

STIFEL FINANCIAL CORP
Form 10-Q
August 08, 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 June 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)

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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 August 1, 2016, was 66,209,775.

STIFEL FINANCIAL CORP.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$364,101	\$811,019
Cash segregated for regulatory purposes	60,132	227,727
Receivables:		
Brokerage clients, net	1,387,716	1,599,218
Brokers, dealers, and clearing organizations	533,264	601,831
Securities purchased under agreements to resell	293,766	160,423
Financial instruments owned, at fair value	1,086,446	749,443
Available-for-sale securities, at fair value	2,466,706	1,629,907
Held-to-maturity securities, at amortized cost	2,119,888	1,855,399
Loans held for sale, at lower of cost or market	250,725	189,921
Bank loans, net	4,170,858	3,143,515
Investments, at fair value	156,198	181,017
Fixed assets, net	176,439	181,966
Goodwill	975,921	915,602
Intangible assets, net	95,188	63,177
Assets held for sale	148,606	-
Loans and advances to financial advisors and other employees, net	414,573	401,293
Deferred tax assets, net	229,383	285,127
Other assets	455,692	329,466
Total Assets	\$15,385,602	\$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

	June 30, 2016 (Unaudited)	December 31, 2015
(in thousands, except share and per share amounts)		
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	\$898,193	\$1,000,422
Brokers, dealers, and clearing organizations	440,939	438,031
Drafts	56,914	183,857
Securities sold under agreements to repurchase	317,002	278,674
Bank deposits	7,881,219	6,638,356
Financial instruments sold, but not yet purchased, at fair value	615,662	521,744
Accrued compensation	176,913	363,791
Accounts payable and accrued expenses	362,628	349,040
Liabilities related to assets held for sale	136,825	—
Federal Home Loan Bank advances	865,000	148,000
Borrowings	335,157	89,084
Senior notes	740,785	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
Total liabilities	12,894,737	10,833,635
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,507,842 and 69,507,842 shares, respectively	10,426	10,426
Additional paid-in-capital	1,805,258	1,820,772
Retained earnings	819,929	805,685
Accumulated other comprehensive loss	(43,489)	(39,533)
	2,592,124	2,597,350
Treasury stock, at cost, 2,927,455 and 2,483,071 shares, respectively	(101,259)	(104,934)
Total Shareholders' Equity	2,490,865	2,492,416
Total Liabilities and Shareholders' Equity	\$15,385,602	\$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended June	
	June 30, 2016	2015	30, 2016	2015
Revenues:				
Commissions	\$ 182,104	\$ 183,771	\$ 380,034	\$ 364,073
Principal transactions	126,426	85,542	247,374	186,275
Investment banking	133,125	161,007	233,783	285,568
Asset management and service fees	144,567	119,936	289,099	233,805
Interest	65,780	43,852	128,607	86,588
Other income	17,405	13,741	24,595	25,541
Total revenues	669,407	607,849	1,303,492	1,181,850
Interest expense	17,262	10,098	31,373	23,117
Net revenues	652,145	597,751	1,272,119	1,158,733
Non-interest expenses:				
Compensation and benefits	460,023	409,998	871,136	765,691
Occupancy and equipment rental	58,746	48,346	116,002	92,516
Communications and office supplies	37,426	31,114	74,086	60,348
Commissions and floor brokerage	12,145	9,124	23,876	19,193
Other operating expenses	68,012	61,098	127,313	112,848
Total non-interest expenses	636,352	559,680	1,212,413	1,050,596
Income from operations before income tax expense	15,793	38,071	59,706	108,137
Provision for income taxes	6,022	17,183	22,880	44,152
Net income	\$9,771	\$20,888	\$36,826	\$63,985
Earnings per common share:				
Basic	\$0.15	\$0.31	\$0.55	\$0.94
Diluted	\$0.13	\$0.27	\$0.48	\$0.82
Weighted-average number of common shares outstanding:				
Basic	66,792	68,370	67,186	68,189
Diluted	75,982	77,856	76,084	77,624

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$9,771	\$20,888	\$36,826	\$63,985
Other comprehensive income/(loss), net of tax: ¹				
Changes in unrealized gains/(losses) on available-for-sale securities ²	11,449	(3,349)	10,421	3,597
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	800	1,545	1,309	2,276
Changes in unrealized gains/(losses) on cash flow hedging instruments ³	(3,427)	713	(8,407)	487
Foreign currency translation adjustment	(5,093)	5,293	(7,279)	1,315
Total other comprehensive income/(loss), net of tax	3,729	4,202	(3,956)	7,675
Comprehensive income	\$13,500	\$25,090	\$32,870	\$71,660

⁽¹⁾Net of tax expense of \$2.3 million \$2.6 million for the three months ended June 30, 2016 and 2015, respectively. Net of tax benefit of \$2.5 million and tax expense of \$4.8 million for the six months ended June 30, 2016 and 2015, respectively.

⁽²⁾There were no reclassifications to earnings during the three and six months ended June 30, 2016. Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.9 million for the three and six months ended June 30, 2015, respectively.

