

RAYMOND JAMES FINANCIAL INC
Form 10-Q
May 09, 2012

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 March 31, 2012

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: 1-9109

RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

No. 59-1517485
(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)

(727) 567-1000
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

137,825,868 shares of common stock as of May 4, 2012

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended March 31, 2012

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2012	September 30, 2011
	(\$ in thousands)	
Assets:		
Cash and cash equivalents	\$2,875,858	\$ 2,439,695
Assets segregated pursuant to regulations and other segregated assets	3,458,364	3,548,683
Securities purchased under agreements to resell and other collateralized financings	340,158	398,247
Financial instruments, at fair value:		
Trading instruments	451,851	492,771
Available for sale securities	576,142	520,665
Private equity and other investments	299,859	294,356
Receivables:		
Brokerage clients, net	1,671,078	1,716,828
Stock borrowed	198,294	225,561
Bank loans, net	7,445,828	6,547,914
Brokers-dealers and clearing organizations	92,262	96,096
Other	623,406	536,364
Deposits with clearing organizations	86,417	91,482
Prepaid expenses and other assets	416,250	364,264
Investments in real estate partnerships held by consolidated variable interest entities	306,040	320,384
Property and equipment, net	181,752	169,850
Deferred income taxes, net	179,893	171,911
Goodwill	71,924	71,924
Total assets	\$19,275,376	\$ 18,006,995
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	\$80,423	\$ 76,150
Securities sold under agreements to repurchase	137,026	188,745
Payables:		
Brokerage clients	4,751,071	4,690,414
Stock loaned	544,373	814,589
Bank deposits	7,913,846	7,739,322
Brokers-dealers and clearing organizations	67,067	111,408
Trade and other	355,076	309,723
Other borrowings	349,600	-
Accrued compensation, commissions and benefits	364,409	452,849
Loans payable of consolidated variable interest entities	90,950	99,982

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Corporate debt	1,205,664	611,968
Total liabilities	15,859,505	15,095,150
Commitments and contingencies (see Note 14)		
Equity		
Preferred stock; \$.10 par value; authorized 10,000,000 shares; issued and outstanding -0- shares	-	-
Common stock; \$.01 par value; authorized 350,000,000 shares; issued 142,282,732 at March 31, 2012 and 130,670,086 at September 30, 2011	1,396	1,271
Additional paid-in capital	974,893	565,135
Retained earnings	2,222,857	2,125,818
Treasury stock, at cost; 4,985,142 common shares at March 31, 2012 and 4,263,029 common shares at September 30, 2011	(114,608)	(95,000)
Accumulated other comprehensive income	3,315	(9,605)
Total equity attributable to Raymond James Financial, Inc.	3,087,853	2,587,619
Noncontrolling interests	328,018	324,226
Total equity	3,415,871	2,911,845
Total liabilities and equity	\$19,275,376	\$ 18,006,995

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended		Six months ended March 31,	
	March 31, 2012	March 31, 2011	2012	2011
	(in thousands, except per share amounts)			
Revenues:				
Securities commissions and fees	\$558,527	\$563,710	\$ 1,069,861	\$ 1,097,849
Investment banking	57,954	63,131	97,290	122,100
Investment advisory fees	54,269	52,643	107,774	105,053
Interest	108,852	96,811	210,948	201,197
Account and service fees	75,855	70,904	149,865	140,189
Net trading profits	12,979	15,246	22,322	21,568
Other	21,417	4,299	30,610	9,121
Total revenues	889,853	866,744	1,688,670	1,697,077
Interest expense	17,916	14,687	33,956	31,191
Net revenues	871,937	852,057	1,654,714	1,665,886
Non-interest expenses:				
Compensation, commissions and benefits	596,891	579,587	1,138,513	1,131,471
Communications and information processing	43,741	36,380	81,308	67,525
Occupancy and equipment costs	27,231	26,773	53,168	53,002
Clearance and floor brokerage	9,070	9,447	16,524	19,364
Business development	27,382	22,820	55,221	46,765
Investment sub-advisory fees	7,143	7,867	13,705	14,771
Bank loan loss provision	5,154	8,637	12,610	19,869
Acquisition related expenses	19,604	-	19,604	-
Other	27,819	36,308	51,511	62,135
Total non-interest expenses	764,035	727,819	1,442,164	1,414,902
Income including noncontrolling interests and before provision for income taxes	107,902	124,238	212,550	250,984
Provision for income taxes	42,628	45,320	86,154	94,111
Net income including noncontrolling interests	65,274	78,918	126,396	156,873
Net loss attributable to noncontrolling interests	(3,595)	(1,999)	(9,798)	(5,767)
Net income attributable to Raymond James Financial, Inc.	\$68,869	\$80,917	\$ 136,194	\$ 162,640
Net income per common share – basic	\$0.52	\$0.64	\$ 1.05	\$ 1.29
Net income per common share – diluted	\$0.52	\$0.64	\$ 1.05	\$ 1.29
Weighted-average common shares outstanding – basic	129,353	122,396	126,201	121,752
Weighted-average common and common equivalent shares outstanding – diluted	130,644	123,265	126,989	122,238

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Net income attributable to Raymond James Financial, Inc.	\$68,869	\$80,917	\$136,194	\$162,640
Other comprehensive income, net of tax:(1)				
Change in unrealized (loss) gain on available for sale securities and non-credit portion of other-than-temporary impairment losses	11,236	2,024	5,575	6,921
Change in currency translations	2,525	3,703	7,345	9,207
Total comprehensive income	\$82,630	\$86,644	\$149,114	\$178,768
Other-than-temporary impairment:				
Total other-than-temporary impairment, net	\$10,853	\$(2,163)	\$6,666	\$(1,384)
Portion of recoveries recognized in other comprehensive income (before taxes)	(12,190)	(1,056)	(10,099)	(4,014)
Net impairment losses recognized in other revenue	\$(1,337)	\$(3,219)	\$(3,433)	\$(5,398)

- (1) The components of other comprehensive income, net of tax, are attributable to Raymond James Financial, Inc. None of the components of other comprehensive income are attributable to noncontrolling interests. See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Six months ended March 31,	
	2012	2011
	(in thousands, except per share amounts)	
Common stock, par value \$.01 per share:		
Balance, beginning of year	\$ 1,271	\$ 1,244
Issuance of shares, registered public offering	111 (1)	-
Other issuances	14	20 (2)
Balance, end of period	1,396	1,264
Shares exchangeable into common stock:		
Balance, beginning of year	-	3,119
Exchanged	-	(3,119) (2)
Balance, end of period	-	-
Additional paid-in capital:		
Balance, beginning of year	565,135	476,359
Issuance of shares, registered public offering	362,121 (1)	-
Employee stock purchases	5,567	4,486
Exercise of stock options and vesting of restricted stock units, net of forfeitures	11,783	30,343
Restricted stock, stock option and restricted stock unit expense	28,426	23,960
Excess tax benefit (deficiency) from share-based payments	1,640	(236))
Other	221	3,107 (2)
Balance, end of period	974,893	538,019
Retained earnings:		
Balance, beginning of year	2,125,818	1,909,865
Net income attributable to Raymond James Financial, Inc.	136,194	162,640
Cash dividends declared	(34,318))	(32,868))
Other	(4,837))	4,370
Balance, end of period	2,222,857	2,044,007
Treasury stock:		
Balance, beginning of year	(95,000))	(81,574))
Purchases/surrenders	(18,900))	(6,659))
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(708))	2,802
Balance, end of period	(114,608))	(85,431))
Accumulated other comprehensive income: (3)		
Balance, beginning of year	(9,605))	(6,197))
Net unrealized (loss) gain on available for sale securities and non-credit portion of other-than-temporary impairment losses (4)	5,575	6,921
Net change in currency transactions	7,345	9,207
Balance, end of period	3,315	9,931
Total equity attributable to Raymond James Financial, Inc.	\$ 3,087,853	\$ 2,507,790

Noncontrolling interests:		
Balance, beginning of year	\$ 324,226	\$ 294,052
Net loss attributable to noncontrolling interests	(9,798)	(5,767)
Capital contributions	27,383	18,052
Distributions	(3,539)	(3,225)
Deconsolidation of previously consolidated low income housing tax credit funds	-	(6,789)
Consolidation of low income housing tax credit funds not previously consolidated	-	14,635
Other	(10,254)	660
Balance, end of period	328,018	311,618
Total equity	\$ 3,415,871	\$ 2,819,408

- (1) During the six months ended March 31, 2012, in a registered public offering, 11,075,000 common shares were issued generating approximately \$362 million in net proceeds (after consideration of the underwriting discount and direct expenses of the offering).
- (2) During the six months ended March 31, 2011, approximately 243,000 exchangeable shares were exchanged for common stock on a one-for-one basis.
- (3) The components of other comprehensive income are attributable to Raymond James Financial, Inc. None of the components of other comprehensive income are attributable to noncontrolling interests.

(4) Net of tax.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended March 31,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	\$ 136,194	\$ 162,640
Net loss attributable to noncontrolling interests	(9,798)	(5,767)
Net income including noncontrolling interests	126,396	156,873
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	20,053	19,802
Deferred income taxes	(10,033)	(25,848)
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(13,425)	(1,669)
Provisions for loan losses, legal proceedings, bad debts and other accruals	9,638	30,020
Share-based compensation expense	30,340	27,041
Other	(1,310)	(1,317)
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	90,319	1,025,583
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	6,370	(216,778)
Stock loaned, net of stock borrowed	(242,949)	(136,296)
Brokerage client receivables and other accounts receivable, net	(18,653)	(157,246)
Trading instruments, net	44,653	86,277
Prepaid expenses and other assets	27,713	11,120
Brokerage client payables and other accounts payable	83,022	390,655
Accrued compensation, commissions and benefits	(90,531)	(54,660)
Purchase and origination of loans held for sale, net of proceeds from sale of securitizations and loans held for sale	9,677	(19,511)
Excess tax benefits from stock-based payment arrangements	(2,210)	(1,069)
Net cash provided by operating activities	69,070	1,132,977
Cash flows from investing activities:		
Additions to property and equipment	(31,182)	(15,974)
(Increase) decrease in loans, net	(961,708)	24,523
(Purchases) redemptions of Federal Home Loan Bank stock, net	(1,168)	4,777
(Purchases) sales of private equity and other investments, net	(8,361)	14,328
Purchases of available for sale securities	(111,884)	(1,832)
Available for sale securities maturations, repayments and redemptions	61,380	66,615
Proceeds from sales of available for sale securities	-	11,444
Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity	330	(2,326)
Net cash (used in) provided by investing activities	(1,052,593)	101,555
Cash flows from financing activities:		
Proceeds from (repayments of) borrowed funds, net	932,079	(2,558,602)
Proceeds from issuance of shares in registered public offering	362,232	-
Repayments of borrowings by consolidated variable interest entities which are real estate partnerships	(11,600)	(11,859)
	101	17,528

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Proceeds from capital contributed to and borrowings of consolidated variable interest entities which are real estate partnerships		
Purchase of additional equity interest in subsidiary	(4,017)	-
Exercise of stock options and employee stock purchases	16,144	37,202
Increase (decrease) in bank deposits	174,524	(369,135)
Purchase of treasury stock	(19,222)	(6,916)
Dividends on common stock	(32,878)	(32,868)
Excess tax benefits from share-based payment arrangements	2,210	1,069
Net cash provided by (used in) financing activities	1,419,573	(2,923,581)
Currency adjustment:		
Effect of exchange rate changes on cash	113	978
Net increase (decrease) in cash and cash equivalents	436,163	(1,688,071)
Cash and cash equivalents at beginning of year	2,439,695	2,943,239
Cash and cash equivalents at end of period	\$ 2,875,858	\$ 1,255,168
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 36,311	\$ 32,565
Cash paid for income taxes	\$ 110,488	\$ 118,750
Non-cash transfers of loans to other real estate owned	\$ 10,954	\$ 9,936

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012

NOTE 1 – BASIS OF PRESENTATION

Raymond James Financial, Inc. (“RJF”) is a holding company headquartered in Florida whose broker-dealer subsidiaries are engaged in various financial service businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, other subsidiaries of RJF provide investment management services for retail and institutional clients, corporate and retail banking, and trust services. As used herein, the terms “we,” “our” or “us” refer to RJF and/or one or more of its subsidiaries.

