STIFEL FINANCIAL CORP
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock, $0.15 par value per share, as of the close of business on November 1, 2018, was 72,011,806.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$694,302	$696,283
Cash segregated for regulatory purposes	21,585	90,802
Receivables:		
Brokerage clients, net	1,466,664	1,384,096
Brokers, dealers, and clearing organizations	646,120	459,107
Securities purchased under agreements to resell	622,361	512,220
Financial instruments owned, at fair value	1,162,732	1,143,684
Available-for-sale securities, at fair value	3,349,607	3,773,508
Held-to-maturity securities, at amortized cost	4,565,453	3,698,098
Loans held for sale, at lower of cost or market	262,063	226,068
Bank loans, net	8,253,989	6,947,759
Investments, at fair value	79,170	111,379
Fixed assets, net	297,846	155,120
Goodwill	1,025,714	968,834
Intangible assets, net	118,923	109,627
Loans and advances to financial advisors and other employees, net	383,477	378,124
Deferred tax assets, net	116,880	105,152
Other assets	693,162	624,092
Total Assets	$23,760,048	$21,383,953

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	September 30, 2018 (Unaudited)	December 31, 2017
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	$627,745	$828,206
Brokers, dealers, and clearing organizations	928,132	276,302
Drafts	91,639	107,043
Securities sold under agreements to repurchase	495,484	233,704
Bank deposits	14,502,952	13,411,935
Financial instruments sold, but not yet purchased, at fair value	911,374	778,863
Accrued compensation	379,453	493,973
Accounts payable and accrued expenses	374,456	308,911
Federal Home Loan Bank advances	1,064,000	745,000
Borrowings	140,030	256,000
Senior notes	1,015,714	1,014,940
Debentures to Stifel Financial Capital Trusts	67,500	67,500
Total liabilities	20,598,479	18,522,377
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; 6,000 shares issued	150,000	150,000
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 74,441,001 and 71,636,986 shares, respectively	11,166	10,746
Additional paid-in-capital	1,873,232	1,733,348
Retained earnings	1,265,536	1,033,526
Accumulated other comprehensive loss	(59,389)	(26,736)
	3,240,545	2,900,884
Treasury stock, at cost, 1,435,882 and 772,302 shares, respectively	(78,976)	(39,308)
Total Shareholders' Equity	3,161,569	2,861,576
Total Liabilities and Shareholders' Equity	$23,760,048	$21,383,953

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Revenues:				
Commissions	$158,016	$162,612	$490,693	$510,150
Principal transactions	83,152	87,010	269,918	299,570
Investment banking	169,012	181,904	506,437	494,017
Asset management and service fees	200,743	179,848	596,112	515,501
Interest	169,760	117,862	461,915	327,766
Other income	6,127	9,558	18,557	25,508
Total revenues	786,810	738,794	2,343,632	2,172,512
Interest expense	48,468	17,625	112,200	50,165
Net revenues	738,342	721,169	2,231,432	2,122,347
Non-interest expenses:				
Compensation and benefits	422,324	448,410	1,322,387	1,338,673
Occupancy and equipment rental	54,035	57,427	165,226	167,864
Communications and office supplies	33,330	34,650	103,468	102,686
Commissions and floor brokerage	11,338	11,232	30,798	33,187
Other operating expenses	76,785	61,311	231,122	209,581
Total non-interest expenses	597,812	613,030	1,853,001	1,851,991
Income from operations before income tax expense	140,530	108,139	378,431	270,356
Provision for income taxes	36,672	41,603	98,525	85,497
Net income	103,858	66,536	279,906	184,859
Preferred dividends	2,343	2,343	7,031	7,031
Net income available to common shareholders	$101,515	$64,193	$272,875	$177,828
Earnings per common share:				
Basic	$1.41	$0.94	$3.80	$2.60
Diluted	$1.25	$0.79	$3.35	$2.21
Weighted-average number of common shares outstanding:				
Basic	71,919	68,522	71,824	68,488
Diluted	81,484	80,881	81,425	80,562
Cash dividends declared per common share	$0.12	$0.10	$0.36	$0.10

See accompanying Notes to Consolidated Financial Statements.

5

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$103,858	$66,536	$279,906	$184,859
Other comprehensive income/(loss), net of tax: [1] [4]				
Changes in unrealized gains/(losses) on available-for-sale securities [2]	(3,138)	4,736	(28,065)	12,283
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	—	439	—	1,348
Changes in unrealized gains/(losses) on cash flow hedging instruments [3]	(1,523)	183	1,895	698
Foreign currency translation adjustment	(1,336)	2,644	(3,434)	7,178
Total other comprehensive income/(loss), net of tax	(5,997)	8,002	(29,604)	21,507
Comprehensive income	$97,861	$74,538	$250,302	$206,366

(1) Net of tax benefit of $2.1 million and tax expense of $5.0 million for the three months ended September 30, 2018 and 2017, respectively. Net of tax benefit of $10.4 million and tax expense of $13.5 million for the nine months ended September 30, 2018 and 2017, respectively.

(2) There were no reclassifications to earnings during the three and nine months ended September 30, 2018 and 2017, respectively.

(3) Amounts are net of reclassifications to earnings of gains of $1.5 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively. Amounts are net of reclassifications to earnings of gains of $3.3 million and losses of $0.8 million for the nine months ended September 30, 2018 and 2017, respectively.

(4) The adoption of ASU 2018-02 on January 1, 2018 resulted in a reclassification of $3.0 million to retained earnings related to cash flow hedges and investment portfolio risk. The reclassification is reflected in the activity for the nine months ended September 30, 2018. See Note 2 for further details.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash Flows From Operating Activities:		
Net income	$279,906	$184,859
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	20,503	26,976
Amortization of loans and advances to financial advisors and other employees	61,783	69,393
Amortization of premium on investment portfolio	18,714	11,248
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	13,980	19,025
Amortization of intangible assets	8,741	9,092
Deferred income taxes	718	14,875
Stock-based compensation	75,382	81,613
(Gains)/losses on sale of investments	10,442	(2,888)
Other, net	(86,576)	2,377
Decrease/(increase) in operating assets, net of assets acquired:		
Receivables:		
Brokerage clients	(82,568)	125,905
Brokers, dealers, and clearing organizations	(187,013)	689,648
Securities purchased under agreements to resell	(110,141)	(209,747)
Financial instruments owned, including those pledged	(19,048)	(139,205)
Loans originated as held for sale	(1,099,187)	(1,152,654)
Proceeds from mortgages held for sale	1,051,789	1,194,709
Loans and advances to financial advisors and other employees	(67,872)	(46,699)
Other assets	31,543	(77,373)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	(200,461)	(94,594)
Brokers, dealers, and clearing organizations	180,463	63,554
Drafts	(15,404)	(17,089)
Financial instruments sold, but not yet purchased	132,511	50,291
Other liabilities and accrued expenses	(66,290)	91,896
Net cash provided by/(used in) operating activities	$(48,085)	$895,212

See accompanying Notes to Consolidated Financial Statements.

7

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash Flows From Investing Activities:		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	$763,982	$850,102
Calls and principal paydowns of held-to-maturity securities	443,295	193,140
Sale or maturity of investments	24,345	25,394
Increase in bank loans, net	(810,798)	(1,202,124)
Payments for:		
Purchase of available-for-sale securities	(331,657)	(1,350,033)
Purchase of held-to-maturity securities	(1,313,587)	(712,450)
Purchase of investments	(7,578)	(1,592)
Purchase of fixed assets	(18,271)	(21,153)
Acquisitions, net of cash received	599	(6,743)
Net cash used in investing activities	(1,249,670)	(2,225,459)
Cash Flows From Financing Activities:		
Repayments of borrowings, net	(257,197)	(299,000)
Proceeds from Federal Home Loan Bank advances, net	309,050	290,000
Payment of contingent consideration	(11,909)	(13,328)
Increase/(decrease) in securities sold under agreements to repurchase	261,780	(113,150)
Increase in bank deposits, net	590,000	1,356,478
Increase/(decrease) in securities loaned	471,367	(166,901)
Tax payments related to shares withheld for stock-based compensation plans	(39,815)	(76,242)
Proceeds from stock option exercises	2,278	—
Repurchase of common stock	(62,514)	(12,998)
Cash dividends on preferred stock	(7,031)	(7,031)
Cash dividends paid to common stock and equity-award holders	(26,023)	(6,835)
Net cash provided by financing activities	1,229,986	950,993
Effect of exchange rate changes on cash	(3,429)	7,178
Decrease in cash, cash equivalents, and cash segregated for regulatory purposes	(71,198)	(372,076)
Cash, cash equivalents, and cash segregated for regulatory purposes at beginning of period	787,085	986,167
Cash, cash equivalents, and cash segregated for regulatory purposes at end of period	$715,887	$614,091
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	$27,280	$18,591
Cash paid for interest	111,832	49,901
Noncash financing activities:		
Unit grants, net of forfeitures	119,051	55,941
Issuance of common stock for acquisitions	110,671	9,352

The following presents cash, cash equivalents, and cash restricted for regulatory purposes for the periods presented (in thousands):

	September 30, 2018	December 31, 2017	September 30, 2017
Cash and cash equivalents	$ 694,302	$ 696,283	$ 588,916
Cash segregated for regulatory purposes	21,585	90,802	25,175
Total cash, cash equivalents, and cash segregated for regulatory purposes	$ 715,887	$ 787,085	$ 614,091

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations, Basis of Presentation, and Summary of Significant Accounting Policies

Nature of Operations

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

On March 19, 2018, the Company completed the acquisition of Ziegler Wealth Management (“Ziegler”), a privately held investment bank, capital markets and proprietary investments firm that has 55 private client advisors in five states that manage approximately $5 billion in client assets. Ziegler provides its clients with capital raising, strategic advisory services, equity and fixed income sales & trading and research. The acquisition was funded with cash from operations. See Note 8 in the notes to consolidated financial statements for more details.

On August 31, 2018, the Company completed the acquisition of Business Bancshares, Inc. (“BBI”) and its wholly owned subsidiary, The Business Bank of St. Louis, a full-service banking facility with approximately $600.0 million in assets that operates from a single location. Upon the closing of the transaction, the Business Bank of St. Louis was renamed “Stifel Bank” and Business Bancshares, Inc. was renamed “Stifel Bancorp, Inc.” Stifel Bancorp, Inc. (“Stifel Bancorp”) is the holding company for Stifel Bank & Trust, Stifel Bank, and their wholly owned subsidiaries. We issued approximately 2.0 million shares for acquisition of BBI. See Note 8 in the notes to consolidated financial statements for more details.

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 Ziegler and Stifel Bancorp have been included in our results prospectively from the date of acquisition.

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (“Stifel”), Keefe, Bruyette & Woods, Inc., and Stifel Bancorp. 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, 2017 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.

Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017.

Other than the following, there were no significant changes made to the Company's significant accounting policies. The accounting policy changes are attributable to the adoption of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (the "new revenue standard" or "ASU 2014-09") on January 1, 2018. These revenue recognition policy updates are applied prospectively in our consolidated financial statements from January 1, 2018. Reported financial information for the historical comparable period was not revised and continues to be reported under the accounting standards in effect during the historical periods.

The new revenue standard primarily impacts the following revenue recognition and presentation accounting policies of our company:

Investment Banking Revenues

9

Advisory fees from mergers and acquisitions engagements are recognized at a point in time when the related transaction is completed, as the performance obligation is to successfully broker a specific transaction.

Advisory expenses are deferred only to the extent they are explicitly reimbursable by the client and the related revenue is recognized at a point in time. All other investment banking advisory related expenses are expensed as incurred.

Underwriting expenses are recognized as non-interest expense in the consolidated statements of operations and any expense reimbursements are recognized as investment banking revenues. See Note 2, New Accounting Pronouncements, and Note 17, Revenues from Contracts with Customers, for further information.

NOTE 2 – New Accounting Pronouncements

Recently Adopted Accounting Guidance

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" that provides for the reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Cuts and Jobs Act of 2017. The accounting update is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. We early adopted the guidance in the update on January 1, 2018. The adoption of the accounting update resulted in a reclassification adjustment of $3.0 million related to cash flow hedges and investment portfolio credit risk in our consolidated financial statements.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash," which adds or clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The accounting update is effective for fiscal years beginning after December 15, 2017. We adopted the guidance in the update on January 1, 2018. The adoption of the accounting update did not have a material impact on our consolidated statement of cash flows. Upon adoption of the accounting update, we recorded a decrease of $48.1 million in net cash provided by operating activities for the nine months ended September 30, 2017 related to reclassifying the changes in our cash segregated for regulatory purposes and restricted cash balance from operating activities to the cash and cash equivalent balances within the consolidated statements of cash flows.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments," which amends and clarifies the current guidance to reduce diversity in practice of the classification of certain cash receipts and payments in the consolidated statements of cash flows. The accounting update is effective for fiscal years beginning after December 31, 2017. We adopted the guidance in the update on January 1, 2018. The adoption of the accounting update did not have a material impact on our consolidated statements of cash flows.

Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities” that will change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The accounting update also amends certain disclosure requirements associated with the fair value of financial instruments. The accounting update is effective for fiscal years beginning after December 15, 2017. We adopted the guidance in the update on January 1, 2018. The adoption of the accounting update did not have a material impact on our consolidated financial statements.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASU 2014-09, which provides accounting guidance on the recognition of revenues from contracts and requires gross presentation of certain costs that were previously offset against revenue. This change was applied prospectively from January 1, 2018 and there is no impact on our previously presented results. The adoption of the new revenue standard resulted in a reduction of beginning retained earnings of $3.9 million after-tax as a cumulative effect of adoption of an accounting change.

The impact of adoption is primarily related to investment banking revenues that were previously recognized in prior periods, which are now being deferred under the new revenue standard.

With the adoption of the new revenue recognition standard on January 1, 2018, capital raising and advisory fee revenues are no longer presented net of the related out-of-pocket deal expenses. As a result, capital raising and advisory fee revenues and other operating expenses are higher in the first nine months of 2018 by an identical $25.9 million, with no impact to net income.

The scope of the accounting update does not apply to revenue associated with financial instruments, and as a result, will not have an impact on the elements of our consolidated statements of operations most closely associated with financial instruments, including principal transaction revenues, interest income, and interest expense.

The new revenue standard primarily impacts the following revenue recognition and presentation accounting policies:

Advisory fees from mergers and acquisitions engagements are recognized at a point in time when the related transaction is completed, as the performance obligation is to successfully broker a specific transaction.

Advisory expenses had historically been deferred until reimbursed by the client, the related fee revenue was recognized or the engagement was otherwise concluded. Under the new revenue standard, expenses are deferred only to the extent they are explicitly reimbursable by the client and the related revenue has been recognized. All other investment banking advisory related expenses, including expenses incurred related to restructuring assignments, are expensed as incurred.

Underwriting expenses had historically been recorded net of client reimbursements and/or netted against revenues. Under the new revenue standard, all investment banking expenses will be recognized as non-interest expense in the consolidated statements of operations and any expense reimbursements will be recognized as investment banking revenues (i.e., expenses are no longer recorded net of client reimbursements and are not netted against revenues).

Recently Issued Accounting Guidance

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities,” which amends the hedge accounting recognition and presentation requirements. The accounting update improves the transparency and understandability of information conveyed to financial statement users by better aligning companies’ hedging relationship to their existing risk management strategies, simplifies the application of hedge accounting and increases transparency regarding the scope and results of hedging program. The accounting update is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company) and early adoption is permitted. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” which shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and non-contingent call feature that is callable at a fixed price on a preset date. The accounting update is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company) under a modified retrospective approach and early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our consolidated financial statements.

Goodwill Impairment Testing

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under the accounting update, the annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The accounting update is effective for annual or any interim impairment tests in fiscal years beginning after December 15, 2019 (January 1, 2020 for our company) and early adoption is permitted. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This accounting update impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss ("CECL") methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. CECL will replace the loss model currently applicable to bank loans, held-to-maturity securities, and other receivables carried at amortized cost.

The accounting update also eliminates the concept of other-than-temporary impairment for available-for-sale securities. Impairments on available-for-sale securities will be required to be recognized in earnings through an allowance, when the fair value is less than amortized cost and a credit loss exists or the securities are expected to be sold before recovery of amortized cost. Under the accounting update, there may be an ability to determine there are no expected credit losses in certain circumstances, e.g., based on collateral arrangements for lending and financing transactions or based on the credit quality of the borrower or issuer.

Overall, the amendments in this accounting update are expected to accelerate the recognition of credit losses for portfolios where CECL models will be applied. The accounting update is effective for fiscal years beginning after December 15, 2019 (January 1, 2020 for our company) with early adoption permitted as of January 1, 2019. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases – (Topic 842)" that requires for leases longer than one year, a lessee recognize in the statements of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. The accounting update also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of earnings, while for operating leases, such amounts should be recognized as a combined expense. In addition, this accounting update requires expanded disclosures about the nature and terms of lease agreements.

The accounting update is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company) under a modified retrospective approach and early adoption is permitted. The Company's implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. Upon adoption, our company expects a gross up on its consolidated statements of financial condition upon recognition of the right-of-use assets and lease liabilities and does not expect the amount of the gross up to have a material impact on its financial condition.

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

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2018 and December 31, 2017, included (in thousands):

	September 30, 2018	December 31, 2017
Receivables from clearing organizations	$ 440,154	$ 270,285
Deposits paid for securities borrowed	170,165	132,776
Securities failed to deliver	35,801	56,046
	$ 646,120	$ 459,107

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2018 and December 31, 2017, included (in thousands):

	September 30, 2018	December 31, 2017
Deposits received from securities loaned	$ 691,150	$ 219,782
Payable to clearing organizations	201,510	27,223
Securities failed to receive	35,472	29,297
	$ 928,132	$ 276,302

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

NOTE 4 – Fair Value Measurements

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

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

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

Financial Instruments Owned and Available-For-Sale Securities

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

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

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

Investments

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

Corporate equity securities are valued based on quoted prices in active markets and reported in Level 1. No securities with unobservable pricing inputs are reported in Level 3.

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

Direct investments in private companies, reported as Level 3 assets, may be valued using the market approach and were valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance, and legal restrictions on disposition, among other factors. The fair value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

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

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

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

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

	September 30, 2018	
	Fair value of investments	Unfunded commitments
Money market funds	$18,696	$ —
Mutual funds	10,506	—
Private equity funds	3,394	1,535
Partnership interests	4,405	1,324
Total	$37,001	$ 2,859

	December 31, 2017	
	Fair value of investments	Unfunded commitments
Money market funds	$77,441	$ —
Mutual funds	11,748	—
Private equity funds	7,677	1,825
Partnership interests	5,124	1,330
Total	$101,990	$ 3,155

Financial Instruments Sold, But Not Yet Purchased

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

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

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.

14

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2018, are presented below (in thousands):

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$36,214	$36,214	$—	$—
U.S. government agency securities	167,886	—	167,886	—
Mortgage-backed securities:				
Agency	380,044	—	380,044	—
Non-agency	23,747	—	23,746	1
Asset-backed securities	29,806	—	29,451	355
Corporate securities:				
Fixed income securities	290,627	262	290,365	—
Equity securities	69,205	68,892	212	101
Sovereign debt	15,996	—	15,996	—
State and municipal securities	149,207	—	149,207	—
Total financial instruments owned	1,162,732	105,368	1,056,907	457
Available-for-sale securities:				
U.S. government agency securities	5,165	516	4,649	—
State and municipal securities	68,876	—	68,876	—
Mortgage-backed securities:				
Agency	250,808	—	250,808	—
Commercial	68,823	—	68,823	—
Non-agency	1,269	—	1,269	—
Corporate fixed income securities	1,177,315	—	1,177,315	—
Asset-backed securities	1,777,351	—	1,777,351	—
Total available-for-sale securities	3,349,607	516	3,349,091	—
Investments:				
Corporate equity securities	42,495	42,495	—	—
Auction rate securities:				
Equity securities	16,525	—	—	16,525
Municipal securities	799	—	—	799
Other	1,046	—	189	857
Investments in funds measured at NAV	18,305			
Total investments	79,170	42,495	189	18,181
Cash equivalents measured at NAV	18,696			
Derivative contracts [(1)]	11,117		11,117	
	$4,621,322	$148,379	$4,417,304	$18,638

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

September 30, 2018

	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$512,275	$512,275	$—	$ —
Mortgage-backed securities:				
Agency	95,312	—	95,312	—
Corporate securities:				
Fixed income securities	213,335	96	213,239	—
Equity securities	78,895	78,895	—	—
Sovereign debt	11,557	—	11,557	—
Total financial instruments sold, but not yet purchased	$911,374	$591,266	$320,108	$ —

15

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017, are presented below (in thousands):

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$13,466	$13,466	$—	$—
U.S. government agency securities	147,223	—	147,223	—
Mortgage-backed securities:				
Agency	302,445	—	302,445	—
Non-agency	29,356	—	29,355	1
Asset-backed securities	76,752	—	76,395	357
Corporate securities:				
Fixed income securities	325,471	362	324,867	242
Equity securities	46,802	46,411	138	253
Sovereign debt	32,470	—	32,470	—
State and municipal securities	169,699	—	169,699	—
Total financial instruments owned	1,143,684	60,239	1,082,592	853
Available-for-sale securities:				
U.S. government agency securities	4,983	516	4,467	—
State and municipal securities	70,559	—	70,559	—
Mortgage-backed securities:				
Agency	305,530	—	305,530	—
Commercial	72,488	—	72,488	—
Non-agency	1,568	—	1,568	—
Corporate fixed income securities	1,211,442	—	1,211,442	—
Asset-backed securities	2,106,938	—	2,106,938	—
Total available-for-sale securities	3,773,508	516	3,772,992	—
Investments:				
Corporate equity securities	49,978	49,978	—	—
Auction rate securities:				
Equity securities	34,789	—	—	34,789
Municipal securities	846	—	—	846
Other	1,217	—	360	857
Investments measured at NAV	24,549			
Total investments	111,379	49,978	360	36,492
Cash equivalents measured at NAV	77,441			
Derivative contracts [1]	7,995	—	7,995	—
	$5,114,007	$110,733	$4,863,939	$37,345

[1] Included in other assets in the consolidated statements of financial condition.

December 31, 2017

	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$442,402	$442,402	$—	$ —
U.S. government agency securities	10,348	—	10,348	—
Mortgage-backed securities:				
Agency	86,612	—	86,612	—
Corporate securities:				
Fixed income securities	180,755	—	180,755	—
Equity securities	38,510	38,070	440	—
Sovereign debt	20,236	—	20,236	—
Total financial instruments sold, but not yet purchased	$778,863	$480,472	$298,391	$ —

The following table summarizes the changes in fair value associated with Level 3 financial instruments during the three months ended September 30, 2018 (in thousands):

	Three Months Ended September 30, 2018					
	Financial instruments owned			Investments		
	Mortgage-Backed Securities – Non-Agency	Asset-Backed Securities	Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at June 30, 2018	$ 1	$ 355	$ 123	$ 25,303	$ 846	$ 857
Unrealized gains/(losses):						
Included in changes in net assets [(1)]	—	—	—	997	3	—
Realized gains/(losses) [(1)]	—	—	(22)	—	—	—
Purchases	—	—	—	—	—	—
Sales	—	—	—	—	—	—
Redemptions	—	—	—	(9,775)	(50)	—
Transfers:						
Into Level 3	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—
Net change	—	—	(22)	(8,778)	(47)	—
Balance at September 30, 2018	$ 1	$ 355	$ 101	$ 16,525	$ 799	$ 857

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

The following table summarizes the change in fair value associated with Level 3 financial instruments during the nine months ended September 30, 2018 (in thousands):

	Nine Months Ended September 30, 2018						
	Financial instruments owned				Investments		
	Mortgage-Backed Securities – Non-Agency	Asset-Backed Securities	Fixed Income Securities	Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at December 31, 2017	$ 1	$ 357	$ 242	$ 253	$ 34,789	$ 846	$ 857
Unrealized gains/(losses):							
Included in changes in net assets [(1)]	—	3	—	(130)	1,086	3	—

Realized gains/(losses) [1]	—	—	—	(22)	—	—	—
Purchases	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—
Redemptions	—	(5)	(242)	—	(19,350)	(50)	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—
Net change	—	(2)	(242)	(152)	(18,264)	(47)	—
Balance at September 30, 2018	$1	$ 355	$ —	$ 101	$16,525	$ 799	$857

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

The results included in the tables above are only a component of the overall investment strategies of our company. The tables above do not present Level 1 or Level 2 valued assets or liabilities. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2018, relating to Level 3 assets still held at September 30, 2018, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of September 30, 2018.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	0.6% - 6.5%	3.8%
		Workout period	2-3 years	2.4 years
Municipal securities	Discounted cash flow	Discount rate	0.5% - 9.9%	3.2%
		Workout period	1-4 years	2.0 years

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

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

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were no transfers of financial assets from Level 2 to Level 1 during the three months ended September 30, 2018. There were $0.6 million of transfers of financial assets from Level 2 to Level 1 during the nine months ended September 30, 2018. There were $0.1 million and $0.7 million of transfers of financial assets from Level 1 to Level 2 during the three and nine months ended September 30, 2018, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were no transfers into or out of Level 3 during the nine months ended September 30, 2018.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments as of September 30, 2018 and December 31, 2017, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	September 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$694,302	$694,302	$696,283	$696,283
Cash segregated for regulatory purposes	21,585	21,585	90,802	90,802
Securities purchased under agreements to resell	622,361	622,361	512,220	512,220
Financial instruments owned	1,162,732	1,162,732	1,143,684	1,143,684
Available-for-sale securities	3,349,607	3,349,607	3,773,508	3,773,508
Held-to-maturity securities	4,565,453	4,506,385	3,698,098	3,710,478
Loans held for sale	262,063	262,063	226,068	226,068
Bank loans	8,253,989	8,330,974	6,947,759	6,953,328
Investments	79,170	79,170	111,379	111,379
Derivative contracts (1)	11,117	11,117	7,995	7,995
Financial liabilities:				
Securities sold under agreements to repurchase	$495,484	$495,484	$233,704	$233,704
Bank deposits	14,502,952	13,711,447	13,411,935	12,702,746
Financial instruments sold, but not yet purchased	911,374	911,374	778,863	778,863
Federal Home Loan Bank advances	1,064,000	1,064,000	745,000	745,000
Borrowings	140,030	140,030	256,000	256,000
Senior notes	1,015,714	1,012,374	1,014,940	1,044,768
Debentures to Stifel Financial Capital Trusts	67,500	68,839	67,500	64,962

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

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$675,606	$675,606	$—	$—
Cash segregated for regulatory purposes	21,585	21,585	—	—
Securities purchased under agreements to resell	622,361	586,829	35,532	—
Held-to-maturity securities	4,506,385	—	4,345,021	161,364
Loans held for sale	262,063	—	262,063	—
Bank loans	8,330,974	—	8,330,974	—
Financial liabilities:				

Securities sold under agreements to repurchase	$495,484	$126,378	$369,106	$—
Bank deposits	13,711,447	—	13,711,447	—
Federal Home Loan Bank advances	1,064,000	1,064,000	—	—
Borrowings	140,030	140,030	—	—
Senior notes	1,012,374	1,012,374	—	—
Debentures to Stifel Financial Capital Trusts	68,839	—	—	68,839

19

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$618,842	$618,842	$—	$—
Cash segregated for regulatory purposes	90,802	90,802	—	—
Securities purchased under agreements to resell	512,220	428,740	83,480	—
Held-to-maturity securities	3,710,478	—	3,517,781	192,697
Loans held for sale	226,068	—	226,068	—
Bank loans	6,953,328	—	6,953,328	—
Financial liabilities:				
Securities sold under agreements to repurchase	$233,704	$92,278	$141,426	$—
Bank deposits	12,702,746	—	12,702,746	—
Federal Home Loan Bank advances	745,000	745,000	—	—
Borrowings	256,000	256,000	—	—
Senior notes	1,044,768	1,044,768	—	—
Debentures to Stifel Financial Capital Trusts	64,962	—	—	64,962

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of September 30, 2018 and December 31, 2017.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2018 and December 31, 2017 approximate fair value due to their short-term nature.

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2018 and December 31, 2017 approximate fair value due to the short-term nature.

Bank Deposits

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

Borrowings

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

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

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

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

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

The components of financial instruments owned and financial instruments sold, but not yet purchased, at September 30, 2018 and December 31, 2017 are as follows (in thousands):

	September 30, 2018	December 31, 2017
Financial instruments owned:		
U.S. government securities	$36,214	$13,466
U.S. government agency securities	167,886	147,223
Mortgage-backed securities:		
Agency	380,044	302,445
Non-agency	23,747	29,356
Asset-backed securities	29,806	76,752
Corporate securities:		
Fixed income securities	290,627	325,471
Equity securities	69,205	46,802
Sovereign debt	15,996	32,470
State and municipal securities	149,207	169,699
	$1,162,732	$1,143,684

Financial instruments sold, but not yet purchased:		
U.S. government securities	$512,275	$442,402
U.S. government agency securities	—	10,348
Mortgage-backed securities:		
Agency	95,312	86,612
Corporate securities:		
Fixed income securities	213,335	180,755
Equity securities	78,895	38,510
Sovereign debt	11,557	20,236
	$911,374	$778,863

At September 30, 2018 and December 31, 2017, financial instruments owned in the amount of $534.6 million and $810.3 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings. Our financial instruments owned are presented on a trade-date basis in the consolidated statements of financial condition.

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

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

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$5,226	$ —	$ (61)	$5,165
State and municipal securities	73,253	—	(4,377)	68,876
Mortgage-backed securities:				
Agency	256,120	29	(5,341)	250,808
Commercial	74,698	8	(5,883)	68,823
Non-agency	1,281	—	(12)	1,269
Corporate fixed income securities	1,200,498	2,542	(25,725)	1,177,315
Asset-backed securities	1,782,052	3,109	(7,810)	1,777,351
	$3,393,128	$ 5,688	$ (49,209)	$3,349,607
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,244,582	$ —	$ (48,907)	$1,195,675
Commercial	55,351	—	(343)	55,008
Asset-backed securities	3,265,520	4,940	(14,758)	3,255,702
	$4,565,453	$ 4,940	$ (64,008)	$4,506,385

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				

U.S. government agency securities	$5,022	$ —	$ (39)	$4,983
State and municipal securities	74,691	—	(4,132)	70,559
Mortgage-backed securities:				
Agency	308,409	102	(2,981)	305,530
Commercial	75,548	28	(3,088)	72,488
Non-agency	1,568	—	—	1,568
Corporate fixed income securities	1,213,262	3,832	(5,652)	1,211,442
Asset-backed securities	2,098,958	12,877	(4,897)	2,106,938
	$3,777,458	$ 16,839	$ (20,789)	$3,773,508
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,334,833	$ 13,621	$ (16,208)	$1,332,246
Commercial	58,971	1,313	—	60,284
Asset-backed securities	2,264,283	15,526	(1,862)	2,277,947
Corporate fixed income securities	40,011	27	(37)	40,001
	$3,698,098	$ 30,487	$ (18,107)	$3,710,478

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

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

For the three and nine months ended September 30, 2018, we received proceeds of $55.4 million from the sale of available-for-sale securities, which resulted in a realized loss of $0.4 million. There were no sales of available-for-sale securities during the three months ended September 30, 2017. For the nine months ended September 30, 2017, we received proceeds of $87.3 million from the sale of available-for-sale securities, which resulted in realized gains of $0.4 million.

During the three months ended September 30, 2018 and September 30, 2017, unrealized losses, net of deferred taxes, of $3.1 million and unrealized gains, net of deferred taxes of $4.7 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the nine months ended September 30, 2018 and September 30, 2017, unrealized losses, net of deferred taxes, of $28.1 million and unrealized gains, net of deferred taxes, of $12.3 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

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

	September 30, 2018			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$37,338	$37,275	$—	$—
After one year through three years	380,761	372,133	—	—
After three years through five years	351,855	345,895	—	—
After five years through ten years	698,866	689,934	478,024	478,491
After ten years	1,592,209	1,583,470	2,787,496	2,777,211
Mortgage-backed securities				
After one year through three years	163	163	55,351	55,008
After three years through five years	1,360	1,365	—	—
After five years through ten years	6,242	6,194	180,433	173,389
After ten years	324,334	313,178	1,064,149	1,022,286
	$3,393,128	$3,349,607	$4,565,453	$4,506,385

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at September 30, 2018, are as follows (in thousands):

	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total
Available-for-sale: (1)					

U.S. government agency securities	$1,657	$3,508	$—	$—	$5,165
State and municipal securities	395	—	18,272	50,209	68,876
Mortgage-backed securities:					
Agency	—	1,528	6,194	243,086	250,808
Commercial	—	—	—	68,823	68,823
Non-agency	—	—	—	1,269	1,269
Corporate fixed income securities	35,223	714,520	427,572	—	1,177,315
Asset-backed securities	—	—	244,090	1,533,261	1,777,351
	$37,275	$719,556	$696,128	$1,896,648	$3,349,607
Held-to-maturity:					
Mortgage-backed securities:					
Agency	$—	$—	$180,433	$1,064,149	$1,244,582
Commercial	—	55,351	—	—	55,351
Asset-backed securities	—	—	478,024	2,787,496	3,265,520
	$—	$55,351	$658,457	$3,851,645	$4,565,453

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

At September 30, 2018 and December 31, 2017, securities of $2.0 billion and $2.2 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At September 30, 2018 and December 31, 2017, securities of $2.1 billion and $2.0 billion, respectively, were pledged with the Federal Reserve discount window.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2018 (in thousands):

	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities						
U.S. government securities	$(61)	$5,040	$—	$—	$(61)	$5,040
State and municipal securities	—	—	(4,377)	68,481	(4,377)	68,481
Mortgage-backed securities:						
Agency	(731)	40,606	(4,610)	188,110	(5,341)	228,716
Commercial	—	—	(5,883)	67,841	(5,883)	67,841
Non-agency	(12)	1,261	—	—	(12)	1,261
Corporate fixed income securities	(14,053)	565,671	(11,672)	310,351	(25,725)	876,022
Asset-backed securities	(7,810)	517,276	—	—	(7,810)	517,276
	$(22,667)	$1,129,854	$(26,542)	$634,783	$(49,209)	$1,764,637
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	$(11,804)	$556,381	$(37,103)	$639,295	$(48,907)	$1,195,676
Commercial	(343)	55,008	—	—	(343)	55,008
Asset-backed securities	(12,298)	1,675,810	(2,460)	42,507	(14,758)	1,718,317
	$(24,445)	$2,287,199	$(39,563)	$681,802	$(64,008)	$2,969,001

At September 30, 2018, the amortized cost of 232 securities classified as available for sale exceeded their fair value by $49.2 million, of which $26.5 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at September 30, 2018, was $1.8 billion, which was 52.7% of our available-for-sale portfolio.

At September 30, 2018, the carrying value of 152 securities held to maturity exceeded their fair value by $64.0 million, of which $39.6 million related to securities held to maturity that have been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. There was no credit-related OTTI recognized during the three and nine months ended September 30, 2018 and 2017.

We believe the gross unrealized losses of $113.2 million related to our investment portfolio, as of September 30, 2018, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 7 – Bank Loans

Our loan portfolio consists primarily of the following segments:

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

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

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

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

Other. Other loans include consumer, credit card, and indirect lending.

The following table presents the balance and associated percentage of each major loan category in our bank loan portfolio at September 30, 2018 and December 31, 2017 (in thousands, except percentages):

	September 30, 2018		December 31, 2017	
	Balance	Percent	Balance	Percent
Commercial and industrial	$3,127,435	37.5 %	$2,437,938	34.8 %
Residential real estate	2,792,269	33.5	2,593,576	37.0
Securities-based loans	1,836,450	22.0	1,819,206	25.9
Commercial real estate	328,814	3.9	116,258	1.7
Construction and land	120,969	1.4	7,896	0.1
Home equity lines of credit	29,118	0.3	15,039	0.2
Other	109,571	1.4	24,508	0.3
Gross bank loans	8,344,626	100.0 %	7,014,421	100.0 %
Unamortized loan premium/(discount), net	(13,419)		788	
Loans in process	(2,755)		(856)	
Unamortized loan fees, net	6,237		872	
Allowance for loan losses	(80,700)		(67,466)	
Bank loans, net	$8,253,989		$6,947,759	

At September 30, 2018 and December 31, 2017, Stifel Bancorp had loans outstanding to its executive officers, directors, and their affiliates in the amount of $4.0 million and $4.0 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $25.2 million and $8.4 million, respectively.

At September 30, 2018 and December 31, 2017, we had loans held for sale of $262.1 million and $226.1 million, respectively. For the three months ended September 30, 2018 and 2017, we recognized gains of $2.6 million and $3.2 million, respectively, from the sale of originated loans, net of fees and costs. For the nine months ended September 30, 2018 and 2017, we recognized gains of $7.8 million and $9.4 million, respectively, from the sale of originated loans, net of fees and costs.

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018 (in thousands).

	Three Months Ended September 30, 2018				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$59,572	$ 5,008	$ —	$ —	$64,580
Residential real estate	9,328	1,165	—	—	10,493
Securities-based loans	1,928	(5)	—	—	1,923
Commercial real estate	1,672	90	—	—	1,762
Construction and land	303	600	—	—	903
Home equity lines of credit	229	—	—	—	229
Other	13	(3)	—	1	11
Qualitative	730	69	—	—	799
	$73,775	$ 6,924	$ —	$ 1	$80,700

	Nine Months Ended September 30, 2018				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$54,474	$ 10,118	$ (12)	$ —	$64,580
Residential real estate	8,430	2,063	—	—	10,493
Securities-based loans	2,088	(165)	—	—	1,923
Commercial real estate	1,520	242	—	—	1,762
Construction and land	100	803	—	—	903
Home equity lines of credit	162	65	—	2	229
Other	16	(5)	(2)	2	11
Qualitative	676	123	—	—	799
	$67,466	$ 13,244	$ (14)	$ 4	$80,700

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2018 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$8,677	$ 55,903	$64,580	$23,630	$ 3,103,805	$3,127,435
Residential real estate	24	10,469	10,493	328	2,791,941	2,792,269
Securities-based loans	—	1,923	1,923	—	1,836,450	1,836,450

Commercial real estate	—	1,762	1,762	—	328,814	328,814
Construction and land	—	903	903	—	120,969	120,969
Home equity lines of credit	—	229	229	231	28,887	29,118
Other	—	11	11	58	109,513	109,571
Qualitative	—	799	799	—	—	—
	$8,701	$ 71,999	$80,700	$24,247	$ 8,320,379	$8,344,626

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

	Three Months Ended September 30, 2017				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$40,805	$ 6,312	$ —	$ 35	$47,152
Residential real estate	5,569	1,566	—	—	7,135
Securities-based loans	3,600	(288)	—	—	3,312
Commercial real estate	932	95	—	—	1,027
Home equity lines of credit	283	(13)	—	1	271
Construction and land	224	9	—	—	233
Other	105	(3)	—	1	103
Qualitative	2,684	312	—	—	2,996
	$54,202	$ 7,990	$ —	$ 37	$62,229

	Nine Months Ended September 30, 2017				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$35,127	$ 12,239	$ (250)	$ 36	$47,152
Residential real estate	2,660	4,475	—	—	7,135
Securities-based loans	3,094	218	—	—	3,312
Commercial real estate	1,363	2,367	(2,703)	—	1,027
Home equity lines of credit	371	(102)	—	2	271
Construction and land	232	1	—	—	233
Other	129	(27)	—	1	103
Qualitative	2,187	809	—	—	2,996
	$45,163	$ 19,980	$ (2,953)	$ 39	$62,229

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2017 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Residential real estate	$24	$ 8,406	$8,430	$171	$ 2,593,405	$2,593,576

Commercial and industrial	9,059	45,415	54,474	28,856	2,409,082	2,437,938
Securities-based loans	—	2,088	2,088	—	1,819,206	1,819,206
Commercial real estate	—	1,520	1,520	—	116,258	116,258
Home equity lines of credit	20	142	162	184	14,855	15,039
Construction and land	—	100	100	—	7,896	7,896
Other	2	14	16	2	24,506	24,508
Qualitative	—	676	676	—	—	—
	$9,105	$ 58,361	$67,466	$29,213	$ 6,985,208	$7,014,421

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

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

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

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring ("TDR"), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At September 30, 2018, we had $24.2 million of impaired loans, net of discounts, which included $9.1 million in troubled debt restructurings. The specific allowance on impaired loans at September 30, 2018 was $8.7 million. At December 31, 2017, we had $29.2 million of impaired loans, net of discounts, which included $9.1 million in troubled debt restructurings. The specific allowance on impaired loans at December 31, 2017 was $9.1 million. The gross interest income related to impaired loans, which would have been recorded, had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2018 and 2017, were insignificant to the consolidated financial statements.

The tables below present loans that were individually evaluated for impairment by portfolio segment at September 30, 2018 and December 31, 2017, including the average recorded investment balance for the year to date period presented (in thousands):

	September 30, 2018					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$23,630	$ 196	$ 23,434	$ 23,630	$ 8,677	$ 23,783
Residential real estate	353	80	248	328	24	355
Home equity lines of credit	231	184	47	231	—	236
Other	731	26	32	58	—	60
Total	$24,945	$ 486	$ 23,761	$ 24,247	$ 8,701	$ 24,434

	December 31, 2017					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$28,856	$ 5,211	$ 23,645	$ 28,856	$ 9,059	$ 30,277
Home equity lines of credit	184	—	184	184	20	300
Residential real estate	171	—	171	171	24	174
Other	677	—	2	2	2	5

Total	$29,888	$ 5,211	$ 24,002	$ 29,213	$ 9,105	$ 30,756

The following table presents the aging of the recorded investment in past due loans at September 30, 2018 and December 31, 2017 by portfolio segment (in thousands):

	As of September 30, 2018				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	$—	$ 14,656	$ 14,656	$3,112,779	$3,127,435
Residential real estate	3,745	184	3,929	2,788,340	2,792,269
Securities-based loans	—	—	—	1,836,450	1,836,450
Commercial real estate	—	—	—	328,814	328,814
Construction and land	—	—	—	120,969	120,969
Home equity lines of credit	47	—	47	29,071	29,118
Other	—	67	67	109,504	109,571
Total	$3,792	$ 14,907	$ 18,699	$8,325,927	$8,344,626

	As of September 30, 2018*		
	Non-Accrual	Restructured	Total
Commercial and industrial	$14,694	$ 8,936	$23,630
Residential real estate	159	169	328
Home equity lines of credit	231	—	231
Other	58	—	58
Total	$15,142	$ 9,105	$24,247

*There were no loans past due 90 days and still accruing interest at September 30, 2018.

	As of December 31, 2017				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Residential real estate	$7,892	$ —	$7,892	$2,585,684	$2,593,576
Commercial and industrial	11,883	—	11,883	2,426,055	2,437,938
Securities-based loans	—	—	—	1,819,206	1,819,206
Commercial real estate	—	—	—	116,258	116,258
Home equity lines of credit	184	—	184	14,855	15,039
Construction and land	—	—	—	7,896	7,896
Other	2	—	2	24,506	24,508
Total	$19,961	$ —	$19,961	$6,994,460	$7,014,421

	As of December 31, 2017*		
	Non-Accrual	Restructured	Total
Commercial and industrial	$19,904	$ 8,952	$28,856
Home equity lines of credit	184	—	184
Residential real estate	—	171	171
Other	2	—	2
Total	$20,090	$ 9,123	$29,213

*There were no loans past due 90 days and still accruing interest at December 31, 2017.

Credit quality indicators

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

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolio. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At September 30, 2018 and December 31, 2017, 98.6% and 97.2% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction. The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

	As of September 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$3,069,237	$ 34,488	$ 23,710	$ —	$3,127,435
Residential real estate	2,791,627	394	248	—	2,792,269
Securities-based loans	1,836,450	—	—	—	1,836,450
Commercial real estate	328,814	—	—	—	328,814
Construction and land	120,969	—	—	—	120,969
Home equity lines of credit	28,887	—	231	—	29,118
Other	109,513	—	47	11	109,571
Total	$8,285,497	$ 34,882	$ 24,236	$ 11	$8,344,626

	As of December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate	$2,593,096	$ 309	$ 171	$ —	$2,593,576
Commercial and industrial	2,385,152	22,443	30,343	—	2,437,938
Securities-based loans	1,819,206	—	—	—	1,819,206
Commercial real estate	116,258	—	—	—	116,258
Home equity lines of credit	14,855	—	184	—	15,039
Construction and land	7,896	—	—	—	7,896
Other	24,506	—	2	—	24,508
Total	$6,960,969	$ 22,752	$ 30,700	$ —	$7,014,421

NOTE 8 – Goodwill and Intangible Assets

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

	December 31, 2017	Adjustments	Write-off	September 30, 2018
Goodwill				
Global Wealth Management	$276,477	$ 54,969	$ —	$331,446
Institutional Group	692,357	1,911	—	694,268
	$968,834	$ 56,880	$ —	$1,025,714

	December 31, 2017	Net Additions	Amortization	September 30, 2018
Intangible assets				
Global Wealth Management	$44,525	$ 17,180	$ (3,662)	$58,043
Institutional Group	65,102	857	(5,079)	60,880
	$109,627	$ 18,037	$ (8,741)	$118,923

On March 19, 2018, the Company completed the acquisition of Ziegler. The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 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 $19.0 million of goodwill in the consolidated statement of financial condition, which has been allocated to our company's Global Wealth Management and Institutional Group segments. Identifiable intangible assets purchased by our company consisted of customer relationships and non-compete agreements with an acquisition-date fair value of $9.5 million. See Note 1 in the notes to our consolidated financial statements for additional information regarding the acquisition of Ziegler.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the Ziegler business and of the hired financial advisors and the conversion of the customer accounts to our platform. Goodwill is expected to be deductible for federal income tax purposes.

On August 31, 2018, the Company completed the acquisition of Business Bancshares, Inc. ("BBI"). The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 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 $46.4 million of goodwill and intangibles 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 of BBI is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of BBI as of the acquisition date and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments and the recording of identified intangible assets. See Note 1 in the notes to our consolidated financial statements for additional information regarding the acquisition of BBI.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the BBI business and its customer base.

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and non-compete agreements that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018		December 31, 2017	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Customer relationships	$156,240	$ 62,822	$146,986	$ 55,809
Trade name	24,713	11,373	24,713	10,228
Non-compete agreements	2,603	1,388	2,598	1,202
Investment banking backlog	1,431	1,214	1,419	968
Estimated BBI intangibles [1]	8,615	—	—	—
	$193,602	$ 76,797	$175,716	$ 68,207

(1) See discussion regarding the allocation of the estimated goodwill and intangibles recorded for the BBI acquisition.

Amortization expense related to intangible assets was $3.0 million and $2.9 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense related to intangible assets was $8.7 million and $9.1 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization expense is included in other operating expenses in the consolidated statements of operations.

The weighted-average remaining lives of the following intangible assets at September 30, 2018, are: customer relationships, 10.7 years; trade name, 9.7 years; non-compete agreements, 8.8 years; and BBI intangibles, 5.0 years. As of September 30, 2018, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
Remainder of 2018	$3,382
2019	12,974
2020	12,757
2021	12,258
2022	11,798
Thereafter	63,636
	$116,805

31

NOTE 9 – Borrowings and Federal Home Loan Bank Advances

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

Our uncommitted secured lines of credit at September 30, 2018, totaled $1.0 billion with six banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was $391.0 million during the nine months ended September 30, 2018. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are generally utilized to finance certain fixed income securities. At September 30, 2018, we had no outstanding balances on our uncommitted secured lines of credit.

The Federal Home Loan advances of $1.1 billion as of September 30, 2018 are floating-rate advances. The weighted average interest rates on these advances during the three and nine months ended September 30, 2018 was 1.65% and 1.52%, respectively. The advances are secured by Stifel Bancorp’s residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bancorp has the option to prepay these advances without penalty on the interest reset date.

Our committed bank line financing at September 30, 2018, consisted of a $200.0 million revolving credit facility. The credit facility expires in March 2020. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate (“LIBOR”) plus 1.75%, as defined in the revolving credit facility. At September 30, 2018, we had no advances on our revolving credit facility and were in compliance with all covenants.

In June 2018, Stifel, our broker-dealer subsidiary, entered into a 364-day Credit Agreement (“Stifel Credit Facility”) with a maturity date of June 2019 in which the lenders are a number of financial institutions. This committed unsecured borrowing facility provides for maximum borrowings of up to $250.0 million at variable rates of interest. At September 30, 2018, we had no advances on the Stifel Credit Facility and were in compliance with all covenants.

As of September 30, 2018, a subsidiary of Stifel Bancorp was a party to two Notes. The Notes mature in 2043. The Notes bear interest contractually at fixed rates as per the Note Purchase Agreement. The outstanding balance on the Notes at September 30, 2018 was $134.8 million and is included in borrowings in the consolidated statements of financial condition.

NOTE 10 – Senior Notes

The following table summarizes our senior notes as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
4.250% senior notes, due 2024 [(1)]	$500,000	$500,000
3.50% senior notes, due 2020 [(2)]	300,000	300,000
5.20% senior notes, due 2047 [(3)]	225,000	225,000
	1,025,000	1,025,000
Debt issuance costs, net	(9,286)	(10,060)
	$1,015,714	$1,014,940

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

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

(3) In October 2017, we completed the pricing of a registered underwritten public offering of $200.0 million in aggregate principal amount of 5.20% senior notes due October 2047. Interest on the senior notes is payable quarterly in arrears on January 15, April 15, July 15, and October 15. On or after October 15, 2022, 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. On October 27, 2017, we completed the sale of an additional $25.0 million aggregate principal amount of Notes pursuant to the over-allotment option.

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

2018	$—
2019	—
2020	300,000
2021	—
2022	—
Thereafter	725,000
	$1,025,000

NOTE 11 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018	December 31, 2017
Money market and savings accounts	$11,950,269	$13,219,675
Certificates of deposit	1,970,318	1,575
Demand deposits (interest-bearing)	465,366	184,829
Demand deposits (non-interest-bearing)	116,999	5,856
	$14,502,952	$13,411,935

The weighted-average interest rate on deposits was 0.