

STIFEL FINANCIAL CORP
Form 10-K
March 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	43-1273600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 North Broadway, St. Louis, Missouri 63102-2188

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.15 par value per share	New York Stock Exchange Chicago Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Chicago Stock Exchange
5.375% Senior Notes Due 2022	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

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

The aggregate market value of the registrant's common stock, \$0.15 par value per share, held by non-affiliates of the registrant as of the close of business on June 30, 2015, was \$4.2 billion.¹

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on February 19, 2016, was 69,507,842.

¹ In determining this amount, the registrant assumed that the executive officers and directors of the registrant are affiliates of the registrant. Such assumptions shall not be deemed to be conclusive for any other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders, to be filed within 120 days of our fiscal year ended December 31, 2015, are incorporated by reference in Part III hereof.

STIFEL FINANCIAL CORP.

TABLE OF CONTENTS

Part I

Item 1. <u>Business</u>	1
Item	
1A. <u>Risk Factors</u>	12
Item	
1B. <u>Unresolved Staff Comments</u>	24
Item 2. <u>Properties</u>	24
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	26

Part II

Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	27
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item	
7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	69
Item 8. <u>Financial Statements and Supplementary Data</u>	73
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	136
Item	
9A. <u>Controls and Procedures</u>	136
Item	
9B. <u>Other Information</u>	138

Part

III

Item 10. <u>Directors, Executive Officers, and Corporate Governance</u>	139
Item 11. <u>Executive Compensation</u>	139
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder</u>	
Item 12. <u>Matters</u>	139
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	140
Item 14. <u>Principal Accounting Fees and Services</u>	140

Part

IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	141
<u>Signatures</u>	145

PART I

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic, political, regulatory, and market conditions, the investment banking and brokerage industries, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under “Risk Factors” in Item 1A as well as those discussed in “External Factors Impacting Our Business” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

ITEM 1. BUSINESS

Stifel Financial Corp. is a Delaware corporation and a financial holding company headquartered in St. Louis. We were organized in 1983. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated (“Stifel”), a full-service retail and institutional wealth management and investment banking firm. Stifel is the successor to a partnership founded in 1890. Our other subsidiaries include Century Securities Associates, Inc. (“CSA”), an independent contractor broker-dealer firm; Keefe, Bruyette & Woods, Inc. (“KBW”), Miller Buckfire & Co. LLC (“Miller Buckfire”), Sterne Agee Group, Inc. and broker-dealer firms; Stifel Nicolaus Europe Limited (“SNEL”), our European subsidiary; Stifel Bank & Trust (“Stifel Bank”), a retail and commercial bank; 1919 Investment Counsel & Trust Company, National Association (“1919 Investment Counsel”) and Stifel Trust Company Delaware, N.A. (“Stifel Trust”), our trust companies; and 1919 Investment Counsel, LLC (“1919”) and Ziegler Capital Management, LLC (“ZCM”), asset management firms. Unless the context requires otherwise, the terms “the Company,” “our company,” “we,” and “our,” as used herein, refer to Stifel Financial Corp. and its subsidiaries.

With a 125-year operating history, we have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are:

- Private client services, including securities transaction and financial planning services;
- Institutional equity and fixed income sales, trading and research, and municipal finance;
- Investment banking services, including mergers and acquisitions, public offerings, and private placements; and
- Retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional, and corporate clients quality, personalized service, with the theory that if we place clients’ needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the nation’s leading wealth management and investment banking firms.

We have grown our business both organically and through opportunistic acquisitions. Over the past several years, we have grown substantially, primarily by completing and successfully integrating a number of acquisitions, including

our acquisition of the capital markets business of Legg Mason (“LM Capital Markets”) from Citigroup in December 2005 and the following acquisitions:

- Ryan Beck Holdings, Inc. (“Ryan Beck”) and its wholly owned broker-dealer subsidiary, Ryan Beck & Company, Inc.
 - On February 28, 2007, we closed on the acquisition of Ryan Beck, a full-service brokerage and investment banking firm with a strong private client focus, from BankAtlantic Bancorp, Inc.
- First Service Financial Company (“First Service”) and its wholly owned subsidiary, FirstService Bank – On April 2, 2007, we completed our acquisition of First Service, and its wholly owned subsidiary FirstService Bank, a St. Louis-based Missouri commercial bank. Upon consummation of the acquisition, we became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. First Service now operates as Stifel Bank & Trust.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

- Butler, Wick & Co., Inc. (“Butler Wick”) – On December 31, 2008, we closed on the acquisition of Butler Wick, a privately held broker-dealer which specialized in providing financial advice to individuals, municipalities, and corporate clients.
- UBS Financial Services Inc. (“UBS”) – During the third and fourth quarters of 2009, we acquired 56 branches from the UBS Wealth Management Americas branch network.
- Thomas Weisel Partners Group, Inc. (“TWPG”) – On July 1, 2010, we acquired TWPG, an investment bank focused principally on the growth sectors of the economy, including technology and health care. This acquisition expanded our investment banking presence on the west coast of the United States.
- Stone & Youngberg LLC (“Stone & Youngberg”) – On October 1, 2011, we acquired Stone & Youngberg, a leading financial services firm specializing in municipal finance and fixed income securities. Stone & Youngberg’s comprehensive institutional group expanded our public finance, institutional sales and trading, and bond underwriting, particularly in the Arizona and California markets, and expanded our Private Client Group.
- Miller Buckfire – On December 20, 2012, we acquired Miller Buckfire, an investment banking firm. Miller Buckfire provides a full range of investment banking advisory services, including financial restructuring, mergers and acquisitions, and debt and equity placements.
- KBW – On February 15, 2013, we acquired KBW, an investment banking firm with a focus in the banking, insurance, brokerage, asset management, mortgage banking, real estate, and specialty finance sectors. KBW maintains industry-leading positions in research, corporate finance, mergers and acquisitions, as well as sales and trading in equities and debt securities of financial services companies.
- Fixed Income Sales and Trading Business from Knight Capital – On July 1, 2013, we completed the acquisition of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group, Inc. The combined teams of sales and trading professionals in the U.S. and Europe cover high-yield and investment-grade corporate bonds, asset-backed and mortgage-backed securities, loan trading, and emerging markets, as well as fixed income research in selected sectors and companies.
- Acacia Federal Savings Bank (“Acacia Federal”) – On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal Savings Bank, a federally chartered savings institution.
- ZCM – On November 30, 2013, we acquired ZCM, an asset management firm that provides investment solutions for institutions, mutual fund sub-advisory clients, municipalities, pension plans, Taft-Hartley plans, and individual investors.
- De La Rosa – On April 3, 2014, we acquired De La Rosa, a California-based public finance investment banking boutique. The addition of the De La Rosa team is expected to further strengthen our company’s position in a number of key underwriting markets in California.
- Oriel – On July 31, 2014, we completed the acquisition of Oriel, a London-based stockbroking and investment banking firm. The combination of our company and Oriel has created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.
- 1919 Investment Counsel, formerly known as Legg Mason Investment Counsel & Trust Co., National Association – On November 7, 2014, we completed the acquisition of 1919 Investment Counsel, an asset management firm and trust company that provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country.
- Merchant – On December 31, 2014, we acquired Merchant, a public finance investment banking firm headquartered in Montgomery, Alabama, which serves the Southeastern market. The strategic combination of Stifel and Merchant Capital is expected to further strengthen our company’s position in several key underwriting markets in the Southeast.
- Sterne Agee Group, Inc. – On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee Group, Inc. (“Sterne Agee”), a financial service firm that offers comprehensive wealth management and investment service to a diverse client base including corporations, municipalities and individual investors.
- Barclays’ Wealth and Investment Management – On December 4, 2015, we completed the purchase of the Barclays’ Wealth and Investment Management (“Barclays”), Americas franchise in the U.S.

Business Segments

We operate in the following segments: Global Wealth Management, Institutional Group, and Other. For a discussion of the financial results of our segments, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis.”

Narrative Description of Business

As of December 31, 2015, we employed over 7,100 associates, including 2,891 financial advisors, of which 719 are independent contractors. As of December 31, 2015, through our broker-dealer subsidiaries, we provide securities-related financial services to over 1.5 million client accounts of customers from the United States and Europe. Our customers include individuals, corporations, municipalities, and institutions. We have customers throughout the United States, with a growing presence in the United Kingdom and Europe. No single client accounts for a material percentage of any segment of our business. Our inventory, which we believe is of modest size and intended to turn over quickly, exists to facilitate order flow and support the investment strategies of our clients. The inventory of securities held to facilitate customer trades and our market-making activities are sensitive to market movements. Furthermore, our balance sheet is highly liquid, without material holdings of securities that are difficult to value or remarket. We believe that our broad platform, fee-based revenues, and strong distribution network position us well to take advantage of current trends within the financial services sector.

GLOBAL WEALTH MANAGEMENT

We provide securities transaction, brokerage, and investment services to our clients through the consolidated Stifel branch system. We have made significant investments in personnel and technology to grow the Private Client Group over the past ten years.

Consolidated Stifel Branch System

At December 31, 2015, the Private Client Group had a network of 2,172 financial advisors located in 329 branch offices in 45 states and the District of Columbia. In addition, we have 719 independent contractors.

Our financial advisors provide a broad range of investments and services to our clients, including financial planning services. We offer equity securities; taxable and tax-exempt fixed income securities, including municipal, corporate, and government agency securities; preferred stock; and unit investment trusts. We also offer a broad range of externally managed fee-based products. In addition, we offer insurance and annuity products and investment company shares through agreements with numerous third-party distributors. We encourage our financial advisors to pursue the products and services that best fit their clients' needs and that they feel most comfortable recommending. Our private clients may choose from a traditional, commission-based structure or fee-based money management programs. In most cases, commissions are charged for sales of investment products to clients based on an established commission schedule. In certain cases, varying discounts may be given based on relevant client or trade factors determined by the financial advisor.

Our independent contractors provide the same types of financial products and services to its private clients as does Stifel. Under their contractual arrangements, these independent contractors may also provide accounting services, real estate brokerage, insurance, or other business activities for their own account. Independent contractors are responsible for all of their direct costs and are paid a larger percentage of commissions to compensate them for their added expenses. CSA is an introducing broker-dealer and, as such, clears its transactions through Stifel. Sterne clears its transactions through Sterne Agee Clearing, Inc., a wholly-owned subsidiary of our company.

Customer Financing

Client securities transactions are effected on either a cash or margin basis. When securities are purchased on a margin basis, the customer deposits less than the full cost of the security in their account. We make a loan to the customer for the balance of the purchase price. Such loans are collateralized by the purchased securities. The amounts of the loans are subject to the margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Financial Industry Regulatory Authority, Inc. ("FINRA") margin requirements, and our internal policies, which usually are more restrictive than Regulation T or FINRA requirements. In permitting customers to purchase securities on

margin, we are subject to the risk of a market decline, which could reduce the value of our collateral below the amount of the customers' indebtedness.

We offer securities-based lending through Stifel Bank, which allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying marketable securities or refinancing margin debt. The loan requirements are subject to Regulation U of the Board of Governors of the Federal Reserve System ("Regulation U") and our internal policies, which are typically more restrictive than Regulation U. We establish approved lines and advance rates against qualifying securities and monitor limits daily and, pursuant to such guidelines, require customers to deposit additional collateral or reduce debt positions, when necessary. Factors considered in the review of securities-based lending are the amount of the loan, the degree of concentrated or restricted positions, and the overall evaluation of the portfolio to ensure proper diversification, or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies. Underlying collateral for securities-based loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis, and an evaluation of industry concentrations.

Asset Management

The Asset Management segment includes the operations of ZCM and 1919 Investment Counsel, and Stifel Trust. Our asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. Revenues for this segment are primarily generated by the investment advisory fees related to asset management services provided for individual and institutional investment portfolios, along with mutual funds. Investment advisory fees are earned on assets held in managed or non-discretionary asset-based programs. These fees are computed based on balances either at the beginning of the quarter, the end of the quarter, or average daily assets. Consistent with industry practice, fees from private client investment portfolios are typically based on asset values at the beginning of the period while institutional fees are typically based on asset values at the end of the period. Asset balances are impacted by both the performance of the market and sales and redemptions of client accounts/funds. Rising markets have historically had a positive impact on investment advisory fee revenues as existing accounts increase in value, and individuals and institutions may commit incremental funds in rising markets. No single client accounts for a material percentage of this segment's total business.

Stifel Bank

In April 2007, we completed the acquisition of First Service, a St. Louis-based full-service bank, which now operates as Stifel Bank & Trust and is reported in the Global Wealth Management segment. Since the closing of the bank acquisition, we have grown retail and commercial bank assets from \$145.6 million on acquisition date to \$7.3 billion at December 31, 2015. Through Stifel Bank, we offer retail and commercial banking services to private and corporate clients, including personal loan programs, such as fixed and variable mortgage loans, home equity lines of credit, personal loans, loans secured by CDs or savings, and securities-based loans, as well as commercial lending programs, such as small business loans, commercial real estate loans, lines of credit, credit cards, term loans, and inventory and receivables financing, in addition to other banking products. We believe Stifel Bank not only helps us serve our private clients more effectively by offering them a broader range of services, but also enables us to better utilize our private client cash balances held on deposit at Stifel Bank, which is its primary source of funding.

INSTITUTIONAL GROUP

The Institutional Group segment includes research, equity and fixed income institutional sales and trading, investment banking, public finance, and syndicate.

Research

Our research department publishes research across multiple industry groups and provides our clients with timely, insightful, and actionable research, aimed at improving investment performance.

Institutional Sales and Trading

Our equity sales and trading team distributes our proprietary equity research products and communicates our investment recommendations to our client base of institutional investors, executes equity trades, sells the securities of companies for which we act as an underwriter, and makes a market in domestic securities. In our various sales and trading activities, we take a focused approach to serving our clients by maintaining inventory to facilitate order flow and support the investment strategies of our institutional fixed income clients, as opposed to seeking trading profits through proprietary trading. Located in various cities in the United States as well as Geneva, Zurich, London, and Madrid, our equity sales and trading team, service over 2,200 clients globally.

The fixed income institutional sales and trading group is comprised of taxable and tax-exempt sales departments. Our institutional sales and trading group executes trades with diversification across municipal, corporate, government agency, and mortgage-backed securities.

Investment Banking

Our investment banking activities include the provision of financial advisory services principally with respect to mergers and acquisitions and the execution of public offerings and private placements of debt and equity securities. The investment banking group focuses on middle-market companies as well as on larger companies in targeted industries where we have particular expertise, which include real estate, financial services, healthcare, aerospace/defense and government services, telecommunications, transportation, energy, business services, consumer services, industrial, technology, and education.

Our syndicate department coordinates marketing, distribution, pricing, and stabilization of our managed equity and debt offerings. In addition, the department coordinates our underwriting participations and selling group opportunities managed by other investment banking firms.

Public Finance

Our public finance group acts as an underwriter and dealer in bonds issued by states, cities, and other political subdivisions and acts as manager or participant in offerings managed by other firms.

OTHER SEGMENT

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, compensation expense associated with the expensing of restricted stock awards with no continuing service requirements as a result of acquisitions completed during 2015, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration and acquisition charges.

BUSINESS CONTINUITY

We have developed a business continuity plan that is designed to permit continued operation of business-critical functions in the event of disruptions to our St. Louis, Missouri headquarters facility. Several critical business applications are supported by our outside vendors who maintain backup capabilities. We periodically participate in testing these backup facilities. Likewise, the business functions that we run internally can be supported without the St. Louis headquarters through a combination of redundant computer facilities in other east and west coast data centers and from certain branch locations that can connect to our third-party securities processing vendor through its primary or redundant facilities. Systems have been designed so that we can route mission-critical processing activity to alternate locations, which can be staffed with relocated personnel as appropriate.

GROWTH STRATEGY

We believe our strategy for growth will allow us to increase our revenues and to expand our role with clients as a valued partner. In executing our growth strategy, we take advantage of the consolidation among mid-tier firms, which we believe provides us opportunities in our global wealth and institutional group segments. We do not create specific growth or business plans for any particular type of acquisition, focus on specific firms, or geographic expansion, nor do we establish quantitative goals, such as intended numbers of new hires or new office openings; however, our corporate philosophy has always been to be in a position to take advantage of opportunities as they arise, while maintaining sufficient levels of capital. We intend to pursue the following strategies with discipline:

- Further expand our private client footprint in the U.S. We have expanded the number of our private client branches from 39 at December 31, 1997 to 329 at December 31, 2015, and our branch-based financial advisors from 262 to 2,172 over the same period. In addition, assets under management have grown from \$11.7 billion at December 31, 1997 to \$234.1 billion at December 31, 2015. Through organic growth and acquisitions, we have built a strong footprint nationally. Over time, we plan to further expand our domestic private client footprint. We plan on achieving this through recruiting experienced financial advisors with established client relationships and continuing to selectively consider acquisition opportunities as they may arise.
- Further expand our institutional business both domestically and internationally. Our institutional equity business is built upon the premise that high-quality fundamental research is not a commodity. The growth of our business over the last 10 years has been fueled by the effective partnership of our highly rated research and institutional sales and trading teams. We have identified opportunities to expand our research capabilities by taking advantage of market disruptions. As of December 31, 2015, our research department was ranked the second largest research department, as measured by domestic equities under coverage, by StarMine. Our goal is to further monetize our research platform by adding additional institutional sales and trading teams and by placing a greater emphasis on client management.
- Grow our investment banking business. By leveraging our industry expertise, our product knowledge, our research platform, our experienced associates, our capital markets strength, our middle-market focus, and our private client

network, we intend to grow our investment banking business. The merger with TWPG in 2010, our acquisition of Miller Buckfire in 2012, the merger with KBW in 2013, and the acquisitions of De La Rosa and Oriel in 2014, has accelerated the growth of our investment banking business through expanded industry, product, and geographic coverage, including capital-raising for start-up companies, particularly from the venture community. We believe our position as a middle-market focused investment bank with broad-based and respected research will allow us to take advantage of opportunities in the middle market and continue to align our investment banking coverage with our research footprint.

·Focus on asset generation within Stifel Bank and offer retail and commercial banking services to our clients. We believe the banking services provided through Stifel Bank strengthens our existing client relationships and helps us recruit financial advisors

seeking to provide a full range of services to their private clients. We intend to increase the sale of banking products and services to our private and corporate clients.

- Establishment of Stifel Trust During 2011, we received approval from the Office of the Comptroller of the Currency (“OCC”) to form a trust company. Stifel Trust provides a wide range of trust, investment, agency, and custodial services for our individual and corporate clients. We intend to expand our offering of trust services to our private client group clients. We have expanded our trust capabilities with the acquisition of 1919 Investment Counsel during 2014 and Barclays’ Wealth Trust in 2015. These businesses have been merged and operate as Stifel Trust.

- Approach acquisition opportunities with discipline. Over the course of our operating history, we have demonstrated our ability to identify, effect, and integrate attractive acquisition opportunities. We believe the current environment and market dislocation will continue to provide us with the ability to thoughtfully consider acquisitions on an opportunistic basis.

COMPETITION

We compete with other securities firms, some of which offer their customers a broader range of brokerage services, have substantially greater resources, and may have greater operating efficiencies. In addition, we face increasing competition from other financial institutions, such as commercial banks, online service providers, and other companies offering financial services. The Financial Modernization Act, signed into law in late 1999, lifted restrictions on banks and insurance companies, permitting them to provide financial services once dominated by securities firms. In addition, recent consolidation in the financial services industry may lead to increased competition from larger, more diversified organizations.

As we enter our 125th year in business, we continue to rely on the expertise acquired in our market area, our personnel, and our equity capital to operate in the competitive environment.

REGULATION

Financial Holding Company Regulation

Under U.S. law, we are a bank holding company that has elected to be a financial holding company under the Bank Holding Company Act of 1956, as amended (“BHCA”). Consequently, our company and its business activities are subject to the supervision, examination, and regulation of the Federal Reserve Board. The BHCA and other federal laws subject bank and financial holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Supervision and regulation of bank holding companies, financial holding companies, and their subsidiaries are intended primarily for the protection of depositors and other clients of banking subsidiaries, the deposit insurance fund of the Federal Deposit Insurance Corporation (“FDIC”), and the banking system as a whole, but not for the protection of stockholders or other creditors.

As a financial holding company, we are permitted: (1) to engage in other activities that the Federal Reserve Board, working with the Secretary of the Treasury, determines to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally, or (2) to acquire shares of companies engaged in such activities. We may not, however, directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares, or substantially all of the assets, of a bank holding company or a bank without the prior approval of the Federal Reserve Board.

In order to maintain our status as a financial holding company, we must remain “well capitalized” and “well managed” under applicable regulations. Failure to meet one or more of the requirements would mean, depending on the requirements not met, that we could not undertake new activities, make acquisitions other than those permitted generally for bank holding companies, or continue certain activities.

Subsidiary Regulation

The securities industry in the United States is subject to extensive regulation under federal and state laws. The Securities and Exchange Commission (“SEC”) is the federal agency charged with the administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations (“SRO”), principally FINRA and the Municipal Securities Rulemaking Board, and securities exchanges. SROs adopt rules (which are subject to approval by the SEC) that govern the industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. A number of changes have been proposed to the rules and regulations that govern our securities business, and other rules and regulations have been adopted, which may result in changes in the way we conduct our business.

As a result of federal and state registration and SRO memberships, broker-dealers are subject to overlapping schemes of regulation that cover all aspects of their securities businesses. Such regulations cover matters including capital requirements; uses and safekeeping of clients' funds; conduct of directors, officers, and employees; recordkeeping and reporting requirements; supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information; employee-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; requirements for the registration, underwriting, sale, and distribution of securities; and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation, including, in some instances, "suitability" determinations as to certain customer transactions, limitations on the amounts that may be charged to customers, timing of proprietary trading in relation to customers' trades, and disclosures to customers.

Additional legislation, changes in rules promulgated by the SEC and by SROs, and changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC and the SROs conduct regular examinations of our broker-dealer subsidiaries and also initiate targeted and other specific inquiries from time to time, which generally include the investigation of issues involving substantial portions of the securities industry. The SEC and the SROs may conduct administrative proceedings, which can result in censures, fines, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than the protection of creditors and stockholders of broker-dealers.

The SEC is the federal agency charged with administration of the federal securities laws. Financial services firms are also subject to regulation by state securities commissions in those states in which they conduct business. The SEC recently adopted amendments, most of which were effective October 2013, to its financial responsibility rules, including changes to the net capital rule, the customer protection rule, the record-keeping rules and the notification rules applicable to our broker-dealer subsidiaries. We continue to evaluate the impact of these amendments on our broker-dealer subsidiaries; however, based on our current analyses, we do not believe they will have a material adverse effect on any of our broker-dealer subsidiaries.

Our U.S. broker-dealer subsidiaries are subject to the Securities Investor Protection Act and are members of Securities Investors Protection Corporation ("SIPC"), whose primary function is to provide financial protection for the customers of failing brokerage firms. SIPC provides protection for customers up to \$500,000, of which a maximum of \$250,000 may be in cash.

Stifel Bank is a Federal Reserve member Bank, its deposits are insured by the FDIC up to the maximum authorized limit, and it is subject to regulation by the Federal Reserve Bank, as well as the Missouri Division of Finance.

Several of our wholly owned subsidiaries, including Missouri Valley Partners, Choice Financial Partners, Inc., Thomas Weisel Capital Management LLC, Thomas Weisel Asset Management LLC, Thomas Weisel Global Growth Partners LLC, ZCM, and 1919 Investment Counsel, are registered as investment advisers with the SEC and, therefore, are subject to its regulation and oversight.

Stifel Trust is subject to regulation by the OCC. This regulation focuses on, among other things, ensuring the safety and soundness of Stifel Trust's fiduciary services.

Non-U.S. Regulation

Our non-U.S. subsidiaries are subject to applicable laws and regulations of the jurisdictions in which they operate.

Our European subsidiary, SNEL, is subject to the regulatory supervision and requirements of the Financial Conduct Authority (“FCA”) in the United Kingdom, and both SNEL and Oriel are members of the London Stock Exchange. The FCA exercises broad supervisory and disciplinary powers that include the power to temporarily or permanently revoke authorization to conduct a regulated business upon breach of the relevant regulations, suspend approved persons, and impose fines (where applicable) on both regulated businesses and their approved persons. SNEL operates representative offices in Geneva, Switzerland and Zurich, Switzerland, and has a branch office in Madrid, Spain. In addition to the FCA, these offices are subject to the local regulations of their respective jurisdictions. SNEL holds a number of FCA-passporting rights to engage in Markets in Financial Instruments Directive-related business in Europe.

The Dodd-Frank Act

The financial services industry in the U.S. is subject to extensive regulation under federal and state laws. During our fiscal year 2010, the U.S. government enacted financial services reform legislation known as the Dodd-Frank Wall Street Reform & Consumer Protection Act (“Dodd-Frank Act”). Because of the nature of our business and our business practices, we presently do not expect the

Dodd-Frank Act to have a significant direct impact on our operations as a whole. However, because some of the implementing regulations have yet to be adopted by various regulatory agencies, the specific impact on some of our businesses remains uncertain.

In July 2013, the OCC, the Federal Reserve Board, and the FDIC released final United States Basel III regulatory capital rules implementing the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Act. The rule increases the quantity and quality of regulatory capital, establishes a capital conservation buffer, and makes selected changes to the calculation of risk-weighted assets. The rule became effective for us on January 1, 2015, subject to a transition period for several aspects of the rule, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Based on our current analyses, our company and Stifel Bank are well-capitalized. However, the increased capital requirements could restrict our ability to grow during favorable market conditions or require us to raise additional capital. As a result, our business, results of operations, financial condition, or prospects could be adversely affected. See Item 1A, “Risk Factors,” within this Form 10-K for more information.

In December 2013, U.S. regulators issued final regulations to implement the Volcker Rule. The Volcker Rule will, over time, prohibit “banking entities,” including our company and its affiliates, from engaging in certain prohibited “proprietary trading” activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market-making-related activities, risk-mitigating hedging, and certain other activities. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with “covered funds,” as defined in the Volcker Rule. Banking entities have until July 21, 2015, to bring all of their activities into conformance with the Volcker Rule, and until July 21, 2016, to bring all of their investments into conformance with the Volcker Rule, in each case, subject to possible extensions. The Volcker Rule requires banking entities to establish comprehensive compliance programs designed to help ensure and monitor compliance with restrictions under the Volcker Rule.

In July 2011, pursuant to the Dodd-Frank Act, the Consumer Financial Protection Bureau (“CFPB”) began operations and was given rulemaking authority for a wide range of consumer protection laws that would apply to all banks and provide broad powers to supervise and enforce consumer protection laws.

Banks with total assets of \$10 billion or less remain subject to the supervisory oversight of their primary federal banking agencies (for us, the Federal Reserve and the OCC) for purposes of compliance with the federal consumer financial laws. However, the CFPB has rule-writing authority for these laws as they apply to all providers of consumer financial products and services. It also has backup enforcement authorities for entities supervised by the federal banking agencies. Further, the CFPB frequently works with federal banking agencies, and new CFPB standards and “best practices” are likely to be adopted by federal banking regulators and ultimately impact smaller banks regardless of their size or primary regulator.

Capital Requirements

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Reserve and the Missouri Division of Finance. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require our company and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital

(as defined) to average assets (as defined).

Our broker-dealer subsidiaries are subject to the Uniform Net Capital Rule (Rule 15c3-1) promulgated by the SEC. The Uniform Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer and the minimum net capital deemed necessary to meet the broker-dealer's continuing commitments to its customers and other broker-dealers. Broker-dealers may be prohibited from expanding their business and declaring cash dividends. A broker-dealer that fails to comply with the Uniform Net Capital Rule may be subject to disciplinary actions by the SEC and SROs, such as FINRA, including censures, fines, suspension, or expulsion. For further discussion of our net capital requirements, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Public Company Regulation

As a public company whose common stock is listed on the New York Stock Exchange ("NYSE") and the Chicago Stock Exchange ("CHX"), we are subject to corporate governance requirements established by the SEC, NYSE, and CHX, as well as federal and state law. Under the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to meet certain requirements regarding business dealings

with members of the Board of Directors, the structure of our Audit and Compensation Committees, ethical standards for our senior financial officers, implementation of an internal control structure and procedures for financial reporting, and additional responsibilities regarding financial statements for our Chief Executive Officer and Chief Financial Officer and their assessment of our internal controls over financial reporting. Compliance with all aspects of the Act, particularly the provisions related to management's assessment of internal controls, has imposed additional costs on our company, reflecting internal staff and management time, as well as additional audit fees since the Act went into effect.

Executive Officers

Information regarding our executive officers and their ages as of February 20, 2016, is as follows:

Name	Age	Position(s)
Ronald J. Kruszewski	57	Co-Chairman of the Board of Directors and Chief Executive Officer
Thomas W. Weisel	74	Co-Chairman of the Board of Directors
James M. Zemlyak	56	President, Chief Financial Officer, and Director
Richard J. Himelfarb	74	Vice Chairman, Senior Vice President, and Director
Thomas B. Michaud	51	Senior Vice President and Director
Thomas P. Mulroy	54	President, Co-Director of Institutional Group, and Director
Victor J. Nesi	55	President, Co-Director of Institutional Group, and Director
Ben A. Plotkin	60	Vice Chairman, Senior Vice President, and Director
David M. Minnick	59	Senior Vice President and General Counsel
Mark P. Fisher	46	Senior Vice President and General Counsel
James M. Marischen	36	Senior Vice President, Chief Risk Officer, and Chief Accounting Officer
David D. Sliney	46	Senior Vice President

Ronald J. Kruszewski has been Chief Executive Officer, and Director of our company and Stifel since September 1997 and Chairman of the Board of Directors of our company and Stifel since April 2001. Prior thereto, Mr. Kruszewski served as Managing Director and Chief Financial Officer of Baird Financial Corporation and Managing Director of Robert W. Baird & Co. Incorporated, a securities broker-dealer firm, from 1993 to September 1997.

Thomas W. Weisel was elected Co-Chairman of the Board of Directors of our company in August 2010 after the completion of the merger between our company and Thomas Weisel Partners Group, Inc. Prior thereto, Mr. Weisel served as Chairman and CEO of Thomas Weisel Partners Group, Inc., a firm he founded, from 1998 to June 2010. Prior to founding Thomas Weisel Partners, Mr. Weisel was a founder, in 1971, of Robertson, Coleman, Siebel & Weisel that became Montgomery Securities in 1978, where he was Chairman and CEO until September 1998. Mr. Weisel served as a director on the NASDAQ Stock Market board of directors from 2002 to 2006.

James M. Zemlyak was named to the Office of the President in June 2014. Mr. Zemlyak has been Chief Financial Officer and Director of our company and Stifel since February 1999. Mr. Zemlyak served as our company's Treasurer from February 1999 to January 2012. Mr. Zemlyak has been Chief Operating Officer of Stifel since August 2002 and Executive Vice President of Stifel since December 1, 2005. Mr. Zemlyak also served as Chief Financial Officer of Stifel from February 1999 to October 2006. Prior to joining our company, Mr. Zemlyak served as Managing Director and Chief Financial Officer of Baird Financial Corporation from 1997 to 1999 and Senior Vice President and Chief Financial Officer of Robert W. Baird & Co. Incorporated from 1994 to 1999.

Richard J. Himelfarb has served as Senior Vice President and Director of our company and Executive Vice President and Director of Stifel since December 2005. Mr. Himelfarb was designated Chairman of Investment Banking in July 2009. Prior to that, Mr. Himelfarb served as Executive Vice President and Director of Investment Banking from December 2005 through July 2009. Prior to joining our company, Mr. Himelfarb served as a director of Legg Mason, Inc. from November 1983 and Legg Mason Wood Walker, Inc. from January 2005. Mr. Himelfarb was elected Executive Vice President of Legg Mason and Legg Mason Wood Walker, Inc. in July 1995, having previously served as Senior Vice President from November 1983.

Thomas B. Michaud was elected to the Board of Directors of our company in February 2013 after the completion of the merger between our company and KBW, Inc. Mr. Michaud serves as Senior Vice President of our company and Chairman, Chief Executive Officer, and President of Keefe, Bruyette & Woods, Inc., one of our broker-dealer subsidiaries, since February 15, 2013. Prior thereto, Mr. Michaud served as the Chief Executive Officer and President

of KBW, Inc. since October 2011 and as Vice Chairman and director since its formation in August 2005. He previously served as Chief Operating Officer from August 2005 until October 2011.

Thomas P. Mulroy was named to the Office of the President in June 2014. Mr. Mulroy has served as Co-Director of our Institutional Group since July 2009. Mr. Mulroy has served as Director of our company and Executive Vice President and Director of Stifel since December 2005. Prior to that, Mr. Mulroy served as Director of Equity Capital Markets from December 2005 through July 2009. Mr. Mulroy has responsibility for institutional equity sales, trading, and research. Prior to joining our company, Mr. Mulroy was elected Executive Vice President of Legg Mason, Inc. in July 2002 and of Legg Mason Wood Walker, Inc. in November 2000. Mr. Mulroy became a Senior Vice President of Legg Mason, Inc. in July 2000 and Legg Mason Wood Walker, Inc. in August 1998.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Victor J. Nesi was named to the Office of the President in June 2014. Mr. Nesi has served as Director of Investment Banking and Co-Director of our Institutional Group since July 2009. Mr. Nesi has served as Director of our company since August 2009. Mr. Nesi has responsibility for corporate finance investment banking activities and is Co-Director of our Capital Markets segment. Mr. Nesi has more than 20 years of banking and private equity experience, most recently with Merrill Lynch, where he headed the global private equity business for the telecommunications and media industry. From 2005 to 2007, he directed Merrill Lynch's investment banking group for the Americas region. Prior to joining Merrill Lynch in 1996, Mr. Nesi spent seven years as an investment banker at Salomon Brothers and Goldman Sachs.

Ben A. Plotkin has been Vice Chairman, Senior Vice President, and Director of our company since August 2007 and Executive Vice President of Stifel since February 2007. Mr. Plotkin also served as Chairman and Chief Executive Officer of Ryan Beck & Company, Inc. from 1997 until its acquisition by our company in 2007. Mr. Plotkin was elected Executive Vice President of Ryan Beck in 1990. Mr. Plotkin became a Senior Vice President of Ryan Beck in 1989 and was appointed First Vice President of Ryan Beck in December of 1987. Mr. Plotkin joined Ryan Beck in May of 1987 as a Director and Vice President in the Investment Banking Division.

David M. Minnick has served as Senior Vice President and General Counsel of our company and Stifel since October 2004. Prior thereto, Mr. Minnick served as Vice President and Counsel for A.G. Edwards & Sons, Inc. from August 2002 through October 2004, Senior Regional Attorney for NASD Regulation, Inc. from November 2000 through July 2002, as an attorney in private law practice from September 1998 through November 2000, and as General Counsel and Managing Director of Morgan Keegan & Company, Inc. from October 1990 through August 1998.

Mark P. Fisher has served as Senior Vice President and General Counsel since May 2014. From July 2010 until May 2014, Mr. Fisher was Senior Vice President of our company. Mr. Fisher served as General Counsel of Thomas Weisel Partners Group, Inc. from May 2005 until the merger between our company and Thomas Weisel Partners Group, Inc. in July 2010. From January 1998 until May 2005, Mr. Fisher practiced corporate and securities law at Sullivan & Cromwell LLP.

James M. Marischen has served as Senior Vice President Chief Risk Officer of our company since January 2014. During 2015, Mr. Marischen was named our Chief Accounting Officer. Mr. Marischen served as Executive Vice President and Chief Financial Officer of Stifel Bank & Trust from February 2008 to January 2014. Prior to joining our company in 2008, Mr. Marischen worked in public accounting at KPMG LLP.