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition, we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Certain financial information that is normally included in annual financial statements prepared in accordance with United States of America (“U.S.”) generally accepted accounting principles (“GAAP”) but not required for interim reporting purposes has been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented.

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended September 30, 2011, as filed with the U.S. Securities and Exchange Commission (the “2011 Form 10-K”). To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Update of significant accounting policies

A summary of our significant accounting policies is included in Note 1 on pages 81 - 97 of our 2011 Form 10-K. Other than as discussed below, there have been no significant changes in our significant accounting policies since September 30, 2011.

At March 31, 2012, we implemented new Financial Accounting Standards Board guidance regarding fair value measurement. This new guidance primarily provides for certain additional fair value disclosures. See Note 4 for the additional disclosures required under this new accounting guidance.

As more fully described in Note 1, page 87, of our 2011 Form 10-K, we have certain financing receivables that arise from businesses other than our banking business. Specifically, we offer loans to financial advisors and certain key

revenue producers, primarily for recruiting and retention purposes, the net balances associated therewith are included within other receivables on our Condensed Consolidated Statements of Financial Condition. The outstanding balance of these loans is \$244.3 million and \$231.5 million at March 31, 2012 and September 30, 2011, respectively. The related allowance for doubtful accounts balance is \$2.2 million and \$5.9 million at March 31, 2012 and September 30, 2011, respectively. Of the March 31, 2012 loan balance referred to above, the portion of the balance associated with financial advisors who are no longer affiliated with us, after consideration of the allowance for doubtful accounts, is approximately \$1.4 million.

Reclassifications

In the fourth quarter of fiscal year 2011, we changed the title of what had been known as “Financial Service Fees” on our Condensed Consolidated Statements of Income and Comprehensive Income to “Account and Service Fees,” to better reflect the nature of the revenues included within the line item description. Additionally, we reclassified certain components of revenue previously included within other revenues into Account and Service Fees. A reclassification of \$29.8 million and \$57.5 million of revenue previously reported as a component of other revenues for the three and six months ended March 31, 2011 has been included in Account and Service Fees on the Condensed Consolidated Statements of Income and Comprehensive Income as presented, to conform the prior period to the current period presentation.

Certain other prior period amounts, none of which are material, have been reclassified to conform to the current presentation.

NOTE 2 – ACQUISITION OF MORGAN KEEGAN

On January 11, 2012, RJF entered into a definitive stock purchase agreement (the “Stock Purchase Agreement”) to acquire all of the issued and outstanding shares of Morgan Keegan & Company, Inc. and MK Holding, Inc. and certain of its related affiliates (“Morgan Keegan”) from Regions Financial Corporation (“Regions”). This transaction closed on April 2, 2012. This acquisition expands both our private client wealth management and our capital markets businesses.

Acquisition related expenses are recorded in the Condensed Consolidated Statement of Income and Comprehensive Income and include certain incremental expenses arising solely as a result of our acquisition of Morgan Keegan. During the three and six months ended March 31, 2012, we incurred the following acquisition related expenses:

	For the three and six month periods ended March 31, 2012 (in thousands)
Financial advisory fees	\$ 7,020
Acquisition bridge financing facility fees	5,684
Severance	3,183
Legal	2,495
Travel	349
Other	873
Total acquisition related expenses	\$ 19,604

We will apply the acquisition method of accounting to this transaction as of April 2, 2012. Our fiscal year third quarter 2012 results of operations will include the operations of Morgan Keegan for the period from April 2, 2012 to June 30, 2012. Due to the timing of the acquisition closing, the outcome of the application of the acquisition method and the resultant impact on our condensed consolidated financial statements is incomplete and therefore not included in this quarterly report.

Under the terms of the Stock Purchase Agreement, upon closing Regions received approximately \$1.2 billion in cash from RJF in exchange for the Morgan Keegan shares. This purchase price represents a \$230 million premium over a preliminary \$970 million tangible book value at closing. The Stock Purchase Agreement contemplated that Morgan Keegan would pay a cash dividend of \$250 million to Regions prior to the closing of the transaction. However, the parties subsequently decided to defer payment of the dividend until after the closing, resulting in an increase in the book value of Morgan Keegan and therefore, the purchase price. Following the closing, RJF received a cash dividend in the amount of \$250 million from Morgan Keegan. The purchase price is subject to final determination of tangible book value as of the closing date and a potential downward adjustment if certain revenue retention hurdles are not met within 90-days post-closing. RJF anticipates providing approximately \$215 million in the form of either cash or restricted stock units to certain key Morgan Keegan revenue producers as part of an employee retention program. Concurrent with the execution of the Stock Purchase Agreement, RJF executed employment agreements with certain key members of the Morgan Keegan management team. In addition to customary indemnity for breach of representations and warranties and covenants, the Stock Purchase Agreement also provides that Regions will indemnify RJF for losses incurred in connection with any litigation or similar matter relating to pre-closing actions. Certain indemnifiable losses are subject to an annual \$2 million deductible for three years.

On January 11, 2012, J.P. Morgan Chase (“JPM Chase”) entered into a commitment letter to provide RJF with a \$900 million bridge financing facility to provide financing of the purchase price. On February 16, 2012, JPM Chase and a number of other lenders executed a \$900 million bridge credit agreement (the “Bridge Financing Agreement”). As a result of the successful completion of certain equity and debt financing transactions during the quarter ended March 31, 2012, RJF terminated the Bridge Financing Agreement on March 10, 2012.

On April 2, 2012, certain subsidiaries of RJF (the “Borrowers”) entered into a credit agreement (the “Regions Credit Agreement”) with Regions Bank, an Alabama banking corporation (the “Lender”). The Regions Credit Agreement provided for a \$200 million loan made by the Lender to the Borrowers and is subject to a guarantee in favor of the Lender provided by RJF. The proceeds from the loan were disbursed by the Borrowers to RJF for working capital and general corporate purposes. The obligations under the Credit Agreement are secured by, subject to certain exceptions, all of the Borrowers’ personal property, including (i) all present and future auction rate securities owned by any Borrower (the “Pledged Auction Rate Securities”), (ii) all equity interests issued by certain subsidiaries, and (iii) all present and future equity interests and debt securities owned by any Borrower. The loan matures on April 2, 2015 and bears interest at a monthly variable rate equal to LIBOR plus 2.75%.

NOTE 3 – CASH AND CASH EQUIVALENTS, ASSETS SEGREGATED PURSUANT TO REGULATIONS, AND DEPOSITS WITH CLEARING ORGANIZATIONS

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes. For further discussion of our accounting policies regarding assets segregated pursuant to regulations and other segregated assets, see Note 1 on page 83 of our 2011 Form 10-K.

Our cash and cash equivalents, assets segregated pursuant to regulations or other segregated assets, and deposits with clearing organization balances are as follows:

	March 31, 2012	September 30, 2011
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	\$2,870,287	\$ 2,438,249
Money market investments	5,571	1,446
Total cash and cash equivalents (1)	2,875,858	2,439,695
Cash and securities segregated pursuant to federal regulations and other segregated assets (2)	3,458,364	3,548,683
Deposits with clearing organizations (3)	86,417	91,482
	\$6,420,639	\$ 6,079,860

- (1) The total amount presented includes \$1.6 billion and \$471 million of cash and cash equivalents as of March 31, 2012 and September 30, 2011, respectively, which are either on deposit at our wholly owned bank subsidiary Raymond James Bank, FSB (effective February 1, 2012, Raymond James Bank, N.A.) (“RJ Bank”) or are otherwise invested by one of our subsidiaries on behalf of RJF. The \$1.6 billion at March 31, 2012 includes proceeds from the completion of certain equity and debt financing transactions related to the acquisition of Morgan Keegan which closed on April 2, 2012. See Note 2 for more information.
- (2) Consists of cash maintained in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934. Raymond James & Associates, Inc., as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in segregated reserve accounts for the exclusive benefit of its clients. Additionally, Raymond James Ltd. (“RJ Ltd.”) is required to hold client Registered Retirement Savings Plan funds in trust.
- (3) Consists of deposits of cash and cash equivalents or other short-term securities held by other clearing organizations or exchanges.

NOTE 4 – FAIR VALUE

For a further discussion of our valuation methodologies for assets, liabilities measured at fair value, and the fair value hierarchy, see Note 1, pages 83 – 87, in our 2011 Form 10-K.

There have been no material changes to our valuation methodologies since our year ended September 30, 2011.

