

STIFEL FINANCIAL CORP  
Form 10-Q  
August 08, 2017

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, 2017

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (“the Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

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, 2017, was 68,309,855.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Statements of Financial Condition as of June 30, 2017 (unaudited) and December 31, 2016</u>	3
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2017 and June 30, 2016 (unaudited)</u>	5
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and June 30, 2016 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and June 30, 2016 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	9
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	47
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	75
<u>Item 4. Controls and Procedures</u>	79

PART II – OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	79
<u>Item 1A. Risk Factors</u>	79
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	79
<u>Item 6. Exhibits</u>	80
<u>Signatures</u>	81

2

---

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition

(in thousands)	June 30, 2017 (Unaudited)	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$678,054	\$912,932
Cash segregated for regulatory purposes	150	73,235
Receivables:		
Brokerage clients, net	1,364,624	1,415,936
Brokers, dealers, and clearing organizations	358,760	1,024,752
Securities purchased under agreements to resell	478,091	248,588
Financial instruments owned, at fair value	1,063,651	925,045
Available-for-sale securities, at fair value	3,455,373	3,181,313
Held-to-maturity securities, at amortized cost	3,307,970	3,038,405
Loans held for sale, at lower of cost or market	139,676	228,588
Bank loans, net	6,160,093	5,591,190
Investments, at fair value	128,332	133,563
Fixed assets, net	180,584	172,828
Goodwill	969,764	962,282
Intangible assets, net	115,253	116,304
Loans and advances to financial advisors and other employees, net	386,110	396,318
Deferred tax assets, net	133,603	225,453
Other assets	613,487	482,624
<b>Total Assets</b>	<b>\$19,533,575</b>	<b>\$19,129,356</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition (continued)

	June 30, 2017 (Unaudited)	December 31, 2016
(in thousands, except share and per share amounts)		
<b>Liabilities and Shareholders' Equity</b>		
Payables:		
Brokerage clients	\$821,357	\$842,014
Brokers, dealers, and clearing organizations	433,343	523,107
Drafts	59,938	94,451
Securities sold under agreements to repurchase	243,999	268,546
Bank deposits	12,050,474	11,527,483
Financial instruments sold, but not yet purchased, at fair value	705,577	699,032
Accrued compensation	244,731	295,354
Accounts payable and accrued expenses	370,051	400,570
Federal Home Loan Bank advances	790,000	500,000
Borrowings	105,000	377,000
Senior notes	796,296	795,891
Debentures to Stifel Financial Capital Trusts	67,500	67,500
<b>Total liabilities</b>	<b>16,688,266</b>	<b>16,390,948</b>
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; 6,000 shares issued	150,000	150,000
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,690,846		
and 69,507,842 shares, respectively	10,454	10,426
Additional paid-in-capital	1,784,654	1,840,551
Retained earnings	990,459	876,958
Accumulated other comprehensive loss	(25,537 )	(39,042 )
	2,910,030	2,838,893
Treasury stock, at cost, 1,409,250 and 2,866,492 shares, respectively	(64,721 )	(100,485 )
<b>Total Shareholders' Equity</b>	<b>2,845,309</b>	<b>2,738,408</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$19,533,575</b>	<b>\$19,129,356</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended June	
	June 30, 2017	2016	30, 2017	2016
<b>Revenues:</b>				
Commissions	\$ 172,264	\$ 182,104	\$ 347,538	\$ 380,034
Principal transactions	95,703	126,426	212,560	247,374
Investment banking	185,261	133,125	312,113	233,783
Asset management and service fees	172,914	144,567	335,653	289,099
Interest	108,951	65,780	209,904	128,607
Other income	7,198	17,405	15,950	24,595
Total revenues	742,291	669,407	1,433,718	1,303,492
Interest expense	16,644	17,262	32,540	31,373
Net revenues	725,647	652,145	1,401,178	1,272,119
<b>Non-interest expenses:</b>				
Compensation and benefits	453,876	460,023	890,263	871,136
Occupancy and equipment rental	57,892	58,746	110,437	116,002
Communications and office supplies	34,192	37,426	68,036	74,086
Commissions and floor brokerage	11,232	12,145	21,955	23,876
Other operating expenses	85,257	68,012	148,270	127,313
Total non-interest expenses	642,449	636,352	1,238,961	1,212,413
Income from operations before income tax expense	83,198	15,793	162,217	59,706
Provision for income taxes	30,387	6,022	43,894	22,880
Net income	52,811	9,771	118,323	36,826
Preferred dividends	2,344	—	4,688	—
Net income available to common shareholders	\$ 50,467	\$ 9,771	\$ 113,635	\$ 36,826
<b>Earnings per common share:</b>				
Basic	\$ 0.74	\$ 0.15	\$ 1.66	\$ 0.55
Diluted	\$ 0.63	\$ 0.13	\$ 1.41	\$ 0.48
<b>Weighted-average number of common shares outstanding:</b>				
Basic	68,556	66,792	68,471	67,186
Diluted	80,021	75,982	80,391	76,084

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,	
	2017	2016	2017	2016
Net income	\$52,811	\$9,771	\$118,323	\$36,826
Other comprehensive income/(loss), net of tax: <sup>(1)</sup>				
Changes in unrealized gains on available-for-sale securities <sup>(2)</sup>	3,770	11,449	7,547	10,421
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	385	800	909	1,309
Changes in unrealized gains/(losses) on cash flow hedging instruments <sup>(3)</sup>	(518 )	(3,427 )	515	(8,407 )
Foreign currency translation adjustment	2,240	(5,093 )	4,534	(7,279 )
Total other comprehensive income/(loss), net of tax	5,877	3,729	13,505	(3,956 )
Comprehensive income	\$58,688	\$13,500	\$131,828	\$32,870

<sup>(1)</sup>Net of tax expense of \$3.7 million and \$2.3 million for the three months ended June 30, 2017 and 2016, respectively. Net of tax expense of \$8.5 million and tax benefit of \$2.5 million for the six months ended June 30, 2017 and 2016, respectively.

<sup>(2)</sup>There were no reclassifications to earnings during the three and six months ended June 30, 2017 and 2016, respectively.

<sup>(3)</sup>Amounts are net of reclassifications to earnings of losses of \$0.6 million and \$1.5 million for the three months ended June 30, 2017 and 2016, respectively. Amounts are net of reclassifications to earnings of losses of \$1.5 million and \$2.9 million for the six months ended June 30, 2017 and 2016, respectively.

See accompanying Notes to Consolidated Financial Statements.



## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Six Months Ended June 30,	
	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 118,323	\$ 36,826
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	16,649	21,604
Amortization of loans and advances to financial advisors and other employees	46,358	33,079
Amortization of premium on investment portfolio	5,964	4,655
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	10,795	6,579
Amortization of intangible assets	6,246	8,008
Deferred income taxes	87,873	54,651
Tax deficit from stock-based compensation	—	5,197
Stock-based compensation	55,266	94,349
(Gains)/losses on sale of investments	(1,855 )	3,911
Gain on extinguishment of Stifel Financial Capital Trust	—	(5,607 )
Other, net	2,111	864
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	73,085	167,593
Receivables:		
Brokerage clients	51,312	133,799
Brokers, dealers, and clearing organizations	666,801	12,396
Securities purchased under agreements to resell	(229,503)	(133,343 )
Financial instruments owned, including those pledged	(137,353)	(337,032 )
Loans originated as held for sale	(749,265)	(1,093,740)
Proceeds from mortgages held for sale	821,115	1,041,457
Loans and advances to financial advisors and other employees	(33,105 )	(47,760 )
Other assets	(118,209)	(149,190 )
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	(20,657 )	(36,181 )
Brokers, dealers, and clearing organizations	34,572	4,439
Drafts	(34,513 )	(115,039 )
Financial instruments sold, but not yet purchased	6,545	93,941
Other liabilities and accrued expenses	(67,666 )	(237,486 )
Net cash provided by/(used in) operating activities	\$ 610,889	\$ (432,030 )

See accompanying Notes to Consolidated Financial Statements.



## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Six Months Ended June 30,	
	2017	2016
<b>Cash Flows From Investing Activities:</b>		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	\$720,828	\$104,660
Calls and principal paydowns of held-to-maturity securities	132,018	93,686
Sale or maturity of investments	8,642	26,150
Increase in bank loans, net	(571,149 )	(1,032,497)
Payments for:		
Purchase of available-for-sale securities	(986,027 )	(927,687 )
Purchase of held-to-maturity securities	(403,250 )	(359,337 )
Purchase of investments	(1,556 )	(5,242 )
Purchase of fixed assets	(16,770 )	(14,159 )
Acquisitions, net of cash received	(9,070 )	(71,924 )
Net cash used in investing activities	(1,126,334)	(2,186,350)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from/(repayments of) borrowings, net	(272,000 )	246,073
Proceeds from Federal Home Loan Bank advances, net	290,000	717,000
Payment of contingent consideration	(11,707 )	—
(Decrease)/increase in securities sold under agreements to repurchase	(24,547 )	38,328
Increase in bank deposits, net	522,991	1,242,863
Increase/(decrease) in securities loaned	(124,336 )	44,008
Tax deficit from stock-based compensation	—	(5,197 )
Restricted stock conversions	(86,682 )	(38,081 )
Proceeds from stock option exercises	—	175
Repurchase of common stock	(12,998 )	(95,116 )
Cash dividends on preferred stock	(4,688 )	—
Extinguishment of Stifel Financial Capital Trust	—	(9,393 )
Net cash provided by financing activities	276,033	2,140,660
Effect of exchange rate changes on cash	4,534	(7,279 )
Decrease in cash and cash equivalents	(234,878 )	(484,999 )
Cash and cash equivalents at beginning of period	912,932	811,019
Cash and cash equivalents at end of period	\$678,054	\$326,020
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	\$17,811	\$21,211
Cash paid for interest	32,287	30,256
Noncash financing activities:		
Unit grants, net of forfeitures	48,630	131,736
Issuance of common stock for acquisitions	9,352	11,427

See accompanying Notes to Consolidated Financial Statements.

8

---

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 the United Kingdom and Europe. Our company’s principal customers are individual investors, corporations, municipalities, and institutions.

On January 3, 2017, the Company completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities Corporation (“City Securities”), an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest. The acquisition was funded with cash from operations and common stock.

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, 2016 on file with the SEC.

Certain amounts from prior periods have been reclassified to conform to the current period’s presentation. During the first quarter of 2017, we adopted Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Amounts previously reported for the three and six months ended June 30, 2016 have been restated as required upon adoption of the ASU. See Note 2 for further discussion.

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, 2016, with the exception of the new guidance on stock-based compensation.

NOTE 2 – New Accounting Pronouncements

Recently Adopted Accounting Guidance

Share-Based Payments

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting” that requires an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. The update no longer requires cash flows related to excess tax benefits to be presented as a financing activity separate from other income tax cash flows. The update also clarifies that all cash payments to taxing authorities made on an employee's behalf for withheld shares should be presented as a financing activity on the statement of cash flows and requires 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 adopted the guidance in the update on January 1, 2017, and during the six months ended June 30, 2017 recognized an excess tax benefit from stock-based compensation of \$17.1 million in the provision for income taxes on the accompanying consolidated

statements of operations (adopted prospectively). Excess tax benefits from stock based compensation are now classified in operating activities on the accompanying consolidated statement of cash flows instead of being separately stated in financing activities for the six months ended June 30, 2017 (adopted prospectively). Cash paid to a tax authority by our company when withholding shares from an employee's award for tax-withholding purposes are now classified as a financing activity in the accompanying consolidated statement of cash flows (adopted retrospectively). We reclassified \$38.1 million from operating activities to financing activities in the accompanying consolidated statement of cash flows for the six months ended June 30, 2016 pertaining to shares withheld from employee awards for tax withholding purposes. Following the adoption of ASU 2016-09, we will continue to estimate forfeitures.

### Goodwill Impairment Testing

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under the new guidance, the annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments are to be applied on a prospective basis. The guidance is effective for annual or any interim impairment tests in fiscal years beginning after December 15, 2019 (January 1, 2020 for our company). Early adoption is permitted. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

### Statement of Cash Flow – Restricted Cash

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flow - Restricted Cash," which adds or clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The ASU is effective for the fiscal year beginning after December 15, 2017 (January 1, 2018 for our Company). Early adoption is permitted. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

### Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." For trade receivables, loans, and held-to-maturity debt securities, the current probable loss recognition methodology is being replaced by an expected credit loss model. For available-for-sale debt securities, the recognition model on credit losses is generally unchanged, except the losses will be presented as an adjustable allowance. The guidance is effective for fiscal years beginning after December 15, 2019 (January 1, 2020 for our Company), including interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018. We have been closely monitoring FASB activity related to the new standard. During the second half of 2016, we began developing a plan regarding the evaluation of the potential changes from adopting the new standard on our future financial reporting and disclosures. We expect to adopt the requirements of the new standard in the first quarter of 2020.

### 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 have been closely monitoring FASB activity related to the new



standard. During the second half of 2016, we began developing a plan regarding the evaluation of the potential changes from adopting the new standard on our future financial reporting and disclosures. We also made progress on our contract reviews and detailed policy drafting. Based on our evaluation, we expect to adopt the requirements of the new standard in the first quarter of 2019 and anticipate using the modified retrospective approach.

#### 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.

#### 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.

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.

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 have been closely monitoring FASB activity related to the new standard. Our implementation efforts include the identification of revenue within the scope of the guidance, and the potential impact on its consolidated results of operations and disclosures. The current broker dealer industry treatment of netting deal expenses with investment banking revenues, the timing of performance fee recognition related to consolidated alternative asset management entities, and fees received for equity research may be impacted by the new guidance. We are also evaluating whether certain asset management contract costs can be capitalized on the consolidated statements of financial position. We expect to adopt the requirements of the new standard in the first quarter of 2018 and anticipate using the modified retrospective approach.

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

Amounts receivable from brokers, dealers, and clearing organizations at June 30, 2017 and December 31, 2016, included (in thousands):

	June 30, 2017	December 31, 2016
Receivables from clearing organizations	\$ 153,241	\$ 568,373
Deposits paid for securities borrowed	145,285	382,691

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Securities failed to deliver	60,234	73,688
	\$358,760	\$1,024,752

Amounts payable to brokers, dealers, and clearing organizations at June 30, 2017 and December 31, 2016, included (in thousands):

	June 30, 2017	December 31, 2016
Deposits received from securities loaned	\$352,127	\$478,814
Securities failed to receive	50,315	27,882
Payable to clearing organizations	30,901	16,411
	\$433,343	\$523,107

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, U.S. government securities, and U.S. government agency 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, and asset-backed securities, which primarily include collateralized loan obligations.

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

#### Investments

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

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

ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs. ARS are reported as Level 3 assets. ARS for which recent market trades were observed that provided transparency into their valuation were classified as Level 2 at June 30, 2017.

Direct investments in private companies, reported as Level 3 assets, 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

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, 2017	
	Fair value of investments	Unfunded commitments
Partnership interests	\$5,806	\$ 1,348
Mutual funds	12,441	—
Private equity funds	8,673	1,856
Money market funds	16,365	—
Total	\$43,285	\$ 3,204

	December 31, 2016	
	Fair value of investments	Unfunded commitments
Private company investments	\$18,763	\$ 8,526
Partnership interests	15,798	1,822
Mutual funds	11,301	—
Private equity funds	9,310	2,020
Money market funds	35,637	—
Total	\$90,809	\$ 12,368

#### 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 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.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, are presented below (in thousands):

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
<b>Financial instruments owned:</b>				
U.S. government securities	\$ 16,924	\$ 16,924	\$—	\$—
U.S. government agency securities	119,703	—	119,703	—
<b>Mortgage-backed securities:</b>				
Agency	313,463	—	313,463	—
Non-agency	54,566	—	54,041	525
<b>Corporate securities:</b>				
Fixed income securities	367,866	7,443	360,167	256
Equity securities	43,671	43,304	—	367
State and municipal securities	147,458	—	147,458	—
<b>Total financial instruments owned</b>	<b>1,063,651</b>	<b>67,671</b>	<b>994,832</b>	<b>1,148</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	4,565	199	4,366	—
State and municipal securities	72,382	—	72,382	—
<b>Mortgage-backed securities:</b>				
Agency	319,062	—	319,062	—
Commercial	72,688	—	72,688	—
Non-agency	1,617	—	1,617	—
Corporate fixed income securities	971,131	—	971,131	—
Asset-backed securities	2,013,928	—	2,013,928	—
<b>Total available-for-sale securities</b>	<b>3,455,373</b>	<b>199</b>	<b>3,455,174</b>	<b>—</b>
<b>Investments:</b>				
Corporate equity securities	50,384	50,144	—	240
<b>Auction rate securities:</b>				
Equity securities	48,577	—	13,956	34,621
Municipal securities	841	—	—	841
Other	1,610	—	370	1,240
Investments in funds measured at NAV	26,920			
<b>Total investments</b>	<b>128,332</b>	<b>50,144</b>	<b>14,326</b>	<b>36,942</b>
Cash equivalents measured at NAV	16,365			
Derivative contracts <sup>(1)</sup>	8,442		\$ 8,442	
	\$ 4,672,163	\$ 118,014	\$ 4,472,774	\$ 38,090

<sup>(1)</sup>Included in other assets in the consolidated statements of financial condition.