⁽³⁾Amounts are net of reclassifications to earnings of losses of \$1.5 million and \$1.0 million for the three months ended June 30, 2016 and 2015, respectively. Amounts are net of reclassifications to earnings of losses of \$2.9 million and \$2.2 million for the six months ended June 30, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Six Months Ended June	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$36,826	\$63,985
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	21,604	14,899
Amortization of loans and advances to financial advisors and other employees	33,079	28,692
Amortization of premium on investment portfolio	4,655	2,222
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	6,579	4,393
Amortization of intangible assets	8,008	3,673
Deferred income taxes	54,651	16,797
Excess tax benefits/(tax deficit) from stock-based compensation	5,197	(12,454)
Stock-based compensation	94,349	81,160
(Gains)/losses on sale of investments	3,911	(4,941)
Gain on extinguishment of Stifel Financial Capital Trust	(5,607)	—
Other, net	864	(7,012)
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	167,593	49,496
Receivables:		
Brokerage clients	133,799	(160,766)
Brokers, dealers, and clearing organizations	12,396	(150,642)
Securities purchased under agreements to resell	(133,343)	(187,866)
Financial instruments owned, including those pledged	(337,032)	(100,353)
Loans originated as held for sale	(1,093,740)	(969,064)
Proceeds from mortgages held for sale	1,041,457	904,798
Loans and advances to financial advisors and other employees	(47,760)	(48,472)
Other assets	(149,190)	(27,769)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	(36,181)	128,338
Brokers, dealers, and clearing organizations	4,439	57,487
Drafts	(115,039)	(15,619)
Financial instruments sold, but not yet purchased	93,941	(20,539)
Other liabilities and accrued expenses	(237,486)	(222,792)
Net cash used in operating activities	\$(432,030)	\$(572,349)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Six Months Ended June	
	30, 2016	2015
Cash Flows From Investing Activities:		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	\$ 104,660	\$ 728,809
Calls and principal paydowns of held-to-maturity securities	93,686	52,903
Sale or maturity of investments	26,150	50,912
Increase in bank loans, net	(1,032,497)	(356,580)
Payments for:		
Purchase of available-for-sale securities	(927,687)	(199)
Purchase of held-to-maturity securities	(359,337)	—
Purchase of investments	(5,242)	(30,283)
Purchase of fixed assets	(14,159)	(32,309)
Acquisitions, net of cash acquired	(71,924)	18,456
Net cash provided by/(used in) investing activities	(2,186,350)	431,709
Cash Flows From Financing Activities:		
Proceeds from borrowings	246,073	327,568
Proceeds from Federal Home Loan Bank advances	717,000	—
Increase in securities sold under agreements to repurchase	38,328	303,170
Increase/(decrease) in bank deposits, net	1,242,863	(476,144)
Increase in securities loaned	44,008	99,446
Excess tax benefits/(tax deficit) from stock-based compensation	(5,197)	12,454
Issuance of common stock for stock option exercises	175	245
Repurchase of common stock	(95,116)	—
Extinguishment of Stifel Financial Capital Trust	(9,393)	—
Repayment of senior notes	—	(175,000)
Net cash provided by financing activities	2,178,741	91,739
Effect of exchange rate changes on cash	(7,279)	1,056
Decrease in cash and cash equivalents	(446,918)	(47,845)
Cash and cash equivalents at beginning of period	811,019	689,782
Cash and cash equivalents at end of period	\$ 364,101	\$ 641,937
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 21,211	\$ 31,951
Cash paid for interest	30,256	20,073
Noncash financing activities:		
Unit grants, net of forfeitures	131,736	105,448
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.” The guidance requires that credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. 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 \$9.6 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 June 30, 2016 and December 31, 2015, included (in thousands):

	June 30, 2016	December 31, 2015
Deposits paid for securities borrowed	\$ 379,244	\$ 318,105
Receivables from clearing organizations	78,635	260,077
Securities failed to deliver	75,385	23,649
	\$ 533,264	\$ 601,831

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

	June 30, 2016	December 31, 2015
Deposits received from securities loaned	\$357,207	\$329,670
Securities failed to receive	35,718	16,353
Payable to clearing organizations	48,014	92,008
	\$440,939	\$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 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 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 for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs.

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 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):

	June 30, 2016	
	Fair value of	Unfunded commitments
	investments	
Private company investments	\$28,639	\$ 10,561
Partnership interests	20,962	1,822
Mutual funds	12,857	—
Private equity funds	12,109	9,337
Money market funds	9,822	—
Total	\$84,389	\$ 21,720

	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 June 30, 2016, are presented below (in thousands):

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	\$11,258	\$11,258	\$—	\$—
U.S. government agency securities	210,849	1,008	209,841	—
Mortgage-backed securities:				
Agency	209,021	—	209,021	—
Non-agency	28,954	—	27,719	1,235
Corporate securities:				
Fixed income securities	278,643	22,986	255,365	292
Equity securities	125,446	124,827	—	619
State and municipal securities	222,275	—	222,275	—
Total financial instruments owned	1,086,446	160,079	924,221	2,146
Available-for-sale securities:				
U.S. government agency securities	2,688	101	2,587	—
State and municipal securities	74,712	—	74,712	—
Mortgage-backed securities:				
Agency	395,271	—	395,271	—
Commercial	2,787	—	2,787	—
Non-agency	2,188	—	2,188	—
Corporate fixed income securities	652,093	—	652,093	—
Asset-backed securities	1,336,967	—	1,336,967	—
Total available-for-sale securities	2,466,706	101	2,466,605	—
Investments:				
Corporate equity securities	27,898	22,041	1,328	4,529
Auction rate securities:				
Equity securities	50,750	—	—	50,750
Municipal securities	1,355	—	—	1,355
Other ¹	1,628	—	388	1,240
Investments in funds measured at NAV	74,567			
Total investments	156,198	22,041	1,716	57,874
Cash equivalents measured at NAV	9,822			
	\$3,719,172	\$182,221	\$3,392,542	\$60,020

¹Includes certain private company and other investments.