Assets and liabilities measured at fair value on a recurring and nonrecurring basis are presented below:

March 31, 2012	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3) (in thousands)	Netting adjustments (2)	Balance as of March 31, 2012
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	\$7	\$ 150,273	\$ -	\$ -	\$ 150,280
Corporate obligations	6,457	20,463	-	-	26,920
Government and agency obligations	24,316	23,206	-	-	47,522
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	51	128,513	-	-	128,564
Non-agency CMOs and asset-backed securities (“ABS”)	-	30,319	34	-	30,353
Total debt securities	30,831	352,774	34	-	383,639
Derivative contracts	-	117,362	-	(81,522)	35,840
Equity securities	20,031	3,316	-	-	23,347
Other securities	689	1,718	6,618	-	9,025
Total trading instruments	51,551	475,170	6,652	(81,522)	451,851
Available for sale securities:					
Agency MBS and CMOs	-	256,670	-	-	256,670
Non-agency CMOs	-	144,825	633	-	145,458
Other securities	13	-	-	-	13
Auction rate securities (“ARS”):					
Municipals	-	-	71,909	(3)	71,909
Preferred securities	-	-	102,092	-	102,092
Total available for sale securities	13	401,495	174,634	-	576,142
Private equity and other investments:					
Private equity investments	-	-	181,446	(4)	181,446
Other investments	116,154	66	2,193	-	118,413
Total private equity and other investments	116,154	66	183,639	-	299,859
Other assets	-	82	-	-	82
Total assets at fair value on a recurring basis	\$ 167,718	\$ 876,813	\$ 364,925	\$ (81,522)	\$ 1,327,934
Assets at fair value on a nonrecurring basis:					
Bank loans, net:					
Impaired loans(5)	\$-	\$ 55,142	\$ 34,419	\$ -	\$ 89,561

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Loans held for sale(6)	-	57,655	-	-	57,655
Total bank loans, net	-	112,797	34,419	-	147,216
Other Real Estate Owned (“OREO”) (7)	-	4,649	-	-	4,649
Total assets at fair value on a nonrecurring basis(8)	\$-	\$ 117,446	\$ 34,419	-	\$ 151,865

(continued on next page)

- (5) There was a \$55 million transfer of impaired loans from Level 3 to Level 2 during the three month period ended March 31, 2012 due to the increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our analysis indicates that comparative sales data is a reasonable estimate of fair value, therefore, more consideration was given to this observable input.
- (6) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.
- (7) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.
- (8) The adjustment to fair value of the nonrecurring fair value measures for the six months ended March 31, 2012 resulted in \$10 million in additional provision for loan losses, as well as \$790 thousand in other losses during the six month period.

September 30, 2011	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3) (in thousands)	Netting adjustments (2)	Balance as of September 30, 2011
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	\$8	\$ 164,019	\$ 375	\$ -	\$ 164,402
Corporate obligations	4,137	23,470	-	-	27,607
Government and agency obligations	22,620	13,486	-	-	36,106
Agency MBS and CMOs	31	147,726	-	-	147,757
Non-agency CMOs and ABS	-	49,069	50	-	49,119
Total debt securities	26,796	397,770	425	-	424,991
Derivative contracts	-	126,867	-	(88,563)	38,304
Equity securities	17,908	3,274	15	-	21,197
Other securities	816	7,463	-	-	8,279
Total trading instruments	45,520	535,374	440	(88,563)	492,771
Available for sale securities:					
Agency MBS and CMOs	-	178,732	-	-	178,732
Non-agency CMOs	-	145,024	851	-	145,875
Other securities	10	-	-	-	10
ARS:					
Municipals	-	-	79,524 (3)	-	79,524
Preferred securities	-	-	116,524	-	116,524
Total available for sale securities	10	323,756	196,899	-	520,665
Private equity and other investments:					
Private equity investments	-	-	168,785 (4)	-	168,785
Other investments	123,421	63	2,087	-	125,571
Total private equity and other investments	123,421	63	170,872	-	294,356
Other assets	-	2,696	-	-	2,696
Total assets at fair value on a recurring basis	\$168,951	\$ 861,889	\$ 368,211	\$ (88,563)	\$ 1,310,488
Assets at fair value on a nonrecurring basis:					
Bank loans, net (5)	\$-	\$ 39,621	111,941 (7)	\$ -	\$ 151,562
OREO(6)	-	11,278	-	-	11,278
Total assets at fair value on a nonrecurring basis	\$-	\$ 50,899	\$ 111,941	\$ -	\$ 162,840

Liabilities at fair value on a recurring basis:

Trading instruments sold but not yet purchased:

Municipal and provincial obligations	\$-	\$ 607	\$ -	\$ -	\$ 607
Corporate obligations	-	5,625	-	-	5,625
Government obligations	56,472	-	-	-	56,472
Agency MBS and CMOs	159	-	-	-	159
Total debt securities	56,631	6,232	-	-	62,863
Derivative contracts	-	112,457	-	(105,869)	6,588
Equity securities	6,488	211	-	-	6,699
Total trading instruments sold but not yet purchased	63,119	118,900	-	(105,869)	76,150
Other liabilities	-	20	40	-	60
Total liabilities at fair value on a recurring basis	\$63,119	\$ 118,920	\$ 40	\$ (105,869)	\$ 76,210

- (1) We had no significant transfers of financial instruments between Level 1 and Level 2 during the period ended September 30, 2011. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.
- (2) We have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.
- (3) Includes \$53.2 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and \$19.2 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.
- (4) Includes \$87.9 million in private equity investments of which the weighted-average portion we own is approximately 20%. Effectively, the economics associated with the portion of this investment we do not own becomes a component of noncontrolling interests on our Condensed Consolidated Statements of Financial Condition, and amounted to approximately \$70 million of that total as of September 30, 2011.
- (5) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.
- (6) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.
- (7) At September 30, 2011, Level 3 assets include residential first mortgage nonaccrual loans for which a charge-off had been recorded. See Note 7, pages 110 – 116 of our 2011 Form 10-K.

Changes in Level 3 recurring fair value measurements

The realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

Additional information about Level 3 assets and liabilities measured at fair value on a recurring basis is presented below:

Three months ended March 31, 2012											
Level 3 assets at fair value											
(in thousands)											
	Financial assets									Financial liabilities	
	Trading instruments			Available for sale securities			Private equity and other investments			Payables-trade and other	
	Non-Municipal & provincial obligations	Agency & CMOs	Equity securities	Other securities	Non-agency CMOs	ARS – municipals	ARS - Preferred securities	Private equity investments	Other investments	Other liabilities	
Fair value December 31, 2011	\$ 135	\$ 37	\$ 179	\$ 5,635	\$ 741	\$ 74,707	\$ 98,537	\$ 162,074	\$ 2,040	\$(29)	
Total gains (losses) for the period:											
Included in earnings	9	-	15	(218)	(138)	-	-	8,026	(1)	154	(10)
Included in other comprehensive income	-	-	-	-	39	(2,798)	3,555	-	-	-	-
Purchases and contributions	-	-	-	5,189	-	-	-	12,895	-	-	-
Sales	-	-	(16)	(3,494)	-	-	-	-	(1)	-	-
Redemptions by issuer	-	-	-	-	-	-	-	-	-	-	-
Distributions	-	(3)	-	(494)	(9)	-	-	(1,549)	-	-	-
Transfers:											
Into Level 3	-	-	-	-	-	-	-	-	-	-	-
Out of Level 3(2)	(144)	-	(178)	-	-	-	-	-	-	-	-
Fair value March 31, 2012	\$ -	\$ 34	\$ -	\$ 6,618	\$ 633	\$ 71,909	\$ 102,092	\$ 181,446	\$ 2,193	\$(39)	
Change in unrealized gains	\$-	\$ 64	\$-	\$(218)	\$(138)	\$(2,798)	\$ 3,555	\$ 8,026	(1)	\$ 117	\$-

(losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period

- (1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of \$2.8 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately \$5.2 million.
- (2) The transfers out of Level 3 were a result of an increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

Six months ended March 31, 2012
Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities		
	Trading instruments				Available for sale securities				Private equity and other investments	Payables-trade and other	Other liabilities
	Non-Municipal & provincial obligations	agency CMOs & ABS	Equity securities	Other securities	Non-agency CMOs	ARS – municipals	ARS - Preferred securities	Private equity investments	Other investments		
Fair value September 30, 2011	\$ 375	\$ 50	\$ 15	\$ -	\$ 851	\$79,524	\$ 116,524	\$168,785	\$ 2,087	\$(40)	
Total gains (losses) for the period:											
Included in earnings	89	(4)	11	(1,160)	(138)	(540)	(75)	8,030	(1)	107	1
Included in other comprehensive income	-	-	-	-	(54)	(7,468)	2,661	-	-	-	-
Purchases and contributions	-	-	16	5,189	-	475	475	15,262	-	-	-
Sales	(320)	-	(16)	(3,494)	-	-	-	-	(1)	-	-
Redemptions by issuer	-	-	-	-	-	(125)	(17,450)	-	-	-	-
Distributions	-	(12)	-	(494)	(26)	-	-	(10,631)	-	-	-
Transfers:											
Into Level 3	-	-	152	6,577	(2)	43	-	-	-	-	-
Out of Level 3(3)	(144)	-	(178)	-	-	-	(43)	-	-	-	-
Fair value March 31, 2012	\$ -	\$ 34	\$ -	\$ 6,618	\$ 633	\$71,909	\$102,092	\$181,446	\$ 2,193	\$(39)	
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting	\$-	\$64	\$-	\$(218)	\$(138)	\$(7,930)	\$2,661	\$8,030	(1)	\$52	\$-

period

- (1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of \$2.8 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately \$5.2 million.
- (2) During the six month period ended March 31, 2012, we transferred certain securities which were previously included in Level 2, non-agency CMOs and ABS.
- (3) The transfers out of Level 3 were a result of an increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

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Three months ended March 31, 2011

Level 3 assets at fair value
(in thousands)

	Financial assets						Financial liabilities	
	Trading instruments		Available for sale securities	Private equity and other investments		Prepaid expenses and other assets	Payables-trade and other	
	Municipal & provincial obligations	Non-agency CMOs & ABS		Non- agency CMOs	Private equity investments			Other investments
Fair value								
December 31, 2010	\$ 6,076	\$ 3,643	\$ 3,225	\$ 1,098	\$ 159,586	\$ 45	\$ 25	\$ (46)
Total gains (losses) for the period:								
Included in earnings	(388)	877	-	121	(478)	-	-	-
Included in other comprehensive income	-	-	-	(101)	-	-	-	-
Purchases, issues & settlements, net	-	(599)	(1,300)	(318)	(2,062)	-	-	-
Transfers:								
Into Level 3	-	-	-	-	-	-	-	(3)
Out of Level 3	-	-	-	-	-	-	-	7
Fair value								
March 31, 2011	\$ 5,688	\$ 3,921	\$ 1,925	\$ 800	\$ 157,046	\$ 45	\$ 25	\$ (42)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$(388)	\$ 1,092	\$-	\$(81)	\$(3,293)	\$ -	\$-	\$ -

Six months ended March 31, 2011

Level 3 assets at fair value
(in thousands)

	Financial assets				Financial liabilities	
	Trading instruments	Available for sale securities	Private equity and other investments	Prepaid expenses and other	Payables-trade and other	

	assets							
	Municipal & provincial obligations	Non-agency CMOs & ABS	Equity securities	Non- agency CMOs	Private equity investments	Other investments	Other assets	Other liabilities
Fair value								
September 30, 2010	\$ 6,275	\$ 3,930	\$ 3,025	\$ 1,011	\$ 161,230	\$ 45	\$ -	\$ (46)
Total gains (losses) for the period:								
Included in earnings	(582)	740	-	121	(403)	-	-	-
Included in other comprehensive income	-	-	-	66	-	-	-	-
Purchases, issues & settlements, net	(5)	(749)	(1,100)	(398)	(3,781)	-	-	-
Transfers:								
Into Level 3	-	-	-	-	-	-	25	(3)
Out of Level 3	-	-	-	-	-	-	-	7
Fair value								
March 31, 2011	\$ 5,688	\$ 3,921	\$ 1,925	\$ 800	\$ 157,046	\$ 45	\$ 25	\$ (42)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$(777)	\$ 1,144	\$-	\$(81)	\$(3,298)	\$ -	\$-	\$ -

As of March 31, 2012, 6.9% of our assets and 0.5% of our liabilities are instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2012 represent 27.5% of our assets measured at fair value, a substantial increase as compared to March 31, 2011 as a result of the repurchase of ARS that primarily occurred during the fourth quarter of fiscal year 2011 (see the ARS repurchase discussion in Note 18 on pages 130 – 131 of our 2011 Form 10-K). As of March 31, 2011, 7.8% and 0.9% of our assets and liabilities, respectively, represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2011 represented 14.2% of our assets measured at fair value.