	June 30, 2017			
	Total	Level 1	Level 2	Level 3



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$298,832	\$298,832	\$—	\$ —
U.S. government agency securities	1,995	—	1,995	—
<b>Mortgage-backed securities</b>				
Agency	118,458	—	118,458	—
Non-agency	16	—	16	—
<b>Corporate securities:</b>				
Fixed income securities	245,148	317	244,831	—
Equity securities	41,091	41,091	—	—
State and municipal securities	37	—	37	—
<b>Total financial instruments sold, but not yet purchased</b>	<b>705,577</b>	<b>340,240</b>	<b>365,337</b>	<b>—</b>
Derivative contracts <sup>(2)</sup>	939		939	
	\$706,516	\$340,240	\$366,276	\$ —

15

(2)Included in accounts payable and accrued expenses in the consolidated statements of financial condition. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, are presented below (in thousands):

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial instruments owned:</b>				
U.S. government securities	\$9,951	\$9,951	\$—	\$—
U.S. government agency securities	89,833	—	89,833	—
<b>Mortgage-backed securities:</b>				
Agency	305,774	—	305,774	—
Non-agency	28,402	—	27,320	1,082
<b>Corporate securities:</b>				
Fixed income securities	299,946	1,944	297,729	273
Equity securities	32,044	31,444	—	600
State and municipal securities	159,095	—	159,095	—
<b>Total financial instruments owned</b>	<b>925,045</b>	<b>43,339</b>	<b>879,751</b>	<b>1,955</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	4,197	300	3,897	—
State and municipal securities	72,490	—	72,490	—
<b>Mortgage-backed securities:</b>				
Agency	338,732	—	338,732	—
Commercial	72,773	—	72,773	—
Non-agency	1,892	—	1,892	—
Corporate fixed income securities	823,511	—	823,511	—
Asset-backed securities	1,867,718	—	1,867,718	—
<b>Total available-for-sale securities</b>	<b>3,181,313</b>	<b>300</b>	<b>3,181,013</b>	<b>—</b>
<b>Investments:</b>				
Corporate equity securities	27,247	23,414	—	3,833
<b>Auction rate securities:</b>				
Equity securities	48,689	—	—	48,689
Municipal securities	832	—	—	832
Other	1,623	—	383	1,240
Investments measured at NAV	55,172			
<b>Total investments</b>	<b>133,563</b>	<b>23,414</b>	<b>383</b>	<b>54,594</b>
Cash equivalents measured at NAV	35,637			
Derivative contracts <sup>(1)</sup>	10,390	—	10,390	—
	<b>\$4,285,948</b>	<b>\$67,053</b>	<b>\$4,071,537</b>	<b>\$56,549</b>

(1)Included in other assets in the consolidated statements of financial condition.

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Financial instruments sold, but not yet purchased:				
U.S. government securities	\$362,536	\$362,536	\$—	\$ —
U.S. government agency securities	20,549	—	20,549	—
Mortgage-backed securities				
Agency	94,552	—	94,552	—
Non-agency	1	—	1	—
Corporate securities:				
Fixed income securities	202,968	980	201,988	—
Equity securities	18,395	18,395	—	—
State and municipal securities	31	—	31	—
Total financial instruments sold, but not yet purchased	699,032	381,911	317,121	—
Derivative contracts <sup>(2)</sup>	1,823	—	1,823	—
	\$700,855	\$381,911	\$318,944	\$ —

(2)Included in accounts payable and accrued expenses in the consolidated statements of financial condition. The following table summarizes the changes in fair value associated with Level 3 financial instruments during the three months ended June 30, 2017 (in thousands):

	Three Months Ended June 30, 2017						
	Financial instruments owned			Investments			
	Mortgage-						
	Backed			Auction Rate		Auction Rate	
	Securities		Equity	Corporate	Securities –	Securities –	
	Non-Agency	Fixed Income	Securities	Equity	Securities	Municipal	Other
Balance at March 31, 2017	\$1,019	\$ 267	\$ 583	\$3,833	\$ 49,055	\$ 837	\$1,240
Unrealized gains/(losses):							
Included in changes in net assets <sup>(1)</sup>	(100 )	—	(216 )	—	251	4	—
Included in OCI <sup>(2)</sup>	—	—	—	—	—	—	—
Realized gains/(losses) <sup>(1)</sup>	96	—	—	—	—	—	—
Purchases	—	—	—	—	—	—	—
Sales	(324 )	—	—	—	—	—	—

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Redemptions	(166 )	(11 )	—	—	—	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	(3,593)	(14,685 )	—	—
Net change	(494 )	(11 )	(216 )	(3,593)	(14,434 )	4	—
Balance at June 30, 2017	\$525	\$ 256	\$ 367	\$240	\$ 34,621	\$ 841	\$1,240

(1) Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.

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

The following table summarizes the change in fair value associated with Level 3 financial instruments during the six months ended June 30, 2017 (in thousands):

17

Six Months Ended June 30, 2017							
	Financial instruments owned			Investments			
	Mortgage-						
	Backed						
	Securities			Auction Rate		Auction Rate	
	Non-Agency	Fixed Income	Equity	Corporate Equity	Securities – Equity	Securities – Municipal	Securities – Other
Balance at December 31, 2016	\$1,082	\$ 273	\$ 600	\$3,833	\$ 48,689	\$ 832	\$1,240
Unrealized gains/(losses):							
Included in changes in net assets <sup>(1)</sup>	(100 )	—	(233 )	—	617	9	—
Included in OCI <sup>(2)</sup>	—	—	—	—	—	—	—
Realized gains/(losses) <sup>(1)</sup>	97	—	—	—	—	—	—
Purchases	—	—	—	—	—	—	—
Sales	(324 )	—	—	—	—	—	—
Redemptions	(230 )	(17 )	—	—	—	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	(3,593)	(14,685 )	—	—
Net change	(557 )	(17 )	(233 )	(3,593)	(14,068 )	9	—
Balance at June 30, 2017	\$525	\$ 256	\$ 367	\$240	\$ 34,621	\$ 841	\$1,240

<sup>(1)</sup>Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.

<sup>(2)</sup>Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial.

The results included in the tables above are only a component of the overall investment strategies of our company. The tables above do 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, 2017 were principally a result of transfers out of Level 3 due to market activity that provided transparency into the valuation of these assets. The changes in unrealized gains/(losses) recorded in earnings for the three and six months ended June 30, 2017, relating to Level 3 assets still held at June 30, 2017, 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, 2017.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	1.2% - 10.5%	5.2%
		Workout period	1 - 3 years	2.2 years
Municipal securities	Discounted cash flow	Discount rate	1.6% - 9.4%	3.9%
		Workout period	1 - 4 years	1.9 years

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

The fair value for our auction rate securities was determined using an income approach based on an internally developed discounted cash flow model. The discounted cash flow model utilizes two significant unobservable inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and our company's own redemption

experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. On an ongoing basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

#### Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were \$1.0 million and \$1.1 million of transfers of financial assets from Level 2 to Level 1 during the three and six months ended June 30, 2017, respectively, primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were \$4.0 million and \$4.4 million of transfers of financial assets from Level 1 to Level 2 during the three and six months ended June 30, 2017, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were no transfers into Level 3 during the six months ended June 30, 2017. There were \$18.3 million of transfers of financial assets out of Level 3 during the three and six months ended June 30, 2017, primarily related to ARS and corporate equity securities for which market trades were observed that provided transparency into the valuation of these assets.

#### Fair Value of Financial Instruments

The following reflects the fair value of financial instruments as of June 30, 2017 and December 31, 2016, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	June 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$678,054	\$678,054	\$912,932	\$912,932
Cash segregated for regulatory purposes	150	150	73,235	73,235
Securities purchased under agreements to resell	478,091	478,091	248,588	248,588
Financial instruments owned	1,063,651	1,063,651	925,045	925,045
Available-for-sale securities	3,455,373	3,455,373	3,181,313	3,181,313
Held-to-maturity securities	3,307,970	3,321,880	3,038,405	3,040,554
Loans held for sale	139,676	139,676	228,588	228,588
Bank loans	6,160,093	5,994,527	5,591,190	5,633,804
Investments	128,332	128,332	133,563	133,563
Derivative contracts <sup>(1)</sup>	8,442	8,442	10,390	10,390
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$243,999	\$243,999	\$268,546	\$268,546
Bank deposits	12,050,474	11,366,970	11,527,483	11,092,185
Financial instruments sold, but not yet purchased	705,577	705,577	699,032	699,032
Derivative contracts <sup>(2)</sup>	939	939	1,823	1,823
Federal Home Loan Bank advances	790,000	790,000	500,000	500,000
Borrowings	105,000	105,000	377,000	377,000

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Senior notes	796,296	811,318	795,891	799,632
Debentures to Stifel Financial Capital Trusts	67,500	50,413	67,500	52,525

(1)Included in other assets in the consolidated statements of financial condition.

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

19

---



The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$661,689	\$661,689	\$—	\$—
Cash segregated for regulatory purposes	150	150	—	—
Securities purchased under agreements to resell	478,091	478,091	—	—
Held-to-maturity securities	3,321,880	—	3,119,542	202,338
Loans held for sale	139,676	—	139,676	—
Bank loans	5,994,527	—	5,994,527	—
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$243,999	\$—	\$243,999	\$—
Bank deposits	11,366,970	—	11,366,970	—
Federal Home Loan Bank advances	790,000	790,000	—	—
Borrowings	105,000	105,000	—	—
Senior notes	811,318	811,318	—	—
Debentures to Stifel Financial Capital Trusts	50,413	—	—	50,413

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$877,295	\$877,295	\$—	\$—
Cash segregated for regulatory purposes	73,235	73,235	—	—
Securities purchased under agreements to resell	248,588	227,983	20,605	—
Held-to-maturity securities	3,040,554	—	2,830,869	209,685
Loans held for sale	228,588	—	228,588	—
Bank loans	5,633,804	—	5,633,804	—
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$268,546	\$149,881	\$118,665	\$—
Bank deposits	11,092,185	—	11,092,185	—
Federal Home Loan Bank advances	500,000	500,000	—	—
Borrowings	377,000	377,000	—	—
Senior notes	799,632	799,632	—	—
Debentures to Stifel Financial Capital Trusts	52,525	—	—	52,525

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, 2017 and December 31, 2016.

#### 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, 2017 and December 31, 2016 approximate fair value due to their short-term nature.

#### Held-to-Maturity Securities

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

### Loans Held for Sale

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

### Bank Loans

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

### Financial Liabilities

#### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at June 30, 2017 and December 31, 2016 approximate fair value due to the short-term nature.

#### Bank Deposits

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

#### Borrowings

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

#### Senior Notes

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

#### Debentures to Stifel Financial Capital Trusts

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

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



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

The components of financial instruments owned and financial instruments sold, but not yet purchased, at June 30, 2017 and December 31, 2016 are as follows (in thousands):

	June 30, 2017	December 31, 2016
<b>Financial instruments owned:</b>		
U.S. government securities	\$ 16,924	\$ 9,951
U.S. government agency securities	119,703	89,833
<b>Mortgage-backed securities:</b>		
Agency	313,463	305,774
Non-agency	54,566	28,402
<b>Corporate securities:</b>		
Fixed income securities	367,866	299,946
Equity securities	43,671	32,044
State and municipal securities	147,458	159,095
	\$ 1,063,651	\$ 925,045
<b>Financial instruments sold, but not yet purchased:</b>		
U.S. government securities	\$ 298,832	\$ 362,536
U.S. government agency securities	1,995	20,549
<b>Mortgage-backed securities:</b>		
Agency	118,458	94,552
Non-agency	16	1
<b>Corporate securities:</b>		
Fixed income securities	245,148	202,968
Equity securities	41,091	18,395
State and municipal securities	37	31
	\$ 705,577	\$ 699,032

At June 30, 2017 and December 31, 2016, financial instruments owned in the amount of \$591.6 million and \$992.9 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings. Financial instruments owned on a settlement-date basis were \$1.3 billion at December 31, 2016. Our financial instruments owned are presented on a trade-date basis in the consolidated statements of financial condition.

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, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains <sup>(1)</sup>	Losses <sup>(1)</sup>	Fair Value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$4,584	\$ —	\$(19 )	\$4,565
State and municipal securities	75,685	2	(3,305 )	72,382
<b>Mortgage-backed securities:</b>				
Agency	321,352	131	(2,421 )	319,062
Commercial	76,131	42	(3,485 )	72,688
Non-agency	1,721	—	(104 )	1,617
Corporate fixed income securities	971,867	2,843	(3,579 )	971,131
Asset-backed securities	2,000,561	13,367	—	2,013,928
	\$3,451,901	\$ 16,385	\$(12,913 )	\$3,455,373
<b>Held-to-maturity securities <sup>(2)</sup></b>				
<b>Mortgage-backed securities:</b>				
Agency	\$1,454,314	\$ 16,885	\$(14,474 )	\$1,456,725
Commercial	59,518	2,088	—	61,606
Asset-backed securities	1,754,093	11,405	(2,063 )	1,763,435
Corporate fixed income securities	40,045	69	—	40,114
	\$3,307,970	\$ 30,447	\$(16,537 )	\$3,321,880
	December 31, 2016			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains <sup>(1)</sup>	Losses <sup>(1)</sup>	Fair Value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$4,213	\$ 2	\$(18 )	\$4,197
State and municipal securities	76,066	—	(3,576 )	72,490
<b>Mortgage-backed securities:</b>				
Agency	340,738	298	(2,304 )	338,732
Commercial	77,417	59	(4,703 )	72,773
Non-agency	2,032	—	(140 )	1,892
Corporate fixed income securities	830,695	1,418	(8,602 )	823,511
Asset-backed securities	1,858,929	9,857	(1,068 )	1,867,718

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	\$3,190,090	\$ 11,634	\$ (20,411 )	\$3,181,313
Held-to-maturity securities <sup>(2)</sup>				
Mortgage-backed securities:				
Agency	\$1,567,758	\$ 14,537	\$ (17,037 )	\$1,565,258
Commercial	59,581	1,786	—	61,367
Non-agency	688	—	(13 )	675
Asset-backed securities	1,370,300	6,242	(3,396 )	1,373,146
Corporate fixed income securities	40,078	30	—	40,108
	\$3,038,405	\$ 22,595	\$ (20,446 )	\$3,040,554

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

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

For the three and six months ended June 30, 2017, we received proceeds of \$87.3 million from the sale of available-for-sale securities, which resulted in realized gains of \$0.4 million. There were no sales of available-for-sale securities during the three and six months ended June 30, 2016.