June 30, 2016

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	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	\$271,337	\$271,337	\$—	\$ —
Agency mortgage-backed securities	75,289	—	75,289	—
Corporate securities:				
Fixed income securities	210,586	2,901	207,685	—
Equity securities	58,429	58,429	—	—
State and municipal securities	21	—	21	—
Total financial instruments sold, but not yet purchased	615,662	332,667	282,995	—
Derivative contracts ²	17,707	—	17,707	—
	\$633,369	\$332,667	\$300,702	\$ —

²Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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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
Financial instruments owned:				
U.S. government securities	\$45,167	\$45,167	\$—	\$—
U.S. government agency securities	116,949	—	116,949	—
Mortgage-backed securities:				
Agency	205,473	—	205,473	—
Non-agency	33,319	—	31,843	1,476
Corporate securities:				
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	—
Total financial instruments owned	749,443	87,758	659,590	2,095
Available-for-sale securities:				
U.S. government agency securities	1,698	—	1,698	—
State and municipal securities	74,167	—	74,167	—
Mortgage-backed securities:				
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	—
Total available-for-sale securities	1,629,907	—	1,629,907	—
Investments:				
Corporate equity securities	30,737	26,436	1,359	2,942
U.S. government securities	102	102	—	—
Auction rate securities:				
Equity securities	55,710	—	5,268	50,442
Municipal securities	1,315	—	—	1,315
Other ¹	2,897	4	2,873	20
Investments measured at NAV	90,256			
Total investments	181,017	26,542	9,500	54,719
Cash equivalents measured at NAV	77,097			
	\$2,637,464	\$114,300	\$2,298,997	\$56,814

¹Includes certain private company and other investments.

	December 31, 2015			
	Total	Level 1	Level 2	Level 3

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Liabilities:				
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 ²	3,591	—	3,591	—
	\$ 525,335	\$ 212,525	\$ 312,810	\$ —

²Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three months ended June 30, 2016 (in thousands):

Three Months Ended June 30, 2016							
	Financial instruments owned			Investments			
	Mortgage-			Auction Rate		Auction Rate	
	Backed			Auction Rate		Auction Rate	
	Securities			Securities –		Securities –	
	Fixed Income	Equity	Corporate Equity	Securities –	Securities –		
	Non-Agency	Securities	Securities	Equity	Municipal	Other	¹
Balance at March 31, 2016	\$1,433	—	\$ 619	\$2,979	\$ 50,864	\$ 1,351	\$775
Unrealized gains/(losses):							
Included in changes in net assets ²	(18)	—	—	1,550	361	4	—
Included in OCI ³	—	—	—	—	—	—	—
Realized gains ²	2	—	—	—	—	—	—
Purchases	—	292	—	—	—	—	—
Sales	—	—	—	—	—	—	—
Redemptions	(182)	—	—	—	(475)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	465
Out of Level 3	—	—	—	—	—	—	—
Net change	(198)	292	—	1,550	(114)	4	465
Balance at June 30, 2016	\$1,235	\$ 292	\$ 619	\$4,529	\$ 50,750	\$ 1,355	\$1,240

¹Includes private company and other investments.

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

³Unrealized 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 six months ended June 30, 2016 (in thousands):

Six Months Ended June 30, 2016							
	Financial instruments owned			Investments			
	Mortgage-			Auction Rate		Auction Rate	
	Backed			Auction Rate		Auction Rate	
	Securities			Securities –		Securities –	
	Fixed Income	Equity	Corporate Equity	Securities –	Securities –		
	Non-Agency	Securities	Securities	Equity	Municipal	Other	¹
Balance at December 31, 2015	\$1,476	—	\$ 619	\$2,942	\$ 50,442	\$ 1,315	\$20

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Unrealized gains/(losses):

Included in changes in net assets ²	(18)	—	—	1,587	783	40	—
Included in OCI ³	—	—	—	—	—	—	—
Realized gains ²	9	—	—	—	—	—	—
Purchases	—	292	—	—	—	—	755
Sales	—	—	—	—	—	—	—
Redemptions	(232)	—	—	—	(475)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	465
Out of Level 3	—	—	—	—	—	—	—
Net change	(241)	292	—	1,587	308	40	1,220
Balance at June 30, 2016	\$1,235	\$ 292	\$ 619	\$4,529	\$ 50,750	\$ 1,355	\$1,240

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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 six months ended June 30, 2016 were principally a result of purchases of partnership interests. The changes in unrealized gains/(losses) recorded in earnings for the three and six months ended June 30, 2016, relating to Level 3 assets still held at June 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 June 30, 2016.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	1.7 - 11.7%	5.8%
		Workout period	1 - 3 years	2.5 years
Municipal securities	Discounted cash flow	Discount rate	0.0 - 10.3%	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. The transfers of financial assets from Level 2 to Level 1 during the three months ended June 30, 2016 were immaterial. There were \$1.2 million of transfers of financial assets from Level 2 to Level 1 during the six months ended June 30, 2016 primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were \$2.2 million and \$2.5 million of transfers of financial assets from Level 1 to Level 2 during the three and six months ended June 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 three months ended June 30, 2016.