Gains and losses included in earnings for the period are presented in net trading profits and other revenues in our Condensed Consolidated Statements of Income and Comprehensive Income as follows:

For the three months ended March 31, 2012	Net trading profits (in thousands)	Other revenues (in thousands)
Total (losses) gains for the period included in revenues	\$(194)	\$8,032
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	(154)	8,762
For the six months ended March 31, 2012	Net trading profits (in thousands)	Other revenues (in thousands)
Total (losses) gains for the period included in revenues	\$(1,064)	\$7,385
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	(154)	2,675
For the three months ended March 31, 2011	Net trading profits (in thousands)	Other revenues (in thousands)
Total gains (losses) for the period included in revenues	\$489	\$(357)
Change in unrealized gains (losses) for the period for assets held at the end of the reporting period	705	(3,374)
For the six months ended March 31, 2011	Net trading profits (in thousands)	Other revenues (in thousands)
Total gains (losses) for the period included in revenues	\$158	\$(282)
Change in unrealized gains (losses) for the period for assets held at the end of the reporting period	367	(3,379)

Quantitative information about level 3 fair value measurements

The significant assumptions used in the valuation of level 3 financial instruments are as follows (the table below includes the significant majority of the financial instruments we hold that are classified as level 3 measures):

Level 3 financial instrument	Fair value at March 31, 2012 (in thousands)	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements:				
Available for sale securities:				
ARS:				
Municipals	\$ 45,822	Probability weighted internal scenario model:		
		Scenario 1 - Recent trades	Observed trades (in inactive markets) of in-portfolio securities as well as observed trades (in active markets) of other comparable securities	57% of par - 104% of par (59% of par)
		Scenario 2 – scenario of potential outcomes	Par value of scenario based possible outcomes(a)	70% of par- 93% of par (83% of par)
			Weighting assigned to weighted average of scenario 1	50%-60% (55%)
			Weighting assigned to weighted average of scenario 2	40%-50% (45%)
	\$ 19,064	Recent trades	Observed trades (in inactive markets) of in-portfolio securities as well as observed trades of other comparable securities (in inactive markets)	51% of par - 107% of par (64% of par)
			Comparability adjustments(b)	+/-5% of par (+/-5% of par)
	\$ 7,023	Discounted cash flow	Average discount rate(c)	3.17% - 7.15% (4.68%)
			Average interest rates applicable to future	0.67% - 6.14% (4.30%)

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			interest income on the securities(d)		2014 - 2030
				Prepayment year(e)	(2019)
Preferred securities	\$ 102,092	Discounted cash flow	Average discount rate(c)		4.32% - 5.59% (5.09%)
			Average interest rates applicable to future interest income on the securities(d)		2.34% - 3.52% (3.17%)
					2012 - 2021
				Prepayment year(e)	(2018)
Private equity investments:	\$ 84,927	Market comparable companies	EBITDA multiple(f)		5.75 - 6 (5.88)
			Projected EBITDA growth(g)		7.9% - 14.5% (11.2%)
	\$ 37,348	Discounted cash flow	Discount rate		15% - 15% (15%)
			Terminal growth rate of cash flows		3% - 3% (3%)
				Terminal year	2015 - 2015 (2015)
	\$ 59,171	Transaction price or other investment-specific events(h)	Not meaningful(h)		Not meaningful(h)
Nonrecurring measurements:					
Impaired loans : residential	\$ 22,149	Discounted cash flow	Prepayment rate		0 yrs. - 12 yrs. (2.03 yrs.)
Impaired loans : corporate	\$ 12,270	Appraisal or discounted cash flow(i)	Not meaningful(i)		Not meaningful(i)

(a) Management utilizes an internal model which projects the outcome of various scenarios which management believes market participants are evaluating as likely possible outcomes impacting the value of the security. Values presented represent the range of fair values associated with the various potential scenarios.

(b) Management estimates that market participants apply this range of either discount or premium, as applicable, to the limited observable trade data in order to assess the value of the securities within this portfolio segment.

(c) Represents amounts used when we have determined that market participants would take these discounts into account when pricing the investments.

(d) Future interest rates are projected based upon a forward interest rate curve, plus a spread over such projected base rate that is applicable to each future period for each security within this portfolio segment. The interest rates presented represent the average interest rate over all projected periods for securities within the portfolio segment.

(e) Assumed year of at least a partial redemption of the outstanding security by the issuer.

(f) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.

(g) Represents the projected growth in earnings before interest, taxes, depreciation and amortization ("EBITDA") utilized in the valuation as compared to the prior periods reported EBITDA.

(h)

Certain direct private equity investments are valued initially at the transaction price until significant transactions or developments indicate that a change in the carrying values of these investments is appropriate.

- (i) The valuation techniques used for the impaired corporate loan portfolio as of March 31, 2012 were appraisals less selling costs for the collateral dependent loans, and discounted cash flows for the one remaining impaired loan that is not collateral dependent.

Qualitative disclosure about unobservable inputs

For our recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs are described below:

Auction rate securities:

One of the significant unobservable inputs used in the fair value measurement of auction rate securities presented within our available for sale securities portfolio relate to judgments regarding whether the level of observable trading activity is sufficient to conclude markets are active. Where insufficient levels of trading activity are determined to exist as of the reporting date, then management's assessment of how much weight to apply to trading prices in inactive markets versus management's own valuation models could significantly impact the valuation conclusion. The valuation of the securities impacted by changes in management's assessment of market activity levels could be either higher or lower, depending upon the relationship of the inactive trading prices compared to the outcome of management's internal valuation models.

The future interest rate and maturity assumptions impacting the valuation of the auction rate securities are directly related. As short-term interest rates rise, due to the variable nature of the penalty interest rate provisions imbedded in most of these securities in the event auctions fail to set the security's interest rate, then a penalty rate that is specified in the security increases. These penalty rates are based upon a stated interest rate spread over what is typically a short-term base interest rate index. Management estimates that at some level of increase in short-term interest rates, issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. Therefore, the short-term interest rate assumption directly impacts the input related to the timing of any projected prepayment. The faster and steeper short-term interest rates rise, the earlier prepayments will likely occur and the higher the fair value of the security.

Private equity investments:

The significant unobservable inputs used in the fair value measurement of private equity investments included within our other assets relate to the financial performance of the investment entity, and the markets required return on investments from entities in industries in which we hold investments. Significant increases (or decreases) in either our investment entities future economic performance will have a directly proportional impact on the valuation results. The value of our investment moves inversely with the market's expectation of returns from such investments. Should the market require higher returns from industries in which we are invested, all other factors held constant, our investments will decrease in value. Should the market accept lower returns from industries in which we are invested, all other factors held constant, our investments will increase in value.

Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. As of March 31, 2012, we have elected not to choose the fair value option for any of our financial assets or liabilities not already recorded at fair value.

Other fair value disclosures

Many, but not all, of the financial instruments we hold are recorded at fair value in the Condensed Consolidated Statements of Financial Condition. Refer to Note 3, pages 103 – 104, of our 2011 Form 10-K for discussion of the methods and assumptions we apply to the determination of fair value of our financial instruments that are not otherwise recorded at fair value.

The estimated fair values by level within the fair value hierarchy and the carrying amounts of our financial instruments that are not carried at fair value as of March 31, 2012 are as follows:

March 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3) (in thousands)	Total estimated fair value	Carrying amount
Financial assets:					
Bank loans, net(1)	\$-	\$-	\$ 7,343,148	\$ 7,343,148	\$ 7,298,612
Financial liabilities:					
Bank deposits	\$-	\$7,605,995	\$ 318,021	\$ 7,924,016	\$ 7,913,846
Other borrowings	-	349,600	-	349,600	349,600
Corporate debt	363,720	926,855	-	1,290,575	1,205,664

(1) Excludes all impaired loans and loans held for sale which have been recorded at fair value in the Condensed Consolidated Statement of Financial Condition at March 31, 2012.

The estimated fair values and the carrying amounts of our financial instruments that are not carried at fair value as of September 30, 2011 are as follows:

	Estimated fair value (in thousands)	Carrying amount
Financial assets:		
Bank loans, net	\$6,596,439	\$6,547,914
Financial liabilities:		
Bank deposits	7,745,607	7,739,322
Corporate debt	675,509	611,968

NOTE 5 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	March 31, 2012	September 30, 2011
	Trading Instruments	Trading Instruments

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	instruments	sold but not yet purchased	instruments	sold but not yet purchased
	(in thousands)			
Municipal and provincial obligations	\$ 150,280	\$ 357	\$ 164,402	\$ 607
Corporate obligations	26,920	505	27,607	5,625
Government and agency obligations	47,522	66,030	36,106	56,472
Agency MBS and CMOs	128,564	142	147,757	159
Non-agency CMOs and ABS	30,353	-	49,119	-
Total debt securities	383,639	67,034	424,991	62,863
Derivative contracts	35,840	3,066	38,304	6,588
Equity securities	23,347	10,323	21,197	6,699
Other securities	9,025	-	8,279	-
Total	\$ 451,851	\$ 80,423	\$ 492,771	\$ 76,150

See Note 4 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

NOTE 6 – AVAILABLE FOR SALE SECURITIES

Available for sale securities are comprised of MBS and CMOs owned by RJ Bank, ARS and certain equity securities owned by our non-broker-dealer subsidiaries. Refer to the discussion of our available for sale securities accounting policies, including the fair value determination process, on Note 1 pages 85 – 86 in our 2011 Form 10-K.

There were no proceeds from the sale of available for sale securities during the six month period ended March 31, 2012. There were proceeds of \$11.4 million from the sale of available for sale securities during the six month period ended March 31, 2011, which resulted in total losses of \$209 thousand.

During the six month period ended March 31, 2012, ARS with an aggregate par value of \$17.6 million were redeemed by their issuer at par; an insignificant gain was recorded in our Condensed Consolidated Statements of Income and Comprehensive Income on the ARS securities which were subject to these redemptions.

