

STIFEL FINANCIAL CORP  
Form 10-Q  
November 10, 2014  
Table of Contents

**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, 2014**

**OR**

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

**Commission File Number: 001-09305**

**STIFEL FINANCIAL CORP.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **43-1273600**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**501 N. Broadway, St. Louis, Missouri 63102-2188**  
**(Address of principal executive offices and zip code)**  
**(314) 342-2000**  
**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on October 31, 2014, was 66,010,498.

**Table of Contents**

**STIFEL FINANCIAL CORP.**

Form 10-Q

**TABLE OF CONTENTS**

<b><u>PART I FINANCIAL INFORMATION</u></b>	1
<u>Item 1. Financial Statements</u>	1
<u>Consolidated Statements of Financial Condition as of September 30, 2014 (unaudited) and December 31, 2013</u>	1
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and September 30, 2013 (unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and September 30, 2013 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and September 30, 2013 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	49
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	83
<u>Item 4. Controls and Procedures</u>	86
<b><u>PART II OTHER INFORMATION</u></b>	87
<u>Item 1. Legal Proceedings</u>	87
<u>Item 1A. Risk Factors</u>	89
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	89
<u>Item 6. Exhibits</u>	90
<u>Signatures</u>	91

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition**

<i>(in thousands)</i>	<b>September 30, 2014 (Unaudited)</b>	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 535,118	\$ 716,560
Restricted cash		4,268
Cash segregated for regulatory purposes	39	35
Receivables:		
Brokerage clients, net	549,597	530,402
Brokers, dealers, and clearing organizations	651,428	381,122
Securities purchased under agreements to resell	125,513	225,075
Financial instruments owned, at fair value (includes securities pledged of \$492,986 and \$686,997, respectively)	951,854	801,494
Available-for-sale securities, at fair value	1,527,747	1,756,253
Held-to-maturity securities, at amortized cost	1,199,364	1,312,115
Loans held for sale	104,277	109,110
Bank loans, net of allowance	1,867,177	1,404,353
Investments, at fair value	209,131	217,228
Fixed assets, net	126,007	106,446
Goodwill	762,305	727,336
Intangible assets, net	41,797	49,889
Loans and advances to financial advisors and other employees, net	186,582	184,458
Deferred tax assets, net	234,173	243,554
Other assets	254,008	239,172
<b>Total Assets</b>	<b>\$ 9,326,117</b>	<b>\$ 9,008,870</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition (continued)**

<i>(in thousands, except share and per share amounts)</i>	<b>September 30, 2014 (Unaudited)</b>	December 31, 2013
<b>Liabilities and Shareholders Equity</b>		
Short-term borrowings from banks	\$ 49,800	\$ 55,700
Payables:		
Brokerage clients	319,253	318,942
Brokers, dealers, and clearing organizations	79,111	58,135
Drafts	58,589	74,710
Securities sold under agreements to repurchase	143,814	263,809
Bank deposits	4,552,522	4,663,323
Financial instruments sold, but not yet purchased, at fair value	613,023	481,214
Accrued compensation	286,572	337,589
Accounts payable and accrued expenses	277,384	285,968
Senior notes	625,000	325,000
Debentures to Stifel Financial Capital Trusts	82,500	82,500
	<b>7,087,568</b>	6,946,890
Liabilities subordinated to claims of general creditors		3,131
Shareholders Equity:		
Preferred stock \$1 par value; authorized 3,000,000 shares; none issued		
Common stock \$0.15 par value; authorized 97,000,000 shares; issued 65,994,630 and 63,744,074 shares, respectively	9,861	9,562
Additional paid-in-capital	1,593,721	1,544,143
Retained earnings	672,540	540,238
Accumulated other comprehensive income	(37,573)	(35,030)
	<b>2,238,549</b>	2,058,913
Treasury stock, at cost, 0 and 1,330 shares, respectively		(64)
	<b>2,238,549</b>	2,058,849
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 9,326,117</b>	<b>\$ 9,008,870</b>