David D. Sliney has been a Senior Vice President of our company since May 2003. In 1997, Mr. Sliney began a Strategic Planning and Finance role with Stifel and has served as a Director of Stifel since May 2003. Mr. Sliney is also responsible for our company's Operations and Technology departments. Mr. Sliney joined Stifel in 1992, and between 1992 and 1995, Mr. Sliney worked as a fixed income trader and later assumed responsibility for the firm's Equity Syndicate Department.

AVAILABLE INFORMATION

Our internet address is www.stifel.com. We make available, free of charge, through a link to the SEC web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Additionally, we make available on our web site under "Investor Relations – Corporate Governance," and in print upon request of any shareholder to our Chief Financial Officer, a number of our corporate governance documents. These include: Executive Committee charter, Audit Committee charter, Compensation Committee charter, Risk Management/Corporate Governance Committee charter, Corporate Governance Guidelines, Complaint Reporting

Process, and the Code of Ethics for Employees. Within the time period required by the SEC and the NYSE, we will post on our web site any modifications to any of the available documents. The information on our web site is not incorporated by reference into this report. Our Chief Financial Officer can be contacted at Stifel Financial Corp., One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102, telephone: (314) 342-2000.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, or future results of operations. Although the risks described below are those that management believes are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition, or future results of operations. We may amend or supplement these risk factors from time to time in other reports we file with the SEC.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Damage to our reputation could damage our businesses.

Maintaining our reputation is critical to our attracting and maintaining customers, investors, and employees. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues include, but are not limited to, any of the risks discussed in this Item 1A, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, privacy, record keeping, sales and trading practices, failure to sell securities we have underwritten at the anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. A failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs, and harm to our reputation. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects.

We are affected by domestic and international macroeconomic conditions that impact the global financial markets.

We are engaged in various financial services businesses. As such, we are generally affected by domestic and international macroeconomic and political conditions, including levels of economic output, interest and inflation rates, employment levels, consumer confidence levels, and fiscal and monetary policy. These conditions may directly and indirectly impact a number of factors in the global financial markets that may be detrimental to our operating results, including the levels of trading, investing, and origination activity in the securities markets, security valuations, the absolute and relative level and volatility of interest and currency rates, real estate values, the actual and perceived quality of issuers and borrowers, and the supply of and demand for loans and deposits.

At times over the last several years, we have experienced operating cycles during weak and uncertain U.S. and global economic conditions, including low levels of economic output, artificially maintained levels of historically low interest rates, relatively high rates of unemployment, and significant uncertainty with regards to fiscal and monetary policy both domestically and abroad. These conditions led to several factors in the global financial markets that from time to time negatively impacted our net revenue and profitability. While select factors indicate signs of improvement, uncertainty remains. A period of sustained downturns and/or volatility in the securities markets, prolonged continuation of the artificially low level of short-term interest rates, a return to increased dislocations in the credit markets, reductions in the value of real estate, and other negative market factors could significantly impair our revenues and profitability. We could experience a decline in commission revenue from a lower volume of trades we execute for our clients, a decline in fees from reduced portfolio values of securities managed on behalf of our clients, a reduction in revenue from the number and size of transactions in which we provide underwriting, financial advisory, and other services, increased credit provisions and charge-offs, losses sustained from our customers' and market participants' failure to fulfill their settlement obligations, reduced net interest earnings, and other losses. These periods of reduced revenue and other losses could be accompanied by periods of reduced profitability, because certain of our expenses, including but not limited to our interest expense on debt, rent, facilities, and salary expenses, are fixed, and our ability to reduce them over short periods of time is limited.

Future downgrades of the U.S. sovereign credit rating by one or more of the major credit rating agencies could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world and, in turn, could have a material adverse effect on our business, financial condition, and liquidity.

Concerns about the European Union's ("EU") sovereign debt in recent years has caused uncertainty and disruption for financial markets globally. Continued uncertainties loom over the outcome the EU's financial support programs, and the possibility exists that other EU member states may experience similar financial troubles in the future. Any negative impact on economic conditions and global markets from further EU sovereign debt matters could adversely affect our business, financial condition, and liquidity.

Our businesses and earnings are affected by the fiscal and other policies adopted by various regulatory authorities of the United States, non-U.S. governments, and international agencies. The Fed regulates the supply of money and credit in the United States. Fed policies determine, in large part, the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies can also materially decrease the value of certain of our financial assets, most notably debt securities. Changes in Fed policies are beyond our control, and consequently, the impact of these changes on our activities and results of our operations are difficult to predict.

U.S. state and local governments also continue to struggle with budget pressures caused by the ongoing less than optimal economic environment and ongoing concerns regarding municipal issuer credit quality. If these trends continue or worsen, investor concerns could potentially reduce the number and size of transactions in which we participate and, in turn, reduce investment banking revenues. In addition, such factors could adversely affect the value of the municipal securities we hold in our trading securities portfolio.

Lack of liquidity or access to capital could impair our business and financial condition.

Maintaining an appropriate level of liquidity, or the amount of capital that is readily available for investment, spending, or to meet our contractual obligations is essential to our business. Our inability to maintain adequate levels of capital in the form of cash and readily available access to the credit and capital markets could have a significant negative effect on our financial condition. If liquidity from our brokerage or banking operations is inadequate or unavailable, we may be required to scale back or curtail our operations, including limiting our efforts to recruit additional financial advisors or selling assets at prices that may be less favorable to us. Some potential conditions that could negatively affect our liquidity include the inability of our subsidiaries to generate cash in the form of dividends from earnings, changes imposed by regulators to our liquidity or capital requirements in our subsidiaries that may prevent the upstream of dividends in the form of cash to the parent company, limited or no accessibility to credit markets for secured and unsecured borrowings within our primary broker-dealer subsidiary, accessibility to credit markets for secured borrowing and diminished access to the capital markets for our company, and other commitments or restrictions on capital as a result of adverse legal settlements, judgments, or regulatory sanctions.

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

If our credit rating was downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected, perceptions of our financial strength could be damaged, and as a result, adversely affect our relationships with clients. Such a reduction in our credit rating could also adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets, trigger obligations under certain financial agreements, or decrease the number of investors, clients, and counterparties willing or permitted to do business with or lend to us, thereby curtailing our business operations and reducing profitability. As such, we may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all. The impact of a credit rating downgrade to a level below investment grade would result in our breaching provisions in our credit agreements, and may result in a request for immediate payment.

Furthermore, as a bank holding company, we may become subject to a prohibition or to limitations on our ability to repurchase our stock. The Federal Reserve and the SEC (via FINRA) have the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the subsidiaries to us for the subsidiaries they supervise.

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” in this Form 10-K for additional information on liquidity and how we manage our liquidity risk.

Our ability to attract and retain qualified financial advisors and other associates is critical to the continued success of our business.

Our ability to develop and retain our client base depends on the reputation, judgment, business generation capabilities, and skills of our employees and financial advisors. As such, to compete effectively, we must attract, retain, and motivate qualified associates, including successful financial advisors, investment bankers, trading professionals, portfolio managers, and other revenue-producing or specialized personnel. Competitive pressures we experience could have an adverse effect on our business, results of operations, financial condition, and liquidity.

We compete directly with national full-domestic commercial banks and investment banking boutique firms that have entered the broker-dealer business, and large international banks are now serving our markets as well. Legislative and regulatory initiatives which eased what were at one time restrictions on the sales of securities and underwriting activities by commercial banks have increased competition. This increased competition could cause our business to suffer.

The cost of retaining skilled professionals in the financial services industry has escalated considerably. Employers in the industry are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as a prospective employee's decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. In particular, our financial results may be adversely affected by the costs we incur in connection with any upfront loans or other incentives we may offer to newly recruited financial advisors and other key personnel.

Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We have been subject to several such claims in the past and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may currently be working for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits. Such claims could also discourage potential employees who currently work for our competitors from joining us.

We are exposed to market risk.

We are, directly and indirectly, affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates could adversely affect our net interest spread, the difference between the yield we earn on our assets and the interest rate we pay for deposits and other sources of funding, which, in turn, impacts our net interest income and earnings. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. In our brokerage operations, a rising interest rate environment generally results in our earning a larger net interest spread. Conversely, in those operations, a falling interest rate environment generally results in our earning a smaller net interest spread. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

Market risk is inherent in the financial instruments associated with our operations and activities, including trading account assets and liabilities, loans, deposits, securities, short-term borrowings, corporate debt, and derivatives. Market conditions that change from time to time, thereby exposing us to market risk, include fluctuations in interest rates, equity prices, relative exchange rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of an issuer.

In addition, disruptions in the liquidity or transparency of the financial markets may result in our inability to sell, syndicate, or realize the value of security positions, thereby leading to increased concentrations. The inability to reduce our positions in specific securities may not only increase the market and credit risks associated with such positions, but also increase the level of risk-weighted assets on our balance sheet, thereby increasing capital requirements, which could have an adverse effect on our business, results of operations, financial condition, and liquidity.

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for additional information regarding our exposure to and approaches to managing market risk.

We are exposed to credit risk.

We are generally exposed to the risk that third parties that owe us money, securities, or other assets do not meet their performance obligations due to bankruptcy, lack of liquidity, operational failure, or other reasons.

We actively buy and sell securities from and to clients and counterparties in the normal course of our broker-dealer businesses, exposing us to credit risk. Although generally collateralized by the underlying security to the transaction, we still face the risk associated with changes in the market value of collateral through settlement date. We also hold

certain securities and derivatives in our trading accounts. Deterioration in the actual or perceived credit quality of the underlying issuers of securities, or the non-performance of issuers and counterparties to certain derivative contracts, could result in trading losses.

We borrow securities from, and lend securities to, other broker-dealers, and may also enter into agreements to repurchase and agreements to resell securities as part of investing and financing activities. A sharp change in the security market values utilized in these transactions may result in losses if counterparties to these transactions fail to honor their commitments.

We manage the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. A significant deterioration in the credit quality of one of our counterparties could lead to concerns in the market about the credit quality of other counterparties in the same industry, thereby exacerbating our credit risk exposure. We may require counterparties to deposit additional collateral or substitute collateral pledged. In the case of aged securities failed to receive, we may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty.

Also, we permit our clients to purchase securities on margin. During periods of steep declines in securities prices, the value of the collateral securing client margin loans may fall below the amount of the purchaser's indebtedness. If the clients are unable to provide additional collateral for these margin loans, we may incur losses on those margin transactions. This may cause us to incur additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

We deposit our cash in depository institutions as a means of maintaining the liquidity necessary to meet our operating needs, and we also facilitate the deposit of cash awaiting investment in depository institutions on behalf of our clients. A failure of a depository institution to return these deposits could severely impact our operating liquidity, could result in significant reputational damage, and adversely impact our financial performance.

We also incur credit risk by lending to businesses and individuals, including but not limited to, commercial and industrial loans, commercial and residential mortgage loans, home equity lines of credit, and margin and non-purpose loans collateralized by securities. We incur credit risk through our investments, which include mortgage-backed securities, collateralized mortgage obligations, auction rate securities, and other municipal securities.

The credit quality of Stifel Bank's loans and investment portfolios can have a significant impact on earnings and overall financial performance. Our credit risk and credit losses can increase if our loans or investments are concentrated among borrowers or issuers engaged in the same or similar activities, industries, geographies, or to borrowers or issuers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. The deterioration of an individually large exposure, for example due to a natural disaster, act of terrorism, severe weather event, or economic event, could lead to additional loan loss provisions and/or charge-offs, or credit impairment of our investments, and subsequently have a material impact on our net income and regulatory capital.

Declines in the real estate market or sustained economic downturns may cause us to write down the value of some of the loans in Stifel Bank's portfolio, foreclose on certain real estate properties, or write down the value of some of our available-for-sale securities portfolio. Credit quality generally may also be affected by adverse changes in the financial performance or condition of our debtors or deterioration in the strength of the U.S. economy.

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for additional information regarding our exposure to and approaches to managing credit risk.

Our business depends on fees earned from the management of client accounts by our primary broker-dealer and asset management subsidiaries.

We have grown our asset management business in recent years, including with the acquisitions of ZCM in 2013 and 1919 Investment Counsel in 2014, which has increased the risks associated with this business relative to our overall operations. Asset management fees are primarily comprised of base management fees. Management fees are primarily based on assets under management. Assets under management balances are impacted by net inflow/outflow of client assets and changes in market values. Below-market investment performance by our funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impact our business and financial condition. If we were to experience the loss of managed accounts, our fee revenue would decline. In addition, in periods of declining market values, our asset values under management may resultantly decline, which would negatively impact our fee revenues.

Our underwriting, market-making, trading, and other business activities place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities that we have underwritten at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. As a market-maker, we may own positions in specific securities, and

these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified. While it is not typical, from time to time and as part of our underwriting processes, we may carry significant positions in securities of a single issuer or issuers engaged in a specific industry. Sudden changes in the value of these positions could impact our financial results.

We have made and may continue to make principal investments in private equity funds and other illiquid investments, which are typically private limited partnership interests and securities that are not publicly traded. There is risk that we may be unable to realize our investment objectives by sale or other disposition at attractive prices or that we may otherwise be unable to complete a desirable exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the portfolio companies in which investments are made, changes in economic conditions, or changes in laws, regulations, fiscal policies, or political conditions. It could take a substantial period of time to identify attractive investment opportunities and then to realize the cash value of such

investments through resale. Even if a private equity investment proves to be profitable, it may be several years or longer before any profits can be realized in cash.

The soundness of other financial institutions and intermediaries affects us.

We face the risk of operational failure, termination, or capacity constraints of any of the clearing agents, exchanges, clearing houses, or other financial intermediaries that we use to facilitate our securities transactions. As a result of the consolidation over the years among clearing agents, exchanges, and clearing houses, our exposure to certain financial intermediaries has increased and could affect our ability to find adequate and cost-effective alternatives should the need arise. Any failure, termination, or constraint of these intermediaries could adversely affect our ability to execute transactions, serve our clients, and manage our exposure to risk.

Our ability to engage in routine trading and funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, funding, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Furthermore, although we do not hold any EU sovereign debt, we may do business with and be exposed to financial institutions that have been affected by the EU sovereign debt circumstances. As a result, defaults by, or even rumors or questions about the financial condition of, one or more financial services institutions, or the financial services industry generally, have historically led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Although we have not suffered any material or significant losses as a result of the failure of any financial counterparty, any such losses in the future may have a material adverse effect on our results of operations.

We have experienced increased pricing pressures in areas of our business, which may impair our future revenue and profitability.

Our business continues to experience increased pricing pressures on trading margins and commissions in fixed income and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional competitive downward pressure on trading margins. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions, or margins.

Growth of our business could increase costs and regulatory risks.

Integrating acquired businesses, providing a platform for new businesses, and partnering with other firms involve a number of risks and present financial, managerial, and operational challenges. We may incur significant expenses in connection with further expansion of our existing businesses, or recruitment of financial advisors, or in connection with strategic acquisitions or investments, if and to the extent they arise from time to time. Our overall profitability would be negatively affected if investments and expenses associated with such growth are not matched or exceeded by the revenues that are derived from such investment or growth.

Expansion may also create a need for additional compliance, documentation, risk management, and internal control procedures, and often involves the hiring of additional personnel to monitor such procedures. To the extent such

procedures are not adequate to appropriately monitor any new or expanded business, we could be exposed to a material loss or regulatory sanction.

Moreover, to the extent we pursue strategic acquisitions, we may be unable to complete such acquisitions on acceptable terms, or be unable to successfully integrate the operations of any acquired business into our existing business. Such acquisitions could be of significant size and/or complexity. This effort, together with difficulties we may encounter in integrating an acquired business, could have an adverse effect on our business, financial condition, and results of operations. In addition, we may need to raise equity capital or borrow to finance such acquisitions, which could dilute our shareholders or increase our leverage. Any such borrowings might not be available on terms as favorable to us as our current borrowings, or perhaps at all.

The rapid growth of Stifel Bank may expose us to increased credit risk, operational risk, regulatory risk, and sensitivity to market interest rates along with increased regulation, examinations, and supervision by regulators.

We have experienced rapid growth in the investment portfolio, which includes available-for-sale and held-to-maturity securities, and the loan portfolio of Stifel Bank, which is funded by customer deposits. Although our stock-secured loans are collateralized by assets held in brokerage accounts, we are exposed to some credit and operational risk associated with these loans. We describe some of the

integration-related operational risks associated with our recent acquisitions above, which includes many of the same risks related to the growth of Stifel Bank. With the increase in deposits and resulting liquidity, we have been able to expand our investment portfolio, primarily with government agency securities. In addition, Stifel Bank has significantly grown its commercial lending business. Although we believe we have conservative underwriting policies in place, there are inherent risks associated with the mortgage banking business. For further discussion of our segments, including our Stifel Bank reporting unit, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis.”

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, we are more sensitive to changes in interest rates, in the shape of the yield curve, or in relative spreads between market interest rates.

The monetary, tax, and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. An important function of the Federal Reserve is to regulate the national supply of bank credit and market interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits, which may also affect the value of our on-balance sheet and off-balance sheet financial instruments. We cannot predict the nature or timing of future changes in monetary, tax, and other policies or the effect that they may have on our activities and results of operations.

In addition, Stifel Bank is heavily regulated at the state and federal level. This regulation is to protect depositors, federal deposit insurance funds, consumers, and the banking system as a whole, but not our shareholders. Federal and state regulations can significantly restrict our businesses, and we are subject to various regulatory actions, which could include fines, penalties, or other sanctions for violations of laws and regulatory rules if we are ultimately found to be out of compliance.

We face intense competition.

We are engaged in intensely competitive businesses. We compete on the basis of a number of factors, including the quality of our financial advisors and associates, our products and services, pricing (such as execution pricing and fee levels), location, and reputation in relevant markets. Over time, there has been substantial consolidation and convergence among companies in the financial services industry, which has significantly increased the capital base and geographic reach of our competitors. See the section entitled “Competition” of Item 1 of this Form 10-K for additional information about our competitors.

We compete directly with national full-service broker-dealers, investment banking firms, and commercial banks, and to a lesser extent, with discount brokers and dealers and investment advisors. In addition, we face competition from more recent entrants into the market and increased use of alternative sales channels by other firms. We also compete indirectly for investment assets with insurance companies, real estate firms, hedge funds, and others. This competition could cause our business to suffer.

To remain competitive, our future success also depends, in part, on our ability to develop and enhance our products and services. In addition, the continued development of internet, networking, or telecommunication technologies or other technological changes could require us to incur substantial expenditures to enhance or adapt our services or infrastructure. An inability to develop new products and services, or enhance existing offerings, could have a material adverse effect on our profitability.

We are exposed to operational risk.

Our diverse operations expose us to risk of loss resulting from inadequate or failed internal processes, people, and systems external events, including technological or connectivity failures either at the exchanges in which we do

business or between our data centers, operations processing sites, or our branches. Our businesses depend on our ability to process and monitor, on a daily basis, a large number of complex transactions across numerous and diverse markets. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions or provide these services. Operational risk exists in every activity, function, or unit of our business, and can take the form of internal or external fraud, employment and hiring practices, an error in meeting a professional obligation, or failure to meet corporate fiduciary standards. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If our employees engage in misconduct, our businesses would be adversely affected. Operational risk also exists in the event of business disruption, system failures, or failed transaction processing. Third parties with which we do business could also be a source of operational risk, including with respect to breakdowns or failures of the systems or misconduct by the employees of such parties. In addition, as we change processes or introduce new products and services, we may not fully appreciate or identify new operational risks that may arise from such changes. Increasing use of automated technology has the potential to amplify risks from manual or system processing errors, including outsourced operations.

Our business contingency plan in place is intended to ensure we have the ability to recover our critical business functions and supporting assets, including staff and technology, in the event of a business interruption. Despite the diligence we have applied to the development and testing of our plans, due to unforeseen factors, our ability to conduct business may, in any case, be adversely affected by a disruption involving physical site access, catastrophic events, including weather-related events, events involving electrical, environmental, or communications malfunctions, as well as events impacting services provided by others that we rely upon which could impact our employees or third parties with whom we conduct business.

See Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K for additional information regarding our exposure to and approaches to managing operational risk.

Our businesses depend on technology.

Our businesses rely extensively on electronic data processing and communications systems. In addition to better serving clients, the effective use of technology increases efficiency and enables us to reduce costs. Adapting or developing our technology systems to meet new regulatory requirements, client needs, and competitive demands is critical for our business. Introduction of new technology presents challenges on a regular basis. There are significant technical and financial costs and risks in the development of new or enhanced applications, including the risk that we might be unable to effectively use new technologies or adapt our applications to emerging industry standards.

Our continued success depends, in part, upon our ability to successfully maintain and upgrade the capability of our systems, our ability to address the needs of our clients by using technology to provide products and services that satisfy their demands, and our ability to retain skilled information technology employees. Failure of our systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients, violations of applicable privacy and other laws, and regulatory sanctions.

Customer, public, and regulatory expectations regarding operational and information security have increased. Thus, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although cyber security incidents among financial services firms are on the rise, to date, we have not experienced any material losses relating to cyber-attacks or other information security breaches; however, there can be no assurance that we will not suffer such losses in the future. Notwithstanding that we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software, and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses, and other malicious code and other events that could have a security impact. If one or more of these events occur, this could jeopardize our, or our clients’ or counterparties’, confidential and other information processed, stored in, and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients’, our counterparties’, or third parties’ operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures, or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or are not fully covered through any insurance we maintain. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators.

Extraordinary trading volumes beyond reasonably foreseeable spikes in volumes could cause our computer systems to operate at an unacceptably slow speed or even fail. While we have made investments to maintain the reliability and scalability of our systems and maintain hardware to address extraordinary volumes, there can be no assurance that our systems will be sufficient to handle truly extraordinary and unforeseen circumstances. Systems failures and delays could occur and could cause, among other things, unanticipated disruptions in service to our clients or slower system

response time, resulting in transactions not being processed as quickly as our clients desire, resulting in client dissatisfaction.

See Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K for additional information regarding our exposure to and approaches to managing these types of operational risk.

We are exposed to risks of legal proceedings, which may result in significant losses to us that we cannot recover. Claimants in these proceedings may be customers, employees, or regulatory agencies, among others, seeking damages for mistakes, errors, negligence, or acts of fraud by our employees.

Many aspects of our business involve substantial risks of liability, arising in the normal course of business. Participants in the financial services industry face an increasing amount of litigation and arbitration proceedings. Dissatisfied clients regularly make claims against broker-dealers and their employees for, among others, negligence, fraud, unauthorized trading, suitability, churning, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions by financial advisors or traders, improper recruiting activity, and failures in the processing of securities transactions. The risks associated with potential

litigation often may be difficult to assess or quantify, and the existence and magnitude of potential claims often remain unknown for substantial periods of time.

These types of claims expose us to the risk of significant loss. Acts of fraud are difficult to detect and deter, and while we believe our supervisory procedures are reasonably designed to detect and prevent violations of applicable laws, rules, and regulations, we cannot assure investors that our risk management procedures and controls will prevent losses from fraudulent activity. In our role as underwriter and selling agent, we may be liable if there are material misstatements or omissions of material information in prospectuses and other communications regarding underwritten offerings of securities. At any point in time, the aggregate amount of existing claims against us could be material. While we do not expect the outcome of any existing claims against us to have a material adverse impact on our business, financial condition, or results of operations, we cannot assure you that these types of proceedings will not materially and adversely affect our company. We do not carry insurance that would cover payments regarding these liabilities, except for insurance against certain fraudulent acts of our employees. In addition, our bylaws provide for the indemnification of our officers, directors, and employees to the maximum extent permitted under Delaware law. In the future, we may be the subject of indemnification assertions under these documents by our officers, directors, or employees who have or may become defendants in litigation. These claims for indemnification may subject us to substantial risks of potential liability.

In highly volatile markets, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions has historically increased. These risks include potential liability under securities or other laws for alleged materially false or misleading statements made in connection with securities offerings and other transactions, issues related to the suitability of our investment advice based on our clients' investment objectives (including auction rate securities), the inability to sell or redeem securities in a timely manner during adverse market conditions, contractual issues, employment claims, and potential liability for other advice we provide to participants in strategic transactions. Substantial legal liability could have a material adverse financial effect or cause us significant reputational harm, which, in turn, could seriously harm our business and our prospects.

In addition to the foregoing financial costs and risks associated with potential liability, the costs of defending individual litigation and claims continue to increase over time. The amount of outside attorneys' fees incurred in connection with the defense of litigation and claims could be substantial and might materially and adversely affect our results of operations.

See Item 3, "Legal Proceedings," in this Form 10-K for a discussion of our legal matters and Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for a discussion regarding our approach to managing legal risk.

The preparation of the consolidated financial statements requires the use of estimates that may vary from actual results, and new accounting standards could adversely affect future reported results.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions may require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain.

Our financial instruments, including certain trading assets and liabilities, available-for-sale securities, investments, including certain loans, intangible assets, and private equity investments, among other items, require management to make a determination of their fair value in order to prepare our consolidated financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means, which ultimately rely to some degree on our judgment. Some of these instruments and other assets and liabilities may have no direct observable inputs, making their valuation particularly subjective, being based on

significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain securities may make it more difficult to value certain items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in our earnings in subsequent periods.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board (“FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. For a further discussion of some of our significant accounting policies and standards, see the “Critical Accounting Estimates” discussion within Item 7, and Note 2 of the Notes to Consolidated Financial Statements, in this Form 10-K.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk.

We seek to manage, monitor, and control our market, credit, capital, liquidity, operational, legal, and regulatory risk through operational and compliance reporting systems, internal controls, management review processes, and other mechanisms; however, there can be no assurance that our procedures will be fully effective. Further, our risk management methods may not effectively predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients, and other matters that are based on assumptions that may no longer be accurate. A failure to adequately manage our growth, or to effectively manage our risk, could materially and adversely affect our business and financial condition. Our risk management processes include addressing potential conflicts of interest that arise in our business. We have procedures and controls in place to address conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities through more numerous transactions, obligations, and interests with and among our clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect our reputation, the willingness of clients to transact business with us, or give rise to litigation or regulatory actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

For more information on how we monitor and manage market and certain other risks, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K.

We are exposed to risk from international markets.

We do business in other parts of the world and, as a result, are exposed to a number of risks, including economic, market, litigation, and regulatory risks, in non-U.S. markets. Our businesses and revenues derived from non-U.S. operations are subject to risk of loss from currency fluctuations, social or political instability, changes in governmental policies or policies of central banks, downgrades in the credit ratings of sovereign countries, expropriation, nationalization, confiscation of assets, and unfavorable legislative and political developments. Action or inaction in any of these operations, including failure to follow proper practices with respect to regulatory compliance and/or corporate governance, could harm our operations and/or our reputation. We also invest or trade in the securities of corporations located in non-U.S. jurisdictions. Revenues from the trading of non-U.S. securities also may be subject to negative fluctuations as a result of the above factors. The impact of these fluctuations could be magnified, because generally non-U.S. trading markets are smaller, less liquid, and more volatile than U.S. trading markets. Additionally, a political, economic, or financial disruption in a country or region could adversely impact our business and increase volatility in financial markets generally.

RISKS RELATED TO OUR REGULATORY ENVIRONMENT

Changes in regulations resulting from either the Dodd-Frank Act or any new regulations may affect our businesses.

The market and economic conditions over the past several years have led to legislation and numerous and continuing proposals for changes in the regulation of the financial services industry, including significant additional legislation and regulation in the U.S. and abroad. The Dodd-Frank Act enacted sweeping changes in the supervision and regulation of the financial industry designed to provide for greater oversight of financial industry participants, reduce risk in banking practices and in securities and derivatives trading, enhance public company corporate governance practices and executive compensation disclosures, and provide for greater protections to individual consumers and investors. Certain elements of the Dodd-Frank Act became effective immediately, while the details of some provisions remain subject to implementing regulations that are yet to be adopted by various applicable regulatory agencies. The ultimate impact that the Dodd-Frank Act will have on us, the financial industry, and the economy cannot be known until all such implementing regulations called for under the Dodd-Frank Act have been finalized and implemented.

The Dodd-Frank Act may impact the manner in which we market our products and services, manage our business and operations and interact with regulators, all of which, while not currently anticipated to, could materially impact our results of operations, financial condition, and liquidity. Certain provisions of the Dodd-Frank Act that have or may

impact our business include, but are not limited to: the establishment of a fiduciary standard for broker-dealers, regulatory oversight of incentive compensation, the imposition of capital requirements on financial holding companies, and to a lesser extent, greater oversight over derivatives trading and restrictions on proprietary trading. There is also increased regulatory scrutiny (and related compliance costs) as we continue to grow and surpass certain thresholds outlined in the Dodd-Frank Act. These include but are not limited to Stifel Bank's oversight by the CFPB.

In addition, the Volcker Rule provision of the Dodd-Frank Act will have an impact on us, including potentially limiting various aspects of our business. We are continuing our review of activities that may be affected by the Volcker Rule, including our trading operations and asset management activities, and are taking steps to establish the necessary compliance programs to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

To the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity, and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us.

The SEC adopted amendments, most of which were effective March 2014, to its financial responsibility rules, including changes to the net capital rule, the customer protection rule, the record-keeping rules, and the notification rules applicable to our broker-dealer subsidiaries. These amended rules do not have a material adverse effect on any of our broker-dealer subsidiaries.

The Basel III capital standards will impose additional capital and other requirements on us that could decrease our competitiveness and profitability.

In July 2013, the OCC, the FRB, and the FDIC released final U.S. Basel III regulatory capital rules implementing the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Act. The rule increases the quantity and quality of regulatory capital, establishes a capital conservation buffer, and makes selected changes to the calculation of risk-weighted assets. The rule became effective for us January 1, 2015, subject to a transition period for several aspects of the rule, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Based on our current analyses, our company and Stifel Bank has met all capital adequacy requirements under the final rules. However, the increased capital requirements could restrict our ability to grow during favorable market conditions or require us to raise additional capital. As a result, our business, results of operations, financial condition, or prospects could be adversely affected.

Failure to comply with regulatory capital requirements primarily applicable to our company, Stifel Bank, or our broker-dealer subsidiaries would significantly harm our business.

Our company and Stifel Bank are subject to various regulatory and capital requirements administered by the federal banking regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of our company and Stifel Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components of our capital, risk weightings of assets, off-balance sheet transactions, and other factors. Quantitative measures established by regulation to ensure capital adequacy require our company and Stifel Bank to maintain minimum amounts and ratios of Total and Tier I Capital to risk-weighted assets and Tier I Capital to adjusted assets (as defined in the regulations). Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could harm either our company or Stifel Bank's operations and our financial condition.

Additionally, as a holding company, we depend on dividends, distributions, and other payments from our subsidiaries to fund payments of our obligations, including, among others, debt service. We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiaries. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Regulatory capital requirements applicable to some of our significant subsidiaries may impede access to funds our company needs to make payments on any such obligations.

See Note 20 of the Notes to Consolidated Financial Statements in this Form 10-K for further information on regulations and capital requirements.

We operate in a highly regulated industry in which future developments could adversely affect our business and financial condition.

The securities industry is subject to extensive regulation, and broker-dealers and investment advisors are subject to regulations covering all aspects of the securities business, including but not limited to, sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, anti-money laundering efforts, record keeping, and the conduct of directors, officers, and employees. If laws or regulations are violated, we could be subject to one or more of the following: civil liability, criminal liability, sanctions which could include the revocation of our subsidiaries' registrations as investment advisors or broker-dealers, the revocation of the licenses of our financial advisors, censures, fines, or a temporary suspension or permanent bar from conducting business. Any of those events could have a material adverse effect on our business, financial condition, and prospects.

We are subject to financial holding company regulatory reporting requirements, including the maintenance of certain risk-based regulatory capital levels that could impact various capital allocation decisions of one or more of our businesses. However, due to our

strong current capital position, we do not anticipate that these capital level requirements will have any negative impact on our future business activities. See the section entitled “Business – Regulation” of Item 1 of this Form 10-K for additional information.

As a financial holding company, we are regulated by the Federal Reserve. Stifel Bank is regulated by the Federal Reserve and the Missouri Division of Finance. This oversight includes, but is not limited to, scrutiny with respect to affiliate transactions and compliance with consumer regulations. The economic and political environment over the past several years has caused increased focus on the regulation of the financial services industry, including many proposals for new rules. Any new rules issued by our regulators could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition, and results of operations. We also may be adversely affected as a result of changes in federal, state, or foreign tax laws, or by changes in the interpretation or enforcement of existing laws and regulations.

The SEC has proposed certain measures that would establish a new framework to replace the requirements of Rule 12b-1 under the Investment Company Act of 1940 with respect to how mutual funds collect and pay fees to cover the costs of selling and marketing their shares. Any adoption of such measures would be phased in over a number of years. These measures are neither final nor undergoing implementation throughout the financial services industry. The impact of changes such as those currently proposed cannot be predicted at this time. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

Asset management businesses have experienced a number of highly publicized regulatory inquiries, which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors, and broker-dealers. As some of our wholly owned subsidiaries are registered as investment advisors with the SEC, increased regulatory scrutiny and rulemaking initiatives may result in augmented operational and compliance costs, or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. It is not possible to determine the extent of the impact of any new laws, regulations, or initiatives that may be proposed, or whether any of the proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. For example, pursuant to the Dodd-Frank Act, the SEC was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to registered investment advisors. It is not clear whether the SEC will determine that a heightened standard of conduct is appropriate for broker-dealers; however, any such standard, if mandated, would likely require us to review our product and service offerings and implement certain changes, as well as require that we incur additional regulatory costs in order to ensure compliance.

In addition, the U.S. and foreign governments have recently taken regulatory actions impacting the investment management industry, and may continue to take further actions, including expanding current or enacting new standards, requirements and rules that may be applicable to us and our subsidiaries. For example, several states and municipalities in the United States have recently adopted “pay-to-play” rules, which could limit our ability to charge advisory fees. Such “pay-to-play” rules could affect the profitability of that portion of our business. Additionally, the use of “soft dollars,” where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, is periodically reexamined and may in the future be limited or modified. A substantial portion of the research relied on by our investment management business in the investment decision making process is generated internally by our investment analysts and external research, including external research paid for with soft dollars. This external research generally is used for information gathering or verification purposes, and includes broker-provided research, as well as third party provided databases and research services. If the use of soft dollars is limited, we may have to bear some of these additional costs. Furthermore, new regulations regarding the management of hedge funds and the use of certain investment products may impact our investment management business and result in increased costs. For example, many regulators around the world adopted disclosure and reporting requirements relating to the hedge fund businesses or other businesses, and changes to the laws, rules and regulations in the United States related to the over-the-counter swaps and derivatives markets require additional

registration, recordkeeping and reporting obligations.

See the section entitled “Business – Regulation” within Item 1 of this Form 10-K for additional information regarding our regulatory environment and Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K regarding our approaches to managing regulatory risk. Regulatory actions brought against us may result in judgments, settlements, fines, penalties, or other results adverse to us, which could have a material adverse effect on our business, financial condition, or results of operations.

RISKS RELATED TO OUR COMMON STOCK

The market price of our common stock may continue to be volatile.

The market price of our common stock has been, and is likely to continue to be, volatile and subject to fluctuations. Stocks of financial institutions have, from time to time, experienced significant downward pressure in connection with economic conditions or events and may again experience such pressures in the future. Changes in the stock market generally or as it concerns our industry, as well as

geopolitical, economic, and business factors unrelated to us, may also affect our stock price. Significant declines in the market price of our common stock or failure of the market price to increase could harm our ability to recruit and retain key employees, including those who have joined us from companies we have acquired, reduce our access to debt or equity capital, and otherwise harm our business or financial condition. In addition, we may not be able to use our common stock effectively as consideration in connection with future acquisitions.