The amortized cost and fair values of available for sale securities are as follows:

	Cost basis	Gross unrealized gains (in thousands)	Gross unrealized losses	Fair value
March 31, 2012:				
Available for sale securities:				
Agency MBS and CMOs	\$255,832	\$ 1,284	\$ (446)	\$256,670
Non-agency CMOs (1)	179,282	-	(33,824)	145,458
Total RJ Bank available for sale securities	435,114	1,284	(34,270)	402,128
Auction rate securities:				
Municipal obligations(2)	79,377	221	(7,689)	71,909
Preferred securities	99,431	2,661	-	102,092
Total auction rate securities	178,808	2,882	(7,689)	174,001
Other securities	3	10	-	13
Total available for sale securities	\$613,925	\$ 4,176	\$ (41,959)	\$576,142
September 30, 2011:				
Available for sale securities:				
Agency MBS and CMOs	\$178,120	\$ 639	\$ (27)	\$178,732
Non-agency CMOs (3)	192,956	-	(47,081)	145,875
Total RJ Bank available for sale securities	371,076	639	(47,108)	324,607
Auction rate securities:				
Municipal obligations	79,524	-	-	79,524
Preferred securities	116,524	-	-	116,524
Total auction rate securities	196,048	-	-	196,048
Other securities	3	7	-	10
Total available for sale securities	\$567,127	\$ 646	\$ (47,108)	\$520,665

- (1) As of March 31, 2012, the non-credit portion of other-than-temporary impairment (“OTTI”) recorded in accumulated other comprehensive income (“AOCI”) was \$27.8 million (before taxes).
- (2) As of March 31, 2012, the non-credit portion of OTTI recorded in AOCI was \$7.5 million (before taxes).
- (3) As of September 30, 2011, the non-credit portion of OTTI recorded in AOCI was \$37.9 million (before taxes).

See Note 4 for additional information regarding the fair value of available for sale securities.

The contractual maturities, amortized cost, carrying values and current yields for our available for sale securities are as presented below. Since RJ Bank's available for sale securities are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. Expected maturities of ARS and other securities may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012					
	Within one year	After one but within five years	After five but within ten years (in thousands)	After ten years		Total
Agency MBS & CMOs:						
Amortized cost	\$-	\$ 84	\$ 93,133	\$ 162,615		\$255,832
Carrying value	-	83	93,076	163,511		256,670
Weighted-average yield	-	0.36 %	0.56 %	0.80 %		0.71 %
Non-agency CMOs:						
Amortized cost	\$-	\$ -	\$ -	\$ 179,282		\$179,282
Carrying value	-	-	-	145,458		145,458
Weighted-average yield	-	-	-	3.15 %		3.15 %
Sub-total agency MBS & CMOs and non-agency CMOs:						
Amortized cost	\$-	\$ 84	\$ 93,133	\$ 341,897		\$435,114
Carrying value	-	83	93,076	308,969		402,128
Weighted-average yield	-	0.36 %	0.56 %	1.91 %		1.59 %
Auction rate securities:						
Municipal obligations						
Amortized cost	\$-	\$ -	\$ 553	\$ 78,824		\$79,377
Carrying value	-	-	543	71,366		71,909
Weighted-average yield	-	-	0.48 %	0.76 %		0.76 %
Preferred securities:						
Amortized cost	\$-	\$ -	\$ -	\$ 99,431		\$99,431
Carrying value	-	-	-	102,092		102,092
Weighted-average yield	-	-	-	0.26 %		0.26 %
Sub-total auction rate securities:						
Amortized cost	\$-	\$ -	\$ 553	\$ 178,255		\$178,808
Carrying value	-	-	543	173,458		174,001
Weighted-average yield	-	-	0.48 %	0.48 %		0.48 %
Other securities:						
Amortized cost	\$-	\$ -	\$ -	\$ 3		\$3
Carrying value	-	-	-	13		13

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Total available for sale securities:									
Amortized cost	\$-	\$ 84	\$ 93,686	\$ 520,155	\$613,925				
Carrying value	-	83	93,619	482,440	576,142				
Weighted-average yield	-	0.36	% 0.56	% 1.42	% 1.29				%

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The gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

	March 31, 2012					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	\$74,057	\$(410)	\$13,888	\$(36)	\$87,945	\$(446)
Non-agency CMOs	1,308	(10)	144,150	(33,814)	145,458	(33,824)
ARS municipal obligations	52,802	(7,689)	-	-	52,802	(7,689)
Total impaired securities	\$128,167	\$(8,109)	\$158,038	\$(33,850)	\$286,205	\$(41,959)

	September 30, 2011					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	\$23,366	\$(6)	\$17,702	\$(21)	\$41,068	\$(27)
Non-agency CMOs	1,345	(93)	144,530	(46,988)	145,875	(47,081)
Total impaired securities	\$24,711	\$(99)	\$162,232	\$(47,009)	\$186,943	\$(47,108)

The reference point for determining when securities are in a loss position is the reporting period end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the period.

Agency MBS and CMOs

The Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), as well as the Government National Mortgage Association (“GNMA”), guarantee the contractual cash flows of the agency MBS and CMOs. At March 31, 2012, of the 17 U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, nine were in a continuous unrealized loss position for less than 12 months and eight for 12 months or more. We do not consider these securities other-than-temporarily impaired due to the guarantee provided by FNMA, FHLMC, and GNMA as to the full payment of principal and interest, and the fact that we have the ability and intent to hold these securities to maturity.

Non-agency CMOs

All individual non-agency securities are evaluated for OTTI on a quarterly basis. Only those non-agency CMOs whose amortized cost basis we do not expect to recover in full are considered to be other than temporarily impaired as we have the ability and intent to hold these securities to maturity. To assess whether the amortized cost basis of non-agency CMOs will be recovered, RJ Bank performs a cash flow analysis for each security. This comprehensive process considers borrower characteristics and the particular attributes of the loans underlying each security. Loan level analysis includes a review of historical default rates, loss severities, liquidations, prepayment speeds and delinquency trends. The historical details, home prices and economic outlook are considered to derive assumptions of default rates, loss severities, delinquencies and prepayment speeds utilized in the discounted cash flow model to project security specific cash flows, which factors in the amount of credit enhancement specific to the security. The

difference between the present value of the cash flows expected and the amortized cost basis is the credit loss and is recorded as OTTI.

The significant assumptions used in the cash flow analysis of non-agency CMOs are as follows:

	March 31, 2012	
	Range	Weighted-average (1)
Default rate	0% - 36.8%	13.7%
Loss severity	14.9% - 71.7%	46.5%
Prepayment rate	0.07% - 17.4%	7.1%

(1) Represents the expected activity for the next twelve months.

At March 31, 2012, 24 of the 25 non-agency CMOs were in a continuous unrealized loss position for 12 months or more and one was in that position for less than 12 months. As of March 31, 2012 and including subsequent ratings changes, \$34 million of the non-agency CMOs were rated investment grade by at least one rating agency, and \$111 million were rated less than investment grade, which ranged from BB to D. Given the comprehensive analysis process utilized, these ratings are not a significant factor in the overall OTTI evaluation process. The unrealized losses at March 31, 2012 were primarily due to the continued interest rate volatility and uncertainty in the markets.

Based on the expected cash flows derived from the model utilized in our analysis, we expect to recover all unrealized losses not already recorded in earnings on our non-agency CMOs. However, it is possible that the underlying loan collateral of these securities will perform worse than current expectations, which may lead to adverse changes in the cash flows expected to be collected on these securities and potential future OTTI losses.

ARS

Our cost basis in the ARS we hold is the fair value of the securities in the period in which we acquired them (see the ARS repurchase discussion in Note 18 on pages 130 – 131 of our 2011 Form 10-K). Only those ARS whose amortized cost basis we do not expect to recover in full are considered to be other-than-temporarily impaired as we have the ability and intent to hold these securities to maturity.

Within our municipal ARS holdings, we hold Jefferson County, Alabama Limited Obligation School Warrants ARS (“Jeff Co. Schools ARS”) and Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS (“Jeff Co. Sewers ARS”). During the first quarter of our fiscal year 2012, Jefferson County, Alabama filed a voluntary petition for relief under Chapter 9 of the U.S. Bankruptcy Code in the U.S. District Court for the Northern District of Alabama. During the six month period ended March 31, 2012, unrealized losses arose for both the Jeff Co. Schools ARS and the Jeff Co. Sewers ARS based upon a decrease in the fair values of these securities. Based upon the available information as of March 31, 2012, we prepared cash flow forecasts for each of these two ARS for the purpose of determining the amount of any OTTI related to credit losses. We concluded there was no OTTI related to credit losses associated with the Jeff Co. Schools ARS as our expected cash flow forecast indicates that we expect to recover our cost basis in these securities. Refer to the discussion below for the amount of OTTI related to credit losses which we determined regarding the Jeff Co. Sewers ARS.

Other-than-temporarily impaired securities

Although there is no intent to sell either our ARS or our non-agency CMOs and it is not more likely than not that we will be required to sell these securities, we do not expect to recover the entire amortized cost basis of certain securities within these portfolios.

Changes in the amount of OTTI related to credit losses recognized in other revenues on available for sale securities are as follows:

	Three months ended March 31, 2012		Six months ended March 31, 2012	
	2011	2011	2011	2011
	(in thousands)			
Amount related to credit losses on securities we held at the beginning of the period	\$24,402	\$20,995	\$22,306	\$18,816
Additions to the amount related to credit loss for which an OTTI was not previously recognized	-	213	462	213
Decreases to the amount related to credit loss for securities sold during the period	-	(6,744)	-	(6,744)
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	1,337	3,006	2,971	5,185
Amount related to credit losses on securities we held at the end of the period	\$25,739	\$17,470	\$25,739	\$17,470

For the three and six months ended March 31, 2012 credit losses for which an OTTI was previously recognized were primarily due to high loss severities on individual loan collateral of certain non-agency CMOs and the expected continuation of high default levels and collateral losses into calendar year 2012. For the six months ended March 31, 2012 credit losses related to securities for which an OTTI was not previously recognized arise from Jeff Co. Sewers ARS, and reflect the portion of our amortized cost basis that we do not expect to receive based upon the present value of our most recent projected cash flows for that security.

NOTE 7 – BANK LOANS, NET

Bank client receivables are comprised of loans originated or purchased by RJ Bank and include commercial and industrial (“C&I”) loans, commercial and residential real estate loans, as well as consumer loans. These receivables are collateralized by first or second mortgages on residential or other real property, other assets of the borrower, or are unsecured.

For a discussion of our accounting policies regarding bank loans and allowances for losses, including the policies regarding loans held for investment, loans held for sale, off-balance sheet loan commitments, nonperforming assets, troubled debt restructurings (“TDRs”), impaired loans, the allowance for loan losses and reserve for unfunded lending commitments, and loan charge-off policies, see Note 1, pages 88 – 92, in our 2011 Form 10-K.