*See accompanying Notes to Consolidated Financial Statements.*

Table of Contents

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Commissions	\$ 151,621	\$ 145,837	\$ 463,749	\$ 446,498
Principal transactions	109,378	122,583	361,515	341,153
Investment banking	120,147	92,851	393,966	289,199
Asset management and service fees	96,638	76,710	280,039	221,711
Interest	52,096	39,130	141,035	101,829
Other income	4,803	13,063	18,745	45,269
Total revenues	534,683	490,174	1,659,049	1,445,659
Interest expense	11,228	11,535	28,701	34,738
Net revenues	523,455	478,639	1,630,348	1,410,921
<b>Non-interest expenses:</b>				
Compensation and benefits	331,440	326,020	1,033,478	958,179
Occupancy and equipment rental	41,611	41,288	125,110	116,090
Communications and office supplies	27,464	26,122	78,151	74,034
Commissions and floor brokerage	9,971	10,150	28,247	28,777
Other operating expenses	47,203	44,051	143,945	126,600
Total non-interest expenses	457,689	447,631	1,408,931	1,303,680
<b>Income from continuing operations before income tax expense</b>	<b>65,766</b>	<b>31,008</b>	<b>221,417</b>	<b>107,241</b>
Provision for income taxes	25,673	(43,921)	87,774	(13,541)
<b>Income from continuing operations</b>	<b>40,093</b>	<b>74,929</b>	<b>133,643</b>	<b>120,782</b>
<b>Discontinued operations:</b>				
Loss from discontinued operations, net of tax	(190)	(5,239)	(2,757)	(7,037)
<b>Net income</b>	<b>\$ 39,903</b>	<b>\$ 69,690</b>	<b>\$ 130,886</b>	<b>\$ 113,745</b>
<b>Earnings per basic common share:</b>				
Income from continuing operations	\$ 0.60	\$ 1.16	\$ 2.01	\$ 1.91

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Loss from discontinued operations		(0.08)	<b>(0.04)</b>	(0.11)
Earnings per basic common share	<b>\$ 0.60</b>	\$ 1.08	<b>\$ 1.97</b>	\$ 1.80
<b>Earnings per diluted common share:</b>				
Income from continuing operations	<b>\$ 0.52</b>	\$ 1.00	<b>\$ 1.76</b>	\$ 1.66
Loss from discontinued operations		(0.07)	<b>(0.04)</b>	(0.10)
Earnings per diluted common share	<b>\$ 0.52</b>	\$ 0.93	<b>\$ 1.72</b>	\$ 1.56
<b>Weighted average number of common shares outstanding:</b>				
Basic	<b>66,691</b>	64,706	<b>66,344</b>	63,133
Diluted	<b>76,681</b>	75,191	<b>76,011</b>	72,851

*See accompanying Notes to Consolidated Financial Statements.*

Table of Contents

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Comprehensive Income

(Unaudited)

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Net income	\$ 39,903	\$ 69,690	\$ 130,886	\$ 113,745
Other comprehensive income/(loss) <sup>(1)</sup> :				
Changes in unrealized gains/(losses) on available-for-sale securities <sup>(2)</sup>	(3,884)	(8,160)	1,683	(48,158)
Changes in unrealized gains on cash flow hedging instruments <sup>(3)</sup>	1,108	473	2,094	5,420
Foreign currency translation adjustment	(8,388)	2,669	(6,320)	1,393
	(11,164)	(5,018)	(2,543)	(41,345)
Comprehensive income	\$ 28,739	\$ 64,672	\$ 128,343	\$ 72,400

(1) Net of taxes of \$7.0 million and \$3.1 million for the three months ended September 30, 2014 and 2013, respectively. Net of taxes of \$1.6 million and \$25.8 million for the nine months ended September 30, 2014 and 2013, respectively.

(2) Amounts are net of reclassifications to earnings of realized gains of \$0.7 million and \$0.2 million for the three months ended September 30, 2014 and 2013, respectively. Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.1 million for the nine months ended September 30, 2014 and 2013, respectively.