During the three months ended June 30, 2017 and June 30, 2016, unrealized gains, net of deferred taxes, of \$3.8 million and \$ 11.4 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the six months ended June 30, 2017 and June 30, 2016, unrealized gains, net of deferred taxes, of \$7.5 million and \$10.4 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, 2017			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>Debt securities</b>				
Within one year	\$142,136	\$142,514	\$40,045	\$40,114
After one year through three years	138,597	139,032	—	—
After three years through five years	432,593	432,306	—	—
After five years through ten years	702,630	703,979	335,011	335,513
After ten years	1,636,741	1,644,175	1,419,082	1,427,922
<b>Mortgage-backed securities</b>				
After three years through five years	—	—	59,518	61,606
After five years through ten years	58,618	55,846	162,429	161,038
After ten years	340,586	337,521	1,291,885	1,295,687
	<b>\$3,451,901</b>	<b>\$3,455,373</b>	<b>\$3,307,970</b>	<b>\$3,321,880</b>

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at June 30, 2017, are as follows (in thousands):

	Within 1		After 10		Total
	Year	1-5 Years	5-10 Years	Years	
<b>Available-for-sale: <sup>(1)</sup></b>					
U.S. government agency securities	\$824	\$3,741	\$—	\$—	\$4,565
State and municipal securities	200	375	16,738	55,069	72,382
<b>Mortgage-backed securities:</b>					
Agency	—	—	412	318,650	319,062
Commercial	—	—	55,434	17,254	72,688
Non-agency	—	—	—	1,617	1,617
Corporate fixed income securities	141,490	567,222	262,419	—	971,131
Asset-backed securities	—	—	424,822	1,589,106	2,013,928
	<b>\$142,514</b>	<b>\$571,338</b>	<b>\$759,825</b>	<b>\$1,981,696</b>	<b>\$3,455,373</b>

Held-to-maturity:					
Mortgage-backed securities:					
Agency	\$—	\$—	\$162,429	\$1,291,885	\$1,454,314
Commercial	—	59,518	—	—	59,518
Asset-backed securities	—	—	335,011	1,419,082	1,754,093
Corporate fixed income securities	40,045	—	—	—	40,045
	\$40,045	\$59,518	\$497,440	\$2,710,967	\$3,307,970

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

At June 30, 2017 and December 31, 2016, securities of \$1.9 billion and \$2.0 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, 2017 and December 31, 2016, securities of \$1.9 billion and \$1.7 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, 2017 (in thousands):

	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-sale securities</b>						
U.S. government securities	\$(19 )	\$4,565	\$—	\$—	\$(19 )	\$4,565
State and municipal securities	(261 )	9,765	(3,044)	60,113	(3,305 )	69,878
<b>Mortgage-backed securities:</b>						
Agency	(604 )	155,073	(1,817)	133,664	(2,421 )	288,737
Commercial	(3,485 )	71,139	—	—	(3,485 )	71,139
Non-agency	—	—	(104 )	1,585	(104 )	1,585
Corporate fixed income securities	(3,579 )	396,324	—	—	(3,579 )	396,324
	\$(7,948 )	\$636,866	\$(4,965)	\$195,362	\$(12,913)	\$832,228
<b>Held-to-maturity securities</b>						
<b>Mortgage-backed securities:</b>						
Agency	\$(14,457)	\$830,887	\$(17 )	\$1,165	\$(14,474)	\$832,052
Asset-backed securities	(312 )	116,997	(1,751)	34,391	(2,063 )	151,388
	\$(14,769)	\$947,884	\$(1,768)	\$35,556	\$(16,537)	\$983,440

At June 30, 2017, the amortized cost of 124 securities classified as available for sale exceeded their fair value by \$12.9 million, of which \$5.0 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, 2017, was \$832.2 million, which was 24.1% of our available-for-sale portfolio.

At June 30, 2017, the carrying value of 45 securities held to maturity exceeded their fair value by \$16.5 million, of which \$1.8 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, 2017 and 2016.

We believe the gross unrealized losses of \$29.5 million related to our investment portfolio, as of June 30, 2017, 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:

**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 related to 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.

**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.

**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.

**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, 2017 and December 31, 2016 (in thousands, except percentages):

	June 30, 2017		December 31, 2016	
	Balance	Percent	Balance	Percent
Residential real estate	\$2,248,528	36.2 %	\$2,161,400	38.4 %
Commercial and industrial	2,064,052	33.2	1,710,399	30.3
Securities-based loans	1,755,592	28.3	1,614,033	28.6
Commercial real estate	71,517	1.2	78,711	1.4
Consumer	42,666	0.7	45,391	0.8
Home equity lines of credit	14,303	0.2	15,008	0.3
Construction and land	17,155	0.2	12,623	0.2
Gross bank loans	6,213,813	100.0 %	5,637,565	100.0 %
Unamortized loan premium/(discount), net	1,113		858	
Unamortized loan fees, net of loan fees	75		(49)	
Loans in process	(706)		(2,021)	
Allowance for loan losses	(54,202)		(45,163)	
Bank loans, net	\$6,160,093		\$5,591,190	

At June 30, 2017 and December 31, 2016, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$3.9 million and \$3.7 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$7.0 million and \$5.6 million, respectively.

At June 30, 2017 and December 31, 2016, we had loans held for sale of \$139.7 million and \$228.6 million, respectively. For the three months ended June 30, 2017 and 2016, we recognized gains of \$3.4 million and \$4.1 million, respectively, from the sale of originated loans, net of fees and costs. For the six months ended June 30, 2017 and 2016, we recognized gains of \$6.2 million and \$6.9 million, respectively, from the sale of originated loans, net of fees and costs.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table details activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2017 (in thousands).

	Three Months Ended June 30, 2017				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$38,789	\$ 2,266	\$ (250 )	\$ —	\$40,805
Securities-based loans	3,393	207	—	—	3,600
Consumer	107	(2 )	—	—	105
Residential real estate	4,190	1,379	—	—	5,569
Commercial real estate	1,618	2,017	(2,703 )	—	932
Home equity lines of credit	285	(3 )	—	1	283
Construction and land	437	(213 )	—	—	224
Qualitative	2,479	205	—	—	2,684
	\$51,298	\$ 5,856	\$ (2,953 )	\$ 1	\$54,202

	Six Months Ended June 30, 2017				Ending Balance
	Beginning				
	Balance	Provision	Charge-offs	Recoveries	
Commercial and industrial	\$35,127	\$ 5,928	\$ (250 )	\$ —	\$40,805
Securities-based loans	3,094	506	—	—	3,600
Consumer	129	(24 )	—	—	105
Residential real estate	2,660	2,909	—	—	5,569
Commercial real estate	1,363	2,272	(2,703 )	—	932
Home equity lines of credit	371	(89 )	—	1	283
Construction and land	232	(8 )	—	—	224
Qualitative	2,187	497	—	—	2,684
	\$45,163	\$ 11,991	\$ (2,953 )	\$ 1	\$54,202

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at June 30, 2017 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually			Individually		
	Collectively			Collectively		
	Evaluated for	Evaluated for	Total	Evaluated for	Evaluated for	Total
	Impairment	Impairment		Impairment	Impairment	
Residential real estate	\$24	\$ 5,545	\$5,569	\$174	\$ 2,248,354	\$2,248,528
Commercial and industrial	2,155	38,650	40,805	13,949	2,050,103	2,064,052
Securities-based loans	—	3,600	3,600	—	1,755,592	1,755,592

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Commercial real estate	—	932	932	—	71,517	71,517
Consumer	4	101	105	4	42,662	42,666
Home equity lines of credit	149	134	283	323	13,980	14,303
Construction and land	—	224	224	—	17,155	17,155
Qualitative	—	2,684	2,684	—	—	—
	\$2,332	\$ 51,870	\$54,202	\$14,450	\$ 6,199,363	\$6,213,813



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table details activity in the allowance for loan losses by portfolio segment for the three and 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 December 31, 2016 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually			Individually		
	Collected	Collectively	Total	Collected	Collectively	Total
	Evaluated for	Impaired	Impairment	Evaluated for	Impaired	Impairment
	Total	Impairment	Total	Total	Impairment	Total
Residential real estate	\$24	\$ 2,636	\$2,660	\$178	\$ 2,161,222	\$2,161,400

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Commercial and industrial	2,392	32,735	35,127	16,815	1,693,584	1,710,399
Securities-based loans	—	3,094	3,094	—	1,614,033	1,614,033
Commercial real estate	722	641	1,363	9,522	69,189	78,711
Consumer	6	123	129	6	45,385	45,391
Home equity lines of credit	231	140	371	413	14,595	15,008
Construction and land	—	232	232	—	12,623	12,623
Qualitative	—	2,187	2,187	—	—	—
	\$3,375	\$ 41,788	\$45,163	\$26,934	\$ 5,610,631	\$ 5,637,565

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, 2017, we had \$14.4 million of impaired loans, net of discounts, which included \$9.2 million in troubled debt restructurings, for which there was a specific allowance of \$2.3 million. At December 31, 2016, we had \$26.9 million of impaired loans, net of discounts, which included \$9.7 million in troubled debt restructurings, for which there was a specific allowance of \$3.4 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, 2017 and 2016, were insignificant to the consolidated financial statements.

The tables below present loans that were individually evaluated for impairment by portfolio segment at June 30, 2017 and December 31, 2016, including the average recorded investment balance (in thousands):

	June 30, 2017					
	Unpaid	Recorded	Recorded			Average
	Contractual	Investment	Investment	Total		
	Principal	with No	with	Recorded	Related	Recorded
	Balance	Allowance	Allowance	Investment	Allowance	Investment
Commercial and industrial	\$13,949	\$ —	\$ 13,949	\$ 13,949	\$ 2,155	\$ 16,921
Consumer	679	—	4	4	4	7
Residential real estate	174	—	174	174	24	176
Home equity lines of credit	323	—	323	323	149	323
<b>Total</b>	<b>\$15,125</b>	<b>\$ —</b>	<b>\$ 14,450</b>	<b>\$ 14,450</b>	<b>\$ 2,332</b>	<b>\$ 17,427</b>

	December 31, 2016					
	Unpaid	Recorded	Recorded			Average
	Contractual	Investment	Investment	Total		
	Principal	with No	with	Recorded	Related	Recorded
	Balance	Allowance	Allowance	Investment	Allowance	Investment
Commercial and industrial	\$16,815	\$ —	\$ 16,815	\$ 16,815	\$ 2,392	\$ 22,559
Commercial real estate	10,503	—	9,522	9,522	722	9,080
Consumer	833	—	6	6	6	9
Home equity lines of credit	413	—	413	413	231	413
Residential real estate	178	—	178	178	24	181
<b>Total</b>	<b>\$28,742</b>	<b>\$ —</b>	<b>\$ 26,934</b>	<b>\$ 26,934</b>	<b>\$ 3,375</b>	<b>\$ 32,242</b>

The following table presents the aging of the recorded investment in past due loans at June 30, 2017 and December 31, 2016 by portfolio segment (in thousands):

	As of June 30, 2017				
	30 – 89				
	Days				
		90 or More	Total Past	Current	
	Past		Due	Balance	Total
	Due	Days Past Due	Due		
Residential real estate	\$1,035	\$ —	\$ 1,035	\$2,247,493	\$2,248,528
Commercial and industrial	—	—	—	2,064,052	2,064,052
Securities-based loans	—	—	—	1,755,592	1,755,592
Commercial real estate	—	—	—	71,517	71,517
Consumer	6	2	8	42,658	42,666
Home equity lines of credit	—	184	184	14,119	14,303
Construction and land	—	—	—	17,155	17,155
Total	\$1,041	\$ 186	\$ 1,227	\$6,212,586	\$6,213,813

	As of June 30, 2017 *		
	Non-Accrual	Restructured	Total
Commercial and industrial	\$4,951	\$ 8,998	\$13,949
Home equity lines of credit	323	—	323
Residential real estate	—	174	174
Consumer	4	—	4
Total	\$5,278	\$ 9,172	\$14,450

<sup>(1)</sup>On non-accrual status.

\*There were no loans past due 90 days and still accruing interest at June 30, 2017.

	As of December 31, 2016				
	30 – 89 Days				
	Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Residential real estate	\$1,923	\$ —	\$ 1,923	\$2,159,477	\$2,161,400
Commercial and industrial	—	—	—	1,710,399	1,710,399
Securities-based loans	—	—	—	1,614,033	1,614,033
Commercial real estate	9,522	—	9,522	69,189	78,711
Consumer	—	2	2	45,389	45,391
Home equity lines of credit	78	196	274	14,734	15,008
Construction and land	—	—	—	12,623	12,623
Total	\$11,523	\$ 198	\$ 11,721	\$5,625,844	\$5,637,565

	As of December 31, 2016*		
	Non-Accrual	Restructured	Total
Commercial and industrial	\$16,815	\$ —	\$16,815
Commercial real estate	—	9,522	9,522
Home equity lines of credit	413	—	413
Residential real estate	—	178	178
Consumer	6	—	6
Total	\$17,234	\$ 9,700	\$26,934

\*There were no loans past due 90 days and still accruing interest at December 31, 2016.

Credit quality indicators

Loans meet the definition of Pass when they are performing and 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 portfolio. 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, 2017 and December 31, 2016, 98.2% and 97.9% 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.

30

---

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.

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

	As of June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate	\$2,248,238	\$ 116	\$ 174	\$ —	\$2,248,528
Commercial and industrial	2,035,973	12,635	15,444	—	2,064,052
Securities-based loans	1,755,592	—	—	—	1,755,592
Commercial real estate	71,517	—	—	—	71,517
Consumer	42,662	—	4	—	42,666
Home equity lines of credit	13,980	—	323	—	14,303
Construction and land	17,155	—	—	—	17,155
Total	\$6,185,117	\$ 12,751	\$ 15,945	\$ —	\$6,213,813

	As of December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate	\$2,161,223	\$ —	\$ 177	\$ —	\$2,161,400
Commercial and industrial	1,652,211	27,905	30,283	—	1,710,399
Securities-based loans	1,614,033	—	—	—	1,614,033
Commercial real estate	69,189	—	9,522	—	78,711
Consumer	45,385	—	6	—	45,391
Home equity lines of credit	14,595	—	413	—	15,008
Construction and land	12,623	—	—	—	12,623
Total	\$5,569,259	\$ 27,905	\$ 40,401	\$ —	\$5,637,565

#### 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, 2016	Adjustments	Write-off	June 30, 2017
<b>Goodwill</b>				
Global Wealth Management	\$ 270,779	\$ 6,622	\$ —	\$ 277,401
Institutional Group	691,503	860	—	692,363
	\$ 962,282	\$ 7,482	\$ —	\$ 969,764

	December 31, 2016	Net Additions	Amortization	June 30, 2017
<b>Intangible assets</b>				
Global Wealth Management	\$ 45,231	\$ 3,800	\$ (2,273 )	\$ 46,758
Institutional Group	71,073	1,395	(3,973 )	68,495
	\$ 116,304	\$ 5,195	\$ (6,246 )	\$ 115,253



The adjustments to goodwill and intangible assets during the six months ended June 30, 2017, are primarily attributable to the acquisition of City Securities, which closed on January 3, 2017. The allocation of the purchase price for this acquisition 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 acquisition date 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.

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, 2017 and December 31, 2016 were as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Value	Amortization	Value	Amortization
Customer relationships	\$ 146,687	\$ 51,267	\$ 141,621	\$ 46,209
Trade name	24,713	9,464	24,713	8,670
Investment banking backlog	2,608	1,040	1,345	379
Non-compete agreements	1,445	547	2,578	813
	\$ 175,453	\$ 62,318	\$ 170,257	\$ 56,071

Amortization expense related to intangible assets was \$3.2 million and \$5.0 million for the three months ended June 30, 2017 and 2016, respectively. Amortization expense related to intangible assets was \$6.2 million and \$8.0 million for the six months ended June 30, 2017 and 2016, respectively.

The weighted-average remaining lives of the following intangible assets at June 30, 2017, are: customer relationships, 11.2 years; trade name, 11.0 years; non-compete agreements, 9.9 years; and backlog within the next 3 months. As of June 30, 2017, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
Remainder of 2017	\$ 5,780
2018	10,953
2019	10,348
2020	10,128
2021	9,611
Thereafter	66,315

\$113,135

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

Our uncommitted secured lines of credit at June 30, 2017, totaled \$1.0 billion 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 \$444.4 million during the six months ended June 30, 2017. 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, 2017, our uncommitted secured lines of credit of \$105.0 million were collateralized by company-owned securities valued at \$242.2 million.

The Federal Home Loan advances as of June 30, 2017 are floating-rate advances. The weighted average interest rates on these advances during the three and six months ended June 30, 2017 was 1.21% and 1.18%, respectively. 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.

Our committed bank line financing at June 30, 2017, consisted of a \$200.0 million revolving credit facility. The credit facility expires in March 2020. 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, 2017, we had no advances on our revolving credit facility and were in compliance with all covenants.