Fair Value of Financial Instruments

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

	June 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$364,101	\$364,101	\$811,019	\$811,019
Cash segregated for regulatory purposes	60,132	60,132	227,727	227,727
Securities purchased under agreements to resell	293,766	293,766	160,423	160,423
Financial instruments owned	1,086,446	1,086,446	749,443	749,443
Available-for-sale securities	2,466,706	2,466,706	1,629,907	1,629,907
Held-to-maturity securities	2,119,888	2,178,218	1,855,399	1,874,998
Loans held for sale	250,725	250,725	189,921	189,921
Bank loans	4,170,858	4,213,242	3,143,515	3,188,402
Investments	156,198	156,198	181,017	181,017
Financial liabilities:				
Securities sold under agreements to repurchase	\$317,002	\$317,002	\$278,674	\$278,674
Bank deposits	7,881,219	7,738,148	6,638,356	6,627,818
Financial instruments sold, but not yet purchased	615,662	615,662	521,744	521,744
Derivative contracts ¹	17,707	17,707	3,591	3,591
Borrowings	335,157	335,157	89,084	89,084
Federal Home Loan Bank advances	865,000	865,000	148,000	148,000
Senior notes	740,785	760,527	740,136	745,999
Debentures to Stifel Financial Capital Trusts	67,500	51,541	82,500	72,371

¹Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	\$354,279	\$354,279	\$—	\$—
Cash segregated for regulatory purposes	60,132	60,132	—	—
Securities purchased under agreements to resell	293,766	293,766	—	—
Held-to-maturity securities	2,178,218	—	1,615,409	562,809
Loans held for sale	250,725	—	250,725	—
Bank loans	4,213,242	—	4,213,242	—
Financial liabilities:				
Securities sold under agreements to repurchase	\$317,002	\$317,002	\$—	\$—

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Bank deposits	7,738,148	—	7,738,148	—
Borrowings	335,157	—	335,157	—
Federal Home Loan Bank advances	865,000	865,000		
Senior notes	760,527	760,527	—	—
Debentures to Stifel Financial Capital Trusts	51,541	—	—	51,541

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	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets:				
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	—
Financial liabilities:				
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 June 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 June 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 corporate obligations, collateralized debt 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 would be made under current conditions 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 June 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 5.375% senior notes due 2022.

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 June 30, 2016 and December 31, 2015 are as follows (in thousands):

	June 30, 2016	December 31, 2015
Financial instruments owned:		
U.S. government securities	\$11,258	\$45,167
U.S. government agency securities	210,849	116,949
Mortgage-backed securities:		
Agency	209,021	205,473
Non-agency	28,954	33,319

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Corporate securities:		
Fixed income securities	278,643	203,910
Equity securities	125,446	31,642
State and municipal securities	222,275	112,983
	\$1,086,446	\$749,443
Financial instruments sold, but not yet purchased:		
U.S. government securities	\$271,337	\$186,030
Agency mortgage-backed securities	75,289	50,830
Corporate securities:		
Fixed income securities	210,586	255,700
Equity securities	58,429	29,184
State and municipal securities	21	—
	\$615,662	\$521,744

At June 30, 2016 and December 31, 2015, financial instruments owned in the amount of \$935.8 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 June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016			
		Gross		Estimated
	Amortized	Unrealized	Unrealized	
	Cost	Gains ¹	Losses ¹	Fair Value
Available-for-sale securities				
U.S. government agency securities	\$2,679	\$ 10	\$(1)	\$2,688
State and municipal securities	75,672	188	(1,148)	74,712
Mortgage-backed securities:				
Agency	395,871	1,218	(1,818)	395,271
Commercial	2,707	80	—	2,787
Non-agency	2,352	1	(165)	2,188
Corporate fixed income securities	641,437	10,664	(8)	652,093
Asset-backed securities	1,340,316	3,762	(7,111)	1,336,967
	\$2,461,034	\$ 15,923	\$(10,251)	\$2,466,706
Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$1,522,210	\$ 50,749	\$(8)	\$1,572,951
Commercial	59,551	4,314	—	63,865
Non-agency	773	—	(15)	758
Asset-backed securities	497,242	5,382	(2,246)	500,378
Corporate fixed income securities	40,112	154	—	40,266
	\$2,119,888	\$ 60,599	\$(2,269)	\$2,178,218
	December 31, 2015			
		Gross		Estimated
	Amortized	Unrealized	Unrealized	
	Cost	Unrealized	Unrealized	Fair Value

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		Gains ¹	Losses ¹	
Available-for-sale securities				
U.S. government agency securities	\$1,700	\$ 1	\$(3)	\$1,698
State and municipal securities	75,953	28	(1,814)	74,167
Mortgage-backed securities:				
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
Asset-backed securities	922,563	774	(7,424)	915,913
	\$1,641,398	\$ 1,807	\$(13,298)	\$1,629,907
Held-to-maturity securities ²				
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

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

²Held-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 six months ended June 30, 2016, there were no sales of available-for-sale securities. For the three and six months ended June 30, 2015, we received proceeds of \$552.6 million, respectively, from the sale of available-for-sale securities, which resulted in net realized gains of \$3.1 million, respectively.

During the three months ended June 30, 2016, unrealized gains, net of deferred taxes, of \$11.4 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the three months ended June 30, 2015, unrealized losses, net of deferred taxes, of \$3.3 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

During the six months ended June 30, 2016, unrealized gains, net of deferred taxes, of \$10.4 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the six months ended June 30, 2015, unrealized gains, net of deferred taxes, of \$3.6 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.