We segregate our loan portfolio into five loan portfolio segments: C&I, commercial real estate (“CRE”), CRE construction, residential mortgage and consumer. These portfolio segments also serve as the portfolio loan classes for purposes of credit analysis, except for residential mortgage loans which are further disaggregated into residential first mortgage and residential home equity classes.

The following table presents the balances for both the held for sale and held for investment loan portfolios as well as the associated percentage of each portfolio segment in RJ Bank’s total loan portfolio:

	March 31, 2012		September 30, 2011			
	Balance	%	Balance	%		
	(\$ in thousands)					
Loans held for sale, net(1)	\$99,255	1	%	\$102,236	2	%
Loans held for investment:						
C&I loans	4,820,364	63	%	4,100,939	61	%
CRE construction loans	50,010	1	%	29,087	-	
CRE loans	937,570	12	%	742,889	11	%
Residential mortgage loans	1,726,132	23	%	1,756,486	26	%
Consumer loans	40,553	-		7,438	-	
Total loans held for investment	7,574,629			6,636,839		
Net unearned income and deferred expenses	(83,378)			(45,417)		
Total loans held for investment, net(1)	7,491,251			6,591,422		
Total loans held for sale and investment	7,590,506	100	%	6,693,658	100	%
Allowance for loan losses	(144,678)			(145,744)		
Bank loans, net	\$7,445,828			\$6,547,914		

(1)

Net of unearned income and deferred expenses, which includes purchase premiums, purchase discounts, and net deferred origination fees and costs.

RJ Bank purchased or originated \$168.8 million and \$277.9 million of loans held for sale during the three and six months ended March 31, 2012, respectively and \$52.6 million and \$81.8 million for the three and six months ended March 31, 2011, respectively. There were proceeds from the sale of held for sale loans of \$45.6 million and \$65.7 million for the three and six months ended March 31, 2012, respectively, resulting in net gains of \$307 thousand and \$524 thousand, respectively. There were proceeds from the sale of held for sale loans of \$25 million and \$51.3 million for the three and six months ended March 31, 2011, respectively, resulting in net gains of \$315 thousand and \$574 thousand, respectively. These gains were recorded in other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income.

The following table presents purchases and sales of any loans held for investment by portfolio segment:

	Three months ended March 31,				Six months ended March 31,			
	2012		2011		2012		2011	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
	(in thousands)							
C&I loans(1)	\$239,108	\$26,358	\$6,930	\$12,912	\$288,860	\$32,238	\$6,930	\$15,879
CRE construction(1)	31,074	-	-	-	31,074	-	-	-
CRE loans(1)	121,402	-	-	-	121,402	-	-	-
Residential mortgage loans	4,720	-	460	-	33,104	-	40,423	-
Total	\$396,304	\$26,358	\$7,390	\$12,912	\$474,440	\$32,238	\$47,353	\$15,879

(1) Includes a total of \$367 million for a Canadian loan portfolio purchased during the three months ended March 31, 2012, which was comprised of \$219 million C&I, \$31 million of CRE construction and \$117 million of CRE loans.

The following table presents the comparative data for nonperforming loans held for investment and total nonperforming assets:

	March 31, 2012	September 30, 2011
	(\$ in thousands)	
Nonaccrual loans:		
C&I loans	\$6,230	\$ 25,685
CRE loans	9,441	15,842
Residential mortgage loans:		
First mortgage loans	86,970	90,992
Home equity loans/lines	171	67
Total nonaccrual loans	102,812	132,586
Accruing loans which are 90 days past due:		
Residential mortgage loans:		
First mortgage loans	-	690
Home equity loans/lines	-	47
Total accruing loans which are 90 days past due	-	737
Total nonperforming loans	102,812	133,323
Real estate owned and other repossessed assets, net:		
CRE	6,178	7,707
Residential:		
First mortgage	7,792	6,852
Home equity	13	13
Total	13,983	14,572
Total nonperforming assets, net	\$116,795	\$ 147,895
Total nonperforming assets, net as a % of RJ Bank total assets	1.30	% 1.64

The table of nonperforming assets above excludes \$11.8 million and \$10.3 million as of March 31, 2012 and September 30, 2011, respectively, of residential TDRs which were returned to accrual status in accordance with our policy.

As of March 31, 2012 and September 30, 2011, RJ Bank had no outstanding commitments on nonperforming loans.

The gross interest income related to the nonperforming loans reflected in the previous table, which would have been recorded had these loans been current in accordance with their original terms, totaled \$1.4 million and \$2.5 million for the three and six months ended March 31, 2012, respectively and \$2.1 million and \$3.7 million for the three and six months ended March 31, 2011. The interest income recognized on nonperforming loans was \$324 thousand and \$970 thousand for the three and six months ended March 31, 2012, respectively and \$116 thousand and \$417 thousand for the three and six months ended March 31, 2011.

The following table presents an analysis of the payment status of loans held for investment:

	30-59 days	60-89 days	90 days or more	Total past due (in thousands)	Current	Total loans held for investment (1)
As of March 31, 2012:						
C&I loans	\$231	\$-	\$-	\$231	\$4,820,133	\$ 4,820,364
CRE construction loans	-	-	-	-	50,010	50,010
CRE loans	-	-	4,997	4,997	932,573	937,570
Residential mortgage loans:						
First mortgage loans	10,429	6,520	60,349	77,298	1,621,118	1,698,416
Home equity loans/lines	338	-	65	403	27,313	27,716
Consumer loans	-	-	-	-	40,553	40,553
Total loans held for investment, net	\$10,998	\$6,520	\$65,411	\$82,929	\$7,491,700	\$ 7,574,629

As of September 30, 2011:

C&I loans	\$-	\$-	\$-	\$-	\$4,100,939	\$4,100,939
CRE construction loans	-	-	-	-	29,087	29,087
CRE loans	-	-	5,053	5,053	737,836	742,889
Residential mortgage loans:						
First mortgage loans	6,400	6,318	61,870	74,588	1,651,181	1,725,769
Home equity loans/lines	88	-	114	202	30,515	30,717
Consumer loans	-	-	-	-	7,438	7,438
Total loans held for investment, net	\$6,488	\$6,318	\$67,037	\$79,843	\$6,556,996	\$6,636,839

(1) Excludes any net unearned income and deferred expenses.

The following table provides a summary of RJ Bank's impaired loans:

	March 31, 2012			September 30, 2011		
	Gross recorded investment	Unpaid principal balance	Allowance for losses	Gross recorded investment	Unpaid principal balance	Allowance for losses
(in thousands)						
Impaired loans with allowance for loan losses:(1)						
C&I loans	\$6,230	\$12,558	\$3,400	\$25,685	\$26,535	\$8,478
CRE loans	18	27	1	6,122	6,131	1,014
Residential mortgage loans:						
First mortgage loans	79,489	119,732	10,300	83,471	123,202	10,226
Home equity loans/lines	128	128	18	128	128	20
Total	85,865	132,445	13,719	115,406	155,996	19,738

Impaired loans without allowance for loan losses:(2)

CRE loans	9,423	18,477	-	9,720	20,648	-
Residential - first mortgage loans	7,992	12,405	-	6,553	10,158	-
Total	17,415	30,882	-	16,273	30,806	-
Total impaired loans	\$103,280	\$163,327	\$13,719	\$131,679	\$186,802	\$19,738

(1) Impaired loan balances have had reserves established based upon management's analysis.

(2) When the discounted cash flow, collateral value or market value equals or exceeds the carrying value of the loan, then the loan does not require an allowance. These are generally loans in process of foreclosure that have already been adjusted to fair value.

The table above includes \$6.2 million C&I, \$4.4 million CRE, \$25.2 million residential first mortgage and \$128 thousand residential home equity TDRs at March 31, 2012. In addition, the table above includes \$12 million C&I, \$4.7 million CRE, \$23.3 million residential first mortgage and \$128 thousand residential home equity TDRs at September 30, 2011.

The average balance of the total impaired loans and the related interest income recognized in the Condensed Consolidated Statements of Income and Comprehensive Income are as follows:

	Three months ended		Six months ended		
	March 31,		March 31,		
	2012	2011	2012	2011	
(in thousands)					
Average impaired loan balance:					
C&I loans	\$7,094	\$-	\$ 13,476	\$ -	
CRE loans	13,309	46,923	14,567	46,998	
Residential mortgage loans:					
First mortgage loans	88,062	85,442	(1) 88,336	84,923	(1)
Home equity loans/lines	141	143	135	144	
Total	\$108,606	\$132,508	\$ 116,514	\$ 132,065	
Interest income recognized:					
Residential mortgage loans:					
First mortgage loans	\$251	\$131	(1) \$ 643	\$ 413	(1)
Home equity loans/lines	1	1	2	2	
Total	\$252	\$132	\$ 645	\$ 415	

(1) In order to enhance the comparability of amounts presented, the March 31, 2011 amount includes nonaccrual loans, or related interest income, as applicable, for which a charge-off had been recorded. The amount originally reported for this period did not include such loans.

During the three and six months ended March 31, 2012 and 2011, RJ Bank granted concessions to borrowers having financial difficulties, for which the resulting modification was deemed a TDR. The concessions granted for first mortgage residential loans were generally interest rate reductions and interest capitalization. The table below presents the impact TDRs which occurred during the respective periods presented had on our condensed consolidated financial statements:

	Number of contracts	Pre-modification outstanding recorded investment (\$ in thousands)	Post-modification outstanding recorded investment
Three months ended March 31, 2012:			
Residential – first mortgage loans	4	\$ 1,197	\$ 1,343
Three months ended March 31, 2011:			
Residential – first mortgage loans	9	\$ 3,930	\$ 4,159
Six months ended March 31, 2012:			
Residential – first mortgage loans	9	\$ 3,411	\$ 3,666
Six months ended March 31, 2011:			
Residential – first mortgage loans	15	\$ 6,696	\$ 7,024

During the three and six months ended March 31, 2012, there were five and seven residential first mortgage TDRs with a recorded investment of \$2.3 million and \$3.2 million, respectively, for which there was a payment default and for which the respective loan was modified as a TDR within the 12 months prior to the default. During the six months ended March 31, 2011, there were two residential first mortgage TDRs with a recorded investment of \$736 thousand for which there was a payment default and for which the respective loan was modified as a TDR within the 12 months prior to the default. There were no TDRs for the three months ended March 31, 2011 for which there was a payment default and for which the respective loans were modified as TDRs within the 12 months prior to the default.

The credit quality of RJ Bank's loan portfolio is summarized monthly by management using the standard asset classification system utilized by bank regulators for the residential and consumer loan portfolios and internal risk ratings, which correspond to the same standard asset classifications for the corporate loan portfolio. These classifications are divided into three groups: Not Classified (Pass), Special Mention, and Classified or Adverse Rating (Substandard, Doubtful and Loss) and are defined as follows:

Pass – Loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less costs to acquire and sell, of any underlying collateral in a timely manner.