NOTE 10 – Senior Notes

The following table summarizes our senior notes as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
4.250% senior notes, due 2024 <sup>(1)</sup>	\$ 500,000	\$ 500,000
3.50% senior notes, due 2020 <sup>(2)</sup>	300,000	300,000
	800,000	800,000
Debt issuance costs, net	(3,704 )	(4,109 )
	\$ 796,296	\$ 795,891

<sup>1</sup>In July 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024. Interest on these senior notes is payable semi-annually in arrears. We may redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. In July 2016, we issued an additional \$200.0 million in aggregate principal amount of 4.25% senior notes due 2024.

<sup>2</sup>In December 2015, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 3.50% senior notes due December 2020. Interest on these senior notes is payable semi-annually in arrears. We may redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption.

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

2017	\$—
2018	—
2019	—
2020	300,000
2021	—
Thereafter	500,000

\$ 800,000

## NOTE 11 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at June 30, 2017 and December 31, 2016 were as follows (in thousands):

	June 30, 2017	December 31, 2016
Money market and savings accounts	\$ 11,804,509	\$ 11,264,285
Demand deposits (interest-bearing)	235,269	253,545
Demand deposits (non-interest-bearing)	7,851	5,752
Certificates of deposit	2,845	3,901
	\$ 12,050,474	\$ 11,527,483

The weighted-average interest rate on deposits was 0.06% and 0.09% at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of \$12.1 billion and \$11.5 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.2 million and \$0.5 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, 2017 and December 31, 2016 (in thousands):

	June 30, 2017		
	Balance Sheet		
	Notional Value	Location	Fair Value
<b>Asset Derivatives</b>			
Cash flow interest rate contracts	\$ 790,000	Other assets	\$ 8,442
<b>Liability Derivatives</b>			
Cash flow interest rate contracts		Accounts payable and accrued expenses	
	\$ 100,983		\$ 939
	December 31, 2016		
	Balance Sheet		
	Notional Value	Location	Fair Value
<b>Asset Derivatives</b>			
Cash flow interest rate contracts	\$ 790,000	Other assets	\$ 10,390
<b>Liability Derivatives</b>			
Cash flow interest rate contracts	\$ 121,442	Accounts payable and accrued expenses	\$ 1,823

#### 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 2.9 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, 2017 and 2016, 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 \$0.3 million will be reclassified as interest income.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

Three Months Ended June 30, 2017				
Gain/(Loss)	Location of		Location of	
	Loss	Loss	Loss	Gain/(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	\$3,340	Interest expense	\$ 622	Interest expense \$ —
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
Six Months Ended June 30, 2017				
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	\$2,576	Interest expense	\$ 1,534	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	Recognized in	Due to

	OCI	From OCI	Into Income	OCI	Ineffectiveness
	(Effectiveness)	Income		(Ineffectiveness)	
Cash flow interest rate contracts	\$(16,525)	Interest expense	\$ 2,882	None	\$ 46

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, 2017, 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 \$0.9 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$9.8 million against our obligations under these agreements. If we had breached any of these provisions at June 30, 2017, 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, 2017 and December 31, 2016 (in thousands):

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

		Condition	Condition			
As of June 30, 2017:						
Securities borrowing <sup>(1)</sup>	\$ 145,285	\$ —	\$ 145,285	\$(99,074 )	\$(34,768 )	\$11,443
Reverse repurchase agreements <sup>(2)</sup>	478,091	—	478,091	(205,017)	(273,074)	—
Cash flow interest rate contracts	8,442	—	8,442	—	—	8,442
	\$ 631,818	\$ —	\$ 631,818	\$(304,091)	\$(307,842)	\$19,885
As of December 31, 2016:						
Securities borrowing <sup>(1)</sup>	\$ 382,691	\$ —	\$ 382,691	\$(291,793)	\$(68,776 )	\$22,122
Reverse repurchase agreements <sup>(2)</sup>	248,588	—	248,588	(216,542)	(32,046 )	—
Cash flow interest rate contracts	10,390	—	10,390	—	—	10,390
	\$ 641,669	\$ —	\$ 641,669	\$(508,335)	\$(100,822)	\$32,512

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

<sup>(2)</sup> Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default. The fair value of securities pledged as collateral was \$474.1 million and \$248.5 million at June 30, 2017 and December 31, 2016, respectively.

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of June 30, 2017 and December 31, 2016 (in thousands):

	Gross		Net		Gross amounts not offset  in the Statement of  Financial Condition		
	Amounts	Amounts	Amounts	Amounts			
	Gross	Offset in	Presented in				
	Amounts of	the Statement	the Statement				
	Recognized	of Financial	of Financial	Amounts	Collateral	Net	
	Liabilities	Condition	Condition	available	Pledged	Amount	
				for offset			
<b>As of June 30, 2017:</b>							
Securities lending <sup>(3)</sup>	\$ (352,127 )	\$ —	\$ (352,127 )	\$99,074	\$234,970	\$ (18,083)	
Repurchase agreements <sup>(4)</sup>	(243,999 )	—	(243,999 )	205,017	38,982	—	
Cash flow interest rate contracts	(939 )	—	(939 )	—	939	—	
	\$ (597,065 )	\$ —	\$ (597,065 )	\$304,091	\$274,891	\$ (18,083)	
<b>As of December 31, 2016:</b>							
Securities lending <sup>(3)</sup>	\$ (478,814 )	\$ —	\$ (478,814 )	\$291,793	\$175,849	\$ (11,172)	
Repurchase agreements <sup>(4)</sup>	(268,546 )	—	(268,546 )	216,542	52,004	—	
Cash flow interest rate contracts	(1,823 )	—	(1,823 )	—	1,823	—	
	\$ (749,183 )	\$ —	\$ (749,183 )	\$508,335	\$229,676	\$ (11,172)	

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

<sup>(4)</sup>Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included on the consolidated statements of financial condition unless we default. Collateral pledged by our company to the counter party includes U.S. government agency securities, U.S. government securities, and corporate fixed income securities with market values of \$263.8 million and \$299.3 million at June 30, 2017 and December 31, 2016, respectively.

#### 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, 2017, 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.

#### 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, 2017 and

December 31, 2016, 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 reasonably 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.

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

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

In addition to the claims asserted against Stone & Youngberg, the Amended Complaint seeks to hold our company and Stifel liable for Stone & Youngberg’s alleged wrongdoing under theories of successor and alter ego liability,

arising out of our company's purchase of the membership interests of Stone & Youngberg in 2011 and the subsequent operation of that business.

The original Complaint named Cantor, CA, and CA's CEO, Walter Morales. The CA funds filed a Chapter 11 bankruptcy petition which stayed the original lawsuit until the reorganization plan was entered by the court in the fall of 2013. Shortly thereafter, the CA funds filed their first Amended Complaint, which is the first complaint that asserted claims against Stone & Youngberg, our company or Stifel. The action is now proceeding under a Fourth Amended Complaint. On September 29, 2016, the court postponed the trial for an extended, but undefined, period to consider various motions and other matters that will impact, among other things, the ultimate trial date and the issues to be tried.

In a related action, approximately one dozen individual investors brought a direct action against the Company and other defendants, seeking recessionary damages of approximately \$90 million. The court ruled that the individual plaintiffs had no standing to pursue these claims because the CA funds are separately pursuing claims. The individual plaintiffs have appealed this decision to the Fifth Circuit.

While there can be no assurance of success, Stone & Youngberg intends to vigorously defend the claims against it, and our company and Stifel intend to vigorously defend the claims seeking to hold us responsible for Stone & Youngberg's alleged liability.

#### NOTE 16 – Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory

organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC’s Customer Protection Rule (Rule 15c3-3). Our other broker-dealer subsidiaries calculate their net capital under the aggregate indebtedness method, whereby their aggregate indebtedness may not be greater than fifteen times their net capital (as defined).

At June 30, 2017, Stifel had net capital of \$276.3 million, which was 17.7% of aggregate debit items and \$245.0 million in excess of its minimum required net capital. At June 30, 2017, 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, 2017, our international subsidiary’s capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company’s and Stifel Bank’s financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our company’s and Stifel Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

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

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

Stifel Financial Corp. – Federal Reserve Capital Amounts  
June 30, 2017

Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective
--------	-------------------------------------	---

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

					Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	\$1,679,604	18.2 %	\$414,618	4.5 %	\$598,893	6.5 %
Tier 1 capital	1,889,208	20.5 %	552,824	6.0 %	737,099	8.0 %
Total capital	1,943,420	21.1 %	737,099	8.0 %	921,374	10.0 %
Tier 1 leverage	1,889,208	10.3 %	734,557	4.0 %	918,196	5.0 %

Stifel Bank – Federal Reserve Capital Amounts  
June 30, 2017

			For Capital		To Be Well Capitalized	
	Actual Amount	Ratio	Adequacy Purposes Amount	Ratio	Under Prompt Corrective Amount	Ratio
Common equity tier 1 capital	\$972,080	14.9 %	\$294,562	4.5 %	\$425,479	6.5 %
Tier 1 capital	972,080	14.9 %	392,750	6.0 %	523,667	8.0 %
Total capital	1,028,447	15.7 %	523,667	8.0 %	654,583	10.0 %
Tier 1 leverage	972,080	7.2 %	540,643	4.0 %	675,804	5.0 %



## NOTE 17 – Interest Income and Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Interest income:</b>				
Bank loans, net	\$48,729	\$29,475	\$93,489	\$56,033
Investment securities	46,385	24,446	88,051	46,807
Margin balances	9,022	8,151	17,205	16,697
Inventory	4,346	4,519	8,582	9,017
Other	469	(811 )	2,577	53
	\$108,951	\$65,780	\$209,904	\$128,607
<b>Interest expense:</b>				
Senior notes	\$8,140	\$8,179	\$16,280	\$16,354
Bank deposits	1,887	1,842	3,654	3,743
Federal Home Loan Bank advances	2,797	2,635	4,516	3,392
Other	3,820	4,606	8,090	7,884
	\$16,644	\$17,262	\$32,540	\$31,373

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

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance award, stock units and debentures to our employees. We are permitted to issue new shares under all stock award plans approved by shareholders or to reissue our treasury shares. Awards under our company's incentive stock award plans are granted at market value at the date of grant. The awards generally vest ratably over a one- to ten-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 5.9 million shares at June 30, 2017.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$34.4 million and \$65.9 million for the three months ended June 30, 2017 and 2016, respectively, and \$65.6 million and \$94.8 million for the six months ended June 30, 2017 and 2016, respectively.

As a result of the adoption of a new accounting standard on January 1, 2017, we recognized an excess tax benefit from stock-based compensation of \$0.2 million and \$17.1 million in the provision for income taxes on the accompanying consolidated statements of operations for the three and six months ended June 30, 2017. We adopted the new guidance prospectively. During the three and six months ended June 30, 2016, the tax impact related to stock-based compensation was a provision of \$1.0 million and \$5.2 million, respectively.

## Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next one to ten years and are distributable, if vested, at future specified dates. Our Company grants Performance-based Restricted Stock Units (“PRSUs”) to its executive officers. Under the terms of the grants, the number of PRSUs that will vest and convert to shares will be based on the Company's achievement of the pre-determined performance objectives during the performance period. The PRSUs will be measured over a four-year performance period and vested over a five-year period. The number of shares converted has the potential to range from 0% to 200% based on how the Company performs during the performance period. Compensation expense is amortized on a straight-line basis over the service period based on the fair value of the award on the grant date. The Company's pre-determined performance objectives must be met for the awards to vest. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense. At June 30, 2017, the total number of stock units outstanding was 19.6 million, of which 16.2 million were unvested. At June 30, 2017, the total number of PRSUs was 0.6 million, of which all were unvested.

At June 30, 2017, there was unrecognized compensation cost for stock units of approximately \$361.2 million, which is expected to be recognized over a weighted-average period of 3.0 years.

## Deferred Compensation Plans

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

Additionally, the Plan allows Stifel’s financial advisors who achieve certain levels of production to defer a certain percentage of their gross commissions. As stipulated by the Plan, the financial advisors will defer 4% of their gross commissions. They have the option to 1) defer an additional 1% of gross commissions into company stock units with a 25% matching contribution, or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of \$12.4 million and \$11.3 million at June 30, 2017 and December 31, 2016, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At June 30, 2017 and December 31, 2016, the deferred compensation liability related to the mutual fund option of \$5.3 million and \$8.6 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

## Profit Sharing Plan

Eligible employees of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the “401(k) Plan”). Employees are permitted within limitations imposed by tax law to make pre-tax contributions to the 401(k) Plan. We may match certain employee contributions or make additional contributions to the 401(k) Plan at our discretion. Our contributions to the 401(k) Plan were \$3.3 million and \$1.6 million for the three months ended June 30, 2017 and 2016, respectively and \$3.7 million and \$2.9 million for the six months ended June 30, 2017 and 2016, respectively.

## NOTE 19 – Off-Balance Sheet Credit Risk

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

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

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At June 30, 2017 and December 31, 2016, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.4 billion and \$2.5 billion, respectively, and the fair value of the collateral that had been sold or repledged was \$244.0 million and \$268.5 million, respectively.

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

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

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

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit, and lines of credit. Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established by the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At June 30, 2017 and December 31, 2016, Stifel Bank had outstanding commitments to originate loans aggregating \$213.2 million and \$205.8 million, respectively. The commitments extended over varying periods of time, with all commitments at June 30, 2017, scheduled to be disbursed in the following three months.

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

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At June 30, 2017 and December 31, 2016, Stifel Bank had outstanding letters of credit totaling \$90.2 million and \$88.9 million, respectively. A majority of the standby letters of credit commitments at June 30, 2017, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting

lines of credit as it does for on-balance sheet instruments. At June 30, 2017 and December 31, 2016, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$559.9 million and \$492.5 million, respectively.

NOTE 20 – Segment Reporting

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

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

consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

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

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

Information concerning operations in these segments of business for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues: <sup>(1)</sup>				
Global Wealth Management	\$451,990	\$386,039	\$894,722	\$765,843
Institutional Group	276,153	260,920	513,620	502,196
Other	(2,496 )	5,186	(7,164 )	4,080
	\$725,647	\$652,145	\$1,401,178	\$1,272,119
Income/(loss) before income taxes:				
Global Wealth Management	\$153,237	\$105,053	\$295,289	\$198,387
Institutional Group	52,892	42,414	92,764	71,705
Other	(122,931)	(131,674)	(225,836 )	(210,386 )
	\$83,198	\$15,793	\$162,217	\$59,706

<sup>(1)</sup>No individual client accounted for more than 10 percent of total net revenues for the three and six months ended June 30, 2017 or 2016.

The following table presents our company's total assets on a segment basis at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Global Wealth Management	\$16,692,046	\$16,065,503

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Institutional Group	2,464,369	2,657,183
Other	377,160	406,670
	\$19,533,575	\$19,129,356

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

Revenues, classified by the major geographic areas in which they are earned for the three and six months ended June 30, 2017 and 2016, were as follows (in thousands):

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2017	2016	2017	2016
United States	\$690,930	\$611,984	\$1,339,261	\$1,193,721
United Kingdom	32,771	37,844	57,290	73,592
Other European	1,946	2,317	4,627	4,806
	\$725,647	\$652,145	\$1,401,178	\$1,272,119



## NOTE 21 – Earnings Per Share (“EPS”)

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016 (in thousands, except per share data):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$52,811	\$9,771	\$118,323	\$36,826
Preferred dividends	2,344	—	4,688	—
Net income available to common shareholders	\$50,467	\$9,771	\$113,635	\$36,826
Shares for basic and diluted calculation:				
Average shares used in basic computation	68,556	66,792	68,471	67,186
Dilutive effect of stock options and units <sup>(1)</sup>	11,465	9,190	11,920	8,898
Average shares used in diluted computation	80,021	75,982	80,391	76,084
Earnings per common share:				
Basic	\$0.74	\$0.15	\$1.66	\$0.55
Diluted	\$0.63	\$0.13	\$1.41	\$0.48

<sup>(1)</sup>Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. For the three and six months ended June 30, 2017 and 2016, the anti-dilutive effect from restricted stock units was immaterial.

