

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions, certain corporate bonds and equity securities where there was less frequent or nominal market activity and auction rate securities for which the market has been dislocated and largely ceased to function. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level 3 corporate bonds are valued using prices from comparable securities. Equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction rate securities are valued based upon our expectations of issuer redemptions and using internal models.

#### Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration, and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with Topic 450 ("Topic 450"), "Contingencies," to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires us to use significant judgment, and our final liabilities may ultimately be materially different. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. See Item 3, "Legal Proceedings," in Part I of this report for information on our legal, regulatory, and arbitration proceedings.

#### Allowance for Loan Losses

We regularly review the loan portfolio and have established an allowance for loan losses for inherent losses estimated to have occurred in the loan portfolio through a provision for loan losses charged to income. In providing for the allowance for loan losses, we consider historical loss experience, the nature and volume of the loan portfolio, adverse

situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement, will not be collectible. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once a loan is determined to be impaired, when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is reversed. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectability of future principal and interest payments is reasonably assured. Loan losses are

charged against the allowance when we believe the uncollectibility of a loan balance is certain. Subsequent recoveries, if any, are credited to the allowance for loan loss.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment measurements. Impairment is measured on a loan-by-loan basis for non-homogeneous loans, and a specific allowance is established for individual loans determined to be impaired. Impairment is measured by comparing the carrying value of the impaired loan to the present value of its expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

#### Derivative Instruments and Hedging Activities

Our derivative instruments are carried on the consolidated statement of financial condition at fair value. We utilize these derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, "Derivatives and Hedging." Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

#### Income Taxes

The provision for income taxes and related tax reserves is based on our consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities, and amounts that will follow from such examinations but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or interpretation regarding the application of tax law to our tax return filings. Factors considered in estimating our liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

Topic 740 ("Topic 740"), "Income Taxes," clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, Topic 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

#### Goodwill and Intangible Assets

Under the provisions of Topic 805, "Business Combinations," we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates.

Goodwill for certain acquisitions is deductible for tax purposes. The amortization of goodwill for tax purposes creates a cash tax savings due to a reduction in the current taxes payable. We have recorded cash tax savings for the nine months ending September 30, 2016 of \$7.4 million, and anticipate cumulative future cash savings of \$95.2 million as

of result of the tax amortization of goodwill.

In accordance with Topic 350, “Intangibles – Goodwill and Other,” indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities as well as identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. We have elected to test for goodwill impairment in the third quarter of each calendar year.

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company’s business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a

77

---

reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units.

The goodwill impairment test requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments, and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including, among others, economic trends and market conditions, changes in revenue growth trends or business strategies, unanticipated competition, discount rates, technology, or government regulations. In assessing the fair value of our reporting units, the volatile nature of the securities markets and industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider other information, such as public market comparables and multiples of recent mergers and acquisitions of similar businesses. Although we believe the assumptions, judgments, and estimates we have made in the past have been reasonable and appropriate, different assumptions, judgments, and estimates could materially affect our reported financial results.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

#### Recent Accounting Pronouncements

See Note 2 of the Notes to Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements.

#### Off-Balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 19 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

#### Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Risk Management

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires our business units to assist in the identification, assessment, monitoring, and control



of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, operational, and regulatory and legal.

We have adopted policies and procedures concerning Enterprise Risk Management. The Corporate Governance Committee of the Board of Directors, in exercising its oversight of management's activities, conducts periodic reviews and discussions with management regarding the guidelines and policies governing the processes by which risk assessment and risk management are handled.

#### Market Risk

The potential for changes in the value of financial instruments owned by our company resulting from changes in interest rates and equity prices is referred to as "market risk." Market risk is inherent to financial instruments, and accordingly, the scope of our market risk management procedures includes all market risk-sensitive financial instruments.

We trade tax-exempt and taxable debt obligations, including U.S. treasury bills, notes, and bonds; U.S. government agency and municipal notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. We are also an active

market maker in over-the-counter equity securities. In connection with these activities, we may maintain inventories in order to ensure availability and to facilitate customer transactions.