(3) Amounts are net of reclassifications to earnings of losses of \$1.5 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively. Amounts are net of reclassifications to earnings of losses of \$4.7 million and \$6.7 million for the nine months ended September 30, 2014 and 2013, respectively.

*See accompanying Notes to Consolidated Financial Statements.*



Table of Contents

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<i>(in thousands)</i>		
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 130,886	\$ 113,745
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	21,727	25,162
Amortization of loans and advances to financial advisors and other employees	49,285	48,368
Amortization of premium on investment portfolio	4,385	5,568
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	6,832	6,395
Amortization of intangible assets	9,762	4,145
Deferred income taxes	17,111	(70,687)
Excess tax benefits from stock-based compensation	(18,220)	(10,446)
Stock-based compensation	70,852	124,835
(Gains)/losses on investments	(894)	11,636
Other, net	1,990	23,792
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	4,264	127,993
Receivables:		
Brokerage clients	(19,195)	(35,741)
Brokers, dealers, and clearing organizations	(263,745)	(197,148)
Securities purchased under agreements to resell	99,562	(9,487)
Loans originated as held for sale	(811,711)	(1,069,168)
Proceeds from mortgages held for sale	808,882	1,197,539
Financial instruments owned, including those pledged	(139,012)	23,895
Loans and advances to financial advisors and other employees	(51,492)	(59,751)
Other assets	42,768	37,855
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	311	38,363
Brokers, dealers, and clearing organizations	35,297	23,379
Drafts	(16,121)	(35,282)
Financial instruments sold, but not yet purchased	131,809	128,169
Other liabilities and accrued expenses	(169,588)	(20,012)
Net cash provided by/(used in) operating activities	\$ (54,255)	\$ 433,117

See accompanying Notes to Consolidated Financial Statements.



Table of Contents

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows (continued)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2014	2013
<b>Cash Flows from Investing Activities:</b>		
Proceeds from:		
Maturities, calls, sales, and principal paydowns of available-for-sale securities	\$ 542,565	\$ 376,104
Calls and principal paydowns of held-to-maturity securities	74,405	60,385
Sale or maturity of investments	48,278	74,271
Sale of other real estate owned	131	373
Increase in bank loans, net	(468,329)	(244,838)
Payments for:		
Purchase of available-for-sale securities	(271,548)	(1,125,644)
Purchase of held-to-maturity securities	(7,959)	(16,438)
Purchase of investments	(37,190)	(70,650)
Purchase of fixed assets	(22,384)	(21,077)
Acquisitions, net of cash acquired	(39,184)	(165,300)
Net cash used in investing activities	(181,215)	(1,132,814)
<b>Cash Flows from Financing Activities:</b>		
Payments of short-term borrowings from banks	(5,900)	(171,600)
Proceeds from issuance of senior notes, net	295,638	
Increase/(decrease) in securities sold under agreements to repurchase	(119,995)	115,105
Increase/(decrease) in bank deposits, net	(110,801)	882,272
Increase/(decrease) in securities loaned	(14,321)	149,168
Excess tax benefits from stock-based compensation	18,220	10,446
Issuance of common stock for stock option exercises	135	15
Repurchase of treasury stock		(13,670)
Reissuance of treasury stock		951
Repayment of non-recourse debt		(26,881)
Extinguishment of subordinated debt	(3,131)	(2,187)
Net cash provided by financing activities	59,845	943,619
Effect of exchange rate changes on cash	(5,817)	1,381
Increase/(decrease) in cash and cash equivalents	(181,442)	245,303
Cash and cash equivalents at beginning of period	716,560	403,941
Cash and cash equivalents at end of period	\$ 535,118	\$ 649,244

**Supplemental disclosure of cash flow information:**

Cash paid for income taxes, net of refunds	\$ 59,434	\$ 8,594
Cash paid for interest	31,205	34,196

**Noncash investing and financing activities:**

Stock units granted, net of forfeitures	152,115	205,520
Issuance of common stock for acquisitions	11,741	265,918

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**STIFEL FINANCIAL CORP.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1 Nature of Operations and Basis of Presentation**

***Nature of Operations***

Stifel Financial Corp. (the Parent), through its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus), Stifel Bank & Trust (Stifel Bank), Stifel Nicolaus Europe Limited (SNEL), Century Securities Associates, Inc. (CSA), Keefe, Bruyette & Woods, Inc. (KBW), Keefe, Bruyette & Woods Limited (KBW Limited), Oriel Securities (Oriel), and Miller Buckfire & Co. LLC (Miller Buckfire), 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 three European cities. Our major geographic area of concentration is the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. Our company's principal customers are individual investors, corporations, municipalities, and institutions.

Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. (SN Canada) ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. See Note 3 to our consolidated financial statements for further discussion of our discontinued operations.

***Basis of Presentation***

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

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2013 on file with the SEC.

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013.

***Consolidation Policies***

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

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

---

**Table of Contents**

**Variable Interest Entity.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. We are required to consolidate certain VIEs in which we have the power to direct the activities of the entity and the obligation to absorb significant losses or receive significant benefits. In other cases, we consolidate VIEs when we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that maintains control and receives benefits or will absorb losses that are not pro rata with its ownership interests. See Note 26 for additional information on VIEs.

**NOTE 2 Recently Issued Accounting Guidance***Repurchase Agreements*

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

*Revenue Recognition*

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), ( ASU 2014-09 ) which supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The guidance allows for either retrospective application to all periods presented or a modified retrospective approach where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact the new guidance will have on our consolidated financial statements.

*Discontinued Operations*

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, ( ASU 2014-08 ) amending FASB ASC Topic 205-20, *Discontinued Operations*, ( ASC 205-20 ). The amended guidance changes the criteria for reporting discontinued operations and requires new disclosures. ASU 2014-08 is effective for annual and interim periods beginning on or after December 15, 2014, and will be applied prospectively. We are currently evaluating the impact the new guidance will have on our consolidated financial statements.

**Table of Contents****NOTE 3 Discontinued Operations**

SN Canada ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. The components of discontinued operations are as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net revenues	\$ (44)	\$ 4,696	\$ (75)	\$ 12,930
Restructuring expense		5,516	217	5,516
Operating expenses	110	4,418	3,664	14,341
Total non-interest expenses	110	9,934	3,881	19,857
Loss from discontinued operations before income tax expense	(154)	(5,238)	(3,956)	(6,927)
Income tax expense/(benefit)	36	1	(1,199)	110
Loss from discontinued operations, net of tax	\$ (190)	\$ (5,239)	\$ (2,757)	\$ (7,037)

**NOTE 4 Receivables From and Payables to Brokers, Dealers and Clearing Organizations**

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2014 and December 31, 2013, included (*in thousands*):

	September 30, 2014	December 31, 2013
Deposits paid for securities borrowed	\$ 438,863	\$ 227,640
Receivable from clearing organizations	182,198	125,538
Securities failed to deliver	30,367	27,944
	\$ 651,428	\$ 381,122

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2014 and December 31, 2013, included (*in thousands*):

	September 30, 2014	December 31, 2013
Securities failed to receive	\$ 43,507	\$ 7,411
Deposits received from securities loaned	25,765	40,101
Payable to clearing organizations	9,839	10,623



\$ 79,111 \$ 58,135

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 5 Fair Value Measurements**

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

---

**Table of Contents**

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

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

*Cash and Cash Equivalents*

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

*Financial Instruments (Financial instruments owned and available-for-sale securities)*

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

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

Securities classified as Level 3, of which the substantial majority is auction rate securities ( ARS ), represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on an internally developed discounted cash flow model. In addition to ARS, we have classified certain fixed income securities and state and municipal securities with unobservable pricing inputs as Level 3. The methods used to value these securities are the same as the methods used to value ARS, discussed above.

*Investments*

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

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

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

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The value of these investments is at risk to changes in equity markets, general economic conditions and a variety of other factors. We estimate fair value for private equity investments based on our percentage ownership in the net asset value of the entire fund, as reported by the fund or on behalf of the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair

**Table of Contents**

value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were \$11.6 million and \$12.4 million at September 30, 2014 and December 31, 2013, respectively.