Special Mention – Loans which have potential weaknesses that deserve management's close attention. These loans are not adversely classified and do not expose RJ Bank to sufficient risk to warrant an adverse classification.

Substandard – Loans which are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans with this classification are characterized by the distinct possibility that RJ Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans which have all the weaknesses inherent in loans classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions and values.

Loss – Loans which are considered by management to be uncollectible and of such little value that their continuance on RJ Bank’s books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. RJ Bank does not have any loan balances within this classification as in accordance with its accounting policy, loans, or a portion thereof considered to be uncollectible, are charged-off prior to the assignment of this classification.

RJ Bank’s credit quality of its held for investment loan portfolio is as follows:

	C&I	CRE construction	CRE	Residential mortgage First mortgage (in thousands)	Home equity	Consumer	Total
As of March 31, 2012:							
Pass	\$4,656,534	\$ 50,010	\$788,680	\$1,580,664	\$27,417	\$40,553	\$7,143,858
Special mention (1)	125,604	-	107,654	29,561	128	-	262,947
Substandard (1)	31,996	-	36,792	88,191	171	-	157,150
Doubtful (1)	6,230	-	4,444	-	-	-	10,674
Total	\$4,820,364	\$ 50,010	\$937,570	\$1,698,416	\$27,716	\$40,553	\$7,574,629
As of September 30, 2011:							
Pass	\$3,906,358	\$ 29,087	\$572,124	\$1,607,327	\$30,319	\$7,438	\$6,152,653
Special mention (1)	88,889	-	76,021	23,684	170	-	188,764
Substandard (1)	93,658	-	90,058	94,758	228	-	278,702
Doubtful (1)	12,034	-	4,686	-	-	-	16,720
Total	\$4,100,939	\$ 29,087	\$742,889	\$1,725,769	\$30,717	\$7,438	\$6,636,839

(1) Loans classified as special mention, substandard or doubtful are all considered to be “criticized” loans.

The credit quality of RJ Bank’s residential first mortgage loan portfolio is additionally assessed utilizing updated loan-to-value (“LTV”) ratios. RJ Bank further segregates all of its performing residential first mortgage loan portfolio with higher reserve percentages allocated to the higher LTV loans. Current LTVs are updated using the most recently available information (generally on a quarter lag) and are estimated based on the initial appraisal obtained at the time of origination, adjusted using relevant market indices for housing price changes that have occurred since origination. The value of the homes could vary from actual market values due to change in the condition of the underlying property, variations in housing price changes within metropolitan statistical areas and other factors.

The table below presents the most recently available update of the performing residential first mortgage loan portfolio summarized by current LTV:

	Balance(1) (in thousands)
LTV range:	
LTV less than 50%	\$ 292,339
LTV greater than 50% but less than 80%	413,981
LTV greater than 80% but less than 100%	259,248
LTV greater than 100%, but less than 120%	272,106
LTV greater than 120% but less than 140%	106,302
LTV greater than 140%	63,674
Total	\$ 1,407,650

(1) Excludes loans that have full repurchase recourse for any delinquent loans.

Changes in the allowance for loan losses of RJ Bank by portfolio segment are as follows:

	Loans held for sale	Loans held for investment						Total
		C&I	CRE construction	CRE (in thousands)	Residential mortgage	Consumer		
Three months ended								
March 31, 2012:								
Balance at beginning of period:	\$-	\$84,086	\$ 105	\$30,427	\$32,864	\$21	\$147,503	
Provision for loan losses	-	2,235	(1) 636	(1) (2,728)	(1) 4,985	26	5,154	
Net charge-offs:								
Charge-offs	-	(2,068)	-	(1,000)	(5,329)	-	(8,397)	
Recoveries	-	-	-	118	222	5	345	
Net charge-offs	-	(2,068)	-	(882)	(5,107)	5	(8,052)	
Foreign exchange translation adjustment	-	47	8	18	-	-	73	
Balance at March 31, 2012	\$-	\$84,300	\$ 749	\$26,835	\$32,742	\$52	\$144,678	
Six months ended								
March 31, 2012:								
Balance at beginning of period:	\$5	\$81,267	\$ 490	\$30,752	\$33,210	\$20	\$145,744	
Provision for loan losses	(5)	8,203	(1) 251	(1) (3,483)	(1) 7,584	60	12,610	
Net charge-offs:								
Charge-offs	-	(5,217)	-	(1,000)	(8,586)	(38)	(14,841)	
Recoveries	-	-	-	548	534	10	1,092	
Net charge-offs	-	(5,217)	-	(452)	(8,052)	(28)	(13,749)	
Foreign exchange translation adjustment	-	47	8	18	-	-	73	
Balance at March 31, 2012	\$-	\$84,300	\$ 749	\$26,835	\$32,742	\$52	\$144,678	

- (1) There were additional provisions for loan losses recorded during the three months ended March 31, 2012 of \$3.3 million, \$558 thousand, and \$1.3 million for C&I, CRE construction, and CRE loans, respectively, related to a Canadian loan portfolio RJ Bank purchased during the period.

	Loans held for sale	C&I	Loans held for investment			Consumer	Total
			CRE construction	CRE	Residential mortgage		
(in thousands)							
Three months ended							
March 31, 2011:							
Balance at beginning of period:	\$48	\$59,978	\$2,672	\$48,606	\$34,698	\$22	\$146,024
Provision for loan losses	(44)	4,800	73	(1,122)	4,894	36	8,637
Net charge-offs:							
Charge-offs	-	(82)	-	(3,481)	(5,790)	(40)	(9,393)
Recoveries	-	-	-	179	667	1	847
Net charge-offs	-	(82)	-	(3,302)	(5,123)	(39)	(8,546)
Balance at March 31, 2011	\$4	\$64,696	\$2,745	\$44,182	\$34,469	\$19	\$146,115
Six months ended							
March 31, 2011:							
Balance at beginning of period:	\$23	\$60,464	\$4,473	\$47,771	\$34,297	\$56	\$147,084
Provision for loan losses	(19)	4,314	(1,728)	6,062	11,238	2	19,869
Net charge-offs:							
Charge-offs	-	(82)	-	(9,930)	(12,105)	(40)	(22,157)
Recoveries	-	-	-	279	1,039	1	1,319
Net charge-offs	-	(82)	-	(9,651)	(11,066)	(39)	(20,838)
Balance at March 31, 2011	\$4	\$64,696	\$2,745	\$44,182	\$34,469	\$19	\$146,115

The following table presents, by loan portfolio segment, RJ Bank's recorded investment and related allowance for loan losses:

	Loans held for sale	Loans held for investment					Total
		C&I	CRE construction	CRE	Residential mortgage	Consumer	
(in thousands)							
March 31, 2012:							
Allowance for loan losses:							
Individually evaluated for impairment	\$-	\$3,400	\$-	\$1	\$3,223	\$-	\$6,624
Collectively evaluated for impairment	-	80,900	749	26,834	29,519	52	138,054
Total allowance for loan losses	\$-	\$84,300	\$749	\$26,835	\$32,742	\$52	\$144,678
Loan category as a % of total recorded investment	1	% 63	% 1	% 12	% 23	% -	100
Recorded investment:(1)							
Individually evaluated for impairment	\$-	\$6,230	\$-	\$9,441	\$25,371	\$-	\$41,042
Collectively evaluated for impairment	90,731	4,814,134	50,010	928,129	1,700,761	40,553	7,624,318
Total recorded investment	\$90,731	\$4,820,364	\$50,010	\$937,570	\$1,726,132	\$40,553	\$7,665,360
September 30, 2011:							
Allowance for loan losses:							
Individually evaluated for impairment	\$-	\$8,478	\$-	\$1,014	\$2,642	\$-	\$12,134
Collectively evaluated for impairment	5	72,789	490	29,738	30,568	20	133,610

Total allowance for loan losses	\$5	\$81,267	\$490	\$30,752	\$33,210	\$20	\$145,744
Loan category as a % of total recorded investment	2	% 61	% -	11	% 26	% -	100
							%
Recorded investment:(1)							
Individually evaluated for impairment	\$-	\$25,685	\$-	\$15,842	\$23,453	\$-	\$64,980
Collectively evaluated for impairment	92,748	4,075,254	29,087	727,047	1,733,033	7,438	6,664,607
Total recorded investment	\$92,748	\$4,100,939	\$29,087	\$742,889	\$1,756,486	\$7,438	\$6,729,587

(1) Excludes any net unearned income and deferred expenses.

RJ Bank had no recorded investment in loans acquired with deteriorated credit quality as of either March 31, 2012 or September 30, 2011.

The reserve for unfunded lending commitments, included in trade and other payables on our Condensed Consolidated Statements of Financial Condition, was \$10.9 million and \$10.4 million at March 31, 2012 and September 30, 2011, respectively.

NOTE 8 – VARIABLE INTEREST ENTITIES

A VIE requires consolidation by the entity’s primary beneficiary. We evaluate all of the entities in which we are involved to determine if the entity is a VIE and if so, whether we hold a variable interest and are the primary beneficiary.

We hold variable interests in the following VIE’s: Raymond James Employee Investment Funds I and II (the “EIF Funds”), a trust fund established for employee retention purposes (“Restricted Stock Trust Fund”), certain low-income housing tax credit (“LIHTC”) funds (“LIHTC Funds”), various other partnerships and limited liability companies (“LLCs”) involving real estate (“Other Real Estate Limited Partnerships and LLCs”) and certain funds formed for the purpose of making and managing investments in securities of other entities (“Managed Funds”).

Refer to Note 1, pages 94 – 97 in our 2011 Form 10-K for a description of our principal involvement with VIEs and the accounting policies regarding the determinations of whether we are deemed to be the primary beneficiary of any VIEs which we hold a variable interest. As of March 31, 2012, there have been no significant changes in either the nature of our involvement with, or the accounting policies associated with the analysis of, VIEs as described in the 2011 Form 10-K referenced above.

Raymond James Tax Credit Funds, Inc., a wholly owned subsidiary of RJF (“RJTCF”), is the managing member or general partner in LIHTC Funds having one or more investor members or limited partners. These LIHTC Funds are organized as limited partnerships or LLCs for the purpose of investing in a number of project partnerships, which are limited partnerships or LLCs that in turn purchase and develop low-income housing properties qualifying for tax credits.

VIEs where we are the primary beneficiary

Of the VIEs in which we hold an interest, we have determined that the EIF Funds, the Restricted Stock Trust Fund and certain LIHTC Funds require consolidation in our financial statements as we are deemed the primary beneficiary of those VIEs. The aggregate assets and liabilities of the entities we consolidate are provided in the table below.