Changes in value of our financial instruments may result from fluctuations in interest rates, credit ratings, equity prices, and the correlation among these factors, along with the level of volatility.

We manage our trading businesses by product and have established trading departments that have responsibility for each product. The trading inventories are managed with a view toward facilitating client transactions, considering the risk and profitability of each inventory position. Position limits in trading inventory accounts are established by our Enterprise Risk Management department and monitored on a daily basis within the business units. We monitor inventory levels and results of the trading departments, as well as inventory aging, pricing, concentration, securities ratings, and risk sensitivities.

We are also exposed to market risk based on our other investing activities. These investments consist of investments in private equity partnerships, start-up companies, venture capital investments, and zero coupon U.S. government securities and are included under the caption "Investments" on the consolidated statements of financial condition.

#### Interest Rate Risk

We are exposed to interest rate risk as a result of maintaining inventories of interest rate-sensitive financial instruments and from changes in the interest rates on our interest-earning assets (including client loans, stock borrow activities, investments, inventories, and resale agreements) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and repurchase agreements), which finance these assets. The collateral underlying financial instruments at the broker-dealer is repriced daily, thus requiring collateral to be delivered as necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

We manage our inventory exposure to interest rate risk by setting and monitoring limits and, where feasible, hedging with offsetting positions in securities with similar interest rate risk characteristics. While a significant portion of our securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over several times per year.

Additionally, we monitor, on a daily basis, the Value-at-Risk ("VaR") in our trading portfolios using a ten-day horizon and report VaR at a 99% confidence level. VaR is a statistical technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatility. This model assumes that historical changes in market conditions are representative of future changes, and trading losses on any given day could exceed the reported VaR by significant amounts in unusually volatile markets. Further, the model involves a number of assumptions and inputs. While we believe that the assumptions and inputs we use in our risk model are reasonable, different assumptions and inputs could produce materially different VaR estimates.

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the nine months ended September 30, 2016, and the daily VaR at September 30, 2016 and December 31, 2015 (in thousands):

Nine Months Ended			VAR Calculation	
September 30, 2016			at	
High	Low	Daily	September	December
		Average	30,	31, 2015

	2016				
Daily VaR	\$7,132	\$2,415	\$4,438	\$4,360	\$3,620

Stifel Bank's interest rate risk is principally associated with changes in market interest rates related to residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Our primary emphasis in interest rate risk management for Stifel Bank is the matching of assets and liabilities of similar cash flow and repricing time frames. This matching of assets and liabilities reduces exposure to interest rate movements and aids in stabilizing positive interest spreads. Stifel Bank has established limits for acceptable interest rate risk and acceptable portfolio value risk. To ensure that Stifel Bank is within the limits established for net interest margin, an analysis of net interest margin based on various shifts in interest rates is prepared each quarter and presented to Stifel Bank's Board of Directors. Stifel Bank utilizes a third-party model to analyze the available data.

The following table illustrates the estimated change in net interest margin at September 30, 2016, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin	
+200	9.6	%
+100	5.1	%
0	0.0	%
-100	21.2	%
-200	34.7	%

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at September 30, 2016 (in thousands):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$3,660,093	\$135,414	\$1,312,688	\$320,407
Securities	2,611,038	178,955	1,809,660	722,155
Interest-bearing cash	236,963	-	-	-
	\$6,508,094	\$314,369	\$3,122,348	\$1,042,562
<b>Interest-bearing liabilities:</b>				
Transaction accounts and savings	\$8,425,552	\$121,861	\$1,335,377	\$-
Certificates of deposit	979	1,914	1,471	-
Borrowings	500,000	-	-	16,675
	\$8,926,531	\$123,775	\$1,336,848	\$16,675
<b>GAP</b>	<b>\$(2,418,437)</b>	<b>\$190,594</b>	<b>\$1,785,500</b>	<b>\$1,025,887</b>
Cumulative GAP	\$(2,418,437)	\$(2,227,843)	\$(442,343)	\$583,544

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed funds-based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our interest rate hedging strategies may not work in all market environments and, as a result, may not be effective in mitigating interest rate risk.