Our current shareholders may experience dilution in their holdings if we issue additional shares of common stock as a result of future offerings or acquisitions where we use our common stock.

As part of our business strategy, we may seek opportunities for growth through strategic acquisitions in which we may consider issuing equity securities as part of the consideration. Additionally, we may obtain additional capital through the public sale of debt or equity securities. If we sell equity securities, the value of our common stock could experience dilution. Furthermore, these securities could have rights, preferences, and privileges more favorable than those of the common stock. Moreover, if we issue additional shares of common stock in connection with equity compensation, future acquisitions, or as a result of financing, an investor's ownership interest in our company will be diluted.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to holders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series, and therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales or issuance of shares of our common stock or securities convertible into or exchangeable for common stock.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our articles of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to prospective acquirors and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the location, approximate square footage, and use of each of the principal properties used by our company during the year ended December 31, 2015. We own our executive offices in St. Louis, Missouri. We lease or sublease a majority of these properties under operating leases. Such leases expire at various times through 2026.

Location	Approximate Square Footage	Use
St. Louis, Missouri ¹	434,000	Headquarters and administrative offices of Stifel, Global Wealth Management operations (including CSA), and Institutional Group operations
New York, New York	310,000	Global Wealth Management and Institutional Group operations
Baltimore, Maryland	111,000	Institutional Group operations and Administrative offices
Birmingham, Alabama	80,600	Global Wealth Management and Institutional Group operations
Chicago, Illinois	82,500	Global Wealth Management and Institutional Group operations
San Francisco, California	76,000	Global Wealth Management and Institutional Group operations
Florham Park, New Jersey	74,000	Global Wealth Management and Institutional Group operations

1 As of December 31, 2015, we occupy approximately 237,000 square feet of the available space in the building, and we anticipate taking additional space over time.

We also maintain operations in 402 leased offices in various locations throughout the United States and in certain foreign countries, primarily for our broker-dealer business. We lease 329 private client offices. In addition, Stifel Bank leases one location for its administrative offices and operations. Our Institutional Group segment leases 37 offices in the United States and certain foreign locations. We believe that, at the present time, the space available to us in the facilities under our current leases and co-location arrangements are suitable and adequate to meet our needs and that such facilities have sufficient productive capacity and are appropriately utilized.

Leases for the branch offices of our independent contractor firms are the responsibility of the respective independent financial advisors.

See Note 18 of the Notes to Consolidated Financial Statements for further information regarding our lease obligations.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

SEC/Wisconsin Lawsuit

A civil lawsuit was filed against our company by the SEC in connection with our role in the sale of collateralized debt obligations (“CDOs”) investments to five Southeastern Wisconsin school districts (the “school districts”) in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The SEC has asserted claims under Section 15c(1) (A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. We answered, denied the substantive allegations of the amended complaint and asserted various affirmative defenses. In January 2016, the parties filed motions for summary judgment and are awaiting the court’s rulings on those motions. The lawsuit had been set for trial commencing on April 11, 2016, but the Court has postponed the trial to commence on September 12, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the SEC’s claims.

EDC Bond Issuance Matter

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

validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, intentional and negligent misrepresentations relating to those matters. Saybrook seeks rescissory relief as well as restitutionary damages, including the amounts paid for the bonds, plus costs. The claims are set for trial commencing on October 11, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the SEC's claims.

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

Our Company, Stifel Nicolaus and Stone & Youngberg, LLC ("Stone & Youngberg") are named in an Amended Complaint filed in U.S. District Court for the Middle District of Louisiana alleging fraud on the part of Stone & Youngberg in the formation of the Collybus CDO manufactured by Cantor Fitzgerald & Co. ("Cantor") and purchased by Commonwealth Advisors (CA) on behalf of several CA funds, as well as in connection with other transactions in the CA funds with CA. The original Complaint named Cantor, CA, and CA's CEO, Walter Morales. The CA funds filed a Chapter 11 bankruptcy petition which stayed the original lawsuit until the reorganization plan was entered by the court in the fall of 2013. Shortly thereafter, the CA funds filed their first Amended Complaint, which has been amended several times since then. The claims are set for trial commencing on November 28, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the claims. We have established reserves supported by purchase price consideration the Company has withheld pursuant to the terms of the acquisition of Stone & Youngberg in 2011 which at this time we believe are adequate.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange and Chicago Stock Exchange under the symbol "SF." The closing sale price of our common stock as reported on the New York Stock Exchange on February 19, 2016, was \$31.18. As of that date, our common stock was held by approximately 24,100 shareholders. The following table sets forth for the periods indicated the high and low trades for our common stock:

	2015		2014	
	High	Low	High	Low
First quarter	\$57.75	\$45.96	\$51.59	\$43.11
Second quarter	\$59.93	\$51.98	\$50.66	\$43.57
Third quarter	\$58.71	\$41.53	\$49.74	\$44.43
Fourth quarter	\$47.17	\$40.52	\$52.15	\$41.47

We did not pay cash dividends during 2015 or 2014. The payment of dividends on our common stock is subject to several factors, including operating results, financial requirements of our company, and the availability of funds from our subsidiaries. See Note 20 of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on our broker-dealer subsidiaries and Stifel Bank.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plans is contained in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Issuer Purchases of Equity Securities

The following tables sets forth information with respect to purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-10(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended December 31, 2015.

Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as	Maximum Number of Shares That May
---	--	---	--

			Part of Publically	Yet be Purchased
			Announced Plans	Under the Plan or
				Program
October 1 - 31, 2015	300,000	42.15	300,000	1,769,235
November 1 - 30, 2015	—	—	—	6,769,235
December 1 - 31, 2015	924,000	42.48	924,000	5,845,235
	1,224,000	42.40	1,224,000	

We have on ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On November 3, 2015, the Board of Directors authorized the repurchase of an additional 5.0 million shares. At December 31, 2015, the maximum number of shares that may yet be purchased under this plan was 5.8 million. On February 17, 2016, the Board of Directors authorized the repurchase of an additional 5.0 million shares.

Stock Performance Graph

Five-Year Shareholder Return Comparison

The graph below compares the cumulative stockholder return on our common stock with the cumulative total return of a Peer Group Index, the Standard & Poor's 500 Index ("S&P 500"), and the NYSE ARCA Securities Broker-Dealer Index for the five-year period ended December 31, 2015. The NYSE ARCA Securities Broker-Dealer Index consists of twelve firms in the brokerage sector. The Broker-Dealer Index includes our company. The stock price information shown on the graph below is not necessarily indicative of future price performance.

The material in this report is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

The following table and graph assume that \$100.00 was invested on December 31, 2010, in our common stock, the Peer Group Index, the S&P 500 Index, and the NYSE ARCA Securities Broker-Dealer Index, with reinvestment of dividends.

	2011	2012	2013	2014	2015
Stifel Financial Corp.	\$77	\$77	\$116	\$123	\$102
Peer Group	\$56	\$78	\$111	\$127	\$114
S&P 500 Index	\$102	\$118	\$157	\$178	\$181
NYSE ARCA Securities Broker-Dealer Index	\$69	\$78	\$132	\$152	\$147

*Compound Annual Growth Rate

The Peer Group Index consists of the following companies that serve the same markets as us and which compete with us in one or more markets:

FBR & Co.	Raymond James Financial, Inc.
Oppenheimer Holdings, Inc.	SWS Group, Inc.
JMP Group, Inc.	Stifel Financial Corp.
Piper Jaffray Companies	Morgan Stanley
Goldman Sachs Group, Inc.	

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data (presented in thousands, except per share amounts) is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto and with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Revenues:					
Commissions	\$749,536	\$674,418	\$640,287	\$518,803	\$550,903
Principal transactions	389,319	409,823	408,954	380,160	334,282
Investment banking	503,052	578,689	457,736	292,686	195,506
Asset management and service fees	493,761	386,001	305,639	257,981	228,831
Interest	179,101	185,969	142,539	108,705	89,199
Other income	62,224	14,785	64,659	69,148	19,651
Total revenues	2,376,993	2,249,685	2,019,814	1,627,483	1,418,372
Interest expense	45,399	41,261	46,368	33,370	25,304
Net revenues	2,331,594	2,208,424	1,973,446	1,594,113	1,393,068
Non-interest expenses:					
Compensation and benefits	1,568,862	1,403,932	1,311,386	1,010,140	887,210
Occupancy and equipment rental	207,465	169,040	158,268	128,365	119,944
Communications and office supplies	130,678	106,926	99,726	79,406	74,037
Commissions and floor brokerage	42,518	36,555	37,225	29,610	25,423
Other operating expenses	240,504	201,177	181,612	116,845	148,305
Total non-interest expenses	2,190,027	1,917,630	1,788,217	1,364,366	1,254,919
Income from continuing operations before income					
tax expense	141,567	290,794	185,229	229,747	138,149
Provision for income taxes	49,231	111,664	12,322	84,451	53,880
Income from continuing operations	92,336	179,130	172,907	145,296	84,269
Discontinued operations:					
Loss from discontinued operations, net of tax	—	(3,063)	(10,894)	(6,723)	(135)
Net income	\$92,336	\$176,067	\$162,013	\$138,573	\$84,134
Earnings per basic common share:					
Income from continuing operations	\$1.35	\$2.69	\$2.72	\$2.71	\$1.61
Loss from discontinued operations	-	(0.04)	(0.17)	(0.12)	—
Earnings per basic common share	\$1.35	\$2.65	\$2.55	\$2.59	\$1.61
Earnings per diluted common share:					
Income from continuing operations	\$1.18	\$2.35	\$2.35	\$2.31	\$1.34
Loss from discontinued operations	-	(0.04)	(0.15)	(0.11)	—
Earnings per diluted common share	\$1.18	\$2.31	\$2.20	\$2.20	\$1.34
Weighted-average number of common shares outstanding:					
Basic	68,543	66,472	63,568	53,563	52,418
Diluted	78,554	76,376	73,504	62,937	63,058

Financial Condition

Total assets	\$13,334,270	\$9,518,151	\$9,008,870	\$6,966,140	\$4,951,900
Long-term obligations	\$832,500	\$707,500	\$410,631	\$471,810	\$89,457
Shareholders' equity	\$2,492,416	\$2,322,038	\$2,058,849	\$1,494,661	\$1,302,105

Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. ("SN Canada") has ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented.

The following items should be considered when comparing the data from year to year: 1) litigation-related expenses in 2011 associated with the civil lawsuit and related regulatory investigation in connection with the ongoing matter with five Southeastern Wisconsin school districts; 2) the acquisition of Stone & Youngberg on October 1, 2011; 3) the gains recognized on our investment in Knight Capital Group, Inc. during 2012; 4) the merger with KBW on February 15, 2013; 5) the acquisitions of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group in July 2013; 6) the expensing of stock awards issued as retention as part of the acquisitions of the KBW and Knight Capital Fixed Income business during 2013; 7) the recognition of a U.S. tax benefit in connection with discontinuing the business operations of SN Canada during the third quarter of 2013; 8) the acquisitions of De La Rosa, Oriel, and 1919 Investment Counsel during 2014 and the expensing of stock awards issued as retention as part of the Oriel and 1919 Investment Counsel acquisitions in 2014, the acquisitions of Sterne and Barclays during 2015. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” made part hereof, for a discussion of these items and other items that may affect the comparability of data from year to year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2015.

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

Executive Summary

We operate as a financial services and bank holding company. We have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are: (i) private client services, including securities transaction and financial planning services; (ii) institutional equity and fixed income sales, trading, and research, and municipal finance; (iii) investment banking services, including mergers and acquisitions, public offerings, and private placements; and (iv) retail and commercial banking, including personal and commercial lending programs.

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

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our private client and institutional group businesses.

Stifel Financial Corp., through its wholly owned subsidiaries, is principally engaged in retail brokerage; securities trading; investment banking; investment advisory; retail, consumer, and commercial banking; and related financial services. We have offices throughout the United States and in several European cities. Our principal customers are individual investors, corporations, municipalities, and institutions.

We plan to maintain our focus on revenue growth with a continued focus on developing quality relationships with our clients. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our institutional group business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we take advantage of the consolidation among middle-market firms, which we believe provides us opportunities in our Global Wealth Management and Institutional Group businesses.

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

On January 15, 2015 (the “redemption date”), we redeemed 100% of our company’s outstanding 6.70% Senior Notes due 2022. The redemption price was equal to the sum of the principal amount of the Notes outstanding and accrued and unpaid interest on the Notes up to, but not including, the redemption date.

On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee Group, Inc. (“Sterne Agee”), a financial services firm that offers comprehensive wealth management and investment services to a diverse client base including corporations, municipalities and individual investors. The purchase was completed pursuant to the merger agreement dated February 23, 2015. We issued 1.4 million shares related to the purchase of Sterne Agee Group, Inc.

Upon the close of the acquisition, certain employees were granted restricted stocks units of our company as retention. The fair value of the awards issued as retention was \$23.8 million. The fair value of the awards is based upon the closing price of our company’s common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of

operations for the year ended December 31, 2015. In addition, we have paid \$33.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

On December 1, 2015, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 3.50% senior notes due December 2020 (the “2015 Notes”). Interest on the 2015 Notes is payable semi-annually in arrears. We may redeem the 2015 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. Proceeds from the 2015 Notes issuance of \$297.0 million, after discounts, commissions, and expenses, were used for general corporate purposes.

On December 4, 2015, we completed the purchase of the Barclays’ Wealth and Investment Management (“Barclays”), Americas franchise in the U.S. Under the agreement, we acquired approximately \$2.1 billion of assets, including securities-based loans, margin loans, and broker-notes. Acquired assets were recorded at fair value. The fair values for loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms.

Results for the year ended December 31, 2015

For the year ended December 31, 2015, net revenues from continuing operations increased 5.6% to a record \$2.33 billion compared to \$2.21 billion during the comparable period in 2014. Net income, including continuing and discontinued operations, decreased 47.6% to \$92.3 million, or \$1.18 per diluted common share, for the year ended December 31, 2015, compared to \$176.1 million, or \$2.31 per diluted common share, in 2014. Net income from continuing operations decreased 48.5% to \$92.3 million, or \$1.18 per diluted common share, for the year ended December 31, 2015, compared to \$179.1 million, or \$2.35 per diluted common share, in 2014.

Our revenue growth for the year ended December 31, 2015, was primarily attributable to growth in asset management and service fees as a result of increased assets under management; an increase in brokerage revenues; and an increase in other revenues. The increase in revenue growth over the comparable period in 2014 was offset by a decline in investment banking revenues, and net interest income. In addition, our revenue growth was positively impacted by the acquisitions of Sterne and Barclays during 2015.

External Factors Impacting Our Business

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

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At December 31, 2015, the key indicators of the markets’ performance, the S&P 500 and Dow Jones Industrial Average closed 0.7% and 2.2% lower than their December 31, 2014, closing

prices, respectively. The NASDAQ closed 5.7% higher than its December 31, 2014 closing price.

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

RESULTS OF OPERATIONS

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

	For the Year Ended December 31,			Change		As a Percentage of			
				2015		Net Revenues			
				vs.		for the Year Ended			
				2014		December 31,			
	2015	2014	2013	2014	2013	2015	2014	2013	
Revenues:									
Commissions	\$749,536	\$690,197	\$640,287	8.6	5.3	32.1 %	30.5 %	32.4 %	
Principal transactions	389,319	409,929	408,954	(5.0)	0.2	16.7	18.6	20.7	
Investment banking	503,052	562,804	457,736	(10.6)	26.4	21.6	26.2	23.2	
Asset management and service fees	493,761	386,001	305,639	27.9	26.3	21.2	17.5	15.5	
Interest	179,101	185,969	142,539	(3.7)	30.5	7.7	8.4	7.2	
Other income	62,224	14,785	64,659	320.9	(77.1)	2.6	0.7	3.3	
Total revenues	2,376,993	2,249,685	2,019,814	5.7	11.4	101.9	101.9	102.3	
Interest expense	45,399	41,261	46,368	10.0	(11.0)	1.9	1.9	2.3	
Net revenues	2,331,594	2,208,424	1,973,446	5.6	11.9	100.0	100.0	100.0	
Non-interest expenses:									
Compensation and benefits	1,568,862	1,403,932	1,311,386	11.7	7.1	67.3	63.6	66.5	
Occupancy and equipment rental	207,465	169,040	158,268	22.7	6.8	8.9	7.6	8.0	
Communication and office supplies	130,678	106,926	99,726	22.2	7.2	5.6	4.8	5.0	
Commissions and floor brokerage	42,518	36,555	37,225	16.3	(1.8)	1.8	1.7	1.9	
Other operating expenses	240,504	201,177	181,612	19.5	10.8	10.3	9.1	9.2	
Total non-interest expenses	2,190,027	1,917,630	1,788,217	14.2	7.2	93.9	86.8	90.6	
Income from continuing operations before income taxes	141,567	290,794	185,229	(51.3)	57.0	6.1	13.2	9.4	
Provision for income taxes	49,231	111,664	12,322	(55.9)	*	2.1	5.1	0.6	
Income from continuing operations	\$92,336	\$179,130	\$172,907	(48.5)	3.6	4.0 %	8.1 %	8.8 %	
Discontinued operations:									
Loss from discontinued operations,									
net of tax	-	(3,063)	(10,894)	(100.0)	(71.9)	—	(0.1)	(0.5)	
Net income	\$92,336	\$176,067	\$162,013	(47.6)	8.7	4.0 %	8.0 %	8.3 %	

*Percentage not meaningful.

33

NET REVENUES

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

	For the Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues:					
Commissions	\$749,536	\$690,197	\$640,287	8.6 %	5.3 %
Principal transactions	389,319	409,929	408,954	(5.0)	0.2
Investment banking:					
Capital raising	307,571	289,313	256,012	6.3	19.2
Advisory	195,481	273,488	201,724	(28.5)	35.6
	503,052	562,802	457,736	(10.6)	26.4
Asset management and service fees	493,761	386,001	305,639	27.9	26.3
Net interest	133,702	144,708	96,171	(7.6)	50.5
Other income	62,224	14,785	64,659	320.9	(77.1)
Total net revenues	\$2,331,594	\$2,208,422	\$1,973,446	5.6 %	11.9 %

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment, and the acquisitions of Sterne on June 5, 2015 and, to a lesser extent, Barclays on December 4, 2015. The results of operations for Sterne and Barclays are included in our results prospectively from the date of their respective acquisitions.

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

For the year ended December 31, 2015, commission revenues increased 8.6% to \$749.5 million from \$690.2 million in 2014. The increase is primarily attributable to an increase in mutual fund and equity transactions.

Principal transactions – For the year ended December 31, 2015, principal transactions revenues decreased 5.0% to \$389.3 million from \$409.9 million in 2014. The decrease from 2014 is primarily attributable to lower institutional equity brokerage revenues as a result of lower volumes. The decrease is partially offset by the revenues generated by the Sterne fixed income business acquired in June 2015.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

For the year ended December 31, 2015, investment banking revenues decreased 10.6%, to \$503.1 million from \$562.8 million in 2014. The decrease is primarily attributable to a decrease in advisory fees, partially offset by an increase in capital raising revenues.

Capital-raising revenues increased 6.3% to \$307.6 million for the year ended December 31, 2015, from \$289.3 million in 2014. For the year ended December 31, 2015, equity capital-raising revenues decrease 35.0% to \$151.2 million from \$232.5 million in 2014. For the year ended December 31, 2015, fixed income capital-raising revenues decreased 56% to \$113.6 million from \$72.7 million in 2014.

Strategic advisory fees decreased 28.5% to \$195.5 million for the year ended December 31, 2015, from \$273.5 million in 2014. The decrease is primarily attributable to an decrease in the number of completed advisory transactions during 2015, as well as a decline in the number of larger transactions that were completed in 2014.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

For the year ended December 31, 2015, asset management and service fee revenues increased 27.9% to \$493.8 million from \$386.0 million in 2014. The increase is primarily a result of an increase in the number and value of fee-based accounts. The growth of asset management and service fee revenues from the prior year were also attributable to contribution from the acquisitions of 1919 in November 2014 and Sterne in June 2015. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the year ended December 31, 2015, other income increased 320.9% to \$62.2 million from \$14.8 million during 2014. Other income primarily includes gain on the sale of a portion of the Acacia loan portfolio, investment gains, and loan originations fees from Stifel Bank.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment, and the acquisitions of De La Rosa on April 3, 2014, Oriel on July 31, 2014, and 1919 Investment Counsel on November 7, 2014. The results of operations for De La Rosa, Oriel, and 1919 Investment Counsel are included in our results prospectively from the date of their respective acquisitions.

Commissions – For the year ended December 31, 2014, commission revenues increased 5.3% to \$690.2 million from \$640.3 million in 2013. The increase is primarily attributable to an increase in mutual fund and equity transactions.

Principal transactions – For the year ended December 31, 2014, principal transactions revenues increased 0.2% to \$409.9 million from \$409.0 million in 2013. The increase from 2013 is primarily attributable to higher institutional brokerage revenues as a result of higher volumes. The increase is also attributable to the revenues generated by the fixed income business acquired from Knight Capital in July 2013.

Investment banking – For the year ended December 31, 2014, investment banking revenues increased 26.4%, to \$562.8 million from \$457.7 million in 2013. The increase is primarily attributable to an increase in advisory fees and equity-capital raising revenues.

Capital-raising revenues increased 19.2% to \$289.3 million for the year ended December 31, 2014, from \$256.0 million in 2013. During the year ended December 31, 2014, equity capital-raising revenues increased 26.8% to \$232.5 million from \$183.3 million in 2013. For the year ended December 31, 2014, fixed income capital-raising revenues remained consistent with 2013 at \$72.7 million.

Strategic advisory fees increased 35.6% to \$273.5 million for the year ended December 31, 2014, from \$201.7 million in 2013. The increase is primarily attributable to an increase in the number of completed advisory transactions during 2014.

Asset management and service fees – For the year ended December 31, 2014, asset management and service fee revenues increased 26.3% to \$386.0 million from \$305.6 million in 2013. The increase is primarily a result of an increase in the number and value of fee-based accounts. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the year ended December 31, 2014, other income decreased 77.1% to \$14.8 million from \$64.7 million in 2013. Other income primarily includes investment gains, including gains on our private equity investments, and loan originations fees from Stifel Bank.

NET INTEREST INCOME

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

	For the Year Ended December 31, 2015			December 31, 2014			December 31, 2013		
	Interest	Average		Interest	Average		Interest	Average	
	Average	Income/	Interest	Average	Income/	Interest	Average	Income/	Interest
	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
Interest-earning assets:									
Margin balances									
(Stifel)	\$540,889	\$22,421	4.15 %	\$481,210	\$19,095	3.97 %	\$462,897	\$18,222	3.94 %
Interest-earning assets									
(Stifel Bank)									
*	5,163,611	136,841	2.65 %	4,981,788	143,146	2.87 %	4,224,407	101,489	2.42 %
Other (Stifel)		19,839			23,728			22,828	
Total interest revenue		\$179,101			\$185,969			\$142,539	
Interest-bearing liabilities:									
Short-term borrowings									
(Stifel)	\$45,492	\$569	1.25 %	\$97,815	\$1,092	1.12 %	\$252,948	\$3,176	1.26 %
Interest-bearing liabilities									
(Stifel Bank)									
*	4,794,751	7,813	0.16 %	4,644,753	7,926	0.17 %	3,967,402	11,775	0.30 %
Stock loan									
(Stifel)	62,771	377	0.20 %	45,758	76	0.17 %	91,194	152	0.17 %
Senior notes									
(Stifel									
Financial Corp.)	482,671	25,695	5.32 %	460,178	26,617	5.78 %	325,000	20,648	6.35 %
Interest-bearing liabilities									
(Capital									
Trusts)	82,500	1,729	2.10 %	82,500	1,687	2.04 %	82,500	1,729	2.10 %
Other (Stifel)		9,216			3,863			8,888	
		\$45,399			\$41,261			\$46,368	

Total interest expense			
Net interest income	\$ 133,702	\$ 144,708	\$ 96,171

*See Distribution of Assets, Liabilities, and Shareholders' Equity; Interest Rates and Interest Rate Differential table included in "Results of Operations – Global Wealth Management" for additional information on Stifel Bank's average balances and interest income and expense.

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the year ended December 31, 2015, net interest income decreased 7.6% to \$133.7 million from \$144.7 million in 2014.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

For the year ended December 31, 2015, interest revenue decreased 3.7% to \$179.1 million from \$186.0 million in 2014, principally as a result of a \$6.3 million decrease in interest revenue generated from the growth in interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$5.2 billion during the year ended December 31, 2015, compared to \$5.0 billion during 2014 at average interest rates of 2.65% and 2.87%, respectively.

For the year ended December 31, 2015, interest expense increased 10.0% to \$45.4 million from \$41.3 million in 2014. The increase is primarily attributable to an increase in interest expense associated with our July 2014 issuance of \$300.0 million of 4.250% senior notes, offset by the reduction of interest paid as a result of the redemption of the \$175.0 million 6.70% senior notes in January 2015 and a decline in interest expense paid on the interest-bearing liabilities of Stifel Bank.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

Net interest income – For the year ended December 31, 2014, net interest income increased 50.4% to \$144.7 million from \$96.2 million in 2013.

For the year ended December 31, 2014, interest revenue increased 30.5% to \$186.0 million from \$142.5 million in 2013, principally as a result of a \$41.7 million increase in interest revenue generated from the growth in interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$5.0 billion during the year ended December 31, 2014, compared to \$4.2 billion in 2013 at average interest rates of 2.87% and 2.42%, respectively.

For the year ended December 31, 2014, interest expense decreased 11.0% to \$41.3 million from \$46.4 million in 2013. The decrease is primarily attributable to a decline in interest expense paid on the interest-bearing liabilities of Stifel Bank and the payoff of our non-recourse debt during the fourth quarter of 2013, partially offset by the interest expense associated with our July 2014 issuance of \$300.0 million of 4.250% senior notes.

NON-INTEREST EXPENSES

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

	For the Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Non-interest expenses:					
Compensation and benefits	\$1,568,862	\$1,403,932	\$1,311,386	11.7%	7.1 %
Occupancy and equipment rental	207,465	169,040	158,268	22.7	6.8
Communications and office supplies	130,678	106,926	99,726	22.2	7.2
Commissions and floor brokerage	42,518	36,555	37,225	16.3	(1.8)
Other operating expenses	240,504	201,177	181,612	19.5	10.8
Total non-interest expenses	\$2,190,027	\$1,917,630	\$1,788,217	14.2%	7.2 %

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

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

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

For the year ended December 31, 2015, compensation and benefits expense increased 11.7% to \$1.57 billion from \$1.40 billion in 2014. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production and profitability; 2) an increase in fixed compensation for additional administrative support staff; and 3) increased headcount.

Compensation and benefits expense for the year ended December 31, 2015, includes a non-cash charge of \$23.8 million (pre-tax) related to the expensing of certain restricted stock awards granted to employees of Sterne, at the closing date of the acquisitions. There

were no continuing service requirements associated with these restricted stock awards, and accordingly, they were expensed on the date of grant.

Compensation and benefits expense as a percentage of net revenues was 67.3% for the year ended December 31, 2015, compared to 63.6% for the year ended December 31, 2014.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses, and retention awards in connection with our continuing expansion efforts, of \$115.5 million (3.8% of net revenues) for the year ended December 31, 2015, compared to \$104.2 million (4.7% of net revenues) in 2014. The upfront notes are amortized over a five- to ten-year period.

Occupancy and equipment rental – For the year ended December 31, 2015, occupancy and equipment rental expense increased 22.7% to \$207.5 million from \$169.0 million in 2014. The increase is primarily due to the increase in rent and depreciation expense due to an increase in office locations. As of December 31, 2015, we have 402 locations compared to 367 at December 31, 2014.

Communications and office supplies – Communications expense includes costs for telecommunication and data transmission, primarily for obtaining third-party market data information. For the year ended December 31, 2015, communications and office supplies expense increased 22.2% to \$130.7 million from \$106.9 million in 2014. The increase is primarily attributable to our growth from our acquisitions and the addition of revenue producers and support staff.

Commissions and floor brokerage – For the year ended December 31, 2015, commissions and floor brokerage expense increased 16.3% to \$42.5 million from \$36.6 million in 2014. The increase is primarily attributable to an increase in trade execution costs.

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

For the year ended December 31, 2015, other operating expenses increased 19.5% to \$240.5 million from \$201.2 million in 2014. The increase is primarily attributable to an increase in legal expenses, professional service fees in connection with our acquisition and regulatory compliance enhancement measures, travel and promotion, and license fees.

Provision for income taxes – For the year ended December 31, 2015, our provision for income taxes was \$49.2 million, representing an effective tax rate of 38.4%, compared to \$111.7 million in 2014, representing an effective tax rate of 38.4%. The provision for income taxes for the year ended December 31, 2015, was impacted by the recognition of a U.S. tax benefit due to a realized loss on our investment in Sterne UK Ltd.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

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

Compensation and benefits – For the year ended December 31, 2014, compensation and benefits expense increased 7.1% to \$1.40 billion from \$1.31 billion in 2013. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production and profitability; 2) an increase in fixed compensation for the additional administrative support staff; and 3) increased headcount.

Compensation and benefits expense for the year ended December 31, 2014, includes a non-cash charge of \$17.9 million (pre-tax) related to the expensing of certain restricted stock awards granted to employees of Oriel and 1919 Investment Counsel at the respective closing dates of those acquisitions. There were no continuing service requirements associated with these restricted stock awards, and accordingly, they were expensed on the date of grant.

Compensation and benefits expense as a percentage of net revenues was 63.6% for the year ended December 31, 2014, compared to 66.5% for the year ended December 31, 2013.

Compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses, and retention awards in connection with our continuing expansion efforts, of \$104.2 million (4.7% of net revenues) for the year ended December 31, 2014, compared to \$91.5 million (4.6% of net revenues) in 2013. The upfront notes are amortized over a five- to ten-year period.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Occupancy and equipment rental – For the year ended December 31, 2014, occupancy and equipment rental expense increased 6.8% to \$169.0 million from \$158.3 million in 2013. The increase is primarily due to the increase in rent and depreciation expense due to an increase in office locations. As of December 31, 2014, we have 367 locations compared to 357 at December 31, 2013.

Communications and office supplies – For the year ended December 31, 2014, communications and office supplies expense increased 7.2% to \$106.9 million from \$99.7 million in 2013. The increase is primarily attributable to our growth from our acquisitions and the addition of revenue producers and support staff.

Commissions and floor brokerage – For the year ended December 31, 2014, commissions and floor brokerage expense decreased 1.8% to \$36.6 million from \$37.2 million in 2013. The decrease is primarily attributable to a decrease in trade execution costs.

Other operating expenses – For the year ended December 31, 2014, other operating expenses increased 10.8% to \$201.2 million from \$181.6 million during in 2013. The increase is primarily attributable to an increase in legal expenses, professional service fees in connection with our acquisition and regulatory compliance enhancement measures, travel and promotion, and license fees.

Provision for income taxes – For the year ended December 31, 2014, our provision for income taxes was \$111.7 million, representing an effective tax rate of 38.4%, compared to \$12.3 million in 2013, representing an effective tax rate of 6.7%. The provision for income taxes for the year ended December 31, 2014, was impacted by the decrease in the valuation allowance related to certain state credits and foreign net operating losses that we have determined to be more likely than not realizable. The provision for income taxes for the year ended December 31, 2014, was impacted by the U.S. tax benefit arising out of our company's investment in SN Canada.

DISCONTINUED OPERATIONS

SN Canada ceased business operations as of September 30, 2014. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented.

	Year Ended December 31,	
(in thousands)	2014	2013
Net revenues	\$(121)	\$11,794
Restructuring expense	— 217	6,881
Operating expenses	— 3,924	15,697
Total non-interest expenses	— 4,141	22,578
Loss from discontinued operations before income taxes	— (4,262)	(10,784)
Income tax expense/(benefit)	(1,199)	110
Loss from discontinued operations, net of tax	\$— \$(3,063)	\$(10,894)

See Note 4 to our consolidated financial statements for further discussion of our discontinued operations.

SEGMENT PERFORMANCE FROM CONTINUING OPERATIONS

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

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

The success of our Global Wealth Management segment is dependent upon the quality of our products, services, financial advisors, and support personnel, including our ability to attract, retain, and motivate a sufficient number of these associates. We face competition for qualified associates from major financial services companies, including other brokerage firms, insurance companies, banking institutions, and discount brokerage firms. Segment revenue growth, operating income, and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management

of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The success of our Institutional Group segment is dependent upon the quality of our personnel, the quality and selection of our investment products and services, pricing (such as execution pricing and fee levels), and reputation. Segment operating income and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance.

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

Results of Operations – Global Wealth Management

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

	For the Year Ended December 31,			Change		As a Percentage of		
	2015	2014	2013	2015	2014	Net Revenues		
				vs.	vs.	for the Year Ended		
				2014	2013	December 31,		
						2015	2014	2013
Revenues:								
Commissions	\$504,206	\$453,730	\$428,610	11.1 %	5.9 %	36.6 %	36.8 %	38.4 %
Principal transactions	148,475	184,772	204,194	(19.6)	(9.7)	10.8	15.0	18.3
Asset management and service fees	492,814	385,182	304,541	27.9	26.5	35.8	31.2	27.3
Interest	164,793	166,402	122,413	(1.0)	35.9	12.0	13.5	10.9
Investment banking	43,687	45,472	49,921	(3.9)	(8.3)	3.2	3.7	4.4
Other income	33,742	8,801	25,165	283.4	(65.0)	2.4	0.7	2.3
Total revenues	1,387,717	1,244,359	1,134,844	11.5	9.7	100.8	100.9	101.6
Interest expense	10,404	11,708	17,665	(11.1)	(33.7)	0.8	0.9	1.6
Net revenues	1,377,313	1,232,651	1,117,179	11.7	10.3	100.0	100.0	100.0
Non-interest expenses:								
Compensation and benefits	781,573	703,679	648,681	11.1	8.5	56.7	57.1	58.1
Occupancy and equipment rental	82,015	71,526	65,686	14.7	8.9	6.0	5.8	5.8
	46,825	38,779	36,897	20.7	5.1	3.4	3.2	3.3

Communication and
office supplies

Commissions and floor brokerage	17,431	13,913	15,185	25.3	(8.4)	1.3	1.1	1.4
Other operating expenses	67,343	57,776	51,158	16.6	12.9	4.9	4.7	4.6
Total non-interest expenses	995,187	885,673	817,607	12.4	8.3	72.3	71.9	73.2
Income before income taxes	\$382,126	\$346,978	\$299,572	10.1 %	15.8 %	27.7 %	28.1 %	26.8 %

December 31,

2015 2014 2013

Branch offices (actual)	362	330	316
Financial advisors (actual)	2,172	1,965	1,934
Independent contractors (actual)	719	138	143

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

NET REVENUES

For the year ended December 31, 2015, Global Wealth Management net revenues increased 11.7% to a record \$1.40 billion from \$1.23 billion in 2014. The increase in net revenues for the year ended December 31, 2015, over 2014, is primarily attributable to growth in asset management and service fees, as a result of the acquisitions of 1919 in November 2014 and Sterne in June 2015; an increase in commission revenues; and an increase in other income. The increase in net revenues was partially offset by a decline in principal transaction revenues and investment banking revenues.

Commissions – For the year ended December 31, 2015, commission revenues increased 11.1% to \$504.2 million from \$453.7 million in 2014. The increase is primarily attributable to an increase in agency transactions in equities, mutual funds, and insurance products, partially offset by lower trading volumes impacting the environment for both us and the industry.

Principal transactions – For the year ended December 31, 2015, principal transactions revenues decreased 19.6% to \$148.5 million from \$184.8 million in 2014. The decrease is primarily attributable to a decrease in fixed income products as a result of lower trading volumes and the current, low interest rate environment.

Asset management and service fees – For the year ended December 31, 2015, asset management and service fees increased 27.9% to \$492.8 million from \$385.2 million in 2014. The increase is primarily a result of an increase in assets under management in our fee-based accounts. Fee-based account revenues are billed in arrears based on values as of the prior period end. The value of assets in fee-based accounts at December 31, 2015 increased 20.9% to \$42.2 billion from \$34.9 billion at December 31, 2014, of which 52.9% is attributable to net inflows and 47.1% is attributable to market appreciation. The number of fee-based accounts at December 31, 2015, increased 19.4% from December 31, 2014.

Interest revenue – For the year ended December 31, 2015, interest revenue decreased 1.0% to \$164.8 million from \$166.4 million in 2014. The decrease is primarily due to a decline of the interest-earning assets of Stifel Bank. See “Net Interest Income – Stifel Bank” below for a further discussion of the changes in net revenues.

Investment banking – Investment banking, which represents sales credits for investment banking underwritings, decreased 3.9% to \$43.7 million for the year ended December 31, 2015, from \$45.5 million in 2014. The decrease is primarily attributable to a decrease in corporate equity sales credits from 2014.

Other income – For the year ended December 31, 2015, other income increased 283.4% to \$33.7 million from \$8.8 million 2014. The increase is primarily attributable to the sale of a portion of the Acacia loan portfolio and an increase in mortgage fees from loan originations at Stifel Bank, partially offset by investment losses.

Interest expense – For the year ended December 31, 2015, interest expense decreased 11.1% to \$10.4 million from \$11.7 million in 2014. The decrease is primarily attributable to lower interest expense on the interest-bearing liabilities of Stifel Bank, which is driven by the run-off of the time deposits from the Acacia acquisition and amortization of the notional value of our interest rate derivatives.

NON-INTEREST EXPENSES

For the year ended December 31, 2015, Global Wealth Management non-interest expenses increased 12.4% to \$995.2 million from \$885.7 million in 2014.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of December 31, 2015, we have 362 branch offices compared to 330 at December 31, 2014. In addition, since December 31, 2014, we have added 329 financial advisors and 454 support staff.

Compensation and benefits – For the year ended December 31, 2015, compensation and benefits expense increased 11.1% to \$781.6 million from \$703.7 million in 2014. The increase is principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff. Compensation and benefits expense as a percentage of net revenues was 56.7% for the year ended December 31, 2015, compared to 57.1% in 2014.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses, and retention awards in connection with our continuing expansion efforts, of \$60.7 million (4.4% of net revenues) for the year ended December 31, 2015, compared to \$65.5 million (5.3% of net revenues) in 2014. The upfront notes are amortized over a five- to ten-year period.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Occupancy and equipment rental – For the year ended December 31, 2015, occupancy and equipment rental expense increased 14.7% to \$82.0 million from \$71.5 million in 2014. The increase is primarily due to the increase in office locations.

Communications and office supplies – For the year ended December 31, 2015, communications and office supplies expense increased 20.7% to \$46.8 million from \$38.8 million in 2014. The increase is primarily attributable to higher office supplies expense as a result of the continued expansion of the segment.

Commissions and floor brokerage – For the year ended December 31, 2015, commissions and floor brokerage expense increased 25.3% to \$17.4 million from \$13.9 million in 2014. The increase is primarily attributable to an increase in clearing fees.

Other operating expenses – For the year ended December 31, 2015, other operating expenses increased 16.6% to \$67.3 million from \$57.8 million in 2014. The increase in other operating expenses is primarily attributable to an increase in legal expenses and professional service fees.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2015, income before income taxes increased 10.1% to \$382.1 million from \$347.0 million in 2014. Profit margins (income before income taxes as a percent of net revenues) were impacted by an increase in operating expenses.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

NET REVENUES

For the year ended December 31, 2014, Global Wealth Management net revenues increased 10.3% to \$1.23 billion from \$1.12 billion in 2013. The increase in net revenues for the year ended December 31, 2014, over 2013, is primarily attributable to growth in asset management and service fees; increased net interest revenues; and an increase in commission revenues. The increase in net revenues was partially offset by a decline in principal transaction revenues, other income, and investment banking revenues.

Commissions – For the year ended December 31, 2014, commission revenues increased 5.9% to \$453.7 million from \$428.6 million in 2013. The increase is primarily attributable to an increase in agency transactions in equities, mutual funds, and insurance products, partially offset by lower trading volumes impacting the environment for both us and the industry.

Principal transactions – For the year ended December 31, 2014, principal transactions revenues decreased 9.7% to \$184.8 million from \$204.2 million in 2013. The decrease is primarily attributable to a decrease in fixed income products as a result of lower trading volumes and the current, low interest rate environment.

Asset management and service fees – For the year ended December 31, 2014, asset management and service fees increased 26.5% to \$385.2 million from \$304.5 million in 2013. The increase is primarily a result of an increase in assets under management in our fee-based accounts. Fee-based account revenues are billed in arrears based on values as of the prior period end. The value of assets in fee-based accounts increased 20.4% to 34.9 billion from 29.0 billion at December 31, 2013, of which 52.9% is attributable to net inflows and 47.1% is attributable to market appreciation. The number of fee-based accounts at December 31, 2014, increased 15.4% from December 31, 2013.

Interest – For the year ended December 31, 2014, interest revenue increased 35.9% to \$166.4 million from \$122.4 million in 2013. The increase is primarily due to the growth of the interest-earning assets of Stifel Bank. This growth is driven by an increase in the loan portfolio, which has higher yields and increased interest rates on our investment

portfolio. See “Net Interest Income – Stifel Bank” below for a further discussion of the changes in net revenues.

Investment banking – Investment banking decreased 8.3% to \$45.5 million for the year ended December 31, 2014, from \$49.9 million in 2013. The decrease is primarily attributable to a decrease in corporate equity sales credits from 2014.

Other income – For the year ended December 31, 2014, other income decreased 65.0% to \$8.8 million from \$25.2 million 2013. The decrease from 2013 is primarily attributable to a decrease in mortgage fees from loan originations at Stifel Bank and investment losses.

Interest expense – For the year ended December 31, 2014, interest expense decreased 33.7% to \$11.7 million from \$17.7 million in 2013. The decrease is primarily attributable to lower interest expense on the interest-bearing liabilities of Stifel Bank, which is driven by the run-off of the time deposits from the Acacia Federal acquisition and amortization of the notional value of our interest rate derivatives.

NON-INTEREST EXPENSES

For the year ended December 31, 2014, Global Wealth Management non-interest expenses increased 8.3% to \$885.7 million from \$817.6 million in 2013.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of December 31, 2014, we have 330 branch offices compared to 316 at December 31, 2013. In addition, since December 31, 2013, we have added 123 financial advisors and 332 support staff.

Compensation and benefits – For the year ended December 31, 2014, compensation and benefits expense increased 8.5% to \$703.7 million from \$648.7 million in 2013. The increase is principally due to increased variable compensation as a result of increased production due to the growth in the number of financial advisors and fixed compensation for the additional administrative support staff. Compensation and benefits expense as a percentage of net revenues was 57.1% for the year ended December 31, 2014, compared to 58.1% for the year ended December 31, 2013.

Transition pay was \$65.5 million (5.3% of net revenues) for the year ended December 31, 2014, compared to \$65.8 million (5.9% of net revenues) for the year ended December 31, 2013.

Occupancy and equipment rental – For the year ended December 31, 2014, occupancy and equipment rental expense increased 8.9% to \$71.5 million from \$65.7 million in 2013. The increase is primarily due to the increase in office locations.

Communications and office supplies – For the year ended December 31, 2014, communications and office supplies expense increased 5.1% to \$38.8 million from \$36.9 million in 2013. The increase is primarily attributable to higher office supplies expense as a result of the continued expansion of the segment.

Commissions and floor brokerage – For the year ended December 31, 2014, commissions and floor brokerage expense decreased 8.4% to \$13.9 million from \$15.2 million in 2013. The decrease is primarily attributable to a decrease in clearing fees.

Other operating expenses – For the year ended December 31, 2014, other operating expenses increased 12.9% to \$57.8 million from \$51.2 million in 2013. The increase in other operating expenses is primarily attributable to an increase in legal expenses and professional service fees.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2014, income before income taxes increased 15.8% to \$347.0 million from \$299.6 million in 2013. Profit margins (income before income taxes as a percent of net revenues) were positively impacted by revenue growth.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The information required by Securities Act Guide 3 – Statistical Disclosure By Bank Holding Company is presented below:

I. Distribution of Assets, Liabilities, and Shareholders' Equity; Interest Rates and Interest Rate Differential

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

	For the Year Ended December 31, 2015				December 31, 2014		
	Interest	Average			Interest	Average	
	Average	Income/ Expense	Interest Rate		Average	Income/ Expense	Interest Rate
Assets:							
Interest bearing cash and federal funds sold	\$65,827	\$163	0.25	%	\$172,052	\$420	0.24
State and municipal securities:							
Taxable	—	—	—		8,403	512	6.09
Tax-exempt ¹	76,257	2,706	3.55		77,395	3,706	4.79
Mortgage-backed securities	1,093,898	25,206	2.30		1,373,446	36,248	2.64
Corporate fixed income securities	307,047	6,694	2.18		470,790	10,157	2.16
Asset-backed securities	863,137	19,181	2.22		966,022	20,903	2.16
Federal Home Loan Bank ("FHLB") and other							
capital stock	20,776	722	3.48		8,090	32	0.40
Loans ²							
Securities based loans	948,840	21,063	2.22		599,777	14,207	2.37
Commercial and industrial	1,158,936	37,167	3.21		775,632	27,498	3.55
Consumer	23,158	378	1.63		3,221	76	2.36
Residential real estate	395,775	16,869	4.26		375,672	24,808	6.60
Commercial real estate	24,091	1,046	4.34		14,773	641	4.34
Home equity lines of credit	12,233	334	2.73		14,229	384	2.70
Construction and land	803	26	3.28		231	11	4.64
Loans held for sale	172,832	5,286	3.06		122,056	3,543	2.90
Total interest-earning assets ³	5,163,610	136,841	2.65	%	4,981,789	\$143,146	2.87
Cash and due from banks	2,985				3,526		
Other non interest-earning assets	80,006				73,950		
Total assets	\$5,246,601				\$5,059,265		
Liabilities and stockholders' equity:							
Deposits:							
Money market	\$4,500,268	\$6,360	0.14	%	\$4,419,699	\$8,214	0.19
Time deposits	39,278	860	2.19		133,842	(402)	(0.30)
Demand deposits	76,262	42	0.06		63,158	33	0.05
Savings	17	—	0.05		520	—	0.01
FHLB advances	178,925	551	0.31		27,534	81	0.29
Total interest-bearing liabilities ³	4,794,750	7,813	0.16		4,644,753	7,926	0.17
Non interest-bearing deposits	19,004				20,345		
Other non interest-bearing liabilities	31,155				23,188		
Total liabilities	4,844,909				4,688,286		

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Stockholders' equity	401,692	370,978						
Total liabilities and stockholders' equity	\$5,246,601	\$5,059,264						
Net interest margin	\$129,028	2.50	%		\$135,220	2.75	%	

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

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

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

44

For the Year Ended December 31, 2013				
	Average Balance	Interest Income/Expense	Average Interest Rate	
Assets:				
Federal funds sold	\$289,553	\$726	0.25	%
State and municipal securities:				
Taxable	113,111	3,938	3.48	
Tax-exempt ¹	74,947	1,735	2.32	
Mortgage-backed securities	1,248,829	28,685	2.3	
Corporate fixed income securities	549,711	12,177	2.22	
Asset-backed securities	740,426	15,590	2.11	
FHLB and other capital stock	4,198	30	0.71	
Loans ²	1,122,086	35,868	3.27	
Loans held for sale	81,546	2,740	3.36	
Total interest-earning assets ³	4,224,407	\$101,489	2.42	%
Cash and due from banks	8,126			
Other non interest-earning assets	66,195			
Total assets	\$4,298,728			
Liabilities and stockholders' equity:				
Deposits:				
Money market	\$3,844,984	\$10,781	0.28	%
Demand deposits	43,288	908	2.10	
Time deposits	72,091	45	0.06	
Savings	2,683	5	0.20	
FHLB advances	4,356	36	0.81	
Total interest-bearing liabilities ³	3,967,402	11,775	0.30	
Non interest-bearing deposits	11,182			
Other non interest-bearing liabilities	24,088			
Total liabilities	4,002,672			
Stockholders' equity	296,056			
Total liabilities and stockholders' equity	\$4,298,728			
Net interest margin		\$89,714	2.14	%

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

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

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

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

For the year ended December 31, 2015, interest revenue for Stifel Bank of \$136.8 million was generated from weighted-average interest-earning assets of \$5.16 billion at a weighted-average interest rate of 2.65%. For the year

ended December 31, 2014, interest revenue for Stifel Bank of \$143.1 million was generated from weighted-average interest-earning assets of \$4.98 billion at a weighted-average interest rate of 2.87%. For the year ended December 31, 2013, interest revenue for Stifel Bank of \$101.5 million was generated from weighted-average interest-earning assets of \$4.22 billion at a weighted-average interest rate of 2.42%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market accounts, interest on time deposits, and other interest expense. The average balance of interest-bearing liabilities at Stifel Bank during the year ended December 31, 2015, was \$4.79 billion at a weighted-average interest rate of 0.16%. The average balance of interest-bearing liabilities at Stifel Bank during the year ended December 31, 2014, was \$4.64 billion at a weighted-average interest rate of 0.17%. The average balance of interest-bearing liabilities at Stifel Bank during the year ended December 31, 2013, was \$3.97 billion at a weighted-average interest rate of 0.30%.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The growth in Stifel Bank has been primarily funded by the growth in deposits associated with brokerage customers of Stifel and, to a lesser extent, with FHLB advances. At December 31, 2015, the balance of Stifel brokerage customer deposits at Stifel Bank was \$6.6 billion compared to \$4.7 billion at December 31, 2014.

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the periods indicated (in thousands):

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Compared to Year Ended			Compared to Year Ended		
	December 31, 2014			December 31, 2013		
	Increase (decrease) due to:			Increase (decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Federal funds sold	\$(263)	\$6	\$(257)	\$(287)	\$(19)	\$(306)
State and municipal securities:						
Taxable	(256)	(256)	(512)	(17,983)	14,557	(3,426)
Tax-exempt	(54)	(946)	(1,000)	55	1,916	1,971
Mortgage-backed securities	(6,801)	(4,241)	(11,042)	1,997	5,566	7,563
Corporate fixed income securities	(3,571)	107	(3,464)	(1,692)	(328)	(2,020)
Asset-backed securities	(2,307)	585	(1,722)	4,870	443	5,313
FHLB and other capital stock	116	573	689	19	(17)	2
Loans	25,451	(16,193)	9,258	27,454	4,303	31,757
Loans held for sale	4,448	(2,705)	1,743	(1,158)	1,961	803
	\$16,763	\$(23,070)	\$(6,307)	\$13,275	\$28,382	\$41,657
Interest expense:						
Deposits:						
Money market	\$153	\$(2,006)	\$(1,853)	\$1,445	\$(4,012)	\$(2,567)
Time deposits	(118)	1,380	1,262	495	(1,805)	(1,310)
Demand deposits	(4)	13	9	(9)	(3)	(12)
Savings	—	—	—	(2)	(3)	(5)
FHLB advances	466	4	470	48	(3)	45
	\$497	\$(609)	\$(112)	\$1,977	\$(5,826)	\$(3,849)

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

II. Investment Portfolio

The following tables provide a summary of the amortized cost and fair values of the available-for-sale and held-to-maturity securities for the periods indicated (in thousands):

	December 31, 2015			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains ¹	Losses ¹	Fair Value
Available-for-sale securities				
U.S. government agency securities	\$1,700	\$ 1	\$ (3)	\$1,698
State and municipal securities	75,953	28	(1,814)	74,167
Mortgage-backed securities:				
Agency	306,309	125	(1,541)	304,893
Commercial	11,177	134	(1)	11,310
Non-agency	2,679	2	(163)	2,518
Corporate fixed income securities	321,017	743	(2,352)	319,408
Asset-backed securities	922,563	774	(7,424)	915,913
	\$1,641,398	\$ 1,807	\$ (13,298)	\$1,629,907
Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$1,257,808	\$ 23,346	\$ (3,105)	\$1,278,049
Commercial	59,521	1,832	—	61,353
Non-agency	929	—	(15)	914
Asset-backed securities	496,996	2,076	(4,139)	494,933
Corporate fixed income securities	40,145	—	(396)	39,749
	\$1,855,399	\$ 27,254	\$ (7,655)	\$1,874,998
	December 31, 2014			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains ¹	Losses ¹	Value
Available-for-sale securities				
U.S. government agency securities	\$1,613	\$ 1	\$ (4)	\$1,610
State and municipal securities	76,518	20	(2,137)	74,401
Mortgage-backed securities:				
Agency	206,982	3,137	(913)	209,206
Commercial	107,100	633	(89)	107,644
Non-agency	3,186	5	(54)	3,137
Corporate fixed income securities	336,210	2,016	(820)	337,406
Asset-backed securities	788,908	1,321	(10,155)	780,074
	\$1,520,517	\$ 7,133	\$ (14,172)	\$1,513,478
Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$884,451	\$ 32,926	\$ (42)	\$917,335

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Commercial	59,462	2,257	—	61,719
Non-agency	1,081	—	(17)	1,064
Asset-backed securities	177,335	3,151	(2,645)	177,841
Corporate fixed income securities	55,236	4	(1,223)	54,017
	\$1,177,565	\$ 38,338	\$ (3,927)	\$1,211,976

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

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

47

December 31, 2013				
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains ¹	Losses ¹	Fair Value
Available-for-sale securities				
U.S. government agency securities	\$1,074	\$ —	\$ (2)	\$1,072
State and municipal securities	96,475	739	(6,537)	90,677
Mortgage-backed securities:				—
Agency	184,533	2,859	(3,405)	183,987
Commercial	209,949	3,084	(1,787)	211,246
Non-agency	4,547	72	—	4,619
Corporate fixed income securities	496,385	4,769	(2,838)	498,316
Asset-backed securities	769,553	2,499	(5,716)	766,336
	\$1,762,516	\$ 14,022	\$ (20,285)	\$1,756,253
Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$968,759	\$ 1,156	\$ (7,915)	\$962,000
Commercial	59,404	—	(186)	59,218
Asset-backed securities	228,623	6,157	(2,774)	232,006
Corporate fixed income securities	55,329	11	(2,605)	52,735
	\$1,312,115	\$ 7,324	\$ (13,480)	\$1,305,959

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

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

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment (“OTTI”) assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral; and current market conditions.

If we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated other comprehensive loss. We determine the credit component based on the difference between the security’s amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security’s fair value and the present value of expected future cash flows. Based on the evaluation, we did not recognize any credit-related OTTI during the years ended December 31, 2015, 2014, and 2013 respectively.

We estimate the portion of loss attributable to credit using a discounted cash flow model. Key assumptions used in estimating the expected cash flows include default rates, loss severity, and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

We believe the gross unrealized losses related to all other securities of \$21.0 million as of December 31, 2015, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The maturities and related weighted-average yields of available-for-sale and held-to-maturity securities at December 31, 2015, are as follows (in thousands, except rates):

	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total
Available-for-sale: ¹					
U.S. government agency securities	\$701	\$997	\$—	\$—	\$1,698
State and municipal securities	—	—	7,333	66,834	74,167
Mortgage-backed securities:					
Agency	—	—	614	304,279	304,893
Commercial	—	—	—	11,310	11,310
Non-agency	—	67	—	2,451	2,518
Corporate fixed income securities	9,023	256,001	54,384	—	319,408
Asset-backed securities	—	—	209,429	706,484	915,913
	\$9,724	\$257,065	\$271,760	\$1,091,358	\$1,629,907
Held-to-maturity:					
Mortgage-backed securities:					
Agency	\$—	\$—	\$210,179	\$1,047,629	\$1,257,808
Commercial	—	—	59,521	—	59,521
Non-agency	—	—	—	929	929
Asset-backed securities	—	—	—	496,996	496,996
Corporate fixed income securities	—	40,145	—	—	40,145
	\$—	\$40,145	\$269,700	\$1,545,554	\$1,855,399
Weighted-average yield ²	2.72 %	2.23 %	2.17 %	2.22 %	2.24 %

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

²The weighted-average yield is computed using the expected maturity of each security weighted based on the amortized cost of each security.

We did not hold securities from any single issuer that exceeded ten percent of our shareholders' equity at December 31, 2015.

III. Loan Portfolio

The following table presents the balance and associated percentage of each major loan category in Stifel Bank's loan portfolio held for investment for the periods indicated (in thousands):

	As of December 31,				
	2015	2014	2013	2012	2011
Securities based loans	\$1,388,953	\$732,799	\$508,866	\$425,295	\$371,309
Commercial and industrial	1,216,656	896,853	552,333	300,034	186,996
Consumer	36,846	25,489	618	87	90
Residential real estate	429,132	432,646	372,789	65,657	51,755
Commercial real estate	92,623	15,902	12,284	12,805	3,107
Home equity lines of credit	12,475	12,945	16,327	19,531	24,086

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Construction and land	3,899	—	490	510	514
Total Gross loans	3,180,584	2,116,634	1,463,707	823,919	637,857
Unamortized loan discount	(5,296)	(30,533)	(45,100)	—	—
Unamortized loan origination costs, net of loan fees	(1,567)	(1,631)	(1,920)	(1,207)	(421)
Loans in process	(419)	1,681	334	1,370	4
Allowance for loan losses	(29,787)	(20,731)	(12,668)	(8,145)	(5,300)
	\$3,143,515	\$2,065,420	\$1,404,353	\$815,937	\$632,140

The maturities of the loan portfolio at December 31, 2015, are as follows (in thousands):

Within 1 Year	1-5 Years	Over 5 Years	Total
\$1,448,404	\$868,825	\$863,355	\$3,180,584

The sensitivity of loans with maturities in excess of one year at December 31, 2015, is as follows (in thousands):

	1-5 Years	Over 5 Years	Total
Variable or adjustable rate loans	\$836,289	\$812,270	\$1,648,559
Fixed rate loans	32,536	51,085	83,621
	\$868,825	\$863,355	\$1,732,180

Changes in the allowance for loan losses at Stifel Bank were as follows (in thousands):

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Allowance for loan losses, beginning of period	\$20,731	\$12,668	\$8,145	\$5,300	\$2,331
Provision for loan losses	9,069	8,531	8,842	3,004	2,925
Charge-offs:					
Commercial and industrial	—	(510)	(3,864)	—	—
Residential real estate	(144)	—	(501)	(254)	(5)
Consumer	—	(16)	—	—	—
Commercial real estate	—	—	—	—	(5)
Other	—	(5)	(7)	—	—
Total charge-offs	(144)	(531)	(4,372)	(254)	(10)
Recoveries	131	63	53	95	54
Allowance for loan losses, end of period	\$29,787	\$20,731	\$12,668	\$8,145	\$5,300
Net charge-offs to average bank loans outstanding, net	0.02 %	0.03 %	0.40 %	0.02 %	(0.01)%

The following is a breakdown of the allowance for loan losses by type for the periods indicated (in thousands, except rates):

	December 31, 2015		December 31, 2014	
	Balance	Percent ¹	Balance	Percent ¹
Commercial and industrial	\$24,748	38.2 %	\$16,609	42.4 %
Securities based loans	1,607	43.7	1,099	34.6
Consumer	104	1.2	156	1.2

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Residential real estate	1,242	13.5	787	20.4
Home equity lines of credit	290	0.4	267	0.6
Commercial real estate	264	2.9	232	0.8
Construction and land	78	0.1	—	—
Qualitative	1,454	—	1,581	—
	\$29,787	100.0 %	\$20,731	100.0 %

	December 31, 2013			December 31, 2012	
	Balance	Percent ¹		Balance	Percent ¹
Commercial and industrial	\$9,832	37.7 %		\$5,450	36.4 %
Securities based loans	892	34.9		638	51.6
Commercial real estate	198	0.8		691	1.5
Consumer	—	—		9	—
Residential real estate	408	25.5		408	8.0
Home equity lines of credit	174	1.1		195	2.4
Construction and land	12	—		13	0.1
Qualitative	1,152	—		741	—
	\$12,668	100.0 %		\$8,145	100.0 %

¹Loan category as a percentage of total loan portfolio.

	December 31, 2011		
	Balance	Percent ¹	
Commercial and industrial	\$2,595	29.3	%
Securities based loans	501	58.2	
Commercial real estate	633	0.5	
Consumer	9	—	
Residential real estate	679	8.1	
Home equity lines of credit	—	—	
Construction and land	—	—	
Qualitative	883	3.9	
	\$5,300	100.0	%

¹Loan category as a percentage of total loan portfolio.

A loan is determined to be impaired usually when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued (“non-accrual status”), and any accrued and unpaid interest income is reversed. At December 31, 2015, we had \$0.9 million of non-accrual loans, net of discounts, which included \$0.2 million in troubled debt restructurings, for which there was a specific allowance of \$0.2 million. At December 31, 2014, 2013, 2012, and 2011, we had \$4.9 million, \$1.5 million, \$1.8 million, and \$2.5 million of non-accrual loans, respectively, which included \$1.0 million, \$0.4 million, \$1.6 million, and \$0.3 million of trouble debt restructurings, respectively, for which there was a specific allowance of \$0.3 million, \$0.2 million, \$0.6 million, and \$0.6 million, respectively.

The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the years ended December 31, 2015, 2014, 2013, 2012, and 2011, were insignificant to the consolidated financial statements.

See the section entitled “Critical Accounting Policies and Estimates” herein regarding our policies for establishing loan loss reserves, including placing loans on non-accrual status.

IV. Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. The average balances of deposits and the associated weighted-average interest rates for the periods indicated are as follows (in thousands, except percentages):

	Year Ended December 31, 2015		2014		2013	
	Average		Average		Average	
	Average	Interest	Average	Interest	Average	Interest
	Balance	Rate	Balance	Rate	Balance	Rate
Demand deposits (interest-bearing)	\$4,576,642	0.05 %	\$4,473,104	0.05 %	\$3,847,886	0.30 %
Certificates of deposit (time deposits)	\$39,278	2.19 %	\$97,854	0.31 %	\$43,288	2.10 %
Demand deposits (non-interest-bearing)	\$18,510	*	\$17,710	*	\$69,189	*

Savings accounts	\$17	0.05	%	\$38	0.05	%	\$2,683	0.20	%
------------------	------	------	---	------	------	---	---------	------	---

*Not applicable.

Scheduled maturities of certificates of deposit greater than \$100,000 at December 31, 2015, were as follows (in thousands):

			Over	
0-3	3-6	6-12	12	
Months	Months	Months	Months	Total
\$ 1,568	\$ 1,442	\$ 2,456	\$ 2,259	\$ 7,725

V. Return on Equity and Assets

	Year Ended December 31,		
	2015	2014	2013
Return on assets (net income as a percentage of average total assets)	0.88 %	1.86 %	1.89 %
Return on equity (net income as a percentage of average shareholders' equity)	3.74 %	7.97 %	8.25 %
Dividend payout ratio ¹	—%	—%	—%
Equity to assets ratio (average shareholders' equity as a percentage of average total assets)	23.43 %	23.42 %	22.93 %

¹ We did not declare or pay any dividends during 2015, 2014, or 2013.

VI. Short-Term Borrowings

The following is a summary of our short-term borrowings for the periods indicated (in thousands, except rates):

	Short-Term Borrowings	Stock Loan
Year Ended December 31, 2015:		
Amount outstanding at December 31, 2015	\$ 30,000	\$ 329,670
Weighted-average interest rate thereon	1.13 %	0.65 %
Maximum amount outstanding at any month-end	\$ 465,648	\$ 329,670
Average amount outstanding during the year	\$ 45,646	\$ 62,771
Weighted-average interest rate thereon	1.01 %	0.65 %
Year Ended December 31, 2014:		
Amount outstanding at December 31, 2014	\$ —	\$ 4,215
Weighted-average interest rate thereon	— %	nm
Maximum amount outstanding at any month-end	\$ 414,900	\$ 79,164
Average amount outstanding during the year	\$ 97,815	\$ 45,758
Weighted-average interest rate thereon	1.12 %	0.17 %
Year Ended December 31, 2013:		
Amount outstanding at December 31, 2013	\$ 55,700	\$ 40,101
Weighted-average interest rate thereon	1.22 %	0.16 %
Maximum amount outstanding at any month-end	\$ 546,200	\$ 176,771
Average amount outstanding during the year	\$ 252,948	\$ 91,194
Weighted-average interest rate thereon	1.26 %	0.17 %

Results of Operations – Institutional Group

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

				Percentage		As a Percentage of		
	For the Year Ended December 31,			Change		Net Revenues		
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	for the Year Ended December 31,		
						2015	2014	2013
Revenues:								
Commissions	\$ 241,528	\$ 224,046	\$ 211,989	7.8 %	5.7 %	24.8 %	22.5 %	24.5 %
Principal transactions	244,646	237,578	211,576	3.0	12.3	25.1	23.8	24.5
Capital raising	264,858	243,229	198,463	8.9	22.6	27.1	24.4	23.0
Advisory fees	192,584	273,333	202,253	(29.5)	35.1	19.7	27.4	23.4
Investment banking	457,442	516,562	400,716	(11.4)	28.9	46.9	51.8	46.4
Interest	15,053	21,784	18,544	(30.9)	17.5	1.5	2.2	2.1
Other income	26,594	6,089	34,040	336.7	(82.1)	2.7	0.6	3.9
Total revenues	985,263	1,006,059	876,865	(2.1)	14.7	101.0	100.9	101.4
Interest expense	9,669	8,988	12,494	7.6	(28.1)	1.0	0.9	1.4
Net revenues	975,594	997,071	864,371	(2.2)	15.4	100.0	100.0	100.0
Non-interest expenses:								
Compensation and benefits	596,561	612,330	522,873	(2.6)	17.1	61.1	61.4	60.5
Occupancy and equipment rental	49,808	47,207	45,824	5.5	3.0	5.1	4.7	5.3
Communication and office supplies	64,168	55,570	48,192	15.5	15.3	6.6	5.6	5.6
Commissions and floor brokerage	25,087	22,642	22,039	10.8	2.7	2.6	2.3	2.5
Other operating expenses	98,928	93,776	75,844	5.5	23.6	10.1	9.4	8.8
Total non-interest expenses	834,552	831,525	714,772	0.4	16.3	85.5	83.4	82.7
Income before income taxes	\$ 141,042	\$ 165,546	\$ 149,599	(14.8)%	10.7 %	14.5 %	16.6 %	17.3 %

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

NET REVENUES

For the year ended December 31, 2015, Institutional Group net revenues decreased 2.2% to \$975.6 million from \$997.1 million in 2014. The increase in net revenues for the year ended December 31, 2015, over 2014, was primarily attributable to a decrease in advisory fees. The decrease was offset by improved capital-raising revenues, and growth of brokerage revenues.

Commissions – For the year ended December 31, 2015, commission revenues increased 7.8% to \$241.5 million from \$224.0 million in 2014.

Principal transactions – For the year ended December 31, 2015, principal transactions revenues increased 3.0% to \$244.6 million from \$237.6 million in 2014.

For the year ended December 31, 2015, equity brokerage revenues decrease 5.9% to \$235.2 million from \$250.2 million in 2014. The decrease is a result of industry-wide declines in volume.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

For the year ended December 31, 2015, fixed income brokerage revenues increased 18.7% to \$251.0 million from \$211.4 million in 2014. The increase is primarily attributable to an improvement in fixed income trading volumes, as a result of the acquisition of the Sterne fixed income business in June 2015.

Investment banking – For the year ended December 31, 2015, investment banking revenues decreased 11.4% to \$457.4 million from \$516.6 million in 2014. The decrease is attributable to lower advisory fees, offset by higher capital-raising revenues in 2015.

For the year ended December 31, 2015, strategic advisory fees increased 8.9% to \$264.9 million from \$243.2 million in 2014. The decrease is primarily attributable to a decrease in the number of advisory transactions over the comparable periods in 2014.

For the year ended December 31, 2015, capital-raising revenues decreased 29.5% to \$192.6 million from \$273.3 million in 2014.

For the year ended December 31, 2015, equity capital-raising revenues decrease 25.2% to \$161.7 million from \$185.8 million in 2014. The decrease was primarily attributable to a decrease in the number of transactions over 2014.

For the year ended December 31, 2015, fixed income capital-raising revenues increased 79.5% to \$103.2 million from \$57.5 million in 2014. The increase is primarily attributable to an increase in the municipal bond origination business, primarily as a result of our acquisition of Sterne Agee in June 2015.

Other income – For the year ended December 31, 2015, other income increased 336.7% to \$26.6 million from \$6.1 million in 2014.

NON-INTEREST EXPENSES

For the year ended December 31, 2015, Institutional Group non-interest expenses increased 0.4% to \$834.6 million from \$831.5 million in 2014.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have added 355 revenue producers and 91 support staff since December 31, 2014.

Compensation and benefits – For the year ended December 31, 2015, compensation and benefits expense decreased 2.6% to \$596.6 million from \$612.3 million in 2014. The increase is principally due to the growth of the business and fixed compensation for the additional administrative support staff. Compensation and benefits expense as a percentage of net revenues was 61.1% for the year ended December 31, 2015, compared to 61.4% in 2014.

Occupancy and equipment rental – For the year ended December 31, 2015, occupancy and equipment rental expense increased 5.5% to \$49.8 million from \$47.2 million in 2014. The increase is primarily due to an increase in rent expense.

Communications and office supplies – For the year ended December 31, 2015, communications and office supplies expense increased 15.5% to \$64.2 million from \$55.6 million in 2014. The increase is primarily attributable to the growth of the business, which has resulted in an increase in communication and quote equipment.

Commissions and floor brokerage – For the year ended December 31, 2015, commissions and floor brokerage expense increased 10.8% to \$25.1 million from \$22.6 million in 2014. The increase is primarily attributable to an increase in clearing expenses.

Other operating expenses – For the year ended December 31, 2015, other operating expenses increased 5.5% to \$98.9 million from \$93.8 million in 2014. The increase is primarily attributable to an increase in travel and promotion expenses and professional service fees.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2015, income before income taxes for the Institutional Group segment decreased 14.8% to \$141.0 million from \$165.5 million in 2014. Profit margins (income before income taxes as a percentage of net revenues) have decreased to 14.5% for the year ended December 31, 2015, from 16.6% in 2014 as a result of an increase in operating expenses and lower revenues.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

NET REVENUES

For the year ended December 31, 2014, Institutional Group net revenues increased 15.4% to \$997.1 million from \$864.4 million in 2013. The increase in net revenues for the year ended December 31, 2014, over the comparable period in 2013, was primarily attributable to an increase in advisory fees, improved capital-raising revenues, and growth of brokerage revenues.

Commissions – For the year ended December 31, 2014, commission revenues increased 5.7% to \$224.0 million from \$212.0 million in 2013.

Principal transactions – For the year ended December 31, 2014, principal transactions revenues increased 12.3% to \$237.6 million from \$211.6 million in 2013.

For the year ended December 31, 2014, equity institutional brokerage revenues increased 9.2% to \$250.2 million from \$229.1 million in 2013. The increase is primarily attributable to higher trading volumes as a result of market volatility during the first half of 2014. This growth was negatively impacted during the third quarter of 2014 as a result of industry-wide declines in volume.

For the year ended December 31, 2014, fixed income institutional brokerage revenues increased 8.7% to \$211.4 million from \$194.4 million in 2013. The increase is primarily attributable to an improvement in fixed income trading volumes in the first half of 2015, as a result of the acquisition of the fixed income business from Knight Capital in July 2013, offset by lower trading volumes in the third quarter of 2014 that impacted the industry.

Investment banking – For the year ended December 31, 2014, investment banking revenues increased 28.9% to \$516.6 million from \$400.7 million in 2013. The increase is attributable to higher advisory fees and capital-raising revenues in 2014 compared to 2013.

For the year ended December 31, 2014, strategic advisory fees increased 22.6% to \$243.2 million from \$198.5 million in 2013. The increase is primarily attributable to an increase in the number of completed advisory transactions and the aggregate transaction value over the comparable period in 2013.

For the year ended December 31, 2014, capital-raising revenues increased 35.1% to \$273.3 million from \$202.3 million in 2013.

For the year ended December 31, 2014, equity capital-raising revenues increased 24.7% to \$185.8 million from \$149.0 million in 2013. The increase was primarily attributable to an increase in the number of transactions over 2013.

For the year ended December 31, 2014, fixed income capital-raising revenues increased 16.2% to \$57.5 million from \$49.5 million in 2013. The increase is primarily attributable to the hiring of the European institutional fixed income sales and trading team from Knight Capital Group, which was completed in July 2013, and De La Rosa, which closed on April 3, 2014, in addition to our investments over the past year in this business.

Interest – For the year ended December 31, 2014, interest revenue increased 17.5% to \$21.8 million from \$18.5 million in 2013.

Other income – For the year ended December 31, 2014, other income decreased 82.1% to \$6.1 million from \$34.0 million in 2013. The decrease in other income is primarily attributable to gains recognized on our investment in Knight Capital Group, Inc. during 2013.

Interest expense – For the year ended December 31, 2014, interest expense decreased 28.1% to \$9.0 million from \$12.5 million in 2013.

NON-INTEREST EXPENSES

For the year ended December 31, 2014, Institutional Group non-interest expenses increased 16.3% to \$831.5 million from \$714.8 million in 2013.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have added 287 revenue producers and 62 support staff since December 31, 2014. This growth is primarily attributable to the acquisitions of De La Rosa and Oriel during the year ended December 31, 2014.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Compensation and benefits – For the year ended December 31, 2014, compensation and benefits expense increased 17.1% to \$612.3 million from \$522.9 million in 2013. The increase is principally due to the growth of the business and fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 61.4% for the year ended December 31, 2014, compared to 60.5% for the year ended December 31, 2013.

Occupancy and equipment rental – For the year ended December 31, 2014, occupancy and equipment rental expense increased 3.0% to \$47.2 million from \$45.8 million in 2013. The increase is primarily due to the increase in office locations as a result of the growth of the business.

Communications and office supplies – For the year ended December 31, 2014, communications and office supplies expense increased 15.3% to \$55.6 million from \$48.2 million in 2013. The increase is primarily attributable to the growth of the business, which has resulted in an increase in communication and quote equipment.

Commissions and floor brokerage – For the year ended December 31, 2014, commissions and floor brokerage expense increased 2.7% to \$22.6 million from \$22.0 million in 2013. The increase is primarily attributable to the growth in trade execution costs from our flow business during the first half of 2014. This growth was negatively impacted during the second half of 2014 as a result of industry-wide declines in volumes.

Other operating expenses – For the year ended December 31, 2014, other operating expenses increased 23.6% to \$93.8 million from \$75.8 million in 2013. The increase is primarily attributable to an increase in legal expenses, professional service fees, and travel and promotion expenses.

INCOME BEFORE INCOME TAXES

For the year ended December 31, 2014, income before income taxes for the Institutional Group segment increased 10.7% to \$165.5 million from \$149.6 million in 2013. Profit margins (income before income taxes as a percentage of net revenues) for the year ended December 31, 2014, have declined to 15.4% from 16.6% in 2013 as a result of an increase in operating expenses.

have been impacted by an increase in net revenues, offset by an increase in non-compensation operating expenses.

Results of Operations – Other Segment

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

	For the Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Net revenues	\$(21,313)	\$(21,298)	\$(8,104)	(0.1)%	162.8 %
Non-interest expenses:					
Compensation and benefits	190,730	87,923	139,832	116.9	(37.1)
Other operating expenses	169,558	112,509	116,006	50.7	(3.0)
Total non-interest expenses	360,288	200,432	255,838	79.8	(21.7)
Loss before income taxes	\$(381,601)	\$(221,730)	\$(263,942)	72.1 %	(16.0)%

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

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

56

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	For the Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Non-interest expenses:					
Compensation and benefits	\$96,772	\$25,914	\$74,395	273.4	(65.2)
Other operating expenses	60,831	16,218	30,566	275.1	(46.9)
Total non-interest expenses	\$157,603	\$42,132	\$104,961	274.1	(59.9)

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

Upon the close of the Sterne Agee acquisition, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was \$23.8 million. The fair value of the awards is based upon the closing price of our company's common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant.

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

	For the Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Non-interest expenses:					
Compensation and benefits	\$93,958	\$62,009	\$65,437	51.5 %	(5.2) %
Other operating expenses	108,727	96,291	85,440	12.9	12.7
Total non-interest expenses	\$202,685	\$158,300	\$150,877	28.0 %	4.9 %

Non-interest expenses increased \$44.4 million from 2014 consisting of a \$31.9 million, or 51.5%, increase in compensation and benefits and a \$12.4 million, or 12.9%, in other operating expenses. The increases are attributable to the building out of our infrastructure and our regulatory compliance enhancement measures primarily to meet the enhanced prudential regulatory requirements imposed upon surpassing \$10 billion in assets, which the Company did in the 4th quarter of 2015.

Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, trading inventory, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. Total assets of \$13.3\$13.34 billion at December 31, 2015, were up 40.1% over December 31, 2014. The increase is primarily attributable to increases in bank loans, the growth of our investment portfolio, which consists of available-for-sale and held-to-maturity securities and the recognition of goodwill associated with our acquisitions of Sterne and Barclays. Our broker-dealer subsidiary's gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of December 31, 2015, our liabilities were comprised primarily of senior notes of \$750.0 million, trust preferred securities of \$82.5 million, deposits of \$6.64 billion at Stifel Bank, and payables to customers of \$1.0 billion at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, and accrued employee compensation of \$712.8 million. To meet our obligations to clients and operating needs, we had \$811.0 million in cash and cash equivalents at December 31, 2015. We also had client brokerage receivables of \$1.6 billion at Stifel and \$3.1 billion in loans held for investment at Stifel Bank.

Cash Flow

Cash and cash equivalents increased \$121.2 million to \$811.0 million at December 31, 2015, from \$689.8 million at December 31, 2014. Operating activities used cash of \$326.7 million primarily due to an increase in operating assets, offset by an increase in operating liabilities, the net effect of non-cash items, and net income recognized in 2015. Investing activities used cash of \$2.0 billion due to an increase in our loan portfolio purchases of our available-for-sale and held-to-maturity securities as part of the investment strategy at Stifel Bank, acquisitions, net of acquired cash, purchases of investment securities, and fixed asset purchases, partially offset by proceeds from the maturity of available-for-sale securities, sale of investments, and bank customer loan repayments. Financing activities provided cash of \$2.4 billion primarily due to an increase in affiliated deposits and the proceeds from our \$300.0 million senior note issuance in December 2015, offset by repayments of our short-term borrowings, redemption of our \$175.0 million 6.79% senior notes in January 2015, and purchases of our common stock into treasury.

Liquidity and Capital Resources

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

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

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

As of December 31, 2015, we had \$13.3 billion in assets, \$5.9 billion of which consisted of cash or assets readily convertible into cash as follows (in thousands, except average days to conversion):

	December 31,		Average
	2015	2014	Conversion
Cash and cash equivalents	\$811,019	\$689,782	
Receivables from brokers, dealers, and clearing organizations	601,831	651,074	3 days
Securities purchased under agreements to resell	160,423	55,078	1 day
Financial instruments owned at fair value	747,348	782,912	5 days
Available-for-sale securities at fair value	1,629,907	1,513,478	3 days
Held-to-maturity securities at amortized cost	1,855,399	1,177,565	10 days
Investments	103,357	131,425	5 days
Total cash and assets readily convertible to cash	\$5,909,284	\$5,001,314	

As of December 31, 2015 and 2014, the amount of collateral by asset class is as follows (in thousands):

	December 31, 2015		December 31, 2014	
	Contractual	Contingent	Contractual	Contingent
Cash and cash equivalents	\$39,324	\$—	\$37,134	\$—
Financial instruments owned at fair value	278,674	508,538	39,180	425,108
Available-for-sale securities at fair value	—	2,032,503	—	1,210,193
Investments	—	35,688	—	41,150
	\$317,998	\$2,576,729	\$76,314	\$1,676,451

Liquidity Available from Subsidiaries

Liquidity is principally available to our company from Stifel and Stifel Bank.

Stifel is required to maintain net capital equal to the greater of \$1 million or 2% of aggregate debit items arising from client transactions. Covenants in Stifel's committed secured financing facilities require its net capital to be a minimum of 7% of aggregate debit items. At December 31, 2015, Stifel significantly exceeded both the minimum regulatory and its financing covenants net capital requirements. At that date, Stifel had excess net capital of \$279.3 million. There are also limitations on the amount of dividends that may be declared by a broker-dealer without FINRA approval.

Stifel Bank may pay dividends to the parent company without prior approval by its regulator as long as the dividend does not exceed the sum of Stifel Bank's current calendar year and the previous two calendar years' retained net income, and Stifel Bank maintains its targeted capital to risk-weighted assets ratios. At December 31, 2015, Stifel Bank had \$59.0 million of capital in excess of the amount it would need at December 31, 2015 to maintain its targeted risk-weighted assets ratio of 7.0%.

Although we have liquidity available to us from our other subsidiaries, the available amounts are not as significant as the amounts described above, and in certain instances may be subject to regulatory requirements.

Capital Management

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At December 31, 2015, the maximum number of shares that may yet be purchased under this plan was 5.8 million. We utilize the share repurchase program to manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. We currently do not pay cash dividends on our common stock.

Liquidity Risk Management

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

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

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

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

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

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

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

objectives of these policies are to support the successful execution of our business strategies while ensuring ongoing and sufficient liquidity.

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

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

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

At December 31, 2015, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its liquidity stress test model.

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

Under all stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers agency mortgage-backed securities, corporate bonds, and commercial mortgage-backed securities as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At December 31, 2015, available cash and highly liquid investments comprised approximately 27% of Stifel Bank’s assets, which was well in excess of its internal target.

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

Funding Sources

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, FHLB advances, and federal funds agreements. At December 31, 2015, we have \$57.0 million of ARS. Any redemptions by issuers of the ARS will create

liquidity during the period in which the redemption occurs. ARS redemptions have been at par, and we believe will continue to be at or near par.

Cash and Cash Equivalents – We held \$811.0 million of cash and cash equivalents at December 31, 2015, compared to \$689.8 million at December 31, 2014. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

Securities Available-for-Sale – We held \$1.63 billion in available-for-sale investment securities at December 31, 2015, compared to \$1.51 billion at December 31, 2014. As of December 31, 2015, the weighted-average life of the investment securities portfolio was approximately 2.2 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements.

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

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

As of December 31, 2015, we had \$6.64 billion in deposits compared to \$4.79 billion at December 31, 2014. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

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

Our uncommitted secured lines of credit at December 31, 2015, totaled \$980.0 million with seven banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was \$496.5 million during the year ended December 31, 2015. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are day-to-day and are generally utilized to finance certain fixed income securities. At December 31, 2015, our uncommitted secured lines of credit were collateralized by company-owned securities valued at \$248.5 million.

The Federal Home Loan advances as of December 31, 2015 are floating-rate advances. The weighted average interest rates during the year ended December 31, 2015 on these advances is 0.31%. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

As of December 31, 2015, a subsidiary of the Parent was a party to two Term Loans ("Term Loans") with Regions Bank. The Term Loans mature on June 3, 2016. The interest rate under the Amended and Restated Credit Agreement is calculated as per annum rate equal to LIBOR, as defined. During the year ended December 31, 2015, interest rates

ranged from 1.68% to 1.92%.

Unsecured short-term borrowings – Our committed short-term bank line financing at December 31, 2015, consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to LIBOR plus 2.00%, as defined in the revolving credit facility.

We can draw upon this line as long as certain restrictive covenants are maintained. Under our revolving credit facility, we are required to maintain compliance with a minimum consolidated tangible net worth covenant, as defined, and a maximum consolidated total capitalization ratio covenant, as defined. At December 31, 2015, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency, and judgment defaults. In addition, Stifel, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory net capital covenant of not less than 10% of aggregate debits, as defined in the revolving credit facility.

Federal Home Loan Bank Advances and other secured financing – Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$1.23 billion at December 31, 2015, and a \$25.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. At December 31, 2015, outstanding FHLB advances were \$148.0 million. Stifel Bank receives overnight funds from excess cash held in Stifel brokerage accounts, which are deposited into a money market account. These balances totaled \$6.6 billion at December 31, 2015.

Public Offering of Senior Notes – On January 18, 2012, we issued \$175.0 million principal amount of 6.70% Senior Notes due 2022 (the “Notes”). Interest on the Notes accrue from January 23, 2012, and will be paid quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, commencing on April 15, 2012. The Notes will mature on January 15, 2022. Proceeds from the notes issuance of \$169.3 million, after discounts, commissions, and expenses, were used for general corporate purposes. In January 2012, we received an initial credit rating from Standard & Poor’s Financial Services LLC of BBB-, along with a BBB- rating on the notes. We redeemed 100% of the outstanding Notes on January 15, 2015, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption.

On December 18, 2012, we issued \$150.0 million principal amount of 5.375% Senior Notes due 2022 (the “December 2012 Notes”). Interest on the December 2012 Notes accrue from December 21, 2012, and will be paid quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, commencing on April 15, 2013. The December 2012 Notes mature on December 31, 2022. We may redeem the December 2012 Notes in whole or in part on or after December 31, 2015, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from the December 2012 Notes issuance of \$146.1 million, after discounts, commissions, and expenses, were used for general corporate purposes. In January 2013, we received a BBB- rating on the December 2012 Notes.

On July 15, 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024 (the “2014 Notes”). Interest on the 2014 Notes is payable semi-annually in arrears. We may redeem the 2014 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. Proceeds from the 2014 Notes issuance of \$295.3 million, after discounts, commissions, and expenses, were used for general corporate purposes. In July 2014, we received a BBB- rating on the 2014 Notes.

On December 1, 2015, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 3.50% senior notes due December 2020 (the “2015 Notes”). Interest on the 2015 Notes is payable semi-annually in arrears. We may redeem the 2015 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption. Proceeds from the 2015 Notes issuance of \$297.0 million, after discounts, commissions, and expenses, were used for general corporate purposes. In December 2015, we received a BBB- rating on the 2015 Notes.

Credit Rating

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

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

Use of Capital Resources – On January 15, 2015 (the “redemption date”), we redeemed 100% of our company’s outstanding 6.70% Senior Notes due 2022. The redemption price was equal to the sum of the principal amount of the Notes outstanding and accrued and unpaid interest on the Notes up to, but not including, the redemption date.

On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee Group, Inc. (“Sterne Agee”), a financial services firm that offers comprehensive wealth management and investment services to a diverse client base including corporations, municipalities and individual investors. The purchase was completed pursuant to the merger agreement dated February 23, 2015. We issued 1.4 million shares related to the purchase of Sterne Agee Group, Inc.

We have paid \$33.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

On December 4, 2015, we completed the purchase of the Barclays' Wealth and Investment Management ("Barclays"), Americas franchise in the U.S. Under the agreement, we acquired approximately \$2.1 billion of assets, including securities-based loans, margin loans, and broker-notes. Acquired assets were recorded at fair value. The fair values for loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms.

During the year ended December 31, 2015, we repurchased \$117.7 million, or 2.7 million shares, at an average price of \$43.91 per share.

The following table summarizes the activity related to our company's note receivable from January 1, 2014 to December 31, 2015 (in thousands):

	2015	2014
Beginning balance – January 1	\$197,757	\$184,458
Notes issued – organic growth	66,045	70,871
Notes issued – acquisitions ¹	174,846	10,830
Amortization	(53,913)	(64,735)
Other	16,558	(3,667)
Ending balance – December 31	\$401,293	\$197,757

¹ Notes issued in conjunction with the acquisitions of 1919 Investment Counsel in 2014 and Sterne and Barclays in 2015.

² Includes approximately \$74 million in notes assumed from the acquisitions of Sterne and Barclays in 2015.

We have paid \$66.0 million in the form of upfront notes to financial advisors for transition pay during the year ended December 31, 2015. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may decide to devote more significant resources to attracting and retaining qualified personnel. In addition, we have paid \$174.8 million in the form of notes to associates of acquired companies for retention during the year ended December 31, 2015.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors' trailing production and assets under management. These notes are generally forgiven over a five- to ten-year period based on production. The future estimated amortization expense of the upfront notes, assuming current-year production levels and static growth for the years ended December 31, 2016, 2017, 2018, 2019, 2020, and thereafter are \$56.1 million, \$43.5 million, \$35.7 million, \$28.7 million, and \$49.9 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards, stock units, and debentures to our employees. Historically, we have granted stock units to our employees as part of our retention program. A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee

and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units generally vest over the next one to eight years after issuance and are distributed at predetermined future payable dates once vesting occurs. At December 31, 2015, the total number of stock units outstanding was 18.5 million, of which 12.3 million were unvested. At December 31, 2015, there was unrecognized compensation cost for stock units of approximately \$319 million, which is expected to be recognized over a weighted-average period of 3.3 years. In the first quarter of 2016, the Company finalized the service terms for the approximately 2.0 million restricted stock units granted in connection with the Barclays transaction. The Company expects to expense approximately \$50.0 million in the first quarter of 2016, related to the majority of those awards.

Net Capital Requirements – We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse effect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the

principal of our debt, and/or repurchase our common stock. Our non-broker-dealer subsidiary, Stifel Bank, is also subject to various regulatory capital requirements administered by the federal banking agencies. Our broker-dealer subsidiaries and Stifel Bank have consistently operated in excess of their capital adequacy requirements.

At December 31, 2015, Stifel had net capital of \$310.1 million, which was 20.2% of aggregate debit items and \$279.3 million in excess of its minimum required net capital. At December 31, 2015, all of our broker dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule. At December 31, 2015, SNEI's capital and reserves were in excess of the financial resources requirement under the rules of the FCA. At December 31, 2015, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 20 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

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

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

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

Valuation of Financial Instruments

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

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

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

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

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

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term, and the differences could be material.

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

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

Investments in Partnerships

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. These interests are carried at estimated fair value. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The underlying investments held by such partnerships and direct investments in non-public companies are valued based on estimated fair value ultimately determined by us in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a ready market existed for these investments, and the differences could be material. Increases and decreases in estimated fair value are recorded based on underlying information of these non-public company investments, including third-party transactions evidencing a change in value, market comparable, operating cash flows and financial performance of the companies, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and specific rights or terms associated with the investment, such as conversion features and liquidation preferences. In cases where an estimate of fair value is determined based on financial statements prepared by an unaffiliated general partner, such financial statements are generally unaudited other than audited year-end financial statements. Upon receipt of audited financial statements from an investment partnership, we adjust the fair value of the investments to reflect the audited partnership results if they differ from initial estimates. We also perform procedures to evaluate fair value estimates provided by unaffiliated general

partners. At December 31, 2015, we had commitments to invest in affiliated and unaffiliated investment partnerships of \$11.4 million. These commitments are generally called as investment opportunities are identified by the underlying partnerships. These commitments may be called in full at any time.

The investment partnerships in which we are general partner may allocate carried interest and make carried interest distributions, which represent an additional allocation of net realized and unrealized gains to the general partner if the partnerships' investment performance reaches a threshold as defined in the respective partnership agreements. These allocations are recognized in revenue as realized and unrealized gains and losses on investments in partnerships. Our recognition of allocations of carried interest gains and losses from the investment partnerships in revenue is not adjusted to reflect expectations about future performance of the partnerships.

As the investment partnerships realize proceeds from the sale of their investments, they may make cash distributions as provided for in the partnership agreements. Distributions that result from carried interest may subsequently become subject to claw back if the fair value of private equity partnership assets subsequently decreases in fair value. To the extent these decreases in fair value and allocated losses exceed our capital account balance, a liability is recorded by us. These liabilities for claw back obligations are not required to be

paid to the investment partnerships until the dissolution of such partnerships, and are only required to be paid if the cumulative amounts actually distributed exceed the amount due based on the cumulative operating results of the partnerships.

We earn fees from the investment partnerships that we manage or of which we are a general partner. Such management fees are generally based on the net assets or committed capital of the underlying partnerships. We have agreed, in certain cases, to waive management fees, in lieu of making a cash contribution, in satisfaction of our general partner investment commitments to the investment partnerships. In these cases, we generally recognize our management fee revenues at the time when we are allocated a special profit interest in realized gains from these partnerships.

Contingencies

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

Allowance for Loan Losses

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

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

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

loan loss.

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

Derivative Instruments and Hedging Activities

Our derivative instruments are carried on the consolidated statement of financial condition at fair value. We utilize these derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, "Derivatives and Hedging." Ongoing effectiveness evaluations

are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

Income Taxes

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

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

Goodwill and Intangible Assets

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

Goodwill for certain acquisitions is deductible for tax purposes. The amortization of goodwill for tax purposes creates a cash tax savings due to a reduction in the current taxes payable. We have recorded cash tax savings for the year ending December 31, 2015 of \$6.7 million, and anticipate cumulative future cash savings of \$72.7 million as of result of the tax amortization of goodwill.

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

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

likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. Our annual goodwill impairment testing was completed as of July 31, 2015, with no impairment identified.

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

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

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 23 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Dilution

As of December 31, 2015, there were 81,711 shares of our common stock issuable on outstanding options, with an average-weighted exercise price of \$39.88, and 18,505,282 outstanding stock unit grants, with each unit representing the right to receive shares of our common stock at a designated time in the future. The restricted stock units generally vest over the next one to eight years after issuance and are distributed at predetermined future payable dates once vesting occurs. Of the outstanding restricted stock unit awards, 4,236,956 shares are currently vested and 14,268,326 are unvested. Assuming vesting requirements are met, the Company anticipates that 2,846,259 shares under these awards will be distributed in 2016, 3,221,639 will vest in 2017, 2,807,950 will vest in 2018, and the balance of 5,392,478 will be distributed thereafter.

An employee will realize income as a result of an award of stock units at the time shares are distributed in an amount equal to the fair market value of the shares at that time, and we are entitled to a corresponding tax deduction in the year of issuance. Unless an employee elects to satisfy the withholding in another manner, either by paying the amount in cash or by delivering shares of Stifel Financial Corp. common stock already owned by the individual for at least six months, we may satisfy tax withholding obligations on income associated with the grants by reducing the number of shares otherwise deliverable in connection with the awards. The reduction will be calculated based on a current market price of our common stock. Based on current tax law, we anticipate that the shares issued when the awards are paid to the employees will be reduced by approximately 35% to satisfy the minimum withholding obligations, so that approximately 65% of the total restricted stock units that are distributable in any particular year will be converted into issued and outstanding shares.

It has been our practice historically to satisfy almost all tax withholding obligations on income associated with the grants by reducing the number of shares otherwise deliverable in connection with the awards. We anticipate that practice will continue as recently our Compensation Committee made a determination to satisfy tax withholding obligations through the cancellation of shares subject to an award. In addition, the plan pursuant to which we issue restricted stock units permits us to elect to settle certain awards entirely in cash and we may elect to do so as those awards vest and become deliverable. Accordingly, we anticipate that fewer than 65% of restricted stock units that vest and become deliverable will become issued and outstanding shares.

Contractual Obligations

The following table sets forth our contractual obligations to make future payments as of December 31, 2015 (in thousands):

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	Total	2016	2017	2018	2019	2020	Thereafter
Senior notes ¹	\$750,000	\$—	\$—	\$—	\$—	\$300,000	\$450,000
Interest on senior notes	216,440	31,313	31,313	31,313	31,313	30,438	60,750
Debenture to Stifel Financial Capital Trusts ²	82,500	-	-	-	-	-	82,500
Interest on debenture	33,990	1,632	1,632	1,632	1,632	1,632	25,830
Operating leases	520,464	92,653	81,987	73,844	68,666	54,119	149,195
Commitments to extend credit – Stifel Bank ³	572,469	178,019	46,858	120,658	98,460	70,517	57,957
Earn-out payments ⁴	45,847	28,530	9,534	5,561	2,078	144	-
Commitments to fund partnership interests	11,370	11,370	-	-	-	-	-
Commitments to fund BDCs	14,178	14,178	-	-	-	-	-
Certificates of deposit	15,087	10,327	2,669	1,662	429	-	-
	\$2,262,345	\$368,022	\$173,993	\$234,670	\$202,578	\$456,850	\$826,232

¹ See Note 13 of the Notes to the Consolidated Financial Statements for further discussion of our Senior Notes.

² See Note 16 of the Notes to the Consolidated Financial Statements for further discussion of our Capital Trusts.

68

³Commitments to extend credit include commitments to originate loans, outstanding standby letters of credit, and lines of credit which may expire without being funded and, as such, do not represent estimates of future cash flow.

⁴Information concerning our acquisitions is included in Note 3 of the Notes to the Consolidated Financial Statements. Such information is hereby incorporated by reference.

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of December 31, 2015, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, \$1.9 million of unrecognized tax benefits have been excluded from the contractual obligation table above. See Note 24 to the consolidated financial statements for a discussion of income taxes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment, monitoring, and control of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, capital and liquidity, operational, and regulatory and legal. We have adopted policies and procedures concerning risk management, and our Board of Directors, in exercising its oversight of management's activities, conducts periodic reviews and discussions with management regarding the guidelines and policies governing the processes by which risk assessment and risk management are handled.

Market Risk

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

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

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

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

aging, pricing, concentration, and securities ratings.

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

Interest Rate Risk

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

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

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

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the year ended December 31, 2015, and the daily VaR at December 31, 2015 and 2014 (in thousands):

December 31, 2015			VaR Calculation at December 31,		
Daily					
	High	Low	Average	2015	2014
Daily VaR	\$5,820	\$3,620	\$4,897	\$ 3,620	\$ 3,340

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

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

The following table illustrates the estimated change in net interest margin at December 31, 2015, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Projected Change	
in Net	
Hypothetical Change	Interest
in Interest Rates	Margin
+200	8.9 %
+100	4.6
0	—

-100	(19.7)
-200	(39.8)

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at December 31, 2015 (in thousands):

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

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
Interest-earning assets:				
Loans	\$2,585,695	\$450,833	\$342,723	\$106,287
Securities	1,801,944	91,842	901,444	700,491
Interest-bearing cash	163,461	—	—	—
	\$4,551,100	\$542,675	\$1,244,167	\$806,778
Interest-bearing liabilities:				
Transaction accounts and savings	\$5,882,303	\$126,180	\$602,686	\$12,981
Certificates of deposit	5,748	4,581	4,760	—
Borrowings	148,000	—	—	16,527
	\$6,036,051	\$130,761	\$607,446	\$29,508
GAP	(1,484,951)	411,914	636,721	777,270
Cumulative GAP	\$(1,484,951)	\$(1,073,037)	\$(436,316)	\$340,954

Equity Price Risk

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

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

Credit Risk

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2015, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.0 billion and the fair value of the collateral that had been sold or repledged was \$278.7 million.

By using derivative instruments, we are exposed to credit and market risk on those derivative positions. Credit risk is equal to the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a

repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

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

ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures, including frequency and scope.

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

Operational Risk

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

Regulatory and Legal Risk

Legal risk includes the risk of large numbers of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under “Critical Accounting Policies and Estimates” in Item 7, Part II and “Legal Proceedings” in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. When acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Effects of Inflation

Our assets are primarily monetary, consisting of cash, securities inventory, and receivables from customers and brokers and dealers. These monetary assets are generally liquid and turn over rapidly and, consequently, are not significantly affected by inflation. However, the rate of inflation affects various expenses of our company, such as employee compensation and benefits, communications and office supplies, and occupancy and equipment rental, which may not be readily recoverable in the price of services we offer to our clients. Further, to the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	74
<u>Consolidated Statements of Financial Condition</u>	75
<u>Consolidated Statements of Operations</u>	77
<u>Consolidated Statements of Comprehensive Income</u>	78
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	79
<u>Consolidated Statements of Cash Flows</u>	81
<u>Notes to Consolidated Financial Statements</u>	84
<u>Note 1 Nature of Operations and Basis of Presentation</u>	84
<u>Note 2 Summary of Significant Accounting Policies</u>	85
<u>Note 3 Acquisitions</u>	92
<u>Note 4 Discontinued Operations</u>	96
<u>Note 5 Receivables From and Payables to Brokers, Dealers, and Clearing Organizations</u>	96
<u>Note 6 Fair Value Measurements</u>	96
<u>Note 7 Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased</u>	106
<u>Note 8 Available-for-Sale and Held-to-Maturity Securities</u>	107
<u>Note 9 Bank Loans</u>	109
<u>Note 10 Fixed Assets</u>	115
<u>Note 11 Goodwill and Intangible Assets</u>	115
<u>Note 12 Short-Term Borrowings</u>	116
<u>Note 13 Senior Notes</u>	117
<u>Note 14 Bank Deposits</u>	117
<u>Note 15 Derivative Instruments and Hedging Activities</u>	118
<u>Note 16 Debentures to Stifel Financial Capital Trusts</u>	120
<u>Note 17 Disclosures About Offsetting Assets and Liabilities</u>	121
<u>Note 18 Commitments, Guarantees, and Contingencies</u>	122
<u>Note 19 Legal Proceedings</u>	122
<u>Note 20 Regulatory Capital Requirements</u>	124
<u>Note 21 Interest Income and Interest Expense</u>	125
<u>Note 22 Employee Incentive, Deferred Compensation, and Retirement Plans</u>	125
<u>Note 23 Off-Balance Sheet Credit Risk</u>	127
<u>Note 24 Income Taxes</u>	128
<u>Note 25 Segment Reporting</u>	130
<u>Note 26 Earnings Per Share</u>	131
<u>Note 27 Shareholders' Equity</u>	132
<u>Note 28 Variable Interest Entities</u>	133
<u>Note 29 Subsequent Events</u>	134
<u>Note 30 Quarterly Financial Information (Unaudited)</u>	134

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Stifel Financial Corp.

We have audited the accompanying consolidated statements of financial condition of Stifel Financial Corp. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stifel Financial Corp. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stifel Financial Corp.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

March 1, 2016

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	December 31,	
	2015	2014
Assets		
Cash and cash equivalents	\$811,019	\$689,782
Cash segregated for regulatory purposes	227,727	49,646
Receivables:		
Brokerage clients, net	1,599,218	483,887
Brokers, dealers, and clearing organizations	601,831	651,074
Securities purchased under agreements to resell	160,423	55,078
Financial instruments owned, at fair value	749,443	786,855
Available-for-sale securities, at fair value	1,629,907	1,513,478
Held-to-maturity securities, at amortized cost	1,855,399	1,177,565
Loans held for sale, at lower of cost or market	189,921	121,939
Bank loans, net of allowance	3,143,515	2,065,420
Investments, at fair value	181,017	210,255
Fixed assets, net	181,966	124,246
Goodwill	915,602	795,026
Intangible assets, net	63,177	54,563
Loans and advances to financial advisors and other employees, net	401,293	197,757
Deferred tax assets, net	285,127	258,142
Other assets	339,330	283,438
Total Assets	13,335,915	9,518,151

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	December 31,	
	2015	2014
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	\$1,000,422	\$321,496
Brokers, dealers, and clearing organizations	438,031	14,023
Drafts	183,857	75,198
Securities sold under agreements to repurchase	278,674	39,180
Bank deposits	6,638,356	4,790,081
Financial instruments sold, but not yet purchased, at fair value	521,744	587,265
Accrued compensation	363,791	359,050
Accounts payable and accrued expenses	349,040	302,320
Borrowings	237,084	—
Senior notes	750,000	625,000
Debentures to Stifel Financial Capital Trusts	82,500	82,500
Total liabilities	10,843,499	7,196,113
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - \$0.15 par value; authorized 97,000,000 shares;		
issued 69,507,842 and 66,336,018 shares, respectively	10,426	9,950
Additional paid-in-capital	1,820,772	1,634,114
Retained earnings	805,685	716,305
Accumulated other comprehensive income	(39,533)	(38,331)
	2,597,350	2,322,038
Treasury stock, at cost, 2,483,071 and 5 shares, respectively	(104,934)	—
Total Shareholders' Equity	2,492,416	2,322,038
Total Liabilities and Shareholders' Equity	\$13,335,915	\$9,518,151

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Commissions	\$749,536	\$674,418	\$640,287
Principal transactions	389,319	409,823	408,954
Investment banking	503,052	578,689	457,736
Asset management and service fees	493,761	386,001	305,639
Interest	179,101	185,969	142,539
Other income	62,224	14,785	64,659
Total revenues	2,376,993	2,249,685	2,019,814
Interest expense	45,399	41,261	46,368
Net revenues	2,331,594	2,208,424	1,973,446
Non-interest expenses:			
Compensation and benefits	1,568,862	1,403,932	1,311,386
Occupancy and equipment rental	207,465	169,040	158,268
Communications and office supplies	130,678	106,926	99,726
Commissions and floor brokerage	42,518	36,555	37,225
Other operating expenses	240,504	201,177	181,612
Total non-interest expenses	2,190,027	1,917,630	1,788,217
Income from continuing operations before			
income tax expense	141,567	290,794	185,229
Provision for income taxes	49,231	111,664	12,322
Income from continuing operations	\$92,336	\$179,130	\$172,907
Discontinued operations:			
Loss from discontinued operations, net of tax	—	(3,063)	(10,894)
Net income	\$92,336	\$176,067	\$162,013
Earnings per basic common share			
Income from continuing operations	\$1.35	\$2.69	\$2.72
Income from discontinued operations	—	(0.04)	(0.17)
Earnings per basic common share	\$1.35	\$2.65	\$2.55
Earnings per diluted common share			
Income from continuing operations	\$1.18	\$2.35	\$2.35
Income from discontinued operations	—	(0.04)	(0.15)
Earnings per diluted common share	\$1.18	\$2.31	\$2.20
Weighted-average number of common			
shares outstanding:			
Basic	68,543	66,472	63,568
Diluted	78,554	76,376	73,504

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Year Ended December 31,		
	2015	2014	2013
Net income	\$92,336	\$176,067	\$162,013
Other comprehensive income:			
Changes in unrealized gains/(losses) on			
available-for-sale securities ^{1, 2}	1,389	1,838	(48,528)
Changes in unrealized gains on cash flow hedging			
instruments, net of tax ³	1,088	2,141	6,917
Foreign currency translation adjustment, net of tax	(3,679)	(7,280)	1,663
	(1,202)	(3,301)	(39,948)
Comprehensive income	\$91,134	\$172,766	\$122,065

¹ Net of taxes of \$0.7 million, \$2.1 million, and \$24.9 million for the years ended December 31, 2015, 2014, and 2013, respectively.

² Amounts are net of reclassifications to earnings of realized gains of \$2.1 million, \$2.3 million, and \$1.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

³ Amounts are net of reclassifications to earnings of losses of \$3.8 million, \$6.1 million, and \$8.6 million for the years ended December 31, 2015, 2014, and 2013, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Changes in Shareholders' Equity

							Unearned	
							Employee	
			Additional		Accumulated	Treasury	Stock	
					Other	Stock,	Ownership	
(in thousands)	Common Stock	Paid-In	Retained	Comprehensive	At	Plan	Total	
	Shares	Amount	Capital	Earnings	Income/(Loss)	Cost		
Balance at December 31, 2012	54,968	\$ 8,245	\$ 1,100,137	\$ 383,970	\$ 4,918	\$ (2,505)	\$ (104)	\$ 1,494,661
Net income	—	—	—	162,013	—	—	—	162,013
Unrealized gain on securities, net of tax	—	—	—	—	(48,528)	—	—	(48,528)
Unrealized loss on cash flow hedging activities, net of tax	—	—	—	—	6,917	—	—	6,917
Foreign currency translation adjustment, net of tax	—	—	—	—	1,663	—	—	1,663
Purchase of treasury stock	—	—	—	—	—	(13,670)	—	(13,670)
Employee stock ownership plan purchases	—	—	715	—	—	—	104	819
Issuance of stock for employee benefit plans	1,774	266	(68,897)	(5,074)	—	13,913	—	(59,792)
Stock option exercises	28	5	(1,552)	—	—	2,198	—	651
Unit amortization	—	—	148,215	—	—	—	—	148,215
Excess tax benefit from	—	—	12,018	—	—	—	—	12,018

stock-based								
compensation								
Issuance of common stock for acquisitions	6,887	1,033	264,033	—	—	—	—	265,066
Issuance of restricted stock awards for								
acquisitions	—	—	86,221	—	—	—	—	86,221
Stone & Youngberg contingent earn-out	87	13	3,253	—	—	—	—	3,266
Other	—	—	—	(671)	—	—	—	(671)
Balance at December 31, 2013	63,744	\$9,562	\$1,544,143	\$540,238	\$(35,030)	\$(64)	\$ -	\$2,058,849
Net income	—	—	—	176,067	—	—	—	176,067
Unrealized gain on securities, net								
of tax	—	—	—	—	1,838	—	—	1,838
Unrealized gain on cash flow hedging								
activities, net of tax	—	—	—	—	2,141	—	—	2,141
Foreign currency translation								
adjustment, net of tax	—	—	—	—	(7,280)	—	—	(7,280)
Issuance of stock for employee								
benefit plans	2,158	324	(67,653)	—	—	64	—	(67,265)
Stock option exercises	33	4	312	—	—	—	—	316
Unit amortization	—	—	118,271	—	—	—	—	118,271
Excess tax benefit from stock-based	—	—	19,858	—	—	—	—	19,858

compensation

Issuance of
common stock
for

acquisitions	401	60	19,183	—	—	—	—	19,243
Balance at December 31, 2014	66,336	\$9,950	\$1,634,114	\$716,305	\$(38,331)	\$-	\$-	\$2,322,038

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Changes in Shareholders' Equity (continued)

			Additional		Accumulated	Unearned		
	Common Stock		Paid-In	Retained	Other	Treasury	Employee	
(in thousands)	Shares	Amount	Capital	Earnings	Comprehensive	Stock, At	Ownership	
					Income/(Loss)	Cost	Plan	Total
Balance at December 31, 2014	66,336	\$9,950	\$1,634,114	\$716,305	\$ (38,331)	\$-	\$ —	\$2,322,038
Net income	—	—	—	92,336	—	—	—	92,336
Unrealized gain on securities, net								
of tax	—	—	—	—	1,389	—	—	1,389
Unrealized gain on cash flow hedging								
activities, net of tax	—	—	—	—	1,088	—	—	1,088
Foreign currency translation								
adjustment, net of tax	—	—	—	—	(3,679)	—	—	(3,679)
Issuance of stock for employee								
benefit plans	1,754	263	(75,126)	(2,956)	—	11,819	—	(66,000)
Stock option exercises	17	3	(342)	—	—	999	—	660
Unit amortization	—	—	167,848	—	—	—	—	167,848
Excess tax benefit from stock-based								
compensation	—	—	14,741	—	—	—	—	14,741
Purchase of treasury stock						(117,752)		(117,752)

Issuance of
common stock
for

acquisitions	1,400	210	79,537	—	—	—	—	79,747
Balance at December 31, 2015	69,507	\$ 10,426	\$ 1,820,772	\$ 805,685	\$ (39,533)	\$ (104,934)	\$ -	\$ 2,492,416

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31,		
	2015	2014	2013
Cash Flows From Operating Activities:			
Net income	\$92,336	\$176,067	\$162,013
Adjustments to reconcile net income to net cash provided by/(used in)			
operating activities:			
Depreciation and amortization	36,715	29,280	33,988
Amortization of loans and advances to financial advisors and other			
employees	53,913	64,735	64,930
Amortization of premium on investment portfolio	2,750	5,847	8,321
Provision for loan losses and allowance for loans and advances to			
financial advisors and other employees	14,694	9,713	10,618
Amortization of intangible assets	10,423	12,366	12,131
Deferred income taxes	(2,578)	5,256	(26,389)
Excess tax benefits from stock-based compensation	(14,741)	(19,858)	(12,018)
Stock-based compensation	165,641	94,006	137,447
Losses on sale of investments	9,255	22	13,319
Gain on acquisition	—	—	(7,566)
Other, net	(13,159)	(9,778)	(3,640)
Decrease/(increase) in operating assets, net of assets acquired:			
Cash segregated for regulatory purposes	(178,081)	(45,343)	128,142
Receivables:			
Brokerage clients, net	(1,003,257)	58,917	(42,627)
Brokers, dealers, and clearing organizations	82,960	(263,391)	(30,634)
Securities purchased under agreements to resell	(105,345)	169,997	(66,380)
Financial instruments owned, including those pledged	90,716	26,280	70,053
Loans originated as held for sale	(1,855,714)	(1,132,671)	(1,275,647)
Proceeds from mortgages held for sale	1,814,168	1,112,318	1,372,552
Loans and advances to financial advisors and other employees	(187,234)	(79,216)	(71,857)
Other assets	47,990	(2,509)	79,662
Increase/(decrease) in operating liabilities, net of liabilities assumed:			
Payables:			
Brokerage clients	678,926	2,554	23,433
Brokers, dealers, and clearing organizations	98,301	(8,198)	3,976
Drafts	108,659	488	(15,723)
Financial instruments sold, but not yet purchased	(65,521)	106,051	85,127
Other liabilities and accrued expenses	(261,326)	(62,664)	48,988
Net cash provided by/(used in) operating activities	\$(379,509)	\$250,269	\$702,219

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(in thousands)	Year Ended December 31,		
	2015	2014	2013
Cash Flows From Investing Activities:			
Proceeds from:			
Maturities, calls, sales, and principal paydowns of			
available-for-sale securities	\$866,899	\$698,895	\$435,827
Calls and principal paydowns of held-to-maturity			
securities	126,258	96,618	93,703
Sale or maturity of investments	65,320	60,428	90,265
Sale of aircraft	—	—	45,951
Sale of other real estate owned	—	131	373
Sale of bank foreclosed assets	75	—	—
Increase in bank loans, net	(517,563)	(668,354)	(249,018)
Payments for:			
Purchase of available-for-sale securities	(991,954)	(416,851)	(1,314,290)
Purchase of held-to-maturity securities	(802,668)	(7,959)	(16,438)
Purchase of investments	(45,151)	(48,834)	(71,777)
Purchase of fixed assets	(69,822)	(26,632)	(32,278)
Acquisitions, net of cash acquired	(604,659)	(80,378)	(88,592)
Net cash used in investing activities	(1,973,265)	(392,936)	(1,106,274)
Cash Flows from Financing Activities:			
Repayments of short-term borrowings	(126,637)	(55,700)	(249,000)
Proceeds from issuance of senior notes, net	297,042	295,638	—
Increase/(decrease) in securities sold under agreements to			
repurchase	239,494	(224,629)	123,463
Increase in bank deposits, net	1,848,275	126,758	881,794
Increase/(decrease) in securities loaned	325,707	(35,914)	20,948
Excess tax benefits from stock-based compensation	14,741	19,858	12,018
Issuance of common stock for stock option exercises	660	317	650
Proceeds from advances from the Federal Home Loan Bank	148,000	—	—
Repurchase of common stock	(117,752)	—	(13,670)
Repayment of non-recourse debt	—	—	(58,992)
Repayment of Senior Notes	(175,000)	—	—
Contingent consideration	(29,598)	—	—
Extinguishment of subordinated debt	—	(3,131)	(2,187)
Net cash provided by financing activities	2,424,932	123,197	715,024
Effect of exchange rate changes on cash	(3,601)	(7,308)	1,650
Increase/(decrease) in cash and cash equivalents	121,237	(26,778)	312,619
Cash and cash equivalents at beginning of year	689,782	716,560	403,941
Cash and cash equivalents at end of year	\$811,019	\$689,782	\$716,560

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(in thousands)	Year Ended December 31,		
	2015	2014	2013
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$41,801	\$40,471	\$46,360
Cash paid for income taxes, net of refunds	59,356	107,009	5,803
Noncash investing and financing activities:			
Unit grants, net of forfeitures	\$267,769	\$190,003	\$228,230
Issuance of common stock for acquisitions	80,981	19,183	265,066
Shares surrendered into treasury	223	—	—
Stone & Youngberg contingent earn-out	—	—	3,266

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

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

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

Consolidation Policies

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities, we evaluate whether the entity is a voting interest entity or a variable interest entity (“VIE”).

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently, and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity’s activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting

interest.

Variable Interest Entity. VIEs are entities that lack one or more of the characteristics of a voting interest entity. We are required to consolidate certain VIEs in which we have the power to direct the activities of the entity and the obligation to absorb significant losses or receive significant benefits. In other cases, we consolidate VIEs when we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that maintains control and receives benefits or will absorb losses that are not pro rata with its ownership interests.

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. With the exception of entities eligible for the deferral codified in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds" ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's control structure, expected benefits and losses, and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb benefits or losses, variability, related party relationships, and the design of the VIE. Where a qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events. See Note 28 for additional information on VIEs.

NOTE 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider money market mutual funds and highly liquid investments with original maturities of three months or less that are not restricted or segregated to be cash equivalents. Cash and cash equivalents include money market mutual funds, deposits with banks, certificates of deposit, and federal funds sold. Cash and cash equivalents also include balances that Stifel Bank maintains at the Federal Reserve Bank.

Cash Segregated for Regulatory Purposes

Our broker-dealer subsidiaries are subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which requires our company to maintain cash or qualified securities in a segregated reserve accounts for the exclusive benefit of its clients. In accordance with Rule 15c3-3, our company has portions of its cash segregated for the exclusive benefit of clients at December 31, 2015.

Brokerage Client Receivables, Net

Brokerage client receivables include receivables of our company's broker-dealer subsidiaries, which represent amounts due on cash and margin transactions and are generally collateralized by securities owned by clients. Brokerage client receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. The receivables are reported at their outstanding principal balance net of allowance for doubtful accounts. When a brokerage client receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources, such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the consolidated statements of financial condition.

Securities Borrowed and Securities Loaned

Securities borrowed require our company to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations in the consolidated statements of financial condition. For securities loaned, we generally receive collateral in the form of cash in an amount in excess of the market value of securities loaned. Securities loaned are included in payables to brokers, dealers, and clearing organizations in the consolidated statements of financial condition. We monitor the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Fees received or paid are recorded in interest revenue or interest expense.

Substantially all of these transactions are executed under master netting agreements, which gives us right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set-off in the consolidated statements of financial condition.

Securities Purchased Under Agreements to Resell and Repurchase Agreements

Securities purchased under agreements to resell (“resale agreements”) are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. We obtain control of collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. These agreements are short-term in nature and are collateralized by U.S. government agency securities. We value collateral on a daily basis, with additional collateral obtained when necessary to minimize the risk associated with this activity.

Securities sold under agreements to repurchase (“repurchase agreements”) are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. We make delivery of securities sold under agreements to repurchase and monitor the value of collateral on a daily basis. When necessary, we will deliver additional collateral.

Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, financial instruments owned, available-for-sale securities, investments, financial instruments sold, but not yet purchased, and derivatives. Other than those separately discussed in the notes to the consolidated financial statements, the remaining financial instruments are generally short-term in nature, and their carrying values approximate fair value.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., “the exit price”) in an orderly transaction between market participants at the measurement date. We have categorized our financial instruments measured at fair value into a three-level classification in accordance with Topic 820, “Fair Value Measurement,” which established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement, because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments includes instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 – Instruments that have little to no pricing observability as of the measurement date. These financial instruments do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments

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

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

observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term, and the differences could be material.

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the

financial instrument is new to the market and not yet established, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value. See Note 6 for additional information on how we value our financial instruments.

Available-for-Sale and Held-to-Maturity Securities

Securities available for sale include U.S. government agency securities; state and municipal securities; agency, non-agency, and commercial mortgage-backed securities; corporate fixed income securities; and asset-backed securities.

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include agency and commercial mortgage-backed securities, asset-backed securities, consisting of collateralized loan obligation securities and ARS, and corporate fixed income securities.

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary on a quarterly basis. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment, recent events specific to the issuer and/or industry to which the issuer belongs, the payment structure of the security, external credit ratings and the failure of the issuer to make scheduled interest or principal payments, the value of underlying collateral, current market conditions, and our company's ability and intent to hold the investment until its value recovers or the securities mature. We may determine that the decline in fair value of an investment is other-than-temporary if our analysis of these factors indicates that we will not recover our investment in the securities.

If we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in other income in the consolidated statements of operations. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated other comprehensive loss. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows.

We estimate the portion of loss attributable to credit using a discounted cash flow model. Key assumptions used in estimating the expected cash flows include default rates, loss severity, and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

Unrealized gains and losses on our available-for-sale securities are reported, net of taxes, in accumulated other comprehensive income included in shareholders' equity. Amortization of premiums and accretion of discounts are recorded as interest income using the interest method. Realized gains and losses from sales of securities available for sale are determined on a specific identification basis and are included in other revenue in the consolidated statements of operations in the period they are sold.

Loan Classification

We classify loans based on our investment strategy and management's assessment of our intent and ability to hold loans for the foreseeable future or until maturity. Management's intent and ability with respect to certain loans may change from time to time depending on a number of factors, including economic, liquidity, and capital conditions. The accounting and measurement framework for loans differs depending on the loan classification. The classification criteria and accounting and measurement framework for bank loans and loans held for sale are described below.

Bank Loans and Allowance for Loan Losses

Bank loans consist of commercial and residential mortgage loans, home equity loans, stock-secured loans, construction loans, and commercial and industrial and consumer loans originated or acquired by Stifel Bank. Bank loans include those loans that management has the intent and ability to hold and are recorded at outstanding principal adjusted for any charge-offs, allowance for loan losses, deferred origination fees and costs, and purchased discounts. Loan origination costs, net of fees, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. Bank loans are generally collateralized by real estate, real property, marketable securities, or other assets of the borrower. Interest income is recognized using the effective interest rate

method, which is based upon the respective interest rates and the average daily asset balance. Discount accretion is recognized using the effective interest rate method, which is based upon the respective interest rate and expected lives of loans.

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

Loans Held for Sale

Loans that we intend to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or market value. Declines in market value below cost and any gains or losses on the sale of these assets are recognized in other revenues in the consolidated statements of operations. Market value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Because loans held for sale are reported at lower of cost or market value, an allowance for loan losses is not established for loans held for sale.

Impaired Loans

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

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

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

Investments

Our broker-dealer subsidiaries report changes in fair value of marketable and non-marketable securities in other income in the consolidated statements of operations. The fair value of marketable investments is generally based on either quoted market or dealer prices. The fair value of non-marketable securities is based on management's estimate using the best information available, which generally consists of quoted market prices for similar securities and internally developed discounted cash flow models.

Investments in the consolidated statements of financial condition contain investments in securities that are marketable and securities that are not readily marketable. These investments are not included in our broker-dealer trading inventory or available-for-sale or held-to-maturity portfolios and represent the acquiring and disposing of debt or equity instruments for our benefit.

Fixed Assets

Office equipment is depreciated on an accelerated basis over the estimated useful life of the asset of two to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease. Buildings and building improvements are amortized on a straight-line basis over the estimated useful life of the asset of three to thirty-nine years. Depreciation expense is recorded in occupancy and equipment rental expense in the consolidated statements of operations.

Office equipment, leasehold improvements, and property are stated at cost net of accumulated depreciation and amortization in the consolidated statements of financial condition. Office equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. We have elected July 31 as our annual impairment testing date.

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

Loans and Advances

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our company's overall growth strategy. These loans are generally forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. We monitor and compare individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial situation.

Derivative Instruments and Hedging Activities

We recognize all of our derivative instruments at fair value as either assets or liabilities in the consolidated statements of financial condition. These instruments are recorded in other assets or accounts payable and accrued expenses in the consolidated statements of financial condition and in the operating section of the consolidated statements of cash flows as increases or decreases of other assets and accounts payable and accrued expenses. Our company's policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments under Topic 815, "Derivatives and Hedging," we must also designate

the hedging instrument or transaction, based upon the exposure being hedged.

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income, net of tax, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. We do not use derivatives for trading or speculative purposes and, at December 31, 2015, do not have any derivatives that are not designated in qualifying cash flow hedging relationships. See Note 15 for additional details.

Revenue Recognition

Customer securities transactions are recorded on a settlement date basis, with related commission revenues and expenses recorded on a trade date basis. Commission revenues are recorded as the amount charged to the customer, which, in certain cases, may include

varying discounts. Principal securities transactions are recorded on a trade date basis. We typically distribute our proprietary equity research products to our client base of institutional investors at no charge. These proprietary equity research products are accounted for as a cost of doing business.

Investment banking revenues, which include underwriting fees, management fees, advisory fees, and sales credits earned in connection with the distribution of the underwritten securities, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related unreimbursed expenses. Expenses related to investment banking deals not completed are recognized as non-interest expenses in the consolidated statements of operations. For the periods presented, there were no significant expenses recognized for incomplete transactions. We have not recognized any incentive income that is subject to contingent repayments.

Asset management and service fees are recorded when earned, based on the period-end assets in the accounts, and consist of customer account service fees, per account fees (such as IRA fees), and wrap fees on managed accounts.

We earn fees from the investment partnerships that we manage or of which we are a general partner. Such management fees are generally based on the net assets or committed capital of the underlying partnerships. We have agreed, in certain cases, to waive management fees, in lieu of making a cash contribution, in satisfaction of our general partner investment commitments to the investment partnerships. In these cases, we generally recognize our management fee revenues at the time when we are allocated a special profit interest in realized gains from these partnerships.

Operating Leases

We lease office space and equipment under operating leases. We recognize rent expense related to these operating leases on a straight-line basis over the lease term. The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For tenant improvement allowances and rent holidays, we record a deferred rent liability in accounts payable and accrued expenses in the consolidated statements of financial condition and amortize the deferred rent over the lease term as a reduction to occupancy and equipment rental expense in the consolidated statements of operations.

Income Taxes

We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our company's assets and liabilities. We establish a valuation allowance for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefits, or that future deductibility is uncertain.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in provision for income taxes/(benefit) in the consolidated statements of operations. See Note 24 for further information regarding income taxes.

Foreign Currency Translation

We consolidate our foreign subsidiaries, which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange. Revenues and expenses are translated at an average rate for the period. In accordance with Financial Accounting Standards Board ("FASB")

Accounting Standards Codification Topic 830, "Foreign Currency Matters," gains or losses resulting from translating foreign currency financial statements are reflected in accumulated other comprehensive income, a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

Recently Adopted Accounting Guidance

Business Combinations

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-16, Business Combinations (Topic 805): "Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"), which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively.

Under this ASU, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We elected to early adopt this ASU in the third quarter of 2015. The adoption of ASU 2015-16 did not have a material impact on our consolidated financial statements.

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

In May 2015, the FASB issued ASU No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. The guidance shall be applied retrospectively for all periods presented. Early application is permitted. The guidance is not expected to have a material impact on our consolidated financial statements.

Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and a retrospective approach is required. The guidance is not expected to have a material impact on our consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" that amends the criteria for determining whether limited partnerships and similar entities are VIEs, clarifies when a general partner or asset manager should consolidate an entity and eliminates the indefinite deferral of certain aspects of VIE accounting guidance for investments in certain investment funds. Money market funds registered under Rule 2a-7 of the Investment Company Act and similar funds are exempt from consolidation under the new guidance. The new accounting guidance is effective beginning on January 1, 2016. Early adoption is permitted. We elected to early adopt this ASU in 2015. The adoption of ASU 2015-02 did not have a material impact on our consolidated financial statements.

Repurchase Agreements

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," ("ASU 2014-11") amending FASB Accounting Standards Codification Topic 860, "Transfers and Servicing." The amended guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The guidance also requires new disclosures for certain transfers accounted for as sales and collateral supporting transactions that are accounted for as secured borrowings. ASU 2014-11 is effective for annual and interim periods beginning after December 15, 2014, except for the disclosures related to secured borrowings, which are effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of ASU 2014-11 did not have a material impact on our results of operations or financial position.

Revenue Recognition

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

Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” (“ASU 2014-08”) amending FASB ASC Topic 205-20, “Discontinued Operations,” (“ASC 205-20”). The amended guidance changes the criteria for reporting discontinued operations and requires new disclosures. ASU 2014-08 is effective for annual and interim periods beginning on or after December 15, 2014, and will be applied prospectively. The adoption of ASU 2014-08 did not have a material impact on our consolidated financial statements.

NOTE 3 – Acquisitions

Kelwynne, LLC

On October 7, 2015, Stifel Aviation Finance Acquisition, LLC (“SAFA”) completed the acquisition of Kelwynne, LLC. On October 19, 2015, SAFA sold Kelwynne, LLC to Stifel Aviation Finance II, LLC (“SAF2”). Stifel Venture Corp owns 40% of SAF2’s Class A units. Upon SAFA’s sale of Kelwynne, LLC to SAF2, the Company deconsolidated SAF2 as it was no longer majority-owned or controlled the Company.

Barclays’ Wealth and Investment Management, Americas

On December 4, 2015, we completed the purchase of the Barclays’ Wealth and Investment Management (“Barclays”), Americas franchise in the U.S. Under the agreement, we acquired approximately \$2.1 billion of assets, including securities-based loans, margin loans, and broker-notes. Acquired assets were recorded at fair value. The fair values for loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$32.2 million of goodwill in the consolidated statement of financial condition, which has been allocated to our company’s Global Wealth Management segment. The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of Barclays at closing and the identified intangible assets. The final goodwill and intangible assets recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. In management’s opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the hired financial advisors and the conversion of the customer accounts to the Stifel platform. Goodwill is expected to be deductible for federal income tax purposes.

In addition, deferred consideration is payable based on certain revenue generated by Stifel in accordance with the distribution agreement. The deferred consideration of \$15.6 million has been recognized as a liability and is included in accounts payable and accrued expenses in the consolidated statements of financial condition at December 31, 2015.

In the first quarter of 2016, the Company finalized the service terms for the approximately 2.0 million restricted stock units granted in connection with the Barclays transaction. The Company expects to expense approximately \$60.0 million in the first quarter of 2016, related to the majority of those awards.

Pro forma information is not presented, because the acquisition is not considered to be material, as defined by the Securities and Exchange Commission (the “SEC”). The results of operations of Barclays have been included in our results prospectively from the date of acquisition.

Sterne Agee Group, Inc.

On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee Group, Inc. (“Sterne Agee”), a financial services firm that offers comprehensive wealth management and investment services to a diverse client base including corporations, municipalities and individual investors. The purchase was completed pursuant to the merger agreement dated February 23, 2015.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$90.1 million of goodwill and intangible assets in the consolidated statement of financial condition, which has been allocated to our company’s Global Wealth Management and Institutional Group segments. The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of Sterne Agee at closing and the identified intangible assets. The final goodwill and intangible assets recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. In management’s opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of Sterne Agee’s business and the reputation and expertise of Sterne Agee in the financial services sector.

On June 5, 2015, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was \$23.8 million. The fair value of the awards is based upon the closing price of our company’s common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for nine months ended September 30, 2015. In addition, we have paid \$33.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

Prior to the closing date, Sterne Agee had established adequate reserves for various claims that were included the opening balance sheet. During the third quarter of 2015, this matter was settled and paid, and the excess reserves associated with the Canyon Ridge matter were distributed to Sterne Agee Group, Inc. shareholders. Under the terms of the agreements governing the acquisition, we have withheld a portion of the purchase price of Sterne Agee Group, Inc. pending the resolution of currently existing or subsequently arising liabilities relating to the operation of the Sterne Agee Group Inc. business prior to the closing of the acquisition. Based upon currently available information and review with counsel, we believe the amounts which we are allowed to withhold will be adequate to fully indemnify us from any losses related to the pre-closing operations of Sterne Agee Group, Inc.

Pro forma information is not presented, because the acquisition is not considered to be material, as defined by the SEC. The results of operations of Sterne Agee have been included in our results prospectively from the date of acquisition.

Merchant Capital, LLC

On December 31, 2014, we acquired Merchant, a public finance investment banking firm headquartered in Montgomery, Alabama, which serves the Southeastern market. The strategic combination of our company and Merchant is expected to further strengthen our company’s position in several key underwriting markets in the Southeast.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$17.9 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company’s Institutional Group segment. In management’s opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of Merchant’s business and the reputation and expertise of Merchant in the public finance space within the investment banking sector.

1919 Investment Counsel & Trust Co., National Association

On November 7, 2014, we completed the acquisition of 1919 Investment Counsel and 1919, an asset management firm and trust company that provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$11.6 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company’s Global Wealth Management segment.

Identifiable intangible assets purchased by our company consisted of customer relationships with estimated acquisition-date fair value of \$6.1 million.

In management's opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of 1919 Investment Counsel's business and the reputation and expertise of 1919 Investment Counsel in the asset management sector and as a trust company.

On November 7, 2014, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was \$11.2 million. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the year ended December 31, 2014. In addition, we have paid \$10.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

Oriel Securities

On July 31, 2014, we completed the acquisition of Oriel, a London-based stockbroking and investment banking firm. The combination of our company and Oriel has created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 ("Topic 805"), "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$18.2 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company's Institutional Group segment. Identifiable intangible assets purchased by our company consisted of trade name and non-compete agreements with estimated acquisition-date fair values of \$1.9 million and \$1.4 million, respectively.

In management's opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of Oriel's business and the reputation and expertise of Oriel in the investment banking sector in the United Kingdom.

On July 31, 2014, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was \$6.8 million. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the year ended December 31, 2014.

De La Rosa & Co.

On April 3, 2014, we acquired De La Rosa, a California-based public finance investment banking boutique. The addition of the De La Rosa team is expected to further strengthen our company's position in a number of key underwriting markets in California.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 ("Topic 805"), "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$17.4 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company's Institutional Group segment. Identifiable intangible assets purchased by our company consisted of customer relationships and trade name with estimated acquisition-date fair values of \$0.2 million and \$1.8 million, respectively.

In management's opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of De La Rosa's business and the reputation and expertise of De La Rosa in the investment banking sector.

Acacia Federal Savings Bank ("Acacia Federal")

On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal Savings Bank, a federally chartered savings institution with one retail branch.

Under the agreement, we acquired approximately \$337.1 million of loans and \$180.4 million of other assets (primarily cash and due from banks and investment securities). In addition, we assumed approximately \$435.4 million of deposits and \$10.0 million of other liabilities. Assets acquired and liabilities assumed were recorded at fair value in accordance with ASC 805, "Business Combinations." The fair values for loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms. This value was reduced by an estimate of probable losses and the credit risk associated with the loans. The fair values of deposits were estimated by discounting cash flows using interest rates currently being offered on deposits with similar maturities.

We recognized a \$7.6 million bargain purchase gain during the year ended December 31, 2013, which is included in other income in the consolidated statements of operations.

Ziegler Capital Management, LLC

On November 30, 2013, we acquired ZCM, an asset management firm that provides investment solutions for institutions, mutual fund sub-advisory clients, municipalities, pension plans, Taft-Hartley plans, and individual investors.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$6.8 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company’s Global Wealth Management segment.

Identifiable intangible assets purchased by our company consisted of customer relationships and trade name with acquisition-date fair values of \$3.4 million and \$0.1 million, respectively.

In management’s opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of ZCM’s business and the reputation and expertise of ZCM in the asset management sector.

KBW, Inc.

On February 15, 2013, we completed the purchase of all of the outstanding shares of common stock of KBW, Inc. (“KBW, Inc.”), a full-service investment bank specializing in the financial services industry based in New York, New York. The purchase was completed pursuant to the merger agreement dated November 5, 2012. Under the terms of the merger agreement, each share of common stock, including certain restricted stock, of KBW, Inc. issued and outstanding immediately prior to the effective time of the merger was cancelled and converted into the right to receive a combination of cash.

In addition, on February 15, 2013, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was \$30.6 million. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the year ended December 31, 2013.

Stone & Youngberg LLC

On October 1, 2011, we acquired Stone & Youngberg, a leading financial services firm specializing in municipal finance and fixed income securities. The purchase consideration consisted of cash, a portion paid at closing and \$24.0 million to be paid in installments over the next three years, and common stock. In addition, we may be required to pay a contingent earn-out over a five-year period after the closing, which is capped at \$25.0 million, based upon revenue goals, as established in the purchase agreement.

We recognized a liability for estimated earn-out payments over the five-year period. Additionally, we recognized a liability for the installment payments to be made over the next year. The liability for earn-out payments was \$9.3

million at December 31, 2015. These liabilities are included in accounts payable and accrued expenses in the consolidated statements of financial condition.

NOTE 4 – Discontinued Operations

(in thousands)	Year Ended December 31,	
	2015	2014
Net revenues	\$—	\$(121)
Restructuring expense	—	217
Operating expenses	—	3,924
Total non-interest expenses	—	4,141
Loss from discontinued operations before income tax expense	—	(4,262)
Income tax expense/(benefit)	—	(1,199)
Loss from discontinued operations, net of tax	\$—	\$(3,063)

NOTE 5 – Receivables From and Payables to Brokers, Dealers, and Clearing Organizations

Amounts receivable from brokers, dealers, and clearing organizations at December 31, 2015 and 2014, included (in thousands):

	December 31,	
	2015	2014
Deposits paid for securities borrowed	\$318,105	\$445,542
Receivables from clearing organizations	260,077	198,079
Securities failed to deliver	23,649	7,453
	\$601,831	\$651,074

Amounts payable to brokers, dealers, and clearing organizations at December 31, 2015 and 2014, included (in thousands):

	December 31,	
	2015	2014
Deposits received from securities loaned	\$329,670	\$4,215
Payable to clearing organizations	92,008	2,443
Securities failed to receive	16,353	7,365
	\$438,031	\$14,023

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

NOTE 6 – Fair Value Measurements

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

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

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

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. Actively traded money market funds are measured at their reported net asset value, which approximates fair value. As such, we classify the estimated fair value of these instruments as Level 1.

Financial Instruments Owned and Available-For-Sale Securities

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

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

We have identified Level 3 financial instruments to include certain corporate fixed income securities with unobservable pricing inputs and certain state and municipal securities, which include auction rate securities (“ARS”). Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs.

Investments

Investments carried at fair value primarily include corporate equity securities, ARS, investments in mutual funds, U.S. government securities, and investments in public companies, private equity securities, and partnerships, which are classified as other in the following tables.

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

ARS for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. The methods used to value ARS are discussed above.

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The value of these investments is at risk to changes in equity markets, general economic conditions, and a variety of other factors. We estimate fair value for private equity investments based on our percentage ownership in the net asset value of the entire fund, as reported by the fund or on behalf of the fund, after indication that the fund adheres to applicable fair value measurement guidance.

The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and long-term nature of these assets. As a result, these values cannot be determined with precision, and the calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument.

For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific

nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were \$11.4 million and \$11.5 million at December 31, 2015 and 2014, respectively.

Financial Instruments Sold, But Not Yet Purchased

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

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs, such as the present value of estimated cash flows, and reported as Level 2. The nature of these

financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level 2 financial instruments include U.S. government agency securities, mortgage-backed securities not actively traded, and corporate fixed income securities.

Derivatives

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015, are presented below (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$91,268	\$91,268	\$—	\$—
Financial instruments owned:				
U.S. government securities	45,167	45,167	—	—
U.S. government agency securities	116,949	—	116,949	—
Mortgage-backed securities:				
Agency	205,473	—	205,473	—
Non-agency	33,319	—	31,843	1,476
Corporate securities:	-			
Fixed income securities	203,910	13,203	190,707	—
Equity securities	31,642	29,388	1,635	619
State and municipal securities	112,983	—	112,983	—
Total financial instruments owned	749,443	87,758	659,590	2,095
Available-for-sale securities:				
U.S. government agency securities	1,698	—	1,698	—
State and municipal securities	74,167	—	74,167	—
Mortgage-backed securities:				
Agency	304,893	—	304,893	—
Commercial	11,310	—	11,310	—
Non-agency	2,518	—	2,518	—
Corporate fixed income securities	319,408	—	319,408	—
Asset-backed securities	915,913	—	915,913	—
Total available-for-sale securities	1,629,907	—	1,629,907	—
Investments:				
Corporate equity securities	30,737	26,436	—	4,301
Mutual funds	15,493	15,493	—	—

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

U.S. government securities	102	102	—	—
Auction rate securities:				
Equity securities	55,710	—	5,268	50,442
Municipal securities	1,315	—	—	1,315
Other ¹	77,660	4,911	2,873	69,876
Total investments	181,017	46,942	8,141	125,934
	\$2,651,635	\$225,968	\$2,297,638	\$128,029

¹Includes \$54.5 million of partnership interests, \$14.6 million of private company investments, and \$2.8 million of private equity and other investments.

98

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

²Included in accounts payable and accrued expenses in the consolidated statements of financial condition. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014, are presented below (in thousands):

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$122,875	\$122,875	\$—	\$—
Financial instruments owned:				
U.S. government securities	58,992	58,992	—	—
U.S. government agency securities	101,439	—	101,439	—
Mortgage-backed securities:				
Agency	159,057	—	159,057	—
Non-agency	13,366	189	12,371	806
Corporate securities:				
Fixed income securities	245,909	75,236	168,680	1,993
Equity securities	77,548	76,316	88	1,144
State and municipal securities	130,544	—	130,544	—
Total financial instruments owned	786,855	210,733	572,179	3,943
Available-for-sale securities:				
U.S. government agency securities	1,610	—	1,610	—
State and municipal securities	74,401	—	74,401	—
Mortgage-backed securities:				
Agency	209,206	—	209,206	—
Commercial	107,644	—	107,644	—
Non-agency	3,137	—	3,137	—
Corporate fixed income securities	337,406	50,892	286,514	—
Asset-backed securities	780,074	—	736,029	44,045

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Total available-for-sale securities	1,513,478	50,892	1,418,541	44,045
Investments:				
Corporate equity securities	59,203	35,123	24,080	—
Mutual funds	18,144	18,144	—	—
U.S. government securities	6,555	104	6,451	—
Auction rate securities:				
Equity securities	46,197	—	—	46,197
Municipal securities	1,326	—	—	1,326
Other ¹	78,830	1,283	4,557	72,990
Total investments	210,255	54,654	35,088	120,513
	\$2,633,463	\$439,154	\$2,025,808	\$168,501

¹Includes \$42.1 million of partnership interests, \$16.4 million of private company investments, and \$14.3 million of private equity and other investments.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	\$ 146,592	\$ 146,592	\$ —	\$ —
U.S. government agency securities	10,029	—	10,029	—
Mortgage-backed securities:				
Agency	28,067	—	28,067	—
Non-agency	4,556	401	4,155	—
Corporate securities:				
Fixed income securities	293,008	17,116	275,892	—
Equity securities	105,013	105,013	—	—
Total financial instruments sold, but not yet purchased	587,265	269,122	318,143	—
Derivative contracts ²	5,641	—	5,641	—
	\$592,906	\$269,122	\$323,784	\$ —

²Included in accounts payable and accrued expenses in the consolidated statements of financial condition. The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the years ended December 31, 2015 and 2014 (in thousands):

	Year Ended December 31, 2015			
	Available-for-sale			
	Financial instruments owned			
	Mortgage-Backed Corporate Securities			
	Fixed Income Equity			
	Non-Agency Securities			
Balance at December 31, 2014	\$ 806	\$ 1,993	\$ 1,144	\$ 44,045
Unrealized gains/(losses):				
Included in changes in net assets ²	(241)	84	—	—
Included in OCI ³	—	—	—	342
Realized gains/(losses) ²	127	53	—	(2,136)
Purchases	—	11,643	—	—
Sales	—	(13,773)	(525)	(42,251)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Redemptions	(332)	—	—	—
Transfers:				
Into Level 3	1,116	—	—	—
Out of Level 3	—	—	—	—
Net change	670	(1,993)	(525)	(44,045)
Balance at December 31, 2015	\$1,476	\$—	\$ 619	\$—

100

Year Ended December 31, 2015				
Investments				
	Auction Rate		Auction Rate	
Corporate	Securities		Securities –	
Equity	–			
	Securities	Equity	Municipal	Other ¹
Balance at December 31, 2014	\$—	\$ 46,197	\$ 1,326	\$ 72,990
Unrealized gains/(losses):				
Included in changes in net assets ²	1,410	(413)	(11)	1,241
Included in OCI ³	—	—	—	(1,381)
Realized gains ²	—	—	—	—
Purchases	—	15,176	—	26,659
Sales	—	—	—	(16,245)
Redemptions	—	(5,250)	—	(4,770)
Transfers:				
Into Level 3	7,732	—	—	—
Out of Level 3	(4,841)	(5,268)	—	(8,618)
Net change	4,301	4,245	(11)	(3,114)
Balance at December 31, 2015	\$ 4,301	\$ 50,442	\$ 1,315	\$ 69,876

¹Includes partnership interests, private company investments, and private equity investments.

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

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

Year Ended December 31, 2014				
Available-				
for-sale				
Financial instruments owned securities				
Mortgage-				
Backed Corporate				
Securities				
–	Income	Equity	State & Municipal	
Non-Agency	Securities	Securities	Securities	
Balance at December 31, 2013	\$—	\$ 2,039	\$ 241	\$ 6,200
Unrealized gains/(losses):				
Included in changes in net assets ²	(127)	(445)	(494)	—
Included in OCI ³	—	—	—	62

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Realized gains/(losses) ²	13	(1,320)	4,965	—
Purchases	—	8,549	1,394	—
Sales	—	(5,783)	(5,205)	—
Redemptions	(44)	(88)	—	—
Transfers:				
Into Level 3	964	—	243	—
Out of Level 3	—	(959)	—	(6,262)
Net change	806	(46)	903	(6,200)
Balance at December 31, 2014	\$ 806	\$ 1,993	\$ 1,144	\$ —

101

	Year Ended December 31, 2014			
	Investments			
	Auction Rate Securities		Auction Rate Securities –	
	Asset Backed Securities	Equity	Municipal	Other 1
Balance at December 31, 2013	\$58,078	\$56,693	\$10,939	\$97,768
Unrealized gains/(losses):				
Included in changes in net assets 2	—	604	688	(18)
Included in OCI 3	(530)	—	—	—
Realized gains 2	1,322	—	—	3,412
Purchases	—	25	1,650	3,630
Sales	(4,825)	(1,725)	(10,324)	(25,030)
Redemptions	(10,000)	(9,400)	(1,627)	(4,413)
Transfers:				
Into Level 3	—	—	—	1,524
Out of Level 3	—	—	—	(3,883)
Net change	(14,033)	(10,496)	(9,613)	(24,778)
Balance at December 31, 2014	\$44,045	\$46,197	\$1,326	\$72,990

¹Includes partnership interests, private company investments, and private equity investments.

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

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

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of sales of private equity investments and ARS, offset by ARS purchases during the year ended December 31, 2015. The changes in unrealized gains/(losses) recorded in earnings for the year ended December 31, 2015, relating to Level 3 assets still held at December 31, 2015, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of December 31, 2015.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	2.3% - 13.4%	7.2%
		Workout period	1 - 3 years	2.3 years
Municipal securities	Discounted cash flow	Discount rate	0.3% - 12.7%	7.7%
		Workout period	1 - 4 years	2.8 years

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

102

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

General and limited partnership interests in investment partnerships totaled \$52.5 million and \$42.1 million at December 31, 2015 and 2014, respectively. The general and limited partnership interests in investment partnerships were primarily valued based upon NAVs received from third-party fund managers. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the funds to utilize pricing/valuation information, including independent appraisals, from third-party sources. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used as an input to value these investments.

Direct investments in private equity companies totaled \$17.4 million and \$21.2 million at December 31, 2015 and 2014, respectively. Direct investments in private equity companies may be valued using the market approach and were valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance, and legal restrictions on disposition, among other factors. The fair value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period.

There were \$3.5 million of transfers of financial assets from Level 2 to Level 1 during the year ended December 31, 2015. There were \$9.6 million of transfers of financial assets from Level 1 to Level 2 during the year ended December 31, 2015, related to primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were \$1.3 million of transfers of financial assets into Level 3 during the year ended December 31, 2015. There were \$6.3 million of transfers of financial assets out of Level 3 during the year ended December 31, 2015, primarily related to other investments for which market trades were observed that provided transparency into the valuation of these assets.

Fair Value of Financial Instruments

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following reflects the fair value of financial instruments as of December 31, 2015 and 2014, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	December 31, 2015		December 31, 2014	
	Carrying	Estimated	Carrying	Estimated
	Value	Fair Value	Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$811,019	\$811,019	\$689,782	\$689,782
Cash segregated for regulatory purposes	227,727	227,727	49,646	49,646
Securities purchased under agreements to resell	160,423	160,423	55,078	55,078
Financial instruments owned	749,443	749,443	786,855	786,855
Available-for-sale securities	1,629,907	1,629,907	1,513,478	1,513,478
Held-to-maturity securities	1,855,399	1,874,998	1,177,565	1,211,976
Loans held for sale	189,921	189,921	121,939	121,939
Bank loans	3,143,515	3,188,402	2,065,420	2,086,864
Investments	181,017	181,017	210,255	210,255
Financial liabilities:				
Securities sold under agreements to repurchase	\$278,674	\$278,674	\$39,180	\$39,180
Bank deposits	6,638,356	6,627,818	4,790,081	4,246,214
Financial instruments sold, but not yet purchased	521,744	521,744	587,265	587,265
Derivative contracts ¹	3,591	3,591	5,641	5,641
Borrowings	237,084	237,084	—	—
Senior notes	750,000	745,999	625,000	638,690
Debentures to Stifel Financial Capital Trusts	82,500	72,371	82,500	76,714

¹Included in accounts payable and accrued expenses in the consolidated statements of financial condition. The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	\$719,751	\$719,751	\$—	\$—
Cash segregated for regulatory purposes	227,727	227,727	—	—
Securities purchased under agreements to resell	160,423	160,423	—	—
Held-to-maturity securities	1,874,998	—	1,317,582	557,416
Loans held for sale	189,921	—	189,921	—
Bank loans	3,188,402	—	3,188,402	—
Financial liabilities:				
Securities sold under agreements to repurchase	\$278,674	\$278,674	\$—	\$—
Bank deposits	6,627,818	—	6,627,818	—
Borrowings	237,084	—	237,054	—
Senior notes	745,999	745,999	—	—
Debentures to Stifel Financial Capital Trusts	72,371	—	—	72,371

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	\$566,907	\$566,907	\$—	\$—
Cash segregated for regulatory purposes	49,646	49,646	—	—
Securities purchased under agreements to resell	55,078	44,996	10,082	—
Held-to-maturity securities	1,211,976	—	969,913	242,063
Loans held for sale	121,939	—	121,939	—
Bank loans	2,086,864	—	2,086,864	—
Financial liabilities:				
Securities sold under agreements to repurchase	\$39,180	\$39,180	\$—	\$—
Bank deposits	4,246,214	—	4,246,214	—
Borrowings	—	—	—	—
Senior notes	638,690	638,690	—	—
Debentures to Stifel Financial Capital Trusts	76,714	—	—	76,714

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of December 31, 2015 and 2014.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at December 31, 2015 and 2014 approximate fair value due to their short-term nature.

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at December 31, 2015 and 2014 approximate fair value due to the short-term nature.

Bank Deposits

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

Borrowings

The carrying amount of borrowings approximates fair value due to the relative short-term nature of such borrowings, some of which are day-to-day. The portion of borrowings which are not “day-to-day” are primarily comprised of Stifel Bank’s borrowings from the FHLB which, by their nature, reflect terms that approximate current market rates for similar borrowings.

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

The fair value of our trust preferred securities is based on the discounted value of contractual cash flows. We have assumed a discount rate based on the coupon achieved in our 5.375% senior notes due 2022.

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

NOTE 7 – Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

The components of financial instruments owned and financial instruments sold, but not yet purchased, at December 31, 2015 and 2014 are as follows (in thousands):

	December 31,	
	2015	2014
Financial instruments owned:		
U.S. government securities	\$45,167	\$58,992
U.S. government agency securities	116,949	101,439
Mortgage-backed securities:		
Agency	205,473	159,057
Non-agency	33,319	13,366
Corporate securities:		
Fixed income securities	203,910	245,909
Equity securities	31,642	77,548
State and municipal securities	112,983	130,544
	\$749,443	\$786,855
Financial instruments sold, but not yet purchased:		
U.S. government securities	\$186,030	\$146,592
U.S. government agency securities	—	10,029
Mortgage-backed securities:		
Agency	50,830	28,067

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Non-agency	—	4,556
Corporate securities:		
Fixed income securities	255,700	293,008
Equity securities	29,184	105,013
	\$521,744	\$587,265

At December 31, 2015 and 2014, financial instruments owned in the amount of \$508.5 million and \$425.1 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

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

NOTE 8 – Available-for-Sale and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at December 31, 2015 and 2014 (in thousands):

	December 31, 2015		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains ¹	Losses ¹	Fair Value
Available-for-sale securities				
U.S. government agency securities	\$1,700	\$ 1	\$ (3)	\$1,698
State and municipal securities	75,953	28	(1,814)	74,167
Mortgage-backed securities:				
Agency	306,309	125	(1,541)	304,893
Commercial	11,177	134	(1)	11,310
Non-agency	2,679	2	(163)	2,518
Corporate fixed income securities	321,017	743	(2,352)	319,408
Asset-backed securities	922,563	774	(7,424)	915,913
	\$1,641,398	\$ 1,807	\$ (13,298)	\$1,629,907
Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$1,257,808	\$ 23,346	\$ (3,105)	\$1,278,049
Commercial	59,521	1,832	—	61,353
Non-agency	929	—	(15)	914
Asset-backed securities	496,996	2,076	(4,139)	494,933
Corporate fixed income securities	40,145	—	(396)	39,749
	\$1,855,399	\$ 27,254	\$ (7,655)	\$1,874,998
December 31, 2014				
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains ¹	Losses ¹	Fair Value
Available-for-sale securities				
U.S. government agency securities	\$1,613	\$ 1	\$ (4)	\$1,610
State and municipal securities	76,518	20	(2,137)	74,401
Mortgage-backed securities:				
Agency	206,982	3,137	(913)	209,206
Commercial	107,100	633	(89)	107,644
Non-agency	3,186	5	(54)	3,137
Corporate fixed income securities	336,210	2,016	(820)	337,406
Asset-backed securities	788,908	1,321	(10,155)	780,074
	\$1,520,517	\$ 7,133	\$ (14,172)	\$1,513,478

Held-to-maturity securities ²				
Mortgage-backed securities:				
Agency	\$884,451	\$ 32,926	\$ (42)	\$917,335
Commercial	59,462	2,257	—	61,719
Non-agency	1,081	—	(17)	1,064
Asset-backed securities	177,335	3,151	(2,645)	177,841
Corporate fixed income securities	55,236	4	(1,223)	54,017
	\$1,177,565	\$ 38,338	\$ (3,927)	\$1,211,976

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

For the years ended December 31, 2015, 2014, and 2013, we received proceeds of \$641.6 million, \$300.3 million, and \$197.5 million respectively, from the sale of available-for-sale securities, which resulted in net realized gains of \$3.2 million, \$3.7 million, and \$2.0 million respectively.

During the years ended December 31, 2015 and 2014, unrealized gains, net of deferred tax expense, of \$1.4 million, \$1.8 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the year ended December 31, 2013, unrealized losses, net of deferred tax benefit, of \$48.5 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	December 31, 2015			
	Available-for-sale		Held-to-maturity	
	securities		securities	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
Debt securities				
Within one year	\$9,710	\$9,723	\$—	\$—
After one year through three years	88,249	88,426	40,145	39,748
After three years through five years	169,684	168,573	—	—
After five years through ten years	275,252	271,146	—	—
After ten years	778,338	773,318	496,996	494,934
Mortgage-backed securities				
After one year through three years	66	67	—	—
After five years through ten years	583	614	269,700	269,989
After ten years	319,516	318,040	1,048,558	1,070,327
	\$1,641,398	\$1,629,907	\$1,855,399	\$1,874,998

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at December 31, 2015, are as follows (in thousands):

	Within		5-10	After 10	Total
	1	1-5 Years			
	Year		Years	Years	
Available-for-sale: ¹					
U.S. government agency securities	\$701	\$997	\$—	\$—	\$1,698
State and municipal securities	—	—	7,333	66,834	74,167
Mortgage-backed securities:					

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Agency	—	—	614	304,279	304,893
Commercial	—	—	—	11,310	11,310
Non-agency	—	67	—	2,451	2,518
Corporate fixed income securities	9,023	256,001	54,384	—	319,408
Asset-backed securities	—	—	209,429	706,484	915,913
	\$9,724	\$257,065	\$271,760	\$1,091,358	\$1,629,907
Held-to-maturity:					
Mortgage-backed securities:					
Agency	\$—	\$—	\$210,179	\$1,047,629	\$1,257,808
Commercial	—	—	59,521	—	59,521
Non-agency	—	—	—	929	929
Asset-backed securities	—	—	—	496,996	496,996
Corporate fixed income securities	—	40,145	—	—	40,145
	\$—	\$40,145	\$269,700	\$1,545,554	\$1,855,399

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

108

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

At December 31, 2015 and 2014, securities and loans of \$1.4 billion and \$1.2 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At December 31, 2015, securities of \$1.1 billion were pledged with the Federal Reserve discount window.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at December 31, 2015 (in thousands):

	Less than 12 months Gross		12 months or more Gross		Total Gross	
	Unrealized Estimated		Unrealized Estimated		Unrealized Estimated	
	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value
Available-for-sale securities						
U.S. government securities	\$(3)	\$1,449	\$—	\$—	\$(3)	\$1,449
State and municipal securities	(415)	26,357	(1,399)	38,231	(1,814)	64,588
Mortgage-backed securities:						
Agency	(1,165)	279,762	(376)	8,516	(1,541)	288,278
Commercial	(1)	130	—	—	(1)	130
Non-agency	-	-	(163)	2,362	(163)	2,362
Corporate fixed income securities	(2,352)	239,614	—	—	(2,352)	239,614
Asset-backed securities	(3,519)	600,224	(3,905)	136,257	(7,424)	736,481
	\$(7,455)	\$1,147,536	\$(5,843)	\$185,366	\$(13,298)	\$1,332,902
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	\$(3,078)	\$477,552	\$(27)	\$2,156	\$(3,105)	\$479,708
Non-agency	—	—	(15)	914	(15)	914
Asset-backed securities	(1,080)	258,098	(3,059)	68,499	(4,139)	326,597
Corporate fixed income securities	—	—	(396)	39,748	(396)	39,748
	\$(4,158)	\$735,650	\$(3,497)	\$111,317	\$(7,655)	\$846,967

At December 31, 2015, the amortized cost of 117 securities classified as available for sale exceeded their fair value by \$13.3 million, of which \$5.8 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at December 31, 2015, was \$1.3 billion, which was 81.8% of our available-for-sale portfolio.

At December 31, 2015, the carrying value of 50 securities held to maturity exceeded their fair value by \$7.7 million, of which \$3.5 million related to securities held to maturity that have been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. There was no credit-related OTTI recognized during the years ended December 31, 2015 and 2014.

We believe the gross unrealized losses related to all other securities of \$21.0 million as of December 31, 2015, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. No OTTI charge was recorded during the year ended December 31, 2015 related to these securities. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 9 – Bank Loans

The following table presents the balance and associated percentage of each major loan category in our bank loan portfolio at December 31, 2015 and 2014 (in thousands, except percentages):

109

	December 31, 2015		December 31, 2014	
	Balance	Percent	Balance	Percent
Securities-based loans	\$1,388,953	43.7 %	\$732,799	34.6 %
Commercial and industrial	1,216,656	38.2	896,853	42.4
Consumer	36,846	1.2	25,489	1.2
Residential real estate	429,132	13.5	432,646	20.4
Commercial real estate	92,623	2.9	15,902	0.8
Home equity lines of credit	12,475	0.4	12,945	0.6
Construction and land	3,899	0.1	—	—
Gross bank loans	3,180,584	100.0 %	2,116,634	100.0 %
Unamortized loan discount	(5,296)		(30,533)	
Unamortized loan fees, net of loan fees	(1,567)		(1,631)	
Loans in process	(419)		1,681	
Allowance for loan losses	(29,787)		(20,731)	
Bank loans, net	\$3,143,515		\$2,065,420	

At December 31, 2015 and 2014, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$2.0 million and \$0.6 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$7.2 million and \$5.3 million, respectively.

At December 31, 2015 and 2014, we had mortgage loans held for sale of \$189.9 million and \$121.9 million, respectively. For the years ended December 31, 2015, 2014 and 2013, we recognized gains of \$12.7 million, \$7.4 million and 11.3 million, respectively, from the sale of originated loans, net of fees and costs.

During the year ended December 31, 2015, the Bank reclassified \$227.6 million of residential mortgages to held for sale. During the year ended December 31, 2015, Stifel Bank sold \$184.4 million in unpaid principal balance. As these loans carried a significant portion of the unamortized loan discount at the time of sale, we recognized a \$14.7 million gain which is reflected in other income on the consolidated statements of operations. At December 31, 2015, \$26.9 million remains in held for sale.

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015, 2014, and 2013 (in thousands).

	Year Ended December 31, 2015				
	Beginning	Charge-		Recoveries	Ending
	Balance	Provision	offs		Balance
Commercial and industrial	\$16,609	\$8,139	\$—	\$—	\$24,748
Securities based loans	1,099	508	—	—	1,607
Consumer	156	(58)	—	7	105
Residential real estate	787	544	(144)	54	1,241
Commercial real estate	232	(30)	—	62	264
Home equity lines of credit	267	15	—	8	290
Construction & Land	—	78	—	—	78
Qualitative	1,581	(127)	—	—	1,454
	\$20,731	\$9,069	\$ (144)	\$ 131	\$29,787

	Year Ended December 31, 2014				Ending
	Beginning	Charge-	Recoveries	Balance	
	Balance	Provision	offs		Balance
Commercial and industrial	\$9,832	\$ 7,287	\$ (510)	\$ —	\$16,609
Securities based loans	893	211	(5)	—	1,099
Consumer	—	172	(16)	—	156
Residential real estate	408	373	—	6	787
Commercial real estate	198	(23)	—	57	232
Home equity lines of credit	174	93	—	—	267
Construction & Land	12	(12)	—	—	—
Qualitative	1,151	430	—	—	1,581
	\$12,668	\$ 8,531	\$ (531)	\$ 63	\$20,731

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

	Allowance for Loan Losses Individually Collectively			Recorded Investment in Loans Individually Collectively		
	Evaluated for		Total	Evaluated for		Total
	Impaired	Not Impaired		Impaired	Not Impaired	
Commercial and industrial	\$—	\$ 24,748	\$24,748	\$—	\$ 1,216,656	\$ 1,216,656
Securities based loans	—	1,607	1,607	—	1,388,953	1,388,953
Consumer	14	91	105	14	36,832	36,846
Residential real estate	24	1,217	1,241	182	428,950	429,132
Commercial real estate	—	264	264	—	92,623	92,623
Home equity lines of credit	149	141	290	323	12,152	12,475
Construction & Land	—	78	78	—	3,899	3,899
Qualitative	—	1,454	1,454	—	—	—
	\$ 187	\$ 29,600	\$29,787	\$ 519	\$ 3,180,065	\$ 3,180,584

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2014 (in thousands):

	Allowance for Loan Losses Individually Collectively			Recorded Investment in Loans Individually Collectively		
	Evaluated for		Total	Evaluated for		Total
	Impaired	Not Impaired		Impaired	Not Impaired	
Commercial and industrial	\$—	\$ 16,609	\$16,609	\$—	\$ 896,853	\$ 896,853
Securities based loans	—	1,099	1,099	—	732,799	732,799
Consumer	13	143	156	13	25,476	25,489
Residential real estate	87	700	787	377	432,269	432,646
Commercial real estate	23	209	232	23	15,879	15,902
Home equity lines of credit	149	118	267	323	12,622	12,945
Construction and land	—	—	—	—	—	—
Qualitative	—	1,581	1,581	—	—	—

\$272	\$ 20,459	\$20,731	\$736	\$2,115,898	\$2,116,634
-------	-----------	----------	-------	-------------	-------------

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

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

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

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring (“TDR”), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At December 31, 2015, we had \$0.9 million of non-accrual loans, net of discounts, which included \$0.2 million in troubled debt restructurings, for which there was a specific allowance of \$0.2

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

million. At December 31, 2014, we had \$4.9 million of non-accrual loans, net of discounts, which included \$1.0 million in troubled debt restructurings, for which there was a specific allowance of \$0.3 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year ended December 31, 2015 and 2014, were insignificant to the consolidated financial statements.

The tables below present loans that were individually evaluated for impairment by portfolio segment at December 31, 2015 and 2014, included the average recorded investment balance (in thousands):

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

	December 31, 2014					
	Unpaid	Recorded	Recorded			
	Contract	Unpaid	Investment	Total	Average	
	Principal	with No	with	Recorded	Related	Recorded
	Balance	Allowance	Allowance	Investment	Allowance	Investment
Commercial and industrial	\$—	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer	13	—	13	13	13	15
Residential real estate	5,006	3,944	377	4,321	87	4,646
Commercial real estate	228	—	228	228	23	235
Home equity lines of credit	323	—	323	323	149	323
Construction and land	—	—	—	—	—	—
Total	\$5,570	\$ 3,944	\$ 941	\$ 4,885	\$ 272	\$ 5,219

The following table presents the aging of the recorded investment in past due loans at December 31, 2015 and 2014 by portfolio segment (in thousands):

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

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

112

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

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

	As of December 31, 2014				
	30 – 89 Days		90 or More Days	Total	
	Past Due	Past Due	Past Due	Current Balance	Total
Commercial and industrial	\$—	\$—	\$—	\$896,853	896,853
Securities based loans	—	—	—	732,799	732,799
Consumer	28	14	42	25,447	25,489
Residential real estate	6,603	4,834	11,437	421,209	432,646
Commercial real estate	—	—	—	15,902	15,902
Home equity lines of credit	—	—	—	12,945	12,945
Construction and land	—	—	—	—	-
Total	\$6,631	\$4,848	\$11,479	\$2,105,155	\$2,116,634

	As of December 31, 2014*		
	Non-accruing	Restructured	Total
Commercial and industrial	\$—	\$—	\$—
Consumer	13	—	13
Residential real estate	4,321	—	4,321
Commercial real estate	228	—	228
Home equity lines of credit	323	—	323
Construction and land	—	—	—
Total	\$4,885	\$—	\$4,885

*There were no loans past due 90 days and still accruing interest at December 31, 2014.

Credit quality indicators

As of December 31, 2015, bank loans were primarily extended to non-investment grade borrowers. Substantially all of these loans align with the U.S. Federal bank regulatory agencies' definition of Pass. Loans meet the definition of Pass

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

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At December 31, 2015 and 2014, 97.2 % and 95.8% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction. The Company uses the following definitions for risk ratings:

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

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

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

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

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

Portfolio segments:

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

Securities-based loans. Securities-based loans allow clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through Stifel's Pledged Asset ("SPA") program. The allowance methodology for securities-based lending considers the collateral type underlying the loan.

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

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

Construction and land. Short-term loans used to finance the development of a real estate project. Based on the most recent analysis performed, the risk category of our loan portfolio was as follows: (in thousands):

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Construction and land	3,899	—	—	—	3,899
Total	\$3,153,743	\$ 12,502	\$ 14,339	\$ —	\$3,180,584

As of December 31, 2014

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$896,853	\$ —	\$ —	\$ —	896,853
Securities based loans	732,799	—	—	—	732,799
Consumer	25,447	28	14	—	25,489
Residential real estate	421,209	6,603	4,834	—	432,646
Commercial real estate	15,902	—	—	—	15,902
Home equity lines of credit	12,945	—	—	—	12,945
Construction and land	—	—	—	—	—
Total	\$2,105,155	\$ 6,631	\$ 4,848	\$ —	\$2,116,634

NOTE 10 – Fixed Assets

The following is a summary of fixed assets as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Furniture and equipment	\$238,075	\$194,421
Building and leasehold improvements	146,954	124,390
Property on operating leases	21,064	100
	406,093	318,911
Less accumulated depreciation and amortization	(224,127)	(194,665)
	\$181,966	\$124,246

For the years ended December 31, 2015, 2014, and 2013, depreciation and amortization totaled \$36.7 million, \$29.3 million, and \$34.0 million, respectively.

NOTE 11 – Goodwill and Intangible Assets

Our annual goodwill impairment testing was completed as of July 31, 2015, with no impairment identified.

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

	December 31,		December 31,	
	2014	Net Additions	Impairment Losses	2015
Goodwill				
Global Wealth Management	\$ 177,171	\$ 118,213	\$ —	\$ 295,384
Institutional Group	617,855	2,363	—	620,218
	\$ 795,026	\$ 120,576	\$ —	\$ 915,602

	December 31,		December 31,	
	2014	Net Additions	Amortization	2015
Intangible assets				
Global Wealth Management	\$ 23,503	\$ 12,084	\$ (5,560)	\$ 30,027
Institutional Group	31,060	6,953	(4,863)	33,150

\$ 54,563 \$ 19,037 \$ (10,423) \$ 63,177

The additions to goodwill and intangible assets during the year ended December 31, 2015, are primarily attributable to the acquisition of Sterne Agee, which closed on June 5, 2015, and Barclays, which closed on December 31, 2015. The allocation of the purchase price for these acquisitions is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of the acquisitions as of the respective acquisition dates and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from the preliminary estimate reflected herein. Goodwill for certain of our acquisitions is deductible for tax purposes.

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and non-compete agreements that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of December 31, 2015 and 2014 were as follows (in thousands):

	December 31, 2015		December 31, 2014	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Value	Amortization	Value	Amortization
Customer relationships	\$78,580	\$ 37,322	\$63,661	\$ 29,636
Trade name	24,456	6,969	21,423	5,322
Investment banking backlog	7,440	7,388	7,388	7,388
Core deposits	5,447	5,447	5,447	4,657
Non-compete agreements	2,517	255	1,484	120
	\$118,440	\$ 57,381	\$99,403	\$ 47,123

Amortization expense related to intangible assets was \$10.4 million, \$12.3 million, and \$11.8 million for the years ended December 31, 2015, 2014, and 2013, respectively.

The weighted-average remaining lives of the following intangible assets at December 31, 2015, are: customer relationships, 7.5 years; trade name, 11.3 years; and non-compete agreements, 2.8 years. We have an intangible asset that is not subject to amortization and is therefore, not included in the table below. As of December 31, 2015, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
2016	\$7,613
2017	6,988
2018	6,500
2019	5,949
2020	6,027
Thereafter	27,982
	\$61,059

NOTE 12 – Borrowings

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

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

	December 31, 2015	December 31, 2014
Borrowings on secured lines of credit	\$ 30,000	\$ —
Federal Home Loan Bank advances	148,000	—
Term loans	59,084	—
	\$ 237,084	\$ —

Our uncommitted secured lines of credit at December 31, 2015, totaled \$980.0 million with seven banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was \$496.5 million during the year ended December 31, 2015. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are day-to-day and are generally utilized to finance certain fixed income securities. At December 31, 2015, our uncommitted secured lines of credit were collateralized by company-owned

securities valued at \$248.5 million.

Our committed bank line financing at December 31, 2015, consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.00%, as defined in the revolving credit facility. At December 31, 2015, we had no advances on our revolving credit facility and were in compliance with all covenants.

The Federal Home Loan advances as of December 31, 2015 are floating-rate advances. The weighted average interest rates during the year ended December 31, 2015 on these advances is 0.31%. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

As of December 31, 2015, a subsidiary of the Parent was a party to two Term Loans ("Term Loans") with Regions Bank. The Term Loans mature on June 3, 2016. The interest rate under the Amended and Restated Credit Agreement is calculated as per annum rate equal to LIBOR, as defined. During the year ended December 31, 2015, interest rates ranged from 1.68% to 1.92%.

NOTE 13 – Senior Notes

The following table summarizes our senior notes as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
3.50% senior notes, due 2020 ¹	\$300,000	\$—
5.375% senior notes, due 2022 ²	150,000	150,000
4.250% senior notes, due 2024 ³	300,000	300,000
6.70% senior notes, due 2022 ⁴	—	175,000
	\$750,000	\$625,000

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

²In December 2012, we sold in a registered underwritten public offering, \$150.0 million in aggregate principal amount of 5.375% senior notes due December 2022. Interest on these senior notes is payable quarterly in arrears. On or after December 31, 2015, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.

³In July 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024. Interest on these senior notes is payable semi-annually in arrears. We may redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a “make-whole” premium and accrued and unpaid interest, if any, to the date of redemption.

⁴In January 2012, we sold in a registered underwritten public offering, \$175.0 million in aggregate principal amount of 6.70% senior notes due January 2022. Interest on these senior notes is payable quarterly in arrears. On January 15, 2015, we redeemed 100% of our company’s outstanding 6.70% senior notes.

Our senior notes mature as follows, based upon contractual terms:

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

NOTE 14 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at December 31, 2015 and 2014 were as follows (in thousands):

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	December 31,	
	2015	2014
Money market and savings accounts	\$6,429,780	\$4,600,757
Demand deposits (interest-bearing)	185,275	101,652
Certificates of deposit	15,087	77,197
Demand deposits (non-interest-bearing)	8,214	10,475
	6,638,356	\$4,790,081

The weighted-average interest rate on deposits was 0.17% and 0.19% at December 31, 2015 and 2014, respectively.

Scheduled maturities of certificates of deposit at December 31, 2015 and 2014 were as follows (in thousands):

	December 31,	
	2015	2014
Certificates of deposit, less than \$100:		
Within one year	\$4,863	\$26,769
One to three years	2,356	6,874
Three to five years	145	1,268
Over five years	—	—
	\$7,364	\$34,911
Certificates of deposit, \$100 and greater:		
Within one year	\$5,464	\$33,784
One to three years	1,975	7,520
Three to five years	284	723
Over five years	—	259
	7,723	42,286
	\$15,087	\$77,197

At December 31, 2015 and 2014, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of \$6.6 billion and \$4.7 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.3 million and \$0.3 million, respectively.

NOTE 15 – Derivative Instruments and Hedging Activities

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

The following table provides the notional values and fair values of our derivative instruments as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015			
	Asset Derivatives	Liability Derivatives		
	Balance	Positive	Balance	Negative
	Sheet		Sheet	
Notional	Fair		Fair	
Value	Value	Location	Value	Location

Derivatives designated as hedging instruments under
Topic 815:

					Accounts	
					payable and	
Cash flow interest rate contracts	\$ 179,110	Other assets	\$ —		accrued expenses	\$ (3,591)

December 31, 2014

	Notional Value	Asset Derivatives Balance Sheet Location	Positive Fair Value	Liability Derivatives Balance Sheet Location	Negative Fair Value
--	----------------	--	------------------------	--	------------------------

Derivatives designated as hedging instruments under
Topic 815:

					Accounts	
					payable and	
Cash flow interest rate contracts	\$ 272,967	Other assets	\$ —		accrued expenses	\$ (5,641)

Cash Flow Hedges

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next ten years.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. The loss recognized during the year ended December 31, 2015, related to ineffectiveness was insignificant.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that \$1.9 million will be reclassified as an increase to interest expense.

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the years ended December 31, 2015, 2014, and 2013 (in thousands):

Year Ended December 31, 2015					
	Location of		Location of		
	Gain/(Loss)				
	Loss	Loss	Loss	Loss	
	Recognized				
	in	Reclassified	Reclassified	Recognized in	Recognized
	OCI	From OCI	From OCI	OCI	Due to
	(Effectiveness)	Income	Into Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	\$ (2,137)	Interest Expense	\$ 3,824	None	\$ —

Year Ended December 31, 2014					
	Location of		Location of		
	Gain/(Loss)				
	Loss	Loss	Loss	Loss	
	Recognized				
	in	Reclassified	Reclassified	Recognized in	Recognized
	OCI	From OCI	From OCI	OCI	Due to
	(Effectiveness)	Income	Into Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	\$ (2,576)	Interest expense	\$ 6,068	None	\$ —

Year Ended December 31, 2013				
	Location of		Location of	
	Gain/(Loss)			
	Loss	Loss	Loss	Loss
	Recognized			
	in	Reclassified	Loss	Recognized

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

	OCI	Reclassified	From OCI	Recognized in	Due to
	(Effective)	From OCI	Into Income	OCI	Ineffectiveness
		Into Income		(Ineffectiveness)	
Cash flow interest rate contracts	\$2,644	Interest expense	\$ 8,593	None	\$ —

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 5 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

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

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

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

Regulatory Capital-Related Contingency Features

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

As of December 31, 2015, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.6 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$12.7 million against our obligations under these agreements. If we had breached any of these provisions at December 31, 2015, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

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

NOTE 16 – Debentures to Stifel Financial Capital Trusts

The following table summarizes our debentures to Stifel Financial Capital Trusts as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Debenture to Stifel Financial Capital Trust II ¹	\$35,000	\$35,000
Debenture to Stifel Financial Capital Trust III ²	35,000	35,000
Debenture to Stifel Financial Capital Trust IV ³	12,500	12,500
	\$82,500	\$82,500

On August 12, 2005, we completed a private placement of \$35.0 million of 6.38% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust II (the "Trust II"), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 30, 2035, but may be redeemed by our company, and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.70% per annum.

²On March 30, 2007, we completed a private placement of \$35.0 million of 6.79% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust III (the "Trust III"), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on June 6, 2037, but may be redeemed by our company, and in turn, Trust III would call the debenture beginning June 6, 2012. Trust III requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

³On June 28, 2007, we completed a private placement of \$35.0 million of 6.78% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust IV (the "Trust IV"), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 6, 2037, but may be redeemed by our company, and in turn, Trust IV would call the debenture beginning September 6, 2012. Trust IV requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

NOTE 17 – Disclosures About Offsetting Assets and Liabilities

The following table provides information about financial assets and derivative assets that are subject to offset as of December 31, 2015 and 2014 (in thousands):

				Gross amounts not offset		
					in the Statement of	
					Financial Condition	
	Gross	Net				
	Amounts	Amounts				
	Gross	Offset in	Presented in			
	Amounts of	the Statement	the Statement			
	Recognized	of Financial	of Financial	Amounts	Net	
	Assets	Condition	Condition	available	Available	Amount
				for offset	collateral	
As of December 31, 2015:						
Securities borrowing ¹	\$ 318,105	\$ —	\$ 318,105	\$(182,399)	\$(123,309)	\$12,397
Reverse repurchase agreements ²	160,423	—	\$ 160,423	(160,423)	—	\$-
	\$ 478,528	\$ —	\$ 478,528	\$(342,822)	\$(123,309)	\$12,397
As of December 31, 2014:						
Securities borrowing ¹	\$ 445,542	\$ —	\$ 445,542	\$—	\$(431,301)	\$14,241
Reverse repurchase agreements ²	55,078	—	55,078	—	(54,955)	123
	\$ 500,620	\$ —	\$ 500,620	\$—	\$(486,256)	\$14,364

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

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

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of December 31, 2015 and 2014 (in thousands):

Gross amounts not
offset

in the Statement of

Financial Condition						
	Gross		Net			
	Amounts		Amounts			
	Gross	Offset in	Presented in			
	Amounts of	the Statement	the Statement			
	Recognized	of Financial	of Financial	Amounts	Collateral	Net
	Liabilities	Condition	Condition	available	Pledged	Amount
				for offset		
As of December 31, 2015:						
Securities lending ³	\$ (329,670)	\$ —	\$ (329,670)	\$ 182,399	\$ 132,784	\$ (14,487)
Repurchase agreements ⁴	(278,674)	—	(278,674)	160,423	118,251	-
Cash flow interest rate contracts	(3,591)	—	(3,591)	—	3,591	-
	\$ (611,935)	\$ —	\$ (611,935)	\$ 342,822	\$ 254,626	\$ (14,487)
As of December 31, 2014:						
Securities lending ³	\$ (4,215)	\$ —	\$ (4,215)	\$ —	\$ 3,892	\$ (323)
Repurchase agreements ⁴	(39,180)	—	(39,180)	—	39,089	(91)
Cash flow interest rate contracts	(5,641)	—	(5,641)	—	5,641	—
	\$ (49,036)	\$ —	\$ (49,036)	\$ —	\$ 48,622	\$ (414)

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

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

NOTE 18 – Commitments, Guarantees, and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at December 31, 2015, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$82.2 million to satisfy the minimum margin deposit requirement at December 31, 2015.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$27.4 million in cash to satisfy the minimum margin deposit requirement at December 31, 2015.

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

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 23 in the notes to consolidated financial statements for further details.

We have committed capital to certain entities, and these commitments generally have no specified call dates. We had \$23.8 million of commitments outstanding at December 31, 2015, of which \$12.5 million relate to commitments to certain strategic relationships with Business Development Corporations.

Concentration of Credit Risk

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of December 31, 2015 and 2014, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Operating Leases

Future minimum commitments under non-cancelable operating leases at December 31, 2015, are as follows (in thousands):

2016	\$92,848
------	----------

2017	81,987
2018	73,844
2019	68,666
2020	54,119
Thereafter	149,195
	\$520,659

Certain leases contain provisions for renewal options and escalation clauses based on increases in certain costs incurred by the lessor. We amortize office lease incentives and rent escalation on a straight-line basis over the life of the lease. Rent expense for the years ended December 31, 2015, 2014, and 2013 was \$93.6 million, \$78.6 million, and \$74.2 million, net of sublease income.

NOTE 19 – Legal Proceedings

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial

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

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

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

SEC/Wisconsin Lawsuit

A civil lawsuit was filed against our company by the SEC in connection with our role in the sale of collateralized debt obligations (“CDOs”) investments to five Southeastern Wisconsin school districts (the “school districts”) in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The SEC has asserted claims under Section 15c(1) (A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. We answered, denied the substantive allegations of the amended complaint and asserted various affirmative defenses. In January 2016, the parties filed motions for summary judgment and are awaiting the court’s rulings on those motions. The lawsuit had been set for trial commencing on April 11, 2016, but the Court has postponed the trial to commence on September 12, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the claims.

EDC Bond Issuance Matter

We have been named, along with other parties, in a lawsuit filed in Wisconsin state court asserting various claims by LDF Acquisition LLC (“LDF”), a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively “Saybrook”) and by the Lac Du Flambeau Band of Lake Superior Chippewa Indians and its Lake of the Torches Economic Development Corporation (the “Tribe”) in which, among other things, Saybrook seeks repayment from the Tribe for the proceeds from a \$50 million 2008 bond offering (“the bonds”) and in which the Tribe seeks to avoid repayment, as well as other claims against us and others. We were the initial purchaser of the bonds, which were immediately sold to LDF. The claims asserted against Stifel are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, intentional and negligent misrepresentations relating to those matters. Saybrook seeks rescissory relief as well as restitutionary damages, including the amounts paid for the bonds, plus costs. The claims are set for trial commencing on October 11, 2016.

While there can be no assurance that we will be successful, we intend to vigorously defend the claims.

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

Our Company, Stifel Nicolaus and Stone & Youngberg, LLC (“Stone & Youngberg”) are named in an Amended Complaint filed in U.S. District Court for the Middle District of Louisiana alleging fraud on the part of Stone & Youngberg in the formation of the Collybus CDO manufactured by Cantor Fitzgerald & Co. (“Cantor”) and purchased by Commonwealth Advisors (“CA”) on behalf of several CA funds, as well as in connection with other transactions in the CA funds with CA. The original Complaint named Cantor, CA, and CA’s CEO, Walter Morales. The CA funds filed a Chapter 11 bankruptcy petition which stayed the original lawsuit until the reorganization plan was entered by the court in the fall of 2013. Shortly thereafter, the CA funds filed their first Amended Complaint, which has been amended several times since then. The claims are set for trial commencing on November 28, 2016. While there can be no assurance that we will be successful, we intend to vigorously defend the claims. We have established reserves supported by purchase price consideration the Company has withheld pursuant to the terms of the acquisition of Stone & Youngberg in 2011 which at this time we believe are adequate.

NOTE 20 – Regulatory Capital Requirements

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

At December 31, 2015, Stifel had net capital of \$310.1 million, which was 20.2% of aggregate debit items and \$279.3 million in excess of its minimum required net capital. At December 31, 2015, all of our other broker-dealer subsidiaries’ net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries are subject to the regulatory supervision and requirements of the Financial Conduct Authority (“FCA”) in the United Kingdom. At December 31, 2015, our international subsidiaries’ capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

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

Effective January 1, 2015, our company and Stifel Bank became subject to Basel III. Under the Basel III rules, the quantity and quality of regulatory capital increases, a capital conservation buffer was established, selected changes were made to the calculation of risk-weighted assets, and a new ratio, common equity Tier 1 was introduced, all of which are applicable to both our company and Stifel Bank. Various aspects of Basel III will be subject to multi-year transition periods through December 31, 2018.

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

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

Stifel Financial Corp. – Federal Reserve Capital Amounts

December 31, 2015

					To Be Well Capitalized	
			For Capital		Under Prompt Corrective	
	Actual		Adequacy Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	\$1,572,883	25.4 %	\$278,996	4.5 %	\$402,994	6.5 %
Tier 1 capital	1,631,324	26.3	371,995	6.0	495,993	8.0
Total capital	1,661,746	26.8	495,993	8.0	619,992	10.0
Tier 1 leverage	1,631,324	16.6	392,848	4.0	491,060	5.0

Stifel Bank – Federal Reserve Capital Amounts

December 31, 2015

			For Capital		To Be Well Capitalized	Under Prompt Corrective	
	Actual		Adequacy			Action	
	Amount	Ratio	Purposes	Ratio		Provisions	Ratio
Common equity tier 1 capital	\$457,300	13.6 %	150,802	4.5 %		217,825	6.5 %
Tier 1 capital	457,300	13.6	201,069	6.0		268,092	8.0
Total capital	487,844	14.6	268,092	8.0		335,115	10.0
Tier 1 leverage	457,300	8.1	226,905	4.0		283,632	5.0

NOTE 21 – Interest Income and Interest Expense

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

	Year Ended December 31,		
	2015	2014	2013
Interest income:			
Investment securities	\$53,787	\$71,526	\$62,155
Bank loans, net of unearned income	79,816	71,167	38,608
Margin balances	22,421	19,095	18,222
Other	23,077	24,181	23,554
	\$179,101	\$185,969	\$142,539
Interest expense:			
Senior notes	\$25,695	\$26,617	\$20,648
Bank deposits	7,813	7,926	11,775
Other	11,891	6,718	13,945
	\$45,399	\$41,261	\$46,368

NOTE 22 – Employee Incentive, Deferred Compensation, and Retirement Plans

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

company's incentive stock award plans are granted at market value at the date of grant. The awards generally vest ratably over a one- to eight-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 5.4 million shares at December 31, 2015.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$142.1 million, \$111.6 million, and \$124.5 million for the years ended December 31, 2015, 2014, and 2013, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was \$14.7 million, \$19.9 million, and \$12.0 million for the years ended December 31, 2015, 2014, and 2013, respectively.

On June 5, 2015, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was \$23.8 million. The fair value of the awards is based upon the closing price of our company's common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the years ended December 31, 2015.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the year ended December 31, 2015, no options were granted.

A summary of option activity under the plans as of December 31, 2014, and changes during the year then ended is presented below (in thousands, except exercise price and contractual terms):

	Options	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding December 31, 2014	126	\$ 31.61		
Granted	—	—		
Exercised	44	16.48		
Forfeited	—	—		
Expired	—	—		
Outstanding December 31, 2015	82	\$ 39.88	1.62	\$ 1,156

At December 31, 2015, all outstanding options were exercisable. The total intrinsic value of options exercised during the year ended December 31, 2015 was not material. The total intrinsic value of options exercised during the years ended December 31, 2014 and 2013 was \$1.6 million and \$2.8 million, respectively. Cash proceeds from the exercise of stock options were not material for the year ended December 31, 2015. Cash proceeds were \$0.3 million and \$3.6 million, for the years ended December 31, 2014 and 2013, respectively. Tax benefits realized from the exercise of stock options for the years ended December 31, 2015, 2014, and 2013 were \$0.6 million, \$0.5 million, and \$1.1 million, respectively.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next one to eight years and are distributable, if vested, at future specified dates. At December 31, 2015, the total number of stock units outstanding was 18.5 million, of which 12.3 million were unvested.

A summary of unvested stock unit activity under the plans as of December 31, 2015, and changes during the year then ended is presented below (in thousands, except weighted-average fair value):

	Stock Units	Weighted-average grant date fair value
Unvested December 31, 2014	11,404	\$ 39.70
Granted	3,672	49.99
Vested	(2,313)	45.64
Cancelled	(489)	36.61
Unvested December 31, 2015	12,274	\$ 41.78

At December 31, 2015, there was unrecognized compensation cost for stock units of approximately \$319 million, which is expected to be recognized over a weighted-average period of 3.3 years.

Deferred Compensation Plans

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

Additionally, the Plan allows Stifel Nicolaus’ financial advisors who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the Plan, the financial advisors will defer 4% of their gross commissions. They have the option to: 1) defer 5% of their gross commissions into company stock units and may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution, or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of \$15.5 million and \$18.1 million at December 31, 2015 and 2014, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At December 31, 2015 and 2014, the deferred compensation liability related to the mutual fund option of \$12.4 million and \$15.7 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

Employee Profit Sharing Plan

Eligible employees of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the “Plan”). Employees are permitted within limitations imposed by tax law to make pre-tax contributions to the Plan. We may match certain employee contributions or make additional contributions to the Plan at the discretion at our discretion. Our contributions to the Profit Sharing Plan were \$7.7 million, \$4.9 million, and \$6.4 million for the years ended December 31, 2015, 2014, and 2013, respectively.

NOTE 23 – Off-Balance Sheet Credit Risk

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

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

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2015 and 2014, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$2.4 billion and \$1.2 billion, respectively, and the fair value of the collateral that had been sold or repledged was \$278.7 million and \$39.2 million, respectively.

We enter into interest rate derivative contracts to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are principally used to manage differences in the amount, timing, and duration of

our known or expected cash payments related to certain variable-rate affiliated deposits. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments. Our interest rate hedging strategies may not work in all market environments and, as a result, may not be effective in mitigating interest rate risk.

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

For a complete discussion of our activities related to derivative instruments, see Note 15 in the notes to consolidated financial statements.

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

necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At December 31, 2015 and 2014, Stifel Bank had outstanding commitments to originate loans aggregating \$130.5 million and \$122.8 million, respectively. The commitments extended over varying periods of time, with all commitments at December 31, 2015, scheduled to be disbursed in the following three months.

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

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At December 31, 2015 and 2014, Stifel Bank had outstanding letters of credit totaling \$38.7 million and \$10.4 million, respectively. A majority of the standby letters of credit commitments at December 31, 2015, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2015 and 2014, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$403.2 million and \$358.1 million, respectively.

NOTE 24 – Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current taxes:			
Federal	\$43,962	\$100,262	\$26,695
State	9,672	21,835	9,954
Foreign	1,329	(1,831)	365
	54,963	120,266	37,014
Deferred taxes:			
Federal	(9,396)	(275)	(20,724)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

State	3,056	(8,064)	(2,000)
Foreign	608	(263)	(1,968)
	(5,732)	(8,602)	(24,692)
Provision for income taxes	\$49,231	\$111,664	\$12,322

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Reconciliation of the statutory federal income tax rate with our company's effective income tax rate is as follows:

	Year Ended December 31,		
	2015	2014	2013
Statutory rate	\$49,548	\$101,778	\$64,831
State income taxes, net of federal income tax	7,908	14,860	11,433
Change in valuation allowance	535	(2,433)	1,659
Provision to return	904	(2,956)	(3,003)
Investment in subsidiary	(4,800)	—	(58,153)
Change in uncertain tax position	(3,903)	276	(2,956)
Non-taxable book gain	—	—	(2,647)
Revaluation of deferred taxes	—	—	(2,290)
Other, net	(961)	139	3,448
	\$49,231	\$111,664	\$12,322

Tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities (in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
Deferred compensation	\$173,759	\$161,972
Net operating loss carryforwards	48,831	50,251
Accrued expenses	65,451	37,673
Unrealized loss on investments	27,769	35,855
Depreciation	10,055	13,306
Receivable reserves	16,343	10,595
Investment and jobs creation credit	-	350
Total deferred tax assets	342,208	310,002
Valuation allowance	(12,738)	(7,385)
	329,470	302,617
Deferred tax liabilities:		
Goodwill and other intangibles	(33,437)	(24,346)
Change in accounting method	(625)	(12,270)
Prepaid expenses	(4,211)	(3,602)
Other	(6,070)	(4,257)
	(44,343)	(44,475)
Net deferred tax asset	\$285,127	\$258,142

Our net deferred tax asset at December 31, 2015, includes net operating loss carryforwards of \$77.4 million that expire between 2016 and 2035. A valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The valuation allowance was increased by \$5.4 million to adjust the tax benefit of certain state tax credits and foreign net operating losses that we have determined is more likely than not realizable. We believe the realization of the remaining net deferred tax asset of \$285.1 million is more likely than not based on the ability to carry back losses against prior year taxable income and expectations of future taxable

income.

The current tax payable, included in accounts payable and accrued expenses, is a receivable of \$1.0 million and a payable of \$31.3 million as of December 31, 2015 and 2014, respectively.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of our foreign subsidiaries that are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible. If management's intentions or U.S. tax laws change in the future, there may be a significant impact on the provision for income taxes to record a change in the tax liability in the period the change occurs.

129

Uncertain Tax Positions

As of December 31, 2015 and 2014, we had \$2.7 million and \$5.5 million, respectively, of gross unrecognized tax benefits, all of which, if recognized, would impact the effective tax rate. We recognize interest and penalties related to uncertain tax positions in provision for income taxes/(benefits) in the consolidated statements of operations. As of December 31, 2015 and 2014, we had accrued interest and penalties of \$0.8 million and \$1.2 million, respectively, before benefit of federal tax deduction, included in accounts payable and accrued expenses on our consolidated statements of financial condition. The amount of interest and penalties recognized on our consolidated statements of operations for the years ended December 31, 2015, 2014, and 2013 was not significant.

The following table summarizes the activity related to our company's unrecognized tax benefits from January 1, 2013 to December 31, 2015 (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Beginning balance	\$5,510	\$5,158	\$1,750
Increase related to prior year tax positions	1,206	627	3,044
Decrease related to prior year tax positions	(33)	(443)	(40)
Increase related to current year tax positions	-	294	133
Decrease related to settlements with taxing authorities	(4,815)	(126)	(6,086)
Decrease related to lapsing of statute of limitations	—	—	(356)
Increase related to business acquisitions	849	—	6,713
Ending balance	\$2,717	\$5,510	\$5,158

We file income tax returns with the U.S. federal jurisdiction, various states, and certain foreign jurisdictions. We are not subject to U.S. federal examination for taxable years before 2011. We are not subject to certain state and local, or non-U.S. income tax examinations for taxable years before 2008.

There is a reasonable possibility that the unrecognized tax benefits will change within the next 12 months as a result of the expiration of various statutes of limitations or for the resolution of U.S. federal and state examinations, but we do not expect this change to be material to the consolidated financial statements.

NOTE 25 – Segment Reporting

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

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

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Information concerning operations in these segments of business for the years ended December 31, 2015, 2014, and 2013 is as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Net revenues: ⁽¹⁾			
Global Wealth Management	\$1,377,313	\$1,232,651	\$1,117,179
Institutional Group	975,594	997,071	864,371
Other	(21,313)	(21,298)	(8,104)
	\$2,331,594	\$2,208,424	\$1,973,446
Income/(loss) before income taxes:			
Global Wealth Management	\$382,126	\$346,978	\$299,572
Institutional Group	141,042	165,546	149,599
Other	(381,601)	(221,730)	(263,942)
	\$141,567	\$290,794	\$185,229

¹No individual client accounted for more than 10 percent of total net revenues for the years ended December 31, 2015, 2014, and 2013.

The following table presents our company's total assets on a segment basis at December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Global Wealth Management	\$10,519,575	\$5,816,284
Institutional Group	2,193,781	3,476,592
Other	622,559	225,275
	\$13,335,915	\$9,518,151

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

Revenues, classified by the major geographic areas in which they are earned for the years ended December 31, 2015, 2014, and 2013, were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
United States	\$2,195,538	\$2,082,876	\$1,894,300
United Kingdom	125,552	113,943	67,394
Other European	10,504	11,605	11,752
	\$2,331,594	\$2,208,424	\$1,973,446

NOTE 26 – Earnings Per Share (“EPS”)

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

131

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2015, 2014, and 2013 (in thousands, except per share data):

	Year Ended December 31,		
	2015	2014	2013
Income from continuing operations	\$92,336	\$179,130	\$172,907
Loss from discontinued operations, net of tax	—	(3,063)	(10,894)
Net income	\$92,336	\$176,067	\$162,013
Shares for basic and diluted calculation:			
Average shares used in basic computation	68,543	66,472	63,568
Dilutive effect of stock options and units ⁽¹⁾	10,011	9,904	9,936
Average shares used in diluted computation	78,554	76,376	73,504
Earnings per basic common share:			
Income from continuing operations	\$1.35	\$2.69	\$2.72
Loss from discontinued operations	—	(0.04)	(0.17)
Earnings per basic common share	\$1.35	\$2.65	\$2.55
Earnings per diluted common share:			
Income from continuing operations	\$1.18	\$2.35	\$2.35
Loss from discontinued operations	—	(0.04)	(0.15)
Earnings per basic common share	\$1.18	\$2.31	\$2.20

¹ Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

For the years ended December 31, 2015, 2014, and 2013, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 27 – Shareholders' Equity

Share Repurchase Program

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At December 31, 2015, the maximum number of shares that may yet be purchased under this plan was 5.8 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the year ended December 31, 2015, we repurchased \$117.7 million or 2.7 million shares using existing Board authorization at an average price of \$43.91 per share to meet obligations under our company's employee benefit plans and for general corporate purposes. There were no share repurchases during the year ended December 31, 2014.

Issuance of Common Stock

On June 5, 2015, we issued 1.4 million shares related to the purchase of Sterne Agee Group, Inc. See Note 3 in the notes to consolidated financial statements for additional information regarding the acquisition.

During the year ended December 31, 2014, we issued 2.6 million shares. During the years ended December 31, 2013, we issued 8.8 million shares, which included the reissuance of 0.5 million shares from treasury.

Share issuances during the year ended December 31, 2015, were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration in our acquisition of Sterne.

Share issuances during the year ended December 31, 2014, were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration in our acquisition of Oriel and Merchant. Share issuances during the year ended December 31, 2013, were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration in our acquisition of KBW, Inc and ZCM. See Note 3 in the notes to consolidated financial statements for additional information regarding our acquisitions.

On February 15, 2013, we issued 6.7 million shares related to the purchase of KBW, Inc. See Note 3 in the notes to consolidated financial statements for additional information regarding our acquisitions.

On November 30, 2013, we issued 0.1 million shares related to the purchase of ZCM. See Note 3 in the notes to consolidated financial statements for additional information regarding our acquisitions.

On July 31, 2014, we issued 0.3 million shares related to the purchase of Oriel. See Note 3 in the notes to consolidated financial statements for additional information regarding our acquisitions.

On December 31, 2014, we issued 0.1 million shares related to the purchase of Merchant. See Note 3 in the notes to consolidated financial statements for additional information regarding our acquisitions.

NOTE 28 – Variable Interest Entities

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

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of \$199.3 million at December 31, 2015. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner.

Management fee revenue earned by our company was insignificant during the years ended December 31, 2015, 2014, and 2013. In addition, our direct investment interest in these entities is insignificant at December 31, 2015 and 2014.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of \$271.1 million at December 31, 2015. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at December 31, 2015. Management fee revenue earned by our company was insignificant during the years ended December 31, 2015, 2014, and 2013.

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

the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation.

Debenture to Stifel Financial Capital Trusts

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

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

Interest in FSI Group, LLC (“FSI”)

We have provided financing of \$18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. In February 2013, the convertible promissory note was amended and restated. The convertible promissory note matures in April 2018; however, FSI has three five-year extension options. The note is convertible at our election into a 49.9% interest in FSI only after the last extension option. The convertible promissory note has a minimum coupon rate equal to 8% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not required to consolidate this entity.

Our company’s exposure to loss is limited to the carrying value of the note with FSI at December 31, 2015, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at December 31, 2015. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of December 31, 2015. Our company’s involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 29 – Subsequent Events

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

NOTE 30 – Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Year Ended December 31, 2015:				
Total revenues	\$574,001	\$607,849	\$601,371	\$593,771
Interest expense	13,019	10,098	9,796	12,485
Net revenues	560,982	597,751	591,575	581,286
Total non-interest expenses	490,916	559,680	569,227	570,204
Income from continuing operations before income				
tax expense	70,066	38,071	22,348	11,082
Provision for income taxes	26,969	17,183	5,169	(90)
Income from continuing operations	43,097	20,888	17,179	11,172
Loss from discontinued operations, net of tax	—	—	—	—

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Net income	\$43,097	\$20,888	\$17,179	\$11,172
Earnings per basic common share				
Income from continuing operations	\$0.62	\$0.31	\$0.25	\$0.16
Loss from discontinued operations	—	—	—	—
Earnings per basic common share	\$0.62	\$0.31	\$0.25	\$0.16
Earnings per diluted common share				
Income from continuing operations	\$0.56	\$0.27	\$0.22	\$0.14
Loss from discontinued operations	—	—	—	—
Earnings per diluted common share	\$0.56	\$0.27	\$0.22	\$0.14
Weighted-average number of common shares				
outstanding:				
Basic	68,006	68,370	69,633	68,150
Diluted	77,359	77,856	79,759	79,355

(in thousands, except per share amounts)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Year Ended December 31, 2014:				
Total revenues	\$555,377	\$568,989	\$534,683	\$590,636
Interest expense	8,631	8,842	11,228	12,560
Net revenues	546,746	560,147	523,455	578,076
Total non-interest expenses	468,618	482,624	457,689	508,698
Income from continuing operations before income				
tax expense	78,128	77,523	65,766	69,378
Provision for income taxes	30,155	31,946	25,673	23,890
Income from continuing operations	47,973	45,577	40,093	45,488
Income/(loss) from discontinued operations, net of tax	(591)	(1,976)	(190)	(306)
Net income	\$47,382	\$43,601	\$39,903	\$45,182
Earnings per basic common share				
Income from continuing operations	\$0.73	\$0.69	\$0.60	\$0.67
Loss from discontinued operations	(0.01)	(0.03)	—	—
Earnings per basic common share	\$0.72	\$0.66	\$0.60	\$0.67
Earnings per diluted common share				
Income from continuing operations	\$0.63	\$0.60	\$0.52	\$0.59
Loss from discontinued operations	—	(0.02)	—	(0.01)
Earnings per diluted common share	\$0.63	\$0.58	\$0.52	\$0.58
Weighted-average number of common shares				
outstanding:				
Basic	66,037	66,302	66,691	66,851
Diluted	75,691	75,641	76,681	77,540

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by the management of Stifel Financial Corp., with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Stifel Financial Corp., together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. Our company's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has assessed the effectiveness of our company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013).

Based on management's assessment and those criteria, we conclude that, as of December 31, 2015, our company's internal control over financial reporting is effective.

Our internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of our company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our company's assets that could have a material effect on our consolidated financial statements.

Our company's internal control over financial reporting as of December 31, 2015, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on the following page, which expresses an unqualified opinion on the effectiveness of our company's internal control over financial reporting as of December 31, 2015.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Stifel Financial Corp.

We have audited Stifel Financial Corp.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Stifel Financial Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stifel Financial Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Stifel Financial Corp. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, and our report dated March 1, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

March 1, 2016

ITEM 9B. OTHER INFORMATION

None

138

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information regarding our Board of Directors and committees, our Corporate Governance, compliance with Section 16(a) of the Securities Exchange Act of 1934, and procedures by which shareholders may recommend nominees to our Board of Directors is contained in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

Information regarding the executive officers is contained in Part 1, Item 1, “Executive Officers of the Registrant,” hereof. There is no family relationship between any of the directors or named executive officers.

Under Section 303A.12 (a) NYSE Listed Company Manual, the CEO certification was submitted to the NYSE after the 2015 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of certain executive officers and directors (“Executive Compensation”), as well as “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” is contained in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities authorized for issuance under equity compensation plans

The following table provides information as of December 31, 2015, with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan category	Number of securities to be issued	Weighted-average exercise price	Number of securities remaining available for
---------------	-----------------------------------	---------------------------------	--

	upon exercise	of outstanding	future issuance
	of outstanding options and units	options and units	under equity compensation plans
Equity compensation plans approved by the shareholders	18,555,681	\$ 40.20	7,426,266
Equity compensation plans not approved by the shareholders	—	—	—
	18,555,681	\$ 40.20	7,476,665

As of December 31, 2015, the total number of securities to be issued upon exercise of options and units consisted of 81,711 options and 18,473,970 units, for a total of 18,555,681 shares. Those shares are issuable pursuant to the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), the 2007 Incentive Stock Plan, and the Equity Incentive Plan for Non-Employee Directors.

As of December 31, 2015, the remaining shares available for future grants or awards under equity compensation plans approved by the shareholders consist of 7,252,492 shares under the 2001 Incentive Stock Plan (2011 Restatement) and 174,173 shares under the Equity Incentive Plan for Non-Employee Directors, for a total of 7,426,665 shares.

The number of securities remaining available for future issuance under equity compensation plans reflects an adjustment to outstanding awards granted under the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement) to net shares withheld in payment of tax withholding obligations, due to a recent determination by the Compensation Committee to satisfy tax withholding obligations through the cancellation of shares subject to an award.

If an outstanding award granted under the 2001 Incentive Stock Plan (2011 Restatement) expires or is canceled or forfeited without having been exercised in full, the number of shares underlying such unexercised award will again become available for issuance.

Additional information with respect to this Item, including information regarding security ownership of certain beneficial owners and management is contained in “Ownership of Certain Beneficial Owners” and “Ownership of Directors, Nominees, and Executive

Officers,” included in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

Security ownership of certain beneficial owners

Information regarding security ownership of certain beneficial owners is contained in “Ownership of Certain Beneficial Owners,” included in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

Security ownership of management

Information regarding security ownership of certain beneficial owners and management is contained in “Ownership of Directors, Nominees, and Executive Officers,” included in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is contained in “Certain Relationships and Related Transactions,” and “Director Independence” included in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is contained in “Ratification of Appointment of Independent Registered Public Accounting Firm,” included in our Proxy Statement for the 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements are included in Item 8, "Financial Statements and Supplementary Data," and incorporated by reference hereto:

<u>Report of Independent Registered Public Accounting Firm</u>	Page 74
Consolidated Financial Statements:	
<u>Statements of Financial Condition as of December 31, 2015 and 2014</u>	75
<u>Statements of Operations for the years ended December 31, 2015, 2014, and 2013</u>	77
<u>Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013</u>	78
<u>Statements of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014, and 2013</u>	79
<u>Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013</u>	81
<u>Notes to the Consolidated Financial Statements</u>	84
2. Financial Statement Schedules	

All schedules are omitted, since the required information is either not applicable, not deemed material, or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits

A list of the exhibits to this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

EXHIBIT INDEX

STIFEL FINANCIAL CORP.
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2015

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended, filed with the Secretary of State of Delaware on June 3, 2009, incorporated herein by reference to Exhibit 4.1 to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-160523) filed on July 10, 2009.
3.2	Amended and Restated By-Laws of Stifel Financial Corp., effective August 7, 2012, incorporated by reference so Exhibit 3.2 to Stifel Financial Corp.'s Current Report on Form 8-K filed August 10, 2012.
3.3	Certificate of Designations, Preferences, and Rights of the Special Voting Preferred Stock, incorporated herein by reference to Exhibit 3.1 to Stifel Financial Corp.'s Current Report on Form 8-K filed on July 1, 2010.
10.1	Form of Indemnification Agreement with directors dated as of June 30, 1987, incorporated herein by reference to Exhibit 10.2 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported – June 22, 1987) filed July 14, 1987.
10.2	Stifel Financial Corp. Dividend Reinvestment and Stock Purchase Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-3 (Registration File No. 33-53699) filed May 18, 1994.
3(a)	Employment Letter with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(l) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1997.*
3(b)	Employment Agreement with Richard Himelfarb dated September 6, 2005, incorporated herein by reference to Exhibit 10.(p) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *
3(c)	Employment Agreement with Thomas Mulroy dated September 7, 2005, incorporated herein by reference to Exhibit 10.(q) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *
3(d)	Employment Agreement with Victor Nesi dated June 25, 2009, incorporated herein by reference to Exhibit 10.(EE) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 26, 2010.*
4(a)	Stock Unit Agreement with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(j)(2) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1998. *
4(b)	Stock Unit Agreement with James M. Zemlyak dated January 11, 2000, incorporated herein by reference to Exhibit 10.(s) to Stifel Financial Corp.'s Annual Report on Form 10-K / A Amendment No. 1 for the year ended December 31, 2001, filed on April 9, 2002. *

- 5 Stifel Financial Corp. 1999 Executive Incentive Performance Plan, incorporated herein by reference to Annex B of Stifel Financial Corp.'s Proxy Statement for the 1999 Annual Meeting of Shareholders filed March 26, 1999. *
- 6 Stifel Financial Corp. Equity Incentive Plan for Non-Employee Directors, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-52694) filed December 22, 2000. *
- 7 Stifel Financial Corp. Equity Incentive Plan for Non-Employee Directors, as restated and amended, incorporated by reference to Annex A of Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008. *
- 8 Stifel Profit Sharing 401(k) Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60516) filed May 9, 2001. *
- 9(a) Stifel Financial Corp. 2001 Incentive Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-82328) filed February 7, 2002. *
- 9(b) Stifel Financial Corp. 2001 Incentive Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105756) filed June 2, 2003. *
- 9(c) Stifel Financial Corp. 2001 Incentive Plan Amendment No. 2, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-140662) filed February 13, 2007. *

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-K

Exhibit No.	Description
9(d)	Stifel Financial Corp. 2001 Incentive Stock Plan, as restated and amended, incorporated herein by reference to Annex B to the Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008. *
9(e)	Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), as amended, incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported June 21, 2011) filed on June 22, 2011. *
9(f)	Form of Deferred Award Agreement for Restricted Stock Units pursuant to the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), filed herewith. *
9(g)	Form of Award Agreement for Restricted Stock Units and/or Debentures pursuant to the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), filed herewith. *
10	Stifel Financial Corp. 2003 Employee Stock Purchase Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-100414) filed October 8, 2002. *
11	Stifel Financial Corp. 2010 Executive Incentive Plan, incorporated herein by reference to Appendix A to Stifel Financial Corp.'s Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders filed on February 26, 2010. *
12(a)	Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60506) filed May 9, 2001. *
12(b)	Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105759) filed June 2, 2003. *
12(c)	First Amendment to Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan 2010 Restated, incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K filed on August 9, 2010. *
12(d)	Stifel Financial Corp., Wealth Accumulation Plan 2015 Restatement, incorporated by reference to Exhibit 10 to Stifel Financial Corp.'s Current Report on Form 8-K filed on September 4, 2015.*
12(e)	First Amendment to Stifel Financial Corp. Wealth Accumulation Plan 2015 Restatement, incorporated by reference to Exhibit 10 to Stifel Financial Corp.'s Current Report on Form 8-K filed on November 20, 2015.*
12(f)	Second Amendment to Stifel Financial Corp. Wealth Accumulation Plan 2015 Restatement, filed herewith.*
11	Computation of Per Share Earnings is set forth in Note 26 of Notes to Consolidated Financial Statements included in this Form 10-K.
21	List of Subsidiaries of Stifel Financial Corp., filed herewith.
23	Consent of Independent Registered Public Accounting Firm, filed herewith.

- 31.1. Certification of Ronald J. Kruszewski pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2. Certification of James M. Zemlyak pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1. Certification of Ronald J. Kruszewski pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 32.2. Certification of James M. Zemlyak pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 101. Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of December 31, 2015 and 2014; (ii) Consolidated Statements of Operations for the years ended December 31, 2015, 2014, and 2013; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014, and 2013; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2014, and 2013; and (vi) Notes to Consolidated Financial Statements.

*Management contract or compensatory plan or arrangement.

**The certifications attached as Exhibits 32.1 and 32.2 that accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Stifel Financial

Corp. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 1, 2016.

STIFEL FINANCIAL CORP.

By: /s/ Ronald J. Kruszewski
 Ronald J. Kruszewski
 Chairman of the Board, Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 1, 2016.

/s/ Ronald J. Kruszewski Ronald J. Kruszewski	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ James M. Zemlyak James M. Zemlyak	President, Chief Financial Officer, and Director (Principal Financial and Accounting Officer)
/s/ Bruce A. Beda Bruce A. Beda	Director
/s/ Michael W. Brown Michael W. Brown	Director
/s/ Charles A. Dill Charles A. Dill	Director
/s/ John P. Dubinsky John P. Dubinsky	Director
/s/ Robert E. Grady Robert E. Grady	Director
/s/ Frederick O. Hanser Frederick O. Hanser	Director
/s/ Richard J. Himelfarb Richard J. Himelfarb	Director
/s/ Alton F. Irby III Alton F. Irby III	Director
/s/ Thomas B. Michaud Thomas B. Michaud	Director

/s/ Thomas P. Mulroy Thomas P. Mulroy	Director
/s/ Victor J. Nesi Victor J. Nesi	Director
/s/ James M. Oates James M. Oates	Director
/s/ Ben A. Plotkin Ben A. Plotkin	Director
/s/ Thomas W. Weisel Thomas W. Weisel	Chairman of the Board and Director
/s/ Kelvin R. Westbrook Kelvin R. Westbrook	Director
/s/ Michael J. Zimmerman Michael J. Zimmerman	Director