	June 30, 2016			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
Debt securities				
Within one year	\$1,081	\$1,081	\$—	\$—
After one year through three years	271,590	274,003	40,111	40,265
After three years through five years	327,468	334,561	—	—
After five years through ten years	361,739	359,105	—	—
After ten years	1,098,226	1,097,710	497,243	500,379
Mortgage-backed securities				
After one year through three years	38	38	—	—
After five years through ten years	523	553	251,937	258,896
After ten years	400,369	399,655	1,330,597	1,378,678
	\$2,461,034	\$2,466,706	\$2,119,888	\$2,178,218

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

	Within 1 Year		5-10 Years	After 10 Years	Total
Available-for-sale: ¹					
U.S. government agency securities	\$1,081	\$1,607	\$—	\$—	\$2,688
State and municipal securities	—	—	17,362	57,350	74,712
Mortgage-backed securities:					
Agency	—	—	553	394,718	395,271
Commercial	—	—	—	2,787	2,787
Non-agency	38	—	—	2,150	2,188
Corporate fixed income securities	—	606,956	45,137	—	652,093
Asset-backed securities	—	—	296,607	1,040,360	1,336,967
	\$1,119	\$608,563	\$359,659	\$1,497,365	\$2,466,706
Held-to-maturity:					
Mortgage-backed securities:					
Agency	\$—	\$—	\$192,386	\$1,329,824	\$1,522,210
Commercial	—	—	59,551	—	59,551
Non-agency	—	—	—	773	773
Asset-backed securities	—	—	—	497,242	497,242
Corporate fixed income securities	—	40,112	—	—	40,112
	\$—	\$40,112	\$251,937	\$1,827,839	\$2,119,888

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

At June 30, 2016 and December 31, 2015, securities and loans of \$2.6 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 June 30, 2016 and December 31, 2015, securities of \$1.5 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 June 30, 2016 (in thousands):

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

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Available-for-sale securities							
U.S. government securities	\$(1)	\$226	\$—	\$—	\$(1)	\$226	
State and municipal securities	—	—	(1,148)	62,491	(1,148)	62,491	
Mortgage-backed securities:							
Agency	(1,734)	212,562	(84)	8,185	(1,818)	220,747	
Commercial	—	—	—	—	—	—	
Non-agency	—	—	(165)	2,081	(165)	2,081	
Corporate fixed income securities	(8)	1,493	—	—	(8)	1,493	
Asset-backed securities	(4,896)	452,928	(2,215)	64,717	(7,111)	517,645	
	\$(6,639)	\$667,209	\$(3,612)	\$137,474	\$(10,251)	\$804,683	
Held-to-maturity securities							
Mortgage-backed securities:							
Agency	\$—	\$—	\$(8)	\$1,789	\$(8)	\$1,789	
Non-agency	—	—	(15)	758	(15)	758	
Asset-backed securities	(1,074)	111,822	(1,172)	65,903	(2,246)	177,725	
Corporate fixed income securities	—	—	—	—	—	—	
	\$(1,074)	\$111,822	\$(1,195)	\$68,450	\$(2,269)	\$180,272	

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At June 30, 2016, the amortized cost of 64 securities classified as available for sale exceeded their fair value by \$10.3 million, of which \$3.6 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 June 30, 2016, was \$804.7 million, which was 32.6% of our available-for-sale portfolio.

At June 30, 2016, the carrying value of 19 securities held to maturity exceeded their fair value by \$2.3 million, of which \$1.2 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 six months ended June 30, 2016 and 2015.

We believe the gross unrealized losses of \$12.5 million related to our investment portfolio, as of June 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 June 30, 2016 and December 31, 2015 (in thousands, except percentages):

	June 30, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
Securities-based loans	\$1,418,986	33.7 %	\$1,388,953	43.7 %
Commercial and industrial	1,424,671	33.8	1,216,656	38.2
Residential real estate	1,228,234	29.1	429,132	13.5
Commercial real estate	83,628	2.0	92,623	2.9
Consumer	36,626	0.9	36,846	1.2
Home equity lines of credit	14,156	0.3	12,475	0.4
Construction and land	7,762	0.2	3,899	0.1
Gross bank loans	4,214,063	100.0 %	3,180,584	100.0 %
Unamortized loan premium/(discount), net	26		(5,296)	
Unamortized loan fees, net of loan fees	(2,599)		(1,567)	
Loans in process	(4,766)		(419)	
Allowance for loan losses	(35,866)		(29,787)	
Bank loans, net	\$4,170,858		\$3,143,515	

At June 30, 2016 and December 31, 2015, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$0.6 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 June 30, 2016 and December 31, 2015, we had mortgage loans held for sale of \$250.7 million and \$189.9 million, respectively. For the three months ended June 30, 2016 and 2015, we recognized gains of \$4.1 million and \$3.5 million, respectively, from the sale of originated loans, net of fees and costs. For the six months ended June 30, 2016 and 2015, we recognized gains of \$6.9 million and \$6.1 million, respectively, from the sale of originated loans, net of fees and costs.