#### Equity Price Risk

We are exposed to equity price risk as a consequence of making markets in equity securities. We attempt to reduce the risk of loss inherent in our inventory of equity securities by monitoring those security positions constantly throughout each day.

Our equity securities inventories are repriced on a regular basis, and there are no unrecorded gains or losses. Our activities as a dealer are client-driven, with the objective of meeting clients' needs while earning a positive spread.

#### Credit Risk

We are engaged in various trading and brokerage activities, with the counterparties primarily being broker-dealers. In the event counterparties do not fulfill their obligations, we may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting regular credit reviews of financial counterparties, reviewing security concentrations, holding and marking to market collateral on certain transactions, and conducting business through clearing organizations, which guarantee performance.

Our client activities involve the execution, settlement, and financing of various transactions on behalf of our clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with our private client business consists primarily of customer margin accounts, which are monitored daily and are collateralized. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2016, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.6 billion, and the fair value of the collateral that had been sold or repledged was \$261.7 million.

By using derivative instruments, we are exposed to credit and market risk on those derivative positions. Credit risk is equal to the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans, and non-real-estate commercial and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the fundamental characteristics of credit, including character, capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized, which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures, including frequency and scope.

We are subject to concentration risk if we hold large positions, extend large loans to, or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (i.e., in the same industry). Securities purchased under agreements to resell consist of securities issued by the U.S. government or its agencies. Receivables from and payables to clients and stock borrow and lending activities, both with a large number of clients and counterparties, and any potential concentration is carefully monitored. Stock borrow and lending activities are executed under master netting agreements, which gives our company right of offset in the event of counterparty default. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. We seek to limit this risk through careful review of counterparties and borrowers and the use of limits established by our senior management group, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment, and other positions or commitments outstanding.

#### Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems, and inadequacies or breaches in our control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions, and damage to our reputation. In order to mitigate and control operational risk, we have developed policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance, and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and

redundancies are built into the systems as deemed appropriate.

#### Regulatory and Legal Risk

Legal risk includes the risk of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under “Critical Accounting Policies and Estimates” in Item 7, Part II and “Legal Proceedings” in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. Our international subsidiary, SNEL, is subject to the regulatory supervision and requirements of the FCA in the United Kingdom. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and

safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC") and state banking authorities. Failure to meet 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 company's and Stifel Bank's financial statements.

#### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out by Stifel Financial Corp.'s management with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### PART II OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Please see our discussion set forth under Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2015 and Item 1. in our Form 10-Q for the quarter ended September 30, 2016.

#### ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following tables sets forth information with respect to purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-10(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended September 30, 2016.

Total Number of Shares	Average Price Paid per	Total Number of Shares	Maximum Number of Shares
------------------------------	------------------------------	------------------------------	--------------------------------



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	Purchased	share	Purchased	That May
			as Part of	Yet be
			Publically	Purchased
			Announced	Under the
			Plans	Plan or
				Program
July 1 - 31, 2016	601,200	\$ 30.52	601,200	7,429,035
August 1 - 31, 2016	-	-	-	7,429,035
September 1 - 30, 2016	-	-	-	7,429,035
	601,200	\$ 30.52	601,200	

We have on ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2016, the maximum number of shares that may yet be purchased under this plan was 7.4 million.

ITEM 6. EXHIBITS

Exhibit No.	Description
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements.

\*The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Stifel Financial Corp. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements 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.

STIFEL FINANCIAL CORP.

/s/ Ronald J. Kruszewski  
Ronald J. Kruszewski

Chairman of the Board and

Chief Executive Officer

/s/ James M. Zemlyak  
James M. Zemlyak

Chief Financial Officer

Date: November 9, 2016