## NOTE 22 – Shareholders’ Equity

## Share Repurchase Program

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At June 30, 2017, the maximum number of shares that may yet be purchased under this plan was 7.1 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the three months ended June 30, 2017, we repurchased \$13.0 million, or 0.3 million shares using existing Board authorizations at an average price of \$43.83 per share to meet obligations under our company’s employee benefit plans and for general corporate purposes. There were no share repurchases in the first quarter of 2017. During the three and

six months ended June 30, 2016, we repurchased \$3.7 million and \$95.1 million, or 0.1 million and 2.8 million shares, respectively, using existing Board authorizations at an average price of \$29.70 and \$33.79 per share, respectively, to meet obligations under our company's employee benefit plans and for general corporate purposes.

#### Issuance of Common Stock

On January 3, 2017, we issued 0.2 million shares related to the purchase of City Securities.

During the six months ended June 30, 2017, we issued 1.7 million shares, which were reissued from treasury. Share issuances were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration in our acquisition of City Securities.

#### NOTE 23 – Variable Interest Entities

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

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of \$167.9 million at June 30, 2017. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as

stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and six months ended June 30, 2017 and 2016. In addition, our direct investment interest in these entities is insignificant at June 30, 2017 and December 31, 2016.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of \$315.6 million at June 30, 2017. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at June 30, 2017. Management fee revenue earned by our company was insignificant during the three and six months ended June 30, 2017 and 2016.

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

#### Debenture to Stifel Financial Capital Trusts

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

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

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

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

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

Our company's exposure to loss is limited to the carrying value of the note with FSI at June 30, 2017, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at June 30, 2017. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of June 30, 2017. Our company's involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 24 – Subsequent Events

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

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

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at [www.stifel.com](http://www.stifel.com) and at the SEC web site at [www.sec.gov](http://www.sec.gov).

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

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

### Executive Summary

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

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

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

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

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

On January 3, 2017, we completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities Corporation, (“City Securities”), an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest. Purchase consideration consisted of cash and common stock.

#### Results for the three and six months ended June 30, 2017

For the three months ended June 30, 2017, net revenues increased 11.3% to \$725.6 million from \$652.1 million during the comparable period in 2016. Net income available to common shareholders increased 416.5% to \$50.5 million, or \$0.63 per diluted common share for the three months ended June 30, 2017, compared to \$9.8 million, or \$0.13 per diluted common share during the comparable period in 2016.

For the six months ended June 30, 2017, net revenues increased 10.1% to \$1.4 billion compared to \$1.3 billion during the comparable period in 2016. Net income available to common shareholders increased 208.6% to \$113.6 million, or \$1.41 per diluted common share for the six months ended June 30, 2017, compared to \$36.8 million, or \$0.48 per diluted common share during the comparable period in 2016.

Our revenue growth for the three and six months ended June 30, 2017 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; higher net interest income as a result of an increase in interest-earning assets at Stifel Bank and investment banking revenues; offset by lower other income and brokerage revenues.

#### External Factors Impacting our Business

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

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At June 30, 2017, the Dow Jones Industrial Average, NASDAQ, and S&P 500 closed 8.0%, 14.1%, and 8.2% higher than their December 31, 2016 closing prices, respectively.

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



## RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

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

	Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2017	2016	Change	2017	2016
			%	%	%
<b>Revenues:</b>					
Commissions	\$172,264	\$182,104	(5.4 )	23.7 %	27.9 %
Principal transactions	95,703	126,426	(24.3 )	13.2	19.4
Brokerage revenues	267,967	308,530	(13.1 )	36.9	47.3
Investment banking	185,261	133,125	39.2	25.5	20.4
Asset management and service fees	172,914	144,567	19.6	23.8	22.2
Interest	108,951	65,780	65.6	15.0	10.1
Other income	7,198	17,405	(58.6 )	1.1	2.6
Total revenues	742,291	669,407	10.9	102.3	102.6
Interest expense	16,644	17,262	(3.6 )	2.3	2.6
Net revenues	725,647	652,145	11.3	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	453,876	460,023	(1.3 )	62.5	70.5
Occupancy and equipment rental	57,892	58,746	(1.5 )	8.0	9.0
Communication and office supplies	34,192	37,426	(8.6 )	4.7	5.7
Commissions and floor brokerage	11,232	12,145	(7.5 )	1.5	1.9
Other operating expenses	85,257	68,012	25.4	11.8	10.5
Total non-interest expenses	642,449	636,352	1.0	88.5	97.6
Income before income taxes	83,198	15,793	426.8	11.5	2.4
Provision for income taxes	30,387	6,022	404.6	4.2	0.9
Net Income	52,811	9,771	440.5	7.3	1.5
Preferred dividends	2,344	—	n/m	0.3	—
Net income available to common shareholders	\$50,467	\$9,771	416.5	7.0 %	1.5 %



Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2017	2016	Change	2017	2016
<b>Revenues:</b>					
Commissions	\$347,538	\$380,034	(8.6 )	24.8 %	29.9 %
Principal transactions	212,560	247,374	(14.1 )	15.2	19.4
Brokerage revenues	560,098	627,408	(10.7 )	40.0	49.3
Investment banking	312,113	233,783	33.5	22.3	18.4
Asset management and service fees	335,653	289,099	16.1	24.0	22.7
Interest	209,904	128,607	63.2	15.0	10.1
Other income	15,950	24,595	(35.1 )	1.0	2.0
Total revenues	1,433,718	1,303,492	10.0	102.3	102.5
Interest expense	32,540	31,373	3.7	2.3	2.5
Net revenues	1,401,178	1,272,119	10.1	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	890,263	871,136	2.2	63.5	68.5
Occupancy and equipment rental	110,437	116,002	(4.8 )	7.9	9.1
Communication and office supplies	68,036	74,086	(8.2 )	4.9	5.8
Commissions and floor brokerage	21,955	23,876	(8.0 )	1.6	1.9
Other operating expenses	148,270	127,313	16.5	10.5	10.0
Total non-interest expenses	1,238,961	1,212,413	2.2	88.4	95.3
Income before income taxes	162,217	59,706	171.7	11.6	4.7
Provision for income taxes	43,894	22,880	91.8	3.2	1.8
Net Income	118,323	36,826	221.3	8.4	2.9
Preferred dividends	4,688	—	n/m	0.3	—
Net income available to common shareholders	\$113,635	\$36,826	208.6	8.1 %	2.9 %

NET REVENUES

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
<b>Net revenues:</b>						
Commissions	\$172,264	\$182,104	(5.4 )	\$347,538	\$380,034	(8.6 )
Principal transactions	95,703	126,426	(24.3 )	212,560	247,374	(14.1 )
Brokerage revenues	267,967	308,530	(13.1 )	560,098	627,408	(10.7 )
Capital raising	102,800	66,412	54.8	176,716	119,716	47.6

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Advisory fees	82,461	66,713	23.6	135,397	114,067	18.7
Investment banking	185,261	133,125	39.2	312,113	233,783	33.5
Asset management and service fees	172,914	144,567	19.6	335,653	289,099	16.1
Net interest	92,307	48,518	90.3	177,364	97,234	82.4
Other income	7,198	17,405	(58.6 )	15,950	24,595	(35.1 )
Total net revenues	\$725,647	\$652,145	11.3	\$1,401,178	\$1,272,119	10.1

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the growth of Stifel Bank in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment, as a result of the following acquisitions: ISM, which closed in May 2016; and City Securities, which closed in January 2017. The impact of the acquired businesses was partially offset by the sale of certain Sterne Agee businesses in July 2016.

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

For the three months ended June 30, 2017, commission revenues decreased 5.4% to \$172.3 million from \$182.1 million in the comparable period in 2016. For the six months ended June 30, 2017, commission revenues decreased 8.6% to \$347.5 million from \$380.0 million in the comparable period in 2016. The decrease is primarily attributable to a decrease in agency transactions from the comparable period in 2016.

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

For the three months ended June 30, 2017, principal transactions revenues decreased 24.3% to \$95.7 million from \$126.4 million in the comparable period in 2016. For the six months ended June 30, 2017, principal transactions revenues decreased 14.1% to \$212.6 million from \$247.4 million in the comparable period in 2016. The decrease is primarily attributable to lower volumes, lower volatility, and a flattening yield curve.

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

For the three months ended June 30, 2017, investment banking revenues increased 39.2% to \$185.3 million from \$133.1 million in the comparable period in 2016.

Capital raising revenues increased 54.8% to \$102.8 million for the three months ended June 30, 2017 from \$66.4 million in the comparable period in 2016. For the three months ended June 30, 2017, fixed income capital raising revenues increased 59.3% to \$45.8 million from \$28.8 million in the comparable period in 2016. For the three months ended June 30, 2017, equity capital raising revenues increased 51.4% to \$57.0 million from \$37.6 million in the comparable period in 2016.

Advisory fee revenues increased 23.6% to \$82.5 million for the three months ended June 30, 2017 from \$66.7 million in the comparable period in 2016. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2016.

For the six months ended June 30, 2017, investment banking revenues increased 33.5% to \$312.1 million from \$233.8 million in the comparable period in 2016.

Capital raising revenues increased 47.6% to \$176.7 million for the six months ended June 30, 2017 from \$119.7 million in the comparable period in 2016. For the six months ended June 30, 2017, fixed income capital raising revenues increased 31.1% to \$74.1 million from \$56.5 million in the comparable period in 2016. For the six months ended June 30, 2017, equity capital raising revenues increased 62.4% to \$102.6 million from \$63.2 million in the comparable period in 2016.

Advisory fee revenues increased 18.7% to \$135.4 million for the six months ended June 30, 2017 from \$114.1 million in the comparable period in 2016. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2016.

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

For the three months ended June 30, 2017, asset management and service fee revenues increased 19.6% to \$172.9 million from \$144.6 million in the comparable period in 2016. For the six months ended June 30, 2017, asset management and service fee revenues increased 16.1% to \$335.7 million from \$289.1 million in the comparable period in 2016. The increase is primarily a result of an increase in the number and value of fee-based accounts, an increase in fees earned on client cash balances, and an increase of interest rates on fees earned on client cash over the comparable periods in 2016. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the three months ended June 30, 2017, other income decreased 58.6% to \$7.2 million from \$17.4 million during the comparable period in 2016. For the six months ended June 30, 2017, other income decreased 35.1% to \$16.0 million from \$24.6 million during the comparable period in 2016. Other income primarily includes investment gains and losses and loan originations fees from Stifel Bank.

## NET INTEREST INCOME

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

	Three Months Ended June 30, 2017			June 30, 2016		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances	\$ 1,241,174	\$ 9,022	2.91 %	\$ 1,265,357	\$ 8,151	2.58 %
Interest-earning assets (Stifel Bank)	13,116,470	95,625	2.92 %	8,257,409	53,196	2.58 %
Financial instruments owned	1,060,875	4,346	1.64 %	1,057,614	4,519	1.71 %
Other		(42 )			(86 )	
Total interest revenue	\$ 15,418,519	\$ 108,951	2.83 %	\$ 10,580,380	\$ 65,780	2.49 %
Interest-bearing liabilities:						
Short-term borrowings	\$ 209,585	\$ 963	1.84 %	\$ 264,414	\$ 1,257	1.90 %
Interest-bearing liabilities (Stifel Bank)	12,521,609	4,830	0.15 %	7,921,409	4,660	0.24 %
Stock loan	339,847	558	0.66 %	284,145	1,133	1.59 %
Senior notes (Stifel Financial)	800,000	8,140	4.07 %	750,000	8,179	4.36 %
Stifel Capital Trusts	67,500	502	2.97 %	72,445	419	2.31 %
Other		1,651			1,614	
Total interest expense	\$ 13,938,541	\$ 16,644	0.48 %	\$ 9,292,413	\$ 17,262	0.74 %
Net interest margin/ interest spread		\$ 92,307	2.35 %		\$ 48,518	1.74 %
Net interest income			2.39 %			1.83 %

	Six Months Ended June 30, 2017			June 30, 2016		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances	\$ 1,236,757	\$ 17,205	2.78 %	\$ 1,259,996	\$ 16,697	2.65 %
Interest-earning assets (Stifel Bank)	12,876,909	183,290	2.85 %	7,835,050	101,783	2.60 %
Financial instruments owned	994,348	8,582	1.73 %	917,945	9,017	1.96 %
Other		827			1,110	
Total interest revenue	\$ 15,108,014	\$ 209,904	2.78 %	\$ 10,012,991	\$ 128,607	2.57 %
Interest-bearing liabilities:						
Short-term borrowings	\$ 174,494	\$ 1,493	1.71 %	\$ 215,319	\$ 2,026	1.88 %
Interest-bearing liabilities (Stifel Bank)	12,286,358	8,476	0.14 %	7,541,924	7,496	0.20 %
Stock loan	343,135	2,052	1.20 %	246,246	1,944	1.58 %
Senior notes (Stifel Financial)	800,000	16,280	4.07 %	750,000	16,354	4.36 %
Stifel Capital Trusts	67,500	969	2.87 %	77,473	905	2.34 %
Other		3,270			2,648	
Total interest expense	\$ 13,671,487	\$ 32,540	0.48 %	\$ 8,830,962	\$ 31,373	0.71 %

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Net interest margin/ interest spread	\$177,364	2.30	%	\$97,234	1.86	%
Net interest income		2.35	%		1.94	%

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended June 30, 2017, net interest income increased to \$92.3 million from \$48.5 million during the comparable period in 2016. For the six months ended June 30, 2017, net interest income increased to \$177.4 million from \$97.2 million during the comparable period in 2016.

For the three months ended June 30, 2017, interest revenue increased 65.6% to \$109.0 million from \$65.8 million in the comparable period in 2016, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to \$13.1 billion during the three months



ended June 30, 2017 compared to \$8.3 billion during the comparable period in 2016 at average interest rates of 2.92% and 2.58%, respectively.

For the six months ended June 30, 2017, interest revenue increased 63.2% to \$209.9 million from \$128.6 million in the comparable period in 2016, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to \$12.9 billion during the six months ended June 30, 2017 compared to \$7.8 billion during the comparable period in 2016 at average interest rates of 2.85% and 2.60%, respectively.

For the three months ended June 30, 2017, interest expense decreased 3.6% to \$16.6 million from \$17.3 million during the comparable period in 2016. For the six months ended June 30, 2017, interest expense increased 3.7% to \$32.5 million from \$31.4 million in the comparable period in 2016. The increase is primarily attributable to an increase in the cost to fund margin debits, an increase in interest-bearing liabilities at Stifel Bank, and an increase in stock loan.

## NON-INTEREST EXPENSES

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$453,876	\$460,023	(1.3 )	\$890,263	\$871,136	2.2
Occupancy and equipment rental	57,892	58,746	(1.5 )	110,437	116,002	(4.8 )
Communications and office supplies	34,192	37,426	(8.6 )	68,036	74,086	(8.2 )
Commissions and floor brokerage	11,232	12,145	(7.5 )	21,955	23,876	(8.0 )
Other operating expenses	85,257	68,012	25.4	148,270	127,313	16.5
<b>Total non-interest expenses</b>	<b>\$642,449</b>	<b>\$636,352</b>	<b>1.0</b>	<b>\$1,238,961</b>	<b>\$1,212,413</b>	<b>2.2</b>

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

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

For the three months ended June 30, 2017, compensation and benefits expense decreased 1.3% to \$453.9 million from \$460.0 million during the comparable period in 2016. For the six months ended June 30, 2017, compensation and benefits expense increased 2.2% to \$890.3 million from \$871.1 million during the comparable period in 2016. The increase for the year is principally due to the following: 1) increased variable compensation as a result of increased revenue production; and 2) an increase in fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 62.5% and 63.5% for the three and six months ended June 30, 2017, respectively, compared to 70.5% and 68.5% for the three and six months ended June 30,

2016, respectively. The decrease is primarily attributable to growth of higher margin business.

Occupancy and equipment rental – For the three months ended June 30, 2017, occupancy and equipment rental expense decreased 1.5% to \$57.9 million from \$58.7 million during the comparable period in 2016. For the six months ended June 30, 2017, occupancy and equipment rental expense decreased 4.8% to \$110.4 million from \$116.0 million during the comparable period in 2016. The decrease is primarily due to lower equipment costs, offset by an increase in rent expense.