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

	Three Months Ended June 30, 2016				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$27,700	\$ 2,116	\$ —	\$ —	\$29,816
Securities-based loans	1,605	126	—	—	1,731
Consumer	84	23	—	—	107
Residential real estate	1,330	210	(13)	2	1,529
Commercial real estate	1,289	(780)	—	3	512
Home equity lines of credit	267	16	—	—	283
Construction and land	118	26	—	—	144
Qualitative	1,657	87	—	—	1,744
	\$34,050	\$ 1,824	\$ (13)	\$ 5	\$35,866

	Six Months Ended June 30, 2016				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$24,748	\$ 5,068	\$ —	\$ —	\$29,816
Securities-based loans	1,607	124	—	—	1,731
Consumer	105	2	—	—	107
Residential real estate	1,241	298	(13)	3	1,529
Commercial real estate	264	241	—	7	512
Home equity lines of credit	290	(7)	—	—	283
Construction and land	78	66	—	—	144
Qualitative	1,454	290	—	—	1,744
	\$29,787	\$ 6,082	\$ (13)	\$ 10	\$35,866

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually			Individually		
	Evaluated for	Evaluated for	Total	Evaluated for	Evaluated for	Total
Commercial and industrial	\$2,538	\$ 27,278	\$29,816	\$25,381	\$ 1,399,290	\$ 1,424,671
Securities-based loans	—	1,731	1,731	—	1,418,986	1,418,986
Consumer	17	90	107	17	36,609	36,626

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Residential real estate	24	1,505	1,529	511	1,227,723	1,228,234
Commercial real estate	—	512	512	8,828	74,800	83,628
Home equity lines of credit	149	134	283	323	13,833	14,156
Construction and land	—	144	144	—	7,762	7,762
Qualitative	—	1,744	1,744	—	—	—
	\$2,728	\$ 33,138	\$35,866	\$35,060	\$ 4,179,003	\$4,214,063

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

	Three Months Ended June 30, 2015				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$18,104	\$ 1,193	\$ —	\$ —	\$19,297
Securities-based loans	1,288	157	—	—	1,445
Consumer	104	19	—	—	123
Residential real estate	857	114	(69)	2	904
Commercial real estate	305	(26)	—	7	286
Home equity lines of credit	269	(4)	—	—	265
Construction and land	—	—	—	—	—
Qualitative	1,640	(37)	—	—	1,603
	\$22,567	\$ 1,416	\$ (69)	\$ 9	\$23,923

	Six Months Ended June 30, 2015				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$16,609	\$ 2,688	\$ —	\$ —	\$19,297
Securities-based loans	1,099	346	—	—	1,445
Consumer	156	(33)	—	—	123
Residential real estate	787	229	(116)	4	904
Commercial real estate	232	12	—	42	286
Home equity lines of credit	267	(2)	—	—	265
Construction and land	—	—	—	—	—
Qualitative	1,581	22	—	—	1,603
	\$20,731	\$ 3,262	\$ (116)	\$ 46	\$23,923

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually			Individually		
	Collectively			Collectively		
	Evaluated for			Evaluated for		
	Impairment	Total	Impairment	Total	Impairment	Total
Commercial and industrial	\$21	\$ 19,276	\$19,297	\$—	\$ 1,010,810	\$1,010,810

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Securities-based loans	—	1,445	1,445	—	963,090	963,090
Consumer	19	104	123	20	20,249	20,269
Residential real estate	40	864	904	5,283	443,711	448,994
Commercial real estate	—	286	286	219	19,834	20,053
Home equity lines of credit	149	116	265	323	12,276	12,599
Construction and land	—	—	—	—	—	—
Qualitative	—	1,603	1,603	—	—	—
	\$229	\$ 23,694	\$23,923	\$5,845	\$ 2,469,970	\$2,475,815

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			Individually		
	Evaluated for			Evaluated for		
	Impairment	Impairment	Total	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 June 30, 2016, we had \$35.1 million of impaired loans, net of discounts, which included \$0.2 million in troubled debt restructurings, for which there was a specific allowance of \$2.7 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 six months ended June 30, 2016 and 2015, were insignificant to the consolidated financial statements.

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

June 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	\$25,381	\$ —	\$ 25,381	\$ 25,381	\$ 2,538	\$ 25,239
Securities-based loans	—	—	—	—	—	—
Consumer	824	—	17	17	17	18
Residential real estate	419	331	180	511	24	564
Commercial real estate	8,828	8,828	—	8,828	—	7,357
Home equity lines of credit	323	—	323	323	149	323
Construction and land	—	—	—	—	—	—
Total	\$35,775	\$ 9,159	\$ 25,901	\$ 35,060	\$ 2,728	\$ 33,501

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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 June 30, 2016 and December 31, 2015 by portfolio segment (in thousands):

As of June 30, 2016					
30 – 89 Days					
	Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	\$—	\$ —	\$ —	\$1,424,671	\$1,424,671
Securities-based loans	—	—	—	1,418,986	1,418,986
Consumer	3	10	13	36,613	36,626
Residential real estate	921	238	1,159	1,227,075	1,228,234
Commercial real estate	—	8,828	8,828	74,800	83,628
Home equity lines of credit	82	—	82	14,074	14,156
Construction and land	—	—	—	7,762	7,762
Total	\$1,006	\$ 9,076	\$ 10,082	\$4,203,981	\$4,214,063

As of June 30, 2016 *			
	Non-Accrued	Restructured	Total
Commercial and industrial	\$25,381	\$ —	\$25,381
Securities-based loans	—	—	—
Consumer	17	—	17
Residential real estate	370	141	511
Commercial real estate	8,828	—	8,828
Home equity lines of credit	323	—	323

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Construction and land	—	—	—
Total	\$34,919	\$ 141	\$35,060

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

	As of December 31, 2015				
	30 – 89				
	Days				
		90 or More	Total	Current	
	Past			Balance	Total
	Due	Days Past Due	Past Due		
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

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	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 June 30, 2016 and December 31, 2015, 97.2 % 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.