	Aggregate assets (1)	Aggregate liabilities (1)
	(in thousands)	
March 31, 2012:		
LIHTC Funds	\$241,381	\$ 105,659
Guaranteed LIHTC Fund(2)	85,322	1,094
Restricted Stock Trust Fund	15,219	9,852
EIF Funds	13,904	-
Total	\$355,826	\$ 116,605
September 30, 2011:		
LIHTC Funds	\$257,631	\$ 121,908
Guaranteed LIHTC Fund(2)	87,811	10,424
Restricted Stock Trust Fund	8,099	4,630
EIF Funds	16,223	-
Total	\$369,764	\$ 136,962

(1) Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to the elimination of intercompany assets and liabilities held by the consolidated VIE.

- (2) In connection with one of the multi-investor tax credit funds in which RJTCF is the managing member, RJTCF has provided the investor members with a guaranteed return on their investment in the fund (the “Guaranteed LIHTC Fund”).

The following table presents information about the carrying value of the assets, liabilities and equity of the VIEs which we consolidate and are included within our Condensed Consolidated Statements of Financial Condition. The noncontrolling interests presented in this table represent the portion of these net assets which are not ours.

	March 31, 2012	September 30, 2011
	(in thousands)	
Assets:		
Assets segregated pursuant to regulations and other segregated assets	\$13,801	\$ 18,317
Receivables, other	6,514	11,288
Investments in real estate partnerships held by consolidated variable interest entities	306,040	320,384
Trust fund investment in RJF common stock (1)	15,219	8,099
Prepaid expenses and other assets	14,851	17,197
Total assets	\$356,425	\$ 375,285
Liabilities and equity:		
Loans payable of consolidated variable interest entities (2)	\$90,950	\$ 99,982
Trade and other payables	2,739	5,353
Intercompany payables	8,931	6,904
Total liabilities	102,620	112,239
RJF Equity	6,028	5,537
Noncontrolling interests	247,777	257,509
Total equity	253,805	263,046
Total liabilities and equity	\$356,425	\$ 375,285

(1) Included in treasury stock in our Condensed Consolidated Statements of Financial Condition.

(2) Comprised of several non-recourse loans. We are not contingently liable under any of these loans.

The following table presents information about the net loss of the VIEs which we consolidate and are included within our Condensed Consolidated Statements of Income and Comprehensive Income. The noncontrolling interests presented in this table represent the portion of the net loss from these VIEs which are not ours.

	Three months ended		Six months ended March 31,	
	March 31, 2012	2011	2012	2011
	(in thousands)			
Revenues:				
Interest	\$1	\$1	\$ 2	\$ 1
Other	220	2,656	553	2,591
Total revenues	221	2,657	555	2,592
Interest expense	1,356	1,578	2,661	3,133
Net (expense) revenues	(1,135)	1,079	(2,106)	(541)
Non-interest expenses	11,257	5,990	16,188	9,661
Net loss including noncontrolling interests	(12,392)	(4,911)	(18,294)	(10,202)
Net loss attributable to noncontrolling interests	(12,357)	(4,629)	(18,785)	(9,628)
Net income (loss) attributable to RJF	\$(35)	\$(282)	\$ 491	\$ (574)

Low-income housing tax credit funds

RJTCF is the managing member or general partner in approximately 77 separate low-income housing tax credit funds having one or more investor members or limited partners. RJTCF has concluded that it is the primary beneficiary of 11 of the 76 non-guaranteed LIHTC Funds it has sponsored and, accordingly, consolidates these funds. In addition, RJTCF consolidates the one Guaranteed LIHTC Fund it sponsors. See Note 14 for further discussion of the guarantee obligation as well as other RJTCF commitments.

VIEs where we hold a variable interest but we are not the primary beneficiary

The aggregate assets, liabilities, and our exposure to loss from those VIEs in which we hold a variable interest, but concluded we are not the primary beneficiary, are provided in the table below.

	March 31, 2012			September 30, 2011		
	Aggregate assets	Aggregate liabilities	Our risk of loss (in thousands)	Aggregate assets	Aggregate liabilities	Our risk of loss
LIHTC Funds	\$1,871,920	\$716,776	\$36,115	\$1,582,764	\$533,311	\$37,733
Other Real Estate Limited Partnerships and LLCs	32,097	35,688	1,454	39,344	35,467	8,068
Total	\$1,904,017	\$752,464	\$37,569	\$1,622,108	\$568,778	\$45,801

VIEs where we hold a variable interest but we are not required to consolidate

The aggregate assets, liabilities, and our exposure to loss from Managed Funds in which we hold a variable interest are provided in the table below:

	March 31, 2012			September 30, 2011		
	Aggregate assets	Aggregate liabilities	Our risk of loss (in thousands)	Aggregate assets	Aggregate liabilities	Our risk of loss
Managed Funds	\$13,322	\$-	\$830	\$12,813	\$-	\$834

NOTE 9 – BANK DEPOSITS

Bank deposits include Negotiable Order of Withdrawal (“NOW”) accounts, demand deposits, savings and money market accounts and certificates of deposit. The following table presents a summary of bank deposits including the weighted-average rate:

	March 31, 2012		September 30, 2011	
	Balance	Weighted-average rate (1) (\$ in thousands)	Balance	Weighted-average rate (1)
Bank deposits:				
NOW accounts	\$5,060	0.01 %	\$4,183	0.01 %
Demand deposits (non-interest-bearing)	19,237	-	21,663	-
Savings and money market accounts	7,581,697	0.04 %	7,468,136	0.08 %
Certificates of deposit	307,852	2.19 %	245,340	2.37 %
Total bank deposits(2)	\$7,913,846	0.12 %	\$7,739,322	0.15 %

(1) Weighted-average rate calculation is based on the actual deposit balances at March 31, 2012 and September 30, 2011, respectively.

- (2) Bank deposits exclude affiliate deposits of approximately \$3 million and \$250 million at March 31, 2012 and September 30, 2011, respectively.

RJ Bank's savings and money market accounts in the table above consist primarily of deposits that are cash balances swept from the investment accounts maintained at our wholly owned broker-dealer subsidiary Raymond James & Associates ("RJ&A"). These balances are held in Federal Deposit Insurance Corporation ("FDIC") insured bank accounts through the Raymond James Bank Deposit Program ("RJBDP") administered by RJ&A.

Scheduled maturities of certificates of deposit are as follows:

	March 31, 2012		September 30, 2011	
	Denominations greater than or equal to \$100,000	Denominations less than \$100,000	Denominations greater than or equal to \$100,000	Denominations less than \$100,000
	(in thousands)			
Three months or less	\$10,024	\$ 8,316	\$7,403	\$ 7,977
Over three through six months	3,899	10,362	6,408	6,153
Over six through twelve months	10,295	11,209	6,711	15,103
Over one through two years	21,045	24,323	19,567	19,862
Over two through three years	23,637	28,929	10,045	17,286
Over three through four years	30,374	34,309	29,136	36,271
Over four through five years	51,576	39,554	34,349	29,069
Total	\$150,850	\$ 157,002	\$113,619	\$ 131,721

Interest expense on deposits is summarized as follows:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
	(in thousands)			
Certificates of deposit	\$1,633	\$1,541	\$3,121	\$3,129
Money market, savings and NOW accounts(1)	704	1,799	1,459	3,628
Total interest expense on deposits	\$2,337	\$3,340	\$4,580	\$6,757

(1) Interest expense on affiliate deposits for the three month period ended March 31, 2012 was insignificant. For the six month period ended March 31, 2012, excludes interest expense on affiliate deposits of \$75 thousand.

NOTE 10 – OTHER BORROWINGS

The following table details the components of other borrowings:

	March 31, 2012	September 30, 2011
	(in thousands)	
Other borrowings:		
Borrowings on secured lines of credit (1)	\$99,000	\$ -
Borrowings on unsecured lines of credit (2)	250,600	-
Total other borrowings	\$349,600	\$ -

(1) Any borrowings on secured lines of credit are day-to-day and are generally utilized to finance certain fixed income securities.

- (2) Any borrowings on unsecured lines of credit are day-to-day and are generally utilized for cash management purposes.

As of March 31, 2012 and September 30, 2011, we had no advances outstanding from the Federal Home Loan Bank.

As of March 31, 2012, there were other collateralized financings outstanding in the amount of \$137 million. As of September 30, 2011, there were other collateralized financings outstanding in the amount of \$188.8 million. These other collateralized financings are included in securities sold under agreements to repurchase on the Condensed Consolidated Statements of Financial Condition. These financings are collateralized by non-customer, RJ&A-owned securities.

NOTE 11 – CORPORATE DEBT

The following summarizes our corporate debt:

	March 31, 2012	September 30, 2011
	(in thousands)	
Mortgage notes payable (1)	\$51,056	\$ 52,754
4.25% senior notes, due 2016, net of unamortized discount of \$405 thousand and \$455 thousand at March 31, 2012 and September 30, 2011, respectively (2)	249,595	249,545
8.60% senior notes, due 2019, net of unamortized discount of \$37 thousand and \$40 thousand at March 31, 2012 and September 30, 2011, respectively (3)	299,963	299,960
5.625% senior notes, due 2024, net of unamortized discount of \$994 thousand at March 31, 2012 (4)	249,006	-
6.90% senior notes, due 2042(5)	350,000	-
Other financings (6)	6,044	9,709
Total corporate debt	\$1,205,664	\$ 611,968

- (1) Mortgage notes payable pertain to mortgage loans on our headquarters office complex. These mortgage loans are secured by land, buildings, and improvements with a net book value of \$57.9 million at March 31, 2012. These mortgage loans bear interest at 5.7% with repayment terms of monthly interest and principal debt service and a January 2023 maturity.
- (2) In April 2011, we sold in a registered underwritten public offering, \$250 million in aggregate principal amount of 4.25% senior notes due April 2016. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 30 basis points, plus accrued and unpaid interest thereon to the redemption date.
- (3) In August 2009, we sold in a registered underwritten public offering, \$300 million in aggregate principal amount of 8.60% senior notes due August 2019. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 50 basis points, plus accrued and unpaid interest thereon to the redemption date.
- (4) In March 2012, we sold in a registered underwritten public offering, \$250 million in aggregate principal amount of 5.625% senior notes due April 2024. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 50 basis points, plus accrued and unpaid interest thereon to the redemption date.

- (5) In March 2012, we sold in a registered underwritten public offering, \$350 million in aggregate principal amount of 6.90% senior notes due March 2042. Interest on these senior notes is payable quarterly in arrears on March 15, June 15, September 15 and December 15, commencing on June 15, 2012. On or after March 15, 2017, we may redeem some or all of the senior notes at any time at the redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.
- (6) This financing balance pertains to term loan financing of Raymond James European Securities, S.A.S. (“RJES”). The term loan bears interest at a variable rate indexed to the Euro Interbank Offered Rate and is secured by certain assets of RJES. The repayment terms include annual principal repayments and a September 2013 maturity.

Our corporate debt as of March 31, 2012, based upon its contractual terms, matures as follows:

	March 31, 2012 (in thousands)
During the six months ending September 30, 2012	\$ 4,720
Fiscal 2013	6,718
Fiscal 2014	3,860
Fiscal 2015	4,086
Fiscal 2016	253,920