Communications and office supplies – Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended June 30, 2017, communications and office supplies expense decreased 8.6% to \$34.2 million from \$37.4 million during the second quarter of 2016. For the six months ended June 30, 2017, communications and office supplies expense decreased 8.2% to \$68.0 million from \$74.1 million during the

comparable period in 2016. The decrease is primarily attributable to a decrease in quote equipment and office supplies as a result of cost saving initiatives.

Commissions and floor brokerage – For the three months ended June 30, 2017, commissions and floor brokerage expense decreased 7.5% to \$11.2 million from \$12.1 million during the comparable period in 2016. For the six months ended June 30, 2017, commissions and floor brokerage expense decreased 8.0% to \$22.0 million from \$23.9 million during the comparable period in 2016. The decrease is primarily attributable to a decrease in trading volumes.

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

For the three months ended June 30, 2017, other operating expenses increased 25.4% to \$85.3 million from \$68.0 million during the comparable period in 2016. For the six months ended June 30, 2017, other operating expenses increased 16.5% to \$148.3 million from \$127.3 million during the comparable period in 2016. The increase is primarily attributable to an increase in legal and FDIC insurance expenses, as well as the provision for loan losses at Stifel Bank.

Provision for income taxes – For the three and six months ended June 30, 2017, our provision for income taxes was \$30.4 million and \$43.9 million, representing an effective tax rate of 36.5% and 27.1%, respectively, compared to \$6.0 million and \$22.9 million for the comparable periods in 2016, representing an effective tax rate of 38.1% and 38.3%, respectively. The effective income tax rate for the three and six months ended June 30, 2017 was impacted by new accounting guidance associated with stock compensation. This new accounting guidance, which was adopted by our company on January 1, 2017, will continue to impact our effective income tax rate.

## SEGMENT ANALYSIS

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

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

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

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, amortization of stock-based awards for certain administrative employees, compensation expense associated with the expensing of restricted stocks awards with no continuing service requirements in conjunction with recent acquisitions, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and

controls; and general administration and acquisition charges.

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

54

---

Results of Operations – Global Wealth Management

Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

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

	Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2017	2016	Change	2017	2016
<b>Revenues:</b>					
Commissions	\$120,344	\$127,241	(5.4 )	26.6 %	33.0 %
Principal transactions	47,741	44,938	6.2	10.6	11.6
Brokerage revenues	168,085	172,179	(2.4 )	37.2	44.6
Asset management and service fees	172,889	144,360	19.8	38.3	37.4
Investment banking	10,641	9,502	12.0	2.4	2.5
Interest	106,888	62,785	70.2	23.6	16.3
Other income	4,677	5,752	(18.7 )	1.0	1.4
Total revenues	463,180	394,578	17.4	102.5	102.2
Interest expense	11,190	8,539	31.0	2.5	2.2
Net revenues	451,990	386,039	17.1	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	229,158	218,553	4.9	50.7	56.6
Occupancy and equipment rental	26,275	25,261	4.0	5.8	6.5
Communication and office supplies	13,957	14,547	(4.1 )	3.1	3.8
Commissions and floor brokerage	4,947	3,952	25.2	1.1	1.0
Other operating expenses	24,416	18,673	30.8	5.4	4.9
Total non-interest expenses	298,753	280,986	6.3	66.1	72.8
Income before income taxes	\$153,237	\$105,053	45.9	33.9 %	27.2 %

	June 30, 2017	June 30, 2016
Branch offices (actual)	364	362
Financial advisors (actual)	2,158	2,164
Independent contractors (actual) <sup>(1)</sup>	119	127

<sup>(1)</sup> On July 1, 2016, we sold the independent contractor business acquired with the Sterne Agee transaction in June 2015. As of June 30, 2016, there were 540 independent contractors in the disposed business unit that have been excluded from the table above.

## Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2017	2016	Change	2017	2016
<b>Revenues:</b>					
Commissions	\$240,921	\$258,794	(6.9 )	26.9 %	33.8 %
Principal transactions	98,658	86,349	14.3	11.1	11.3
Brokerage revenues	339,579	345,143	(1.6 )	38.0	45.1
Asset management and service fees	335,553	288,712	16.2	37.5	37.7
Investment banking	22,495	17,911	25.6	2.5	2.3
Interest	205,138	121,840	68.4	22.9	15.9
Other income	11,702	8,022	45.9	1.3	1.1
Total revenues	914,467	781,628	17.0	102.2	102.1
Interest expense	19,745	15,785	25.1	2.2	2.1
Net revenues	894,722	765,843	16.8	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	457,629	439,968	4.0	51.1	57.4
Occupancy and equipment rental	51,626	49,699	3.9	5.8	6.5
Communication and office supplies	28,237	28,323	(0.3 )	3.2	3.7
Commissions and floor brokerage	9,879	10,346	(4.5 )	1.1	1.4
Other operating expenses	52,062	39,120	33.1	5.8	5.1
Total non-interest expenses	599,433	567,456	5.6	67.0	74.1
Income before income taxes	\$295,289	\$198,387	48.8	33.0 %	25.9 %

## NET REVENUES

For the three months ended June 30, 2017, Global Wealth Management net revenues increased 17.1% to a record \$452.0 million from \$386.0 million for the comparable period in 2016. For the six months ended June 30, 2017, Global Wealth Management net revenues increased 16.8% to a record \$894.7 million from \$765.8 million for the comparable period in 2016. The increase in net revenues for the three months ended June 30, 2017 over the comparable period in 2016, is primarily attributable to growth in asset management and service fees; an increase in net interest income, higher principal transaction and investment banking revenues, offset by a decrease in commission revenues and other income.

The increase in net revenues for the six months ended June 30, 2017 over the comparable period in 2016 is primarily attributable to growth in asset management and service fees; an increase in net interest income and higher principal transactions revenues, investment banking revenues, and other income, offset by a decrease in commission revenues.

Commissions – For the three months ended June 30, 2017, commission revenues decreased 5.4% to \$120.3 million from \$127.2 million in the comparable period in 2016. For the six months ended June 30, 2017, commission revenues decreased 6.9% to \$240.9 million from \$258.8 million in the comparable period in 2016. The decrease is primarily

attributable to lower volumes as a result of the sale of certain Sterne Agee businesses in July 2016.

Principal transactions – For the three months ended June 30, 2017, principal transactions revenues increased 6.2% to \$47.7 million from \$44.9 million in the comparable period in 2016. For the six months ended June 30, 2017, principal transactions revenues increased 14.3% to \$98.7 million from \$86.3 million in the comparable period in 2016. The increase is primarily attributable to an increase in the fixed income brokerage activity.

Asset management and service fees – For the three months ended June 30, 2017, asset management and service fees increased 19.8% to \$172.9 million from \$144.4 million in the comparable period in 2016. For the six months ended June 30, 2017, asset management and service fees increased 16.2% to \$335.6 million from \$288.7 million in the comparable period in 2016. The increase is primarily a result of an increase in assets under management in our fee-based accounts, our continued expansion in the asset management business, and higher interest rates.

Fee-based account revenues for the three months ended June 30, 2017 and 2016 are primarily billed based on values as of March 31, 2017 and 2016, respectively. The value of assets in fee-based accounts including Asset Management at June 30, 2017 increased 20.9% to \$79.2 billion from \$65.5 billion at June 30, 2016.

Investment banking – Investment banking, which represents sales credits for investment banking underwritings, increased 12.0% to \$10.6 million for the three months ended June 30, 2017 from \$9.5 million during the comparable period in 2016. For the six months ended June 30, 2017, investment banking revenues increased 25.6% to \$22.5 million from \$17.9 million during the comparable period in 2016. See “Investment banking” in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue – For the three months ended June 30, 2017, interest revenue increased 70.2% to \$106.9 million from \$62.8 million in the comparable period in 2016. For the six months ended June 30, 2017, interest revenue increased 68.4% to \$205.1 million from \$121.8 million during the comparable period in 2016. The increase is primarily due to a growth of interest-earning assets at Stifel Bank, and an increase in the weighted-average yield. See “Net Interest Income – Stifel Bank” below for a further discussion of the changes in net revenues.

Other income – For the three months ended June 30, 2017, other income decreased 18.7% to \$4.7 million from \$5.8 million during the comparable period in 2016. For the six months ended June 30, 2017, other income increased 45.9% to \$11.7 million from \$8.0 million during the comparable period in 2016.

Interest expense – For the three months ended June 30, 2017, interest expense increased 31.0% to \$11.2 million from \$8.5 million during the comparable period in 2016. For the six months ended June 30, 2017, interest expense increased 25.1% to \$19.7 million from \$15.8 million during the comparable period in 2016. The increase in interest expense is primarily attributable to an increase in borrowings to fund the increase in the client margin debit book from the comparable periods in 2016.



## NET INTEREST INCOME – STIFEL BANK

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

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Interest-bearing cash and federal funds sold	\$ 129,095	\$ 320	0.99 %	\$ 69,241	\$ 84	0.48 %
<b>State and political subdivisions:</b>						
Non-taxable <sup>(1)</sup>	75,199	677	3.60	75,764	677	3.57
Mortgage-backed securities	1,956,075	10,578	2.16	1,905,703	9,780	2.05
Corporate bonds	929,105	5,268	2.27	621,129	3,425	2.21
Asset-backed securities	3,665,147	29,862	3.26	1,637,762	10,254	2.50
Federal Home Loan Bank ("FHLB") and other capital stock	67,472	191	1.13	51,569	310	2.41
<b>Loans <sup>(2)</sup></b>						
Securities-based loans	1,742,164	12,378	2.84	1,379,404	8,080	2.34
Commercial and industrial	1,960,889	18,451	3.76	1,335,122	11,941	3.58
Residential real estate	2,264,946	15,039	2.66	879,926	6,144	2.79
Commercial real estate	74,928	684	3.65	83,198	666	3.20
Consumer	43,108	435	4.04	33,879	282	3.33
Home equity lines of credit	14,973	137	3.66	13,843	105	3.03
Construction and land	16,223	154	3.80	7,667	63	3.30
Loans held for sale	177,146	1,451	3.28	163,202	1,385	3.39
Total interest-earning assets <sup>(3)</sup>	\$ 13,116,470	\$ 95,625	2.92 %	\$ 8,257,409	\$ 53,196	2.58 %
Cash and due from banks	16,905			6,065		
Other non interest-earning assets	399,382			248,850		
Total assets	\$ 13,532,757			\$ 8,512,324		
<b>Liabilities and stockholder's equity:</b>						
<b>Deposits:</b>						
Money market	\$ 11,389,900	\$ 1,845	0.06 %	\$ 6,941,553	\$ 1,767	0.10 %
Demand deposits	189,495	26	0.05	154,786	29	0.07
Time deposits	3,106	16	2.06	10,566	48	1.83
Savings	4	—	—	18	—	0.05
FHLB advances	922,868	2,797	1.21	798,077	2,633	1.32
Other borrowings	16,236	146	3.60	16,409	183	4.46
Total interest-bearing liabilities <sup>(3)</sup>	12,521,609	4,830	0.15 %	7,921,409	4,660	0.24 %
Non interest-bearing liabilities	13,133			10,566		
Other non-interest bearing liabilities	43,798			31,289		
Total liabilities	12,578,540			7,963,264		
Stockholder's equity	954,217			549,060		
Total liabilities and stockholder's equity	\$ 13,532,757			\$ 8,512,324		
Net interest spread		\$ 90,795	2.76 %		\$ 48,536	2.34 %

Net interest margin	2.77 %	2.34 %
---------------------	--------	--------

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

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

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

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
<b>Assets:</b>						
Interest-bearing cash and federal funds sold	\$256,145	\$1,094	0.85 %	\$189,585	\$468	0.49 %
<b>State and political subdivisions:</b>						
Non-taxable <sup>(1)</sup>	75,269	1,355	3.60	75,834	1,354	3.57
Mortgage-backed securities	1,983,582	21,605	2.18	1,785,929	19,173	2.15
Corporate bonds	898,900	10,126	2.25	529,475	5,933	2.24
Asset-backed securities	3,475,178	54,965	3.16	1,571,491	19,768	2.52
FHLB and other capital stock	59,390	656	2.21	40,783	581	2.85
<b>Loans <sup>(2)</sup></b>						
Securities-based loans	1,708,554	23,243	2.72	1,366,759	17,162	2.51
Commercial and industrial	1,837,414	35,288	3.84	1,288,746	22,909	3.56
Residential real estate	2,257,249	29,620	2.62	705,105	9,971	2.83
Commercial real estate	76,633	1,337	3.49	83,879	1,263	3.01
Consumer	43,654	961	4.40	34,431	467	2.71
Home equity lines of credit	15,037	264	3.51	13,138	199	3.04
Construction and land	14,737	270	3.66	6,130	100	3.26
Loans held for sale	175,167	2,506	2.86	143,765	2,435	3.39
Total interest-earning assets <sup>(3)</sup>	\$12,876,909	\$183,290	2.85 %	\$7,835,050	\$101,783	2.60 %
Cash and due from banks	14,030			4,831		
Other non interest-earning assets	371,618			249,224		
Total assets	\$13,262,557			\$8,089,105		
<b>Liabilities and stockholder's equity:</b>						
<b>Deposits:</b>						
Money market	\$11,313,905	\$3,572	0.06 %	\$6,783,372	\$3,402	0.10 %
Demand deposits	190,530	50	0.05	144,691	232	0.32
Time deposits	3,369	32	1.90	12,047	109	1.81
Savings	4	—	0.00	17	—	0.05
FHLB advances	762,271	4,516	1.18	585,368	3,392	1.16
Other borrowings	16,279	306	3.76	16,429	361	4.39
Total interest-bearing liabilities <sup>(3)</sup>	12,286,358	8,476	0.14 %	7,541,924	7,496	0.20 %
Non interest-bearing liabilities	12,816			12,047		
Other non-interest bearing liabilities	24,750			33,955		
Total liabilities	12,323,924			7,587,926		
Stockholder's equity	938,633			501,179		
Total liabilities and stockholder's equity	\$13,262,557			\$8,089,105		
Net interest spread		\$174,814	2.71 %		\$94,287	2.40 %
Net interest margin			2.71 %			2.40 %

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

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

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



The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and six month periods ended June 30, 2017 compared to the three and six month periods ended June 30, 2016 (in thousands):

	Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016			Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest income:</b>						
Interest-bearing cash and federal funds sold	\$107	\$129	\$236	\$203	\$423	\$626
State and political - non-taxable	(10 )	10	—	(10 )	11	1
Mortgage-backed securities	263	535	798	2,149	283	2,432
Corporate bonds	1,744	99	1,843	4,162	31	4,193
Asset-backed securities	15,770	3,838	19,608	29,030	6,167	35,197
FHLB and other capital stock	166	(285 )	(119 )	148	(73 )	75
<b>Loans</b>						
Securities-based loans	2,375	1,923	4,298	4,560	1,521	6,081
Commercial and industrial	5,860	650	6,510	10,413	1,966	12,379
Residential real estate	9,181	(286 )	8,895	20,314	(665 )	19,649
Commercial real estate	(43 )	61	18	(88 )	162	74
Consumer	86	67	153	148	346	494
Home equity lines of credit	9	23	32	31	34	65
Construction and land	80	11	91	156	14	170
Loans held for sale	321	(255 )	66	246	(175 )	71
	\$35,909	\$6,520	\$42,429	\$71,462	\$10,045	\$81,507
<b>Interest expense:</b>						
<b>Deposits:</b>						
Money market	\$3,328	\$(3,250)	\$78	\$3,353	\$(3,183)	\$170
Demand deposits	17	(20 )	(3 )	111	(293 )	(182 )
Time deposits	(38 )	6	(32 )	(84 )	7	(77 )
FHLB advances	342	(178 )	164	1,046	78	1,124
Other borrowings	(2 )	(35 )	(37 )	(3 )	(52 )	(55 )
	\$3,647	\$(3,477)	\$170	\$4,423	\$(3,443)	\$980

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

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

For the three months ended June 30, 2017, interest revenue of \$95.6 million was generated from average interest-earning assets of \$13.1 billion at an average interest rate of 2.92%. Interest revenue of \$53.2 million for the comparable period in 2016 was generated from average interest-earning assets of \$8.3 billion at an average interest rate of 2.58%.