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

	As of June 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 1,379,608	\$ 12,346	\$ 32,717	\$ —	\$ 1,424,671
Securities-based loans	1,418,986	—	—	—	1,418,986
Consumer	36,606	3	17	—	36,626
Residential real estate	1,227,741	74	419	—	1,228,234
Commercial real estate	74,800	—	8,828	—	83,628
Home equity lines of credit	13,833	—	323	—	14,156
Construction and land	7,762	—	—	—	7,762
Total	\$ 4,159,336	\$ 12,423	\$ 42,304	\$ —	\$ 4,214,063

	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 31, 2015	Adjustments	Impairment Losses	June 30, 2016
Goodwill				
Global Wealth Management	\$ 269,384	\$ (24,605)	\$ —	\$ 244,779
Institutional Group	646,218	87,524	(2,600)	731,142
	\$ 915,602	\$ 62,919	\$ (2,600)	\$ 975,921

	December 31, 2015	Net Additions	Amortization	June 30, 2016
Intangible assets				
Global Wealth Management	\$ 27,964	\$ 18,420	\$ (3,904)	\$ 42,480

Institutional Group	35,213	21,599	(4,104)	52,708
	\$ 63,177	\$ 40,019	\$ (8,008)	\$95,188

The adjustments to goodwill and intangible assets during the six months ended June 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. See Note 24 – Subsequent Events.

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 June 30, 2016 and December 31, 2015 were as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Value	Amortization	Value	Amortization
Customer relationships	\$122,484	\$ 43,277	\$78,580	\$ 37,322
Trade name	20,794	8,272	24,456	6,969
Investment banking backlog	7,635	7,465	7,440	7,388
Non-compete agreements	1,953	782	2,517	255
	\$152,866	\$ 59,796	\$112,993	\$ 51,934

Amortization expense related to intangible assets was \$5.0 million and \$1.8 million for the three months ended June 30, 2016 and 2015, respectively. Amortization expense related to intangible assets was \$8.0 million and \$3.7 million for the six months ended June 30, 2016 and 2015, respectively.

The weighted-average remaining lives of the following intangible assets at June 30, 2016, are: customer relationships, 8.2 years; trade name, 10.1 years; non-compete agreements, 4.3 years; and backlog within the next 6 months. As of June 30, 2016, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
Remainder of 2016	\$5,119
2017	9,284
2018	8,651
2019	8,419
2020	8,201
Thereafter	53,396
	\$93,070

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):

	June 30, 2016	December 31, 2015
Borrowings on secured lines of credit	\$283,200	\$ 30,000
Term loans	51,957	59,084
	\$335,157	89,084

Our uncommitted secured lines of credit at June 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 three months ended June 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 June 30, 2016, our uncommitted secured lines of credit were collateralized by company-owned securities valued at \$629.0 million.

Our committed bank line financing at June 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 June 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 June 30, 2016 are floating-rate advances. The weighted average interest rates on these advances during the three months ended June 30, 2016 was 1.32%. 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 June 30, 2016, a subsidiary of the Parent was a party to two Term Loans (“Term Loans”). The Term Loans mature on August 3, 2016. The interest rate under the Amended and Restated Credit Agreement is calculated as a per annum rate equal to LIBOR, as defined. During the three months ended June 30, 2016, the weighted average interest rate on these term loans was 1.96%. The Term Loans were paid-off in July 2016.

NOTE 10 – Senior Notes

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

	June 30, 2016	December 31, 2015
3.50% senior notes, due 2020 ¹	\$ 300,000	\$ 300,000
5.375% senior notes, due 2022 ²	150,000	150,000
4.250% senior notes, due 2024 ³	300,000	300,000
	750,000	750,000
Debt issuance costs	(9,215)	(9,864)
	\$740,785	\$ 740,136

¹In 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.

²In 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 may 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.

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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.

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

2016	\$—
2017	—
2018	—
2019	—
2020	300,000
Thereafter	450,000
	\$750,000

NOTE 11 – Bank Deposits

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

	June 30, 2016	December 31, 2015
Money market and savings accounts	\$7,731,204	\$6,429,780
Demand deposits (interest-bearing)	132,093	185,275
Certificates of deposit	9,055	15,087
Demand deposits (non-interest-bearing)	8,867	8,214
	\$7,881,219	\$6,638,356

The weighted-average interest rate on deposits was 0.21% and 0.17% at June 30, 2016 and December 31, 2015, respectively.

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

	June 30, 2016	December 31, 2015
Certificates of deposit, less than \$100:		
Within one year	\$2,877	\$4,863
One to three years	1,715	2,356
Three to five years	—	145
Over five years	—	—
	\$4,592	\$7,364
Certificates of deposit, \$100 and greater:		
Within one year	\$3,031	\$5,464
One to three years	1,135	1,975
Three to five years	297	284
Over five years	—	—
	4,463	7,723
	\$9,055	\$15,087

At June 30, 2016 and December 31, 2015, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of \$7.9 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.

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

	June 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	Location	Value	Location	Value
Derivatives designated as hedging instruments under Topic 815:				
			Accounts payable and accrued expenses	
Cash flow interest rate contracts	\$936,507	Other assets	\$ —	\$(17,707)
	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	Location	Value	Location	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 [2.7] 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 six months ended June 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 \$6.0 million will be reclassified as an increase to interest expense.

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

Three Months Ended June 30, 2016					
Gain/(Loss)	Location of		Location of		
	Loss	Loss	Loss	Loss	
Recognized	Reclassified	Reclassified	Recognized in	Recognized	
in	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$ (7,099)	Interest expense	\$ 1,537	None	\$ 33

Three Months Ended June 30, 2015					
Gain/(Loss)	Location of		Location of		
	Loss	Loss	Loss	Loss	
Recognized	Reclassified	Reclassified	Recognized in	Recognized	
in	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$ 124	Interest expense	\$ 1,046	None	\$ —

Six Months Ended June 30, 2016					
Gain/(Loss)	Location of		Location of		
	Loss	Loss	Loss	Loss	
Recognized	Reclassified	Reclassified	Recognized in	Recognized	
in	From OCI	From OCI	OCI	Due to	
(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness	
Cash flow interest rate contracts	\$ (16,525)	Interest expense	\$ 2,882	None	\$ 46

Six Months Ended June 30, 2015				
Gain/(Loss)	Location of		Location of	
	Loss	Loss	Loss	Loss
Recognized	Reclassified	Reclassified	Recognized in	Recognized
in	From OCI	From OCI	OCI	Due to

	OCI	From OCI	Into Income	OCI	Ineffectiveness
	(Effectiveness)	Income		(Ineffectiveness)	
Cash flow interest rate contracts	\$(1,399)	Interest expense	\$ 2,207	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 June 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 \$17.7 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$19.6 million against our obligations under these agreements. If we had breached any of these provisions at June 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 June 30, 2016 and December 31, 2015 (in thousands):

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

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		Condition	Condition				
As of June 30, 2016:							
Securities borrowing ¹	\$ 379,244	\$ —	\$ 379,244	\$(244,927)	\$(123,975)	\$10,342	
Reverse repurchase agreements ²	293,766	—	293,766	(164,548)	(129,218)	—	
	\$ 673,010	\$ —	\$ 673,010	\$(409,475)	\$(253,193)	\$10,342	
As of December 31, 2015:							
Securities borrowing ¹	\$ 318,105	\$ —	\$ 318,105	\$(182,399)	\$(123,309)	\$12,397	
Reverse repurchase agreements ²	160,423	—	160,423	(160,423)	—	—	
	\$ 478,528	\$ —	\$ 478,528	\$(342,822)	\$(123,309)	\$12,397	

¹ 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.

² 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 June 30, 2016 and December 31, 2015 (in thousands):

	Gross		Net		Gross amounts not offset in the Statement of Financial Condition		
	Amounts	Amounts	Amounts	Amounts	Amounts	Collateral Pledged	Net Amount
	Gross	Offset in	Presented in	Recognized	of Financial	of Financial	Amounts available for offset
	Amounts of	the Statement	the Statement	Liabilities	Condition	Condition	Collateral Pledged
	Recognized	of Financial	of Financial	Liabilities	Condition	Condition	Collateral Pledged
	Liabilities	Condition	Condition	Liabilities	Condition	Condition	Collateral Pledged
	Liabilities	Condition	Condition	Liabilities	Condition	Condition	Collateral Pledged
	Liabilities	Condition	Condition	Liabilities	Condition	Condition	Collateral Pledged
As of June 30, 2016:							
Securities lending ³	\$ (357,207)	\$ —	\$ (357,207)	\$ 244,927	\$ 102,151	\$ (10,129)	
Repurchase agreements ⁴	(317,002)	—	(317,002)	164,548	152,454	—	
Cash flow interest rate contracts	(17,707)	—	(17,707)	—	17,707	—	
	\$ (691,916)	\$ —	\$ (691,916)	\$ 409,475	\$ 272,312	\$ (10,129)	
As of December 31, 2015:							
Securities lending ³	\$ (329,670)	\$ —	\$ (329,670)	\$ 182,399	\$ 132,784	\$ (14,487)	
Repurchase agreements ⁴	(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)	

³Securities 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.

⁴Collateral 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 June 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 \$21.7 million of commitments outstanding at June 30, 2016, of which \$10.6 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 June 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 are awaiting the court’s rulings on those motions. The trial is currently scheduled to commence on September 12, 2016. While there can be no assurance that we will be successful,

we intend to vigorously defend the claims.

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, with the first phase of the trial currently scheduled to commence on October 17, 2016, and a second phase 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

Our company, Stifel, and Stone & Youngberg, LLC (“Stone & Youngberg”) are 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 the formation of the Collybus CDO manufactured by Cantor Fitzgerald & Co. (“Cantor”) and purchased by Commonwealth Advisors (“CWA”) on behalf of several

CA funds, as well as in connection with other transactions in the CA funds with CWA, and asserting claims against our company and Stifel for successor and alter ego liability. 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 has been amended several times since then. The claims are set for trial commencing on November 28, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the claims. We have established reserves supported by purchase price consideration the Company has withheld pursuant to the terms of the acquisition of Stone & Youngberg in 2011, which at this time, we believe are adequate.

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 June 30, 2016, Stifel had net capital of \$268.3 million, which was 16.8% of aggregate debit items and \$236.4 million in excess of its minimum required net capital. At June 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 June 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

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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
June 30, 2016

	Actual		For Capital		To Be Well Capitalized	
	Amount	Ratio	Adequacy Purposes Amount	Ratio	Under Prompt Corrective Action Provisions Amount	Ratio
Common equity tier 1 capital	\$1,511,942	20.2 %	\$336,752	4.5 %	\$486,419	6.5 %
Tier 1 capital	1,564,899	20.9 %	449,002	6.0 %	598,670	8.0 %
Total capital	1,601,533	21.4 %	598,670	8.0 %	748,337	