*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.

**Table of Contents**

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 are presented below:

	Total	September 30, 2014		Level 3
		Level 1	Level 2	
<b>Assets:</b>				
Cash equivalents	\$ 73,708	73,708		
<b>Financial instruments owned:</b>				
U.S. government securities	55,172	55,172		
U.S. government agency securities	95,595	20	95,575	
Mortgage-backed securities:				
Agency	194,582		194,582	
Non-agency	25,208		25,208	
Corporate securities:				
Fixed income securities	295,825	74,435	217,233	4,157
Equity securities	121,828	121,184	372	272
State and municipal securities	163,644		163,644	
Total financial instruments owned	951,854	250,811	696,614	4,429
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,713		1,713	
State and municipal securities	74,113		74,113	
Mortgage-backed securities:				
Agency	206,211		206,211	
Commercial	127,885		127,885	
Non-agency	29,438		29,438	
Corporate fixed income securities	360,214	43,834	316,380	
Asset-backed securities	728,173		675,044	53,129
Total available-for-sale securities	1,527,747	43,834	1,430,784	53,129
<b>Investments:</b>				
Corporate equity securities	62,825	33,835	28,990	
Mutual funds	17,558	17,558		
Auction rate securities:				
Equity securities	47,208			47,208
Municipal securities	1,472			1,472
Other <sup>(1)</sup>	80,068	4,606	3,931	71,531
Total investments	209,131	55,999	32,921	120,211
	\$ 2,762,440	\$ 424,352	2,160,319	\$ 177,769
<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$ 99,447	\$ 99,447	\$	\$
U.S. government agency securities	21,981		21,981	

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Agency mortgage-backed securities	<b>97,492</b>		97,492
Corporate securities:			
Fixed income securities	<b>257,458</b>	17,277	240,181
Equity securities	<b>136,581</b>	136,576	5
State and municipal securities	<b>64</b>		64
Total financial instruments sold, but not yet purchased	<b>613,023</b>	253,300	359,723
Derivative contracts <sup>(2)</sup>	<b>5,772</b>		5,772
	<b>\$ 618,795</b>	\$ 253,300	\$ 365,495
			\$

(1) Includes \$43.3 million of partnership interests, \$13.8 million of private company investments, and \$14.4 million of private equity and other investments.

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

**Table of Contents**

		December 31, 2013		
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 78,163	\$ 78,163	\$	\$
<b>Financial instruments owned:</b>				
U.S. government securities	10,594	10,594		
U.S. government agency securities	80,835	307	80,528	
Mortgage-backed securities:				
Agency	267,933		267,933	
Non-agency	22,570		22,570	
Corporate securities:				
Fixed income securities	201,579	23,106	176,434	2,039
Equity securities	76,709	76,462	6	241
State and municipal securities	141,274		141,274	
<b>Total financial instruments owned</b>	<b>801,494</b>	<b>110,469</b>	<b>688,745</b>	<b>2,280</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,072		1,072	
State and municipal securities	90,677		84,477	6,200
Mortgage-backed securities:				
Agency	183,987		183,987	
Commercial	211,246		211,246	
Non-agency	4,619		4,619	
Corporate fixed income securities	498,316	83,655	414,661	
Asset-backed securities	766,336		708,258	58,078
<b>Total available-for-sale securities</b>	<b>1,756,253</b>	<b>83,655</b>	<b>1,608,320</b>	<b>64,278</b>
<b>Investments:</b>				
Corporate equity securities	32,402	32,402		
Mutual funds	16,994	16,994		
Auction rate securities:				
Equity securities	56,693			56,693
Municipal securities	10,939			10,939
Other <sup>(1)</sup>	100,200	10	2,422	97,768
<b>Total investments</b>	<b>217,228</b>	<b>49,406</b>	<b>2,422</b>	<b>165,400</b>
	<b>\$ 2,853,138</b>	<b>\$ 321,693</b>	<b>\$ 2,299,487</b>	<b>\$ 231,958</b>
<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$ 253,221	\$ 253,221	\$	\$
Agency mortgage-backed securities	37,201		37,201	
Corporate securities:				
Fixed income securities	100,745	17,857	82,888	
Equity securities	90,015	86,933	3,082	
State and municipal securities	32		32	
<b>Total financial instruments sold, but not yet purchased</b>	<b>481,214</b>	<b>358,011</b>	<b>123,203</b>	

**Derivative contracts** <sup>(2)</sup> **9,349** 9,349

**\$ 490,563** \$ 358,011 \$ 132,552 \$

<sup>1</sup> Includes \$56.0 million of partnership interests, \$22.5 million of private company investments, and \$19.2 million of private equity and other investments.

<sup>2</sup> Included in accounts payable and accrued expenses in the consolidated statements of financial condition.



**Table of Contents**

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three and nine months ended September 30, 2014 (*in thousands*):

	<b>Three Months Ended September 30, 2014</b>			
	<b>Financial instruments owned</b>		<b>Available-for-sale securities</b>	
	<b>Corporate Fixed Income Securities <sup>(1)</sup></b>	<b>Equity Securities</b>	<b>State &amp; Municipal Securities</b>	<b>Asset-Backed Securities</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at June 30, 2014</b>	<b>\$ 3,368</b>		<b>\$</b>	<b>\$ 58,370</b>
Unrealized gains/(losses):				
Included in changes in net assets <sup>(3)</sup>	(3)			
Included in OCI <sup>(4)</sup>				(589)
Realized gains/(losses) <sup>(3)</sup>	(59)			173
Purchases	3,200	272		
Sales	(2,293)			(4,825)
Redemptions	(56)			
Transfers:				
Into Level 3				
Out of Level 3				
Net change	789	272		(5,241)
<b>Balance at September 30, 2014</b>	<b>\$ 4,157</b>	<b>\$ 272</b>	<b>\$</b>	<b>\$ 53,129</b>

	<b>Three Months Ended September 30, 2014</b>		
	<b>Auction Rate Securities Equity</b>	<b>Investments Auction Rate Securities Municipal</b>	<b>Other <sup>(2)</sup></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at June 30, 2014</b>	<b>\$ 52,184</b>	<b>\$ 1,930</b>	<b>\$ 80,344</b>
Unrealized gains/(losses):			
Included in changes in net assets <sup>(3)</sup>	(101)	47	205
Included in OCI <sup>(4)</sup>			69
Realized gains/(losses) <sup>(3)</sup>			49
Purchases	25		(7,231)
Sales			(1,905)
Redemptions	(4,900)	(505)	
Transfers:			
Into Level 3			
Out of Level 3			

Net change	(4,976)	(458)	(8,813)
<b>Balance at September 30, 2014</b>	<b>\$ 47,208</b>	<b>\$ 1,472</b>	<b>\$ 71,531</b>

**Table of Contents**

	Nine Months Ended September 30, 2014			
	Financial instruments owned		Available-for-sale securities	
	Corporate Fixed Income Securities <sup>(1)</sup>	Equity Securities	State & Municipal Securities	Asset- Backed Securities
<b>Balance at December 31, 2013</b>	<b>\$ 2,039</b>	<b>\$ 241</b>	<b>\$ 6,200</b>	<b>\$ 58,078</b>
Unrealized gains/(losses):				
Included in changes in net assets <sup>(3)</sup>	(444)			
Included in OCI <sup>(4)</sup>			62	(297)
Realized gains/(losses) <sup>(3)</sup>	(1,354)	4,964		173
Purchases	6,556	272		
Sales	(2,552)	(5,205)		(4,825)
Redemptions	(88)			
Transfers:				
Into Level 3				
Out of Level 3			(6,262)	
Net change	2,118	31	(6,200)	(4,949)
<b>Balance at September 30, 2014</b>	<b>\$ 4,157</b>	<b>\$ 272</b>	<b>\$</b>	<b>\$ 53,129</b>

	Nine Months Ended September 30, 2014		
	Investments		
	Auction Rate Securities Equity	Auction Rate Securities Municipal	Other <sup>(2)</sup>
<b>Balance at December 31, 2013</b>	<b>\$ 56,693</b>	<b>\$ 10,939</b>	<b>\$ 97,768</b>
Unrealized gains/(losses):			
Included in changes in net assets <sup>(3)</sup>	615	684	(556)
Included in OCI <sup>(4)</sup>			
Realized gains/(losses) <sup>(3)</sup>			3,290
Purchases	25	1,650	1,263
Sales	(1,725)	(10,324)	(22,058)
Redemptions	(8,400)	(1,477)	(4,294)
Transfers:			
Into Level 3			
Out of Level 3			(3,882)
Net change	(9,485)	(9,467)	(26,237)
<b>Balance at September 30, 2014</b>	<b>\$ 47,208</b>	<b>\$ 1,472</b>	<b>\$ 71,531</b>

- 1 Included in financial instruments owned in the consolidated statements of financial condition.
- 2 Includes partnership interests, private company investments, and private equity investments.
- 3 Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.
- 4 Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial condition.

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of: sales of certain investments, redemptions of ARS at par, and unrealized gains and losses during the three and nine months ended September 30, 2014. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2014 relating to Level 3 assets still held at September 30, 2014 were immaterial.

**Table of Contents**

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, 2014.

	Valuation technique	Unobservable input	Range		Weighted average
<b>Available-for-sale securities:</b>					
Auction rate securities:					
Asset-backed securities	Discounted cash flow	Discount rate	6.0%	11.5%	8.4%
		Workout period	3	4 years	3.9 years
<b>Investments:</b>					
Auction rate securities:					
Equity securities	Discounted cash flow	Discount rate	2.1%	12.9%	7.3%
		Workout period	1	3 years	2.4 years
Municipal securities	Discounted cash flow	Discount rate	0.2%	8.6%	6.6%
		Workout period	1	4 years	2.8 years
Other					
Investments in partnerships	Market approach	Revenue multiple	1.3	4.2	3.3
		EBITDA multiple	4.1	15.3	8.7
Private equity investments	Market/Income				
	approach	Revenue multiple	0.5	2.0	1.4
		EBITDA multiple	4.3	9.8	6.7

The fair value of certain Level 3 assets was determined using various methodologies as appropriate, including net asset values ( NAVs ) of underlying investments, third-party pricing vendors, broker quotes and market and income approaches. 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 on-going basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

General and limited partnership interests in investment partnerships totaled \$43.3 million and \$56.0 million at September 30, 2014 and December 31, 2013, respectively. The general and limited partnership interests in investment partnerships were primarily valued based upon NAVs received from third-party fund managers. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the funds to utilize pricing/valuation information, including independent appraisals, from third-party sources. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based

analytical valuations that may be used as an input to value these investments.

---

**Table of Contents**

Direct investments in private equity companies totaled \$18.6 million and \$14.8 million at September 30, 2014 and December 31, 2013, respectively. Direct investments in private equity companies may be valued using the market approach or the income approach, or a combination thereof, 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. Under the income approach, fair value may be determined by discounting the cash flows to a single present amount using current market expectations about those future amounts. Unobservable inputs used in a discounted cash flow model may include projections of operating performance generally covering a five-year period and a terminal value of the private equity direct investment. For securities utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, risk premium or discount for lack of marketability in isolation could result in a significantly lower (higher) fair value measurement. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

*Transfers Within the Fair Value Hierarchy*

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were \$5.9 million and \$10.3 million of transfers of financial assets from Level 2 to Level 1 during the three and nine months ended September 30, 2014, respectively, primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were \$8.9 million and \$9.3 million of transfers of financial assets from Level 1 to Level 2 during the three and nine months ended September 30, 2014, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were no transfers out of Level 3 during the three months ended September 30, 2014. There were \$10.2 million of transfers out of Level 3 during the nine months ended September 30, 2014 primarily related to state and municipal securities and private company investments for which market trades were observed that provided transparency into the valuation of these assets and, in the case of the private company investments, have had an initial public offering of their securities.

**Table of Contents***Fair Value of Financial Instruments*

The following reflects the fair value of financial instruments, as of September 30, 2014 and December 31, 2013, whether or not recognized in the consolidated statements of financial condition at fair value (*in thousands*).

	September 30, 2014		December 31, 2013	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 535,118	\$ 535,118	\$ 716,560	\$ 716,560
Restricted cash			4,268	4,268
Cash segregated for regulatory purposes	39	39	35	35
Securities purchased under agreements to resell	125,513	125,513	225,075	225,075
Financial instruments owned	951,854	951,854	801,494	801,494
Available-for-sale securities	1,527,747	1,527,747	1,756,253	1,756,253
Held-to-maturity securities	1,199,364	1,221,555	1,312,115	1,305,959
Loans held for sale	104,277	104,277	109,110	109,110
Bank loans	1,867,177	1,890,834	1,404,353	1,420,068
Investments	209,131	209,131	217,228	217,228
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$ 143,814	\$ 143,814	\$ 263,809	\$ 263,809
Bank deposits	4,552,522	4,009,299	4,663,323	4,072,038
Financial instruments sold, but not yet purchased	613,023	613,023	481,214	481,214
Derivative contracts <sup>(1)</sup>	5,772	5,772	9,349	9,349
Senior notes	625,000	633,181	325,000	328,635
Debentures to Stifel Financial Capital Trusts	82,500	66,291	82,500	72,201
Liabilities subordinated to claims of general creditors			3,131	3,122

<sup>(1)</sup> Included in accounts payable and accrued expenses in the consolidated statements of financial condition.



**Table of Contents**

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 (*in thousands*):

	Total	September 30, 2014		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$ 461,410	\$ 461,410	\$	\$
Cash segregated for regulatory purposes	39	39		
Securities purchased under agreements to resell	125,513	95,683	29,830	
Held-to-maturity securities	1,221,555		978,400	243,155
Loans held for sale	104,277		104,277	
Bank loans	1,890,834		1,890,834	
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$ 143,814	\$ 46,999	\$ 96,815	\$
Bank deposits	4,009,299		4,009,299	
Senior notes	633,181	633,181		
Debentures to Stifel Financial Capital Trusts	66,291			66,291

	Total	December 31, 2013		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$ 638,397	\$ 638,397	\$	\$
Restricted cash	4,268	4,268		
Cash segregated for regulatory purposes	35	35		
Securities purchased under agreements to resell	225,075	225,075		
Held-to-maturity securities	1,305,959		1,073,953	232,006
Loans held for sale	109,110		109,110	
Bank loans	1,420,068		1,420,068	
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$ 263,809	\$ 747	\$ 263,062	\$
Bank deposits	4,072,038		4,072,038	
Senior notes	328,635	328,635		
Debentures to Stifel Financial Capital Trusts	72,201			72,201
Liabilities subordinated to claims of general creditors	3,122			3,122

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, 2014 and December 31, 2013.

**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, 2014 and December 31, 2013 approximate fair value due to the 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 asset-backed securities, consisting of corporate obligations, collateralized debt obligation securities and ARS. 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.

## **Table of Contents**

### *Loans Held for Sale*

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

### *Bank Loans*

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

## **Financial Liabilities**

### *Securities Sold Under Agreements to Repurchase*

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2014 and December 31, 2013 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.

### *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 6.7% senior notes due 2022.

### *Liabilities Subordinated to Claims of General Creditors*

The fair value of subordinated debt was measured using the interest rates commensurate with borrowings of similar terms.

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.



**Table of Contents****NOTE 6 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, 2014 and December 31, 2013, are as follows (*in thousands*):

	September 30, 2014	December 31, 2013
<b>Financial instruments owned:</b>		
U.S. government securities	\$ 55,172	\$ 10,594
U.S. government agency securities	95,595	80,835
Mortgage-backed securities:		
Agency	194,582	267,933
Non-agency	25,208	22,570
Corporate securities:		
Fixed income securities	295,825	201,579
Equity securities	121,828	