For the six months ended June 30, 2017, interest revenue of \$183.3 million was generated from average interest-earning assets of \$12.9 billion at an average interest rate of 2.85%. Interest revenue of \$101.8 million for the comparable period in 2016 was generated from average interest-earning assets of \$7.8 billion at an average interest rate of 2.60%.

Interest expense represents interest on customer money market accounts, interest on time deposits, Federal Home Loan Bank advances, and other interest expense. The average balance of interest-bearing liabilities during the three months ended June 30, 2017 was \$12.5 billion at an average interest rate of 0.15%. The average balance of interest-bearing liabilities for the comparable period in 2016 was \$7.9 billion at an average interest rate of 0.24%. The average balance of interest-bearing liabilities during the six months

ended June 30, 2017 was \$12.3 billion at an average interest rate of 0.14%. The average balance of interest-bearing liabilities for the comparable period in 2016 was \$7.5 billion at an average interest rate of 0.20%.

The growth in Stifel Bank has been primarily funded by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At June 30, 2017, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$12.1 billion compared to \$7.9 billion at June 30, 2016.

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

#### NON-INTEREST EXPENSES

For the three months ended June 30, 2017, Global Wealth Management non-interest expenses increased 6.3% to \$298.8 million from \$281.0 million for the comparable period in 2016. For the six months ended June 30, 2017, Global Wealth Management non-interest expenses increased 5.6% to \$599.4 million from \$567.5 million for the comparable period in 2016.

Compensation and benefits – For the three months ended June 30, 2017, compensation and benefits expense increased 4.9% to \$229.2 million from \$218.6 million during the comparable period in 2016. For the six months ended June 30, 2017, compensation and benefits expense increased 4.0% to \$457.6 million from \$440.0 million during the comparable period in 2016. The increase is principally due to increased variable compensation. Compensation and benefits expense as a percentage of net revenues was 50.7% and 51.1% for the three and six months ended June 30, 2017, respectively, compared to 56.6% and 57.4% for the comparable periods in 2016, respectively.

Occupancy and equipment rental – For the three months ended June 30, 2017, occupancy and equipment rental expense increased 4.0% to \$26.3 million from \$25.3 million during the comparable period in 2016. For the six months ended June 30, 2017, occupancy and equipment rental expense increased 3.9% to \$51.6 million from \$49.7 million during the comparable period in 2016.

Communications and office supplies – For the three months ended June 30, 2017, communications and office supplies expense decreased 4.1% to \$14.0 million from \$14.5 million during the comparable period in 2016. For the six months ended June 30, 2017, communications and office supplies expense decreased 0.3% to \$28.2 million from \$28.3 million during the comparable period in 2016.

Commissions and floor brokerage – For the three months ended June 30, 2017, commissions and floor brokerage expense increased 25.2% to \$4.9 million from \$4.0 million during the comparable period in 2016. For the six months ended June 30, 2017, commissions and floor brokerage expense decreased 4.5% to \$9.9 million from \$10.3 million during the comparable period in 2016. The decrease is consistent with the decrease in commission revenues.

Other operating expenses – For the three months ended June 30, 2017, other operating expenses increased 30.8% to \$24.4 million from \$18.7 million during the comparable period in 2016. For the six months ended June 30, 2017, other operating expenses increased 33.1% to \$52.1 million from \$39.1 million during the comparable period in 2016. The increase in other operating expenses is primarily attributable to an increase in FDIC insurance and the provision for loan loss as a result of the growth of Stifel Bank.

#### INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2017, income before income taxes increased 45.9% to \$153.2 million from \$105.1 million during the comparable period in 2016. For the six months ended June 30, 2017, income before income

taxes increased 48.8% to \$295.3 million from \$198.4 million during the comparable period in 2016.

Profit margins (income before income taxes as a percent of net revenues) have increased to 33.9% and 33.0% for the three and six months ended for the three months ended June 30, 2017 from 27.2% and 25.9% during the comparable periods in 2016 as a result of an increase in revenue and the sale of the Sterne Agee independent contractor business, which operated at lower margins than private client business.



## Results of Operations – Institutional Group

Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

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

	Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2017	2016	Change	2017	2016
<b>Revenues:</b>					
Commissions	\$51,920	\$54,864	(5.4 )	18.8 %	21.0 %
Principal transactions	47,962	81,488	(41.1 )	17.4	31.2
Brokerage revenues	99,882	136,352	(26.7 )	36.2	52.2
Capital raising	92,159	56,100	64.3	33.4	21.5
Advisory fees	82,461	67,523	22.1	29.8	25.9
Investment banking	174,620	123,623	41.3	63.2	47.4
Interest	3,901	3,263	19.6	1.4	1.3
Other income	1,580	1,044	51.3	0.6	0.4
Total revenues	279,983	264,282	5.9	101.4	101.3
Interest expense	3,830	3,362	13.9	1.4	1.3
Net revenues	276,153	260,920	5.8	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	164,532	153,371	7.3	59.6	58.8
Occupancy and equipment rental	11,700	12,303	(4.9 )	4.2	4.7
Communication and office supplies	15,515	17,618	(11.9 )	5.6	6.8
Commissions and floor brokerage	6,285	7,841	(19.8 )	2.3	3.0
Other operating expenses	25,229	27,373	(7.8 )	9.1	10.5
Total non-interest expenses	223,261	218,506	2.2	80.8	83.8
Income before income taxes	\$52,892	\$42,414	24.7	19.2 %	16.2 %

Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2017	2016	Change	2017	2016
<b>Revenues:</b>					
Commissions	\$ 106,617	\$ 121,240	(12.1 )	20.8 %	24.1 %
Principal transactions	113,902	161,026	(29.3 )	22.2	32.1
Brokerage revenues	220,519	282,266	(21.9 )	43.0	56.2
Capital raising	154,221	100,995	52.7	30.0	20.1
Advisory fees	135,397	114,876	17.9	26.4	22.9
Investment banking	289,618	215,871	34.2	56.4	43.0
Interest	7,545	7,247	4.1	1.5	1.4
Other income	3,427	3,097	10.7	0.6	0.7
Total revenues	521,109	508,481	2.5	101.5	101.3
Interest expense	7,489	6,285	19.2	1.5	1.3
Net revenues	513,620	502,196	2.3	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	308,172	303,989	1.4	60.0	60.5
Occupancy and equipment rental	23,644	25,675	(7.9 )	4.6	5.1
Communication and office supplies	30,910	33,596	(8.0 )	6.0	6.7
Commissions and floor brokerage	12,076	13,531	(10.8 )	2.4	2.7
Other operating expenses	46,054	53,700	(14.2 )	8.9	10.7
Total non-interest expenses	420,856	430,491	(2.2 )	81.9	85.7
Income before income taxes	\$ 92,764	\$ 71,705	29.4	18.1 %	14.3 %

**NET REVENUES**

For the three months ended June 30, 2017, Institutional Group net revenues increased 5.8% to \$276.2 million from \$260.9 million for the comparable period in 2016. For the six months ended June 30, 2017, Institutional Group net revenues increased 2.3% to \$513.6 million from \$502.2 million during the comparable period in 2016.

The increase in net revenues for the three and six months ended June 30, 2017 over the comparable periods in 2016 was primarily attributable to an increase in capital raising and advisory fees, offset by a decrease in fixed income and equity brokerage revenues.

Commissions – For the three months ended June 30, 2017, commission revenues decreased 5.4% to \$51.9 million from \$54.9 million in the comparable period in 2016. For the six months ended June 30, 2017, commission revenues decreased 12.1% to \$106.6 million from \$121.2 million in the comparable period in 2016.

Principal transactions – For the three months ended June 30, 2017, principal transactions revenues decreased 41.1% to \$48.0 million from \$81.5 million in the comparable period in 2016. For the six months ended June 30, 2017, principal transaction revenues decreased 29.3% to \$113.9 million from \$161.0 million in the comparable period in 2016.

Brokerage revenues – For the three months ended June 30, 2017, institutional brokerage revenues decreased 26.7% to \$99.9 million from \$136.4 million in the comparable period in 2016. For the six months ended June 30, 2017, institutional brokerage revenues decreased 21.9% to \$220.5 million from \$282.3 million in the comparable period in 2016.

For the three months ended June 30, 2017, fixed income institutional brokerage revenues decreased 39.7% to \$49.0 million from \$81.3 million in the comparable period in 2016. For the six months ended June 30, 2017, fixed income brokerage revenues decreased 29.8% to \$115.8 million from \$165.0 million in the comparable period in 2016. The decrease is primarily attributable to lower fixed income trading volumes from the comparable period in 2016.

For the three months ended June 30, 2017, equity institutional brokerage revenues decreased 7.5% to \$50.9 million from \$55.0 million during the comparable period in 2016. For the six months ended June 30, 2017, equity brokerage revenues decreased 10.7% to \$104.7

million from \$117.3 million during the comparable period in 2016. The decrease is primarily attributable to reduced market volatility and investor uncertainty.

Investment banking – For the three months ended June 30, 2017, investment banking revenues increased 41.3% to \$174.6 million from \$123.6 million during the comparable period in 2016. For the six months ended June 30, 2017, investment banking revenues increased 34.2% to \$289.6 million from \$215.9 million during the comparable period in 2016. The increase is primarily attributable to an increase in equity and fixed income capital raising revenues and advisory fee revenues.

For the three months ended June 30, 2017, capital raising revenues increased 64.3% to \$92.2 million from \$56.1 million in the comparable period in 2016. For the six months ended June 30, 2017, capital raising revenues increased 52.7% to \$154.2 million from \$101.0 million in the comparable period in 2016.

For the three months ended June 30, 2017, fixed income capital raising revenues increased 69.7% to \$47.1 million from \$27.8 million during the comparable period in 2016. For the six months ended June 30, 2017, fixed income capital raising revenues increased 39.7% to \$75.2 million from \$53.8 million during the comparable period in 2016. The increase is primarily attributable to an increase in the municipal bond origination business.

For the three months ended June 30, 2017, equity capital raising revenues increased 58.9% to \$45.1 million from \$28.3 million during the comparable period in 2016. For the six months ended June 30, 2017, equity capital raising revenues increased 67.5% to \$79.0 million from \$47.2 million during the comparable period in 2016. The increase was primarily attributable to a increase in the number of transactions over the comparable period in 2016.

For the three months ended June 30, 2017, advisory fee revenues increased 22.1% to \$82.5 million from \$67.5 million in the comparable period in 2016. For the six months ended June 30, 2017, advisory fees increased 17.9% to \$135.4 million from \$114.9 million in the comparable period in 2016. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2016.

Interest – For the three months ended June 30, 2017, interest increased 19.6% to \$3.9 million from \$3.3 million in the comparable period in 2016. For the six months ended June 30, 2017, interest increased 4.1% to \$7.5 million from \$7.2 million during the comparable period in 2016.

Other income – For the three months ended June 30, 2017, other income increased 51.3% to \$1.6 million from \$1.0 million in the comparable period in 2016. For the six months ended June 30, 2017, other income increased 10.7% to \$3.4 million from \$3.1 million during the comparable period in 2016.

Interest expense – For the three months ended June 30, 2017, interest expense increased 13.9% to \$3.8 million from \$3.4 million in the comparable period in 2016. For the six months ended June 30, 2017, interest expense increased 19.2% to \$7.5 million from \$6.3 million in the comparable period in 2016.

#### NON-INTEREST EXPENSES

For the three months ended June 30, 2017, Institutional Group non-interest expenses increased 2.2% to \$223.3 million from \$218.5 million for the comparable period in 2016. For the six months ended June 30, 2017, Institutional Group non-interest expenses decreased 2.2% to \$420.9 million from \$430.5 million during the comparable period in 2016.

Compensation and benefits – For the three months ended June 30, 2017, compensation and benefits expense increased 7.3% to \$164.5 million from \$153.4 million during the comparable period in 2016. For the six months ended June 30, 2017, compensation and benefits expense increased 1.4% to \$308.2 million from \$304.0 million during the

comparable period in 2016. The increase is principally due to an increase in variable compensation as a result of higher revenues, offset by a decrease in fixed compensation.

Compensation and benefits expense as a percentage of net revenues was 59.6% and 60.0% for the three and six months ended June 30, 2017, respectively, compared to 58.8% and 60.5% for comparable periods in 2016, respectively.

Occupancy and equipment rental – For the three months ended June 30, 2017, occupancy and equipment rental expense decreased 4.9% to \$11.7 million from \$12.3 million during the comparable period in 2016. For the six months ended June 30, 2017, occupancy and equipment rental expense decreased 7.9% to \$23.6 million from \$25.7 million during the comparable period in 2016. The decrease is primarily attributable to lower data processing equipment rental expense, offset by an increase in rent expense.

Communications and office supplies – For the three months ended June 30, 2017, communications and office supplies expense decreased 11.9% to \$15.5 million from \$17.6 million during the comparable period in 2016. For the six months ended June 30, 2017, communications and office supplies expense decreased 8.0% to \$30.9 million from \$33.6 million during the comparable period in 2016. The decrease is primarily attributable to a decline in communication and quote equipment expense.

Commissions and floor brokerage – For the three months ended June 30, 2017, commissions and floor brokerage expense decreased 19.8% to \$6.3 million from \$7.8 million during the comparable period in 2016. For the six months ended June 30, 2017, commissions and floor brokerage expense decreased 10.8% to \$12.1 million from \$13.5 million during the comparable period in 2016. The decrease is primarily attributable to a decline in trading volumes.

Other operating expenses – For the three months ended June 30, 2017, other operating expenses decreased 7.8% to \$25.2 million from \$27.4 million during the comparable period in 2016. For the six months ended June 30, 2017, other operating expenses decreased 14.2% to \$46.1 million from \$53.7 million during the comparable period in 2016. The decrease is primarily attributable to a decline in legal expenses and travel and promotion expenses, offset by an increase in professional service fees.

#### INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2017, income before income taxes for the Institutional Group segment increased 24.7% to \$52.9 million from \$42.4 million during the comparable period in 2016. For the six months ended June 30, 2017, income before income taxes for the Institutional Group segment increased 29.4% to \$92.8 million from \$71.7 million during the comparable period in 2016. Profit margins (income before income taxes as a percentage of net revenues) have improved to 19.2% and 18.1% for the three and six months ended June 30, 2017, respectively, from 16.2% and 14.3% during the comparable periods in 2016, respectively, as a result of an increase in revenues and a decrease in expenses.

#### Results of Operations – Other Segment

Three and Six Months Ended June 30, 2017 Compared with Three and Six Months Ended June 30, 2016

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Net revenues	\$(2,496 )	\$5,186	(148.1 )	\$(7,164 )	\$4,080	(275.6 )
Non-interest expenses:						
Compensation and benefits	60,186	88,099	(31.7 )	124,462	127,178	(2.1 )
Other operating expenses	60,249	48,761	23.6	94,210	87,288	7.9
Total non-interest expenses	120,435	136,860	(12.0 )	218,672	214,466	2.0
Loss before income taxes	\$(122,931)	\$(131,674)	(6.6 )%	\$(225,836)	\$(210,386)	7.3 %

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Non-interest expenses:						
Compensation and benefits	\$7,971	\$50,136	(84.1 )	\$22,312	\$66,565	(66.5 )
Other operating expenses	26,849	18,355	46.3	32,174	28,475	13.0
Total non-interest expenses	\$34,820	\$68,491	(49.2 )%	\$54,486	\$95,040	(42.7 )%

65

The above expenses are related to the acquisitions of City Securities in 2017, Eaton Partners and ISM in 2016, and Barclays and Sterne Agee in 2015 and include signing bonuses, amortization of restricted stock awards and promissory notes issued as retention, professional fees, and amortization of intangible assets acquired.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$52,215	\$37,963	37.5	\$102,150	\$60,613	68.5
Other operating expenses	33,400	30,406	9.8	62,036	58,813	5.5
Total non-interest expenses	\$85,615	\$68,369	25.2	\$164,186	\$119,426	37.5

Non-interest expenses for the three months ended June 30, 2017 increased 25.2% from the comparable period in 2016. The increase consisted of a 37.5% increase in compensation and benefits and a 9.8% increase in other operating expenses. Non-interest expenses for the six months ended June 30, 2017 increased 37.5% from the comparable period in 2016. The increase consisted of a 68.5% increase in compensation and benefits and a 5.5% increase in other operating expenses. These increases are primarily attributable to the building out of our infrastructure and our regulatory compliance enhancement measures and an increase in costs associated with previously disclosed legal matters.

#### Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, financial instruments owned, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. As of June 30, 2017, our total assets increased 2.1% to \$19.5 billion from \$19.1 billion at December 31, 2016. Our broker-dealer subsidiary's gross assets and liabilities, including financial instruments owned, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of June 30, 2017, our liabilities were comprised primarily of deposits of \$12.1 billion at Stifel Bank, payables to customers of \$821.4 million at our broker-dealer subsidiaries, senior notes of \$796.3 million, net of debt issuance costs, Federal Home Loan Bank advances of \$790.0 million, accounts payable and accrued expenses of \$370.1 million, accrued employee compensation of \$244.7 million, borrowings of \$105.0 million, and trust preferred securities of \$67.5 million. To meet our obligations to clients and operating needs, we had \$678.1 million in cash and cash equivalents at June 30, 2017. We also had client brokerage receivables of \$1.4 billion and \$6.3 billion in loans (including loans held for sale) at Stifel Bank.

#### Cash Flow

Cash and cash equivalents decreased \$234.8 million to \$678.1 million at June 30, 2017, from \$912.9 million at December 31, 2016. Operating activities provided \$610.9 million of cash primarily due to an increase in operating assets and liabilities and net income recognized during the six months ended June 30, 2017. Investing activities used cash of \$1.1 billion due to the growth of our investment portfolio, growth of the loan portfolio, fixed asset purchases, and business acquisitions, offset by proceeds from the sale and maturity of securities in our investment portfolio and the sale of investments. Financing activities provided cash of \$276.0 million principally due to an increase in bank deposits and proceeds received from FHLB advances, offset by repayments of our short-term borrowings and a decrease in securities loaned. In addition, new accounting guidance associated with stock-based compensation



requires us to show cash payments to taxing authorities made on an employee's behalf for withheld shares as a financing activity on the consolidated statement of cash flows.

#### Liquidity and Capital Resources

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

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

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

As of June 30, 2017, we had \$19.5 billion in assets, \$9.4 billion of which consisted of cash or assets readily convertible into cash as follows (in thousands, except average days to conversion):

	June 30, 2017	December 31, 2016	Average Conversion
Cash and cash equivalents	\$678,054	\$912,932	
Receivables from brokers, dealers, and clearing organizations	358,760	1,024,752	5 days
Securities purchased under agreements to resell	478,091	248,588	1 day
Financial instruments owned at fair value	1,062,503	923,090	3 days
Available-for-sale securities at fair value	3,455,373	3,181,313	4 days
Held-to-maturity securities at amortized cost	3,307,970	3,038,405	3 days
Investments	99,802	76,768	10 days
Total cash and assets readily convertible to cash	\$9,440,553	\$9,405,848	

As of June 30, 2017 and December 31, 2016, the amount of collateral by asset class is as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Contractual	Contingent	Contractual	Contingent
Cash and cash equivalents	\$93,881	\$—	\$67,672	\$—
Financial instruments owned at fair value	243,999	490,505	268,546	753,897
Available-for-sale securities at fair value	—	3,837,178	—	3,725,972
Investments	—	—	—	40,000
	\$337,880	\$4,327,683	\$336,218	\$4,519,869

#### Capital Management

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At June 30, 2017, the maximum number of shares that may yet be purchased under this plan was 7.1 million.

#### Liquidity Risk Management

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

As a holding company, whereby all of our operations are conducted through our subsidiaries, our cash flow and our ability to service our debt, including the notes, depend upon the earnings of our subsidiaries. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds to pay our obligations, whether by dividends, distributions, loans, or other payments.

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

The availability of outside financing, including access to the capital markets and bank lending, depends on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services sector, and our credit rating. Our cost and availability of funding may be adversely affected by illiquid credit markets and

wider credit spreads. As a result of any future concerns about the stability of the markets generally and the strength of counterparties specifically, lenders may from time to time curtail, or even cease to provide, funding to borrowers.

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

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

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

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

- No government support
- No access to equity and unsecured debt markets within the stress horizon
- Higher haircuts and significantly lower availability of secured funding
- Additional collateral that would be required by trading counter-parties, certain exchanges, and clearing organizations related to credit rating downgrades
- Additional collateral that would be required due to collateral substitution, collateral disputes, and uncalled collateral
- Drawdowns on unfunded commitments provided to third parties
- Client cash withdrawals and reduction in customer short positions that fund long positions
- Return of securities borrowed on an uncollateralized basis
- Maturity roll-off of outstanding letters of credit with no further issuance

At June 30, 2017, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its liquidity stress test model.

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

Under all stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers agency mortgage-backed securities, corporate bonds, and commercial mortgage-backed securities as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At June 30, 2017, available cash and highly liquid investments comprised approximately 22% of Stifel Bank's assets, which was well in excess of its internal target.

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

#### Funding Sources

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, Federal Home Loan Bank advances, and federal funds agreements.

**Cash and Cash Equivalents** – We held \$678.1 million of cash and cash equivalents at June 30, 2017, compared to \$912.9 million at December 31, 2016. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

**Securities Available-for-Sale** – We held \$3.5 billion in available-for-sale investment securities at June 30, 2017, compared to \$3.2 billion at December 31, 2016. As of June 30, 2017, the weighted-average life of the investment securities portfolio was approximately 1.8 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements.

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

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

As of June 30, 2017, we had \$12.1 billion in deposits compared to \$11.5 billion at December 31, 2016. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

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

Our uncommitted secured lines of credit at June 30, 2017, totaled \$1.0 billion 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 \$444.4 million during the six

months ended June 30, 2017. 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, 2017, our uncommitted secured lines of credit off \$105.0 million were collateralized by company-owned securities valued at \$242.2 million.

The Federal Home Loan advances of \$790.0 million as of June 30, 2017 are floating-rate advances. The weighted average interest rates during the three and six months ended June 30, 2017 on these advances is 1.21% and 1.18%, respectively. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

Unsecured short-term borrowings – On April 26, 2017, we amended our existing Credit Agreement, whereby increasing our revolving credit facility to \$200.0 million. The credit facility expires in March 2020. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to LIBOR plus 2.00%, as defined.

We can draw upon this line as long as certain restrictive covenants are maintained. Under our amended and restatement Credit Agreement, we are required to maintain compliance with a minimum consolidated tangible net worth covenant, as defined, and a maximum consolidated total capitalization ratio covenant, as defined. In addition, Stifel, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory excess net capital covenant, as defined, and Stifel Bank, our bank subsidiary, is required to maintain its status as well-capitalized, as defined.

Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency, and judgment defaults. At June 30, 2017, we had no advances on our revolving credit facility and were in compliance with all covenants.

Federal Home Loan Bank Advances and other secured financing – Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$3.6 billion at June 30, 2017 and a \$25.0 million federal funds agreement, for the purpose of purchasing short-term funds should additional liquidity be needed. At June 30, 2017, outstanding FHLB advances were \$790.0 million. Stifel Bank is eligible to participate in the Fed’s discount window program; however, Stifel Bank does not view borrowings from the Fed as a primary means of funding. The credit available in this program is subject to periodic review, may be terminated or reduced at the discretion of the Fed, and is secured by securities. Stifel Bank has borrowing capacity of \$1.7 billion with the Fed’s discount window at June 30, 2017. Stifel Bank receives overnight funds from excess cash held in Stifel brokerage accounts, which are deposited into a money market account. These balances totaled \$12.1 billion at June 30, 2017.

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

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

On July 11, 2016, the Company completed the pricing of an additional \$200.0 million in aggregate principal amount of the Company’s 2014 Notes. The 2014 Notes mature in July 2024 and bear interest at 4.250%, payable semi-annually in arrears in January and July.

#### Credit Rating

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



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

#### Use of Capital Resources

On January 3, 2017, we completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities, an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest. Purchase consideration consisted of cash and common stock.

We have paid \$33.1 million in the form of upfront notes to financial advisors for transition pay during the six months ended June 30, 2017. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled

professionals in the industry increases, we may decide to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors' trailing production and assets under management. These notes are generally forgiven over a five- to ten-year period based on production. The future estimated amortization expense of the upfront notes, assuming current-year production levels and static growth for the remaining six months in 2017, and the years ended December 31, 2018, 2019, 2020, 2021, and thereafter are \$46.0 million, \$78.8 million, \$63.3 million, \$48.4 million, \$38.5 million, and \$97.5 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards, and stock units to our employees. Historically, we have granted stock units to our employees as part of our retention program. A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units generally vest over the next one to eight years after issuance and are distributed at predetermined future payable dates once vesting occurs. At June 30, 2017, the total number of stock units outstanding was 19.6 million, of which 16.2 million were unvested. At June 30, 2017, the total number of performance-based restricted stock units was 0.6 million, of which all were unvested. At June 30, 2017, there was unrecognized compensation cost for stock units of approximately \$361.2 million, which is expected to be recognized over a weighted-average period of 3.0 years.

The future estimated compensation expense of the unvested units, assuming current year forfeiture levels and static growth for the remaining six months in 2017, and the years ended December 31, 2018, 2019, 2020, 2021, and thereafter are \$53.0 million, \$91.4 million, \$73.7 million, \$61.4 million, \$38.3 million, and \$43.4 million, respectively. These estimates could change if our forfeitures change from historical levels.

Net Capital Requirements – We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse effect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt, and/or repurchase our common stock. Our non-broker-dealer subsidiary, Stifel Bank, is also subject to various regulatory capital requirements administered by the federal banking agencies. Our broker-dealer subsidiaries and Stifel Bank have consistently operated in excess of their capital adequacy requirements.

At June 30, 2017, Stifel had net capital of \$276.3 million, which was 17.7% of aggregate debit items and \$245.0 million in excess of its minimum required net capital. At June 30, 2017, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule. At June 30, 2017, our international subsidiary's capital and reserves were in excess of the financial resources requirement under the rules of the FCA. At June 30, 2017, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 16 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

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

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

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016, as well as Note 2 of the Notes to Consolidated Financial Statements in this Form 10-Q.

#### Valuation of Financial Instruments

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

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

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less pricing observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions generally.

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

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

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

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

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

## Contingencies

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

## Allowance for Loan Losses

We regularly review the loan portfolio and have established an allowance for loan losses for inherent losses estimated to have occurred in the loan portfolio through a provision for loan losses charged to income. In providing for the allowance for loan losses, we consider historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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

Once a loan is determined to be impaired, when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued (“non-accrual status”), and any accrued and unpaid interest income is reversed. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectability of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is certain. Subsequent recoveries, if any, are credited to the allowance for loan loss.

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

### Derivative Instruments and Hedging Activities

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

### Income Taxes

The provision for income taxes and related tax reserves is based on our consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities, and amounts that will follow from such examinations

but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or interpretation regarding the application of tax law to our tax return filings. Factors considered in estimating our liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

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

### Goodwill and Intangible Assets

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

Goodwill for certain acquisitions is deductible for tax purposes. The amortization of goodwill for tax purposes creates a cash tax savings due to a reduction in the current taxes payable. We have recorded cash tax savings for the six months ending June 30, 2017 of \$4.7 million, and anticipate cumulative future cash savings of \$85.5 million as of result of the tax amortization of goodwill.

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

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company’s business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units.

The goodwill impairment test requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments, and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including, among others, economic trends and market



conditions, changes in revenue growth trends or business strategies, unanticipated competition, discount rates, technology, or government regulations. In assessing the fair value of our reporting units, the volatile nature of the securities markets and industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider other information, such as public market comparables and multiples of recent mergers and acquisitions of similar businesses. Although we believe the assumptions, judgments, and estimates we have made in the past have been reasonable and appropriate, different assumptions, judgments, and estimates could materially affect our reported financial results.

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

#### Recent Accounting Pronouncements

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

#### Off-Balance Sheet Arrangements

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

#### Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

#### Risk Management

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires our business units to assist in the identification, assessment, monitoring, and control of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, operational, and regulatory and legal.

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

#### Market Risk

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

We trade tax-exempt and taxable debt obligations, including U.S. treasury bills, notes, and bonds; U.S. government agency and municipal notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. We are also an active market maker in over-the-counter equity securities. In connection with these activities, we may maintain inventories in order to ensure availability and to facilitate customer transactions.

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

We manage our trading businesses by product and have established trading departments that have responsibility for each product. The trading inventories are managed with a view toward facilitating client transactions, considering the risk and profitability of each inventory position. Position limits in trading inventory accounts are established by our

Enterprise Risk Management department and monitored on a daily basis within the business units. We monitor inventory levels and results of the trading departments, as well as inventory aging, pricing, concentration, securities ratings, and risk sensitivities.

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

#### Interest Rate Risk

We are exposed to interest rate risk as a result of maintaining inventories of interest rate-sensitive financial instruments and from changes in the interest rates on our interest-earning assets (including client loans, stock borrow activities, investments, inventories, and resale agreements) and our funding sources (including client cash balances, FHLB advances, stock lending activities, bank

borrowings, and repurchase agreements), which finance these assets. The collateral underlying financial instruments at the broker-dealer is repriced daily, thus requiring collateral to be delivered as necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

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

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

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the six months ended June 30, 2017, and the daily VaR at June 30, 2017 and December 31, 2016 (in thousands):

	Six Months Ended June 30, 2017			VAR Calculation at June	
	High	Low	Daily Average	30, 2017	December 31, 2016
Daily VaR	\$6,048	\$1,905	\$ 3,617	\$5,829	\$ 3,775

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

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

The following table illustrates the estimated change in net interest margin at June 30, 2017, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	9.8 %
+100	5.0
0	—
-100	(18.7 )
-200	(26.8 )

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at June 30, 2017 (in thousands):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$4,363,968	\$149,919	\$1,603,539	\$508,293
Securities	4,275,223	300,299	1,257,472	1,000,270
Interest-bearing cash	278,281	—	—	—
	8,917,472	450,218	2,861,011	1,508,563
<b>Interest-bearing liabilities:</b>				
Transaction accounts and savings	11,170,425	18,159	862,273	—
Certificates of deposit	1,060	470	1,322	—
Borrowings	790,000	—	—	16,236
	11,961,485	18,629	863,595	16,236
<b>GAP</b>	<b>(3,044,013 )</b>	<b>431,589</b>	<b>1,997,416</b>	<b>1,492,327</b>
<b>Cumulative GAP</b>	<b>\$(3,044,013 )</b>	<b>\$(2,612,424)</b>	<b>\$(615,008 )</b>	<b>\$877,319</b>

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

#### Equity Price Risk

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

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

#### Credit Risk

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At June 30, 2017, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.4 billion, and the fair value of the collateral that had been sold or repledged was \$244.0 million.

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

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

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

#### Operational Risk

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

#### Regulatory and Legal Risk

Legal risk includes the risk of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and



defending against such claims. See further discussion on our legal reserves policy under “Critical Accounting Policies and Estimates” in Item 2, Part I and “Legal Proceedings” in Item 1, Part II of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. Our international subsidiary, SNEL, is subject to the regulatory supervision and requirements of the FCA in the United Kingdom. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC") and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements.

#### ITEM 4. CONTROLS AND PROCEDURES

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

#### PART II OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

Please see our discussion set forth under Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2016 and Item 1. "Financial Statements" in our Form 10-Q for the quarter ended June 30, 2017.

##### ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

The following tables sets forth information with respect to purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-10(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended June 30, 2017.

		Total Number of Shares Purchased as Part of Publically Announced Plans	Average Price Paid per share	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
Total Number of Shares Purchased				

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

April 1 - 30, 2017	—	\$ —	—	7,429,035
May 1 - 31, 2017	250,000	44.06	250,000	7,179,035
June 1 - 30, 2017	46,573	42.56	46,573	7,132,462
	296,573	\$ 43.83	296,573	

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At June 30, 2017, the maximum number of shares that may yet be purchased under this plan was 7.1 million.

ITEM 6. EXHIBITS

Exhibit No.	Description
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of June 30, 2017 and December 31, 2016; (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STIFEL FINANCIAL CORP.

/s/ Ronald J. Kruszewski  
Ronald J. Kruszewski

Chairman of the Board and

Chief Executive Officer

/s/ James M. Zemlyak  
James M. Zemlyak

Chief Financial Officer

Date: August 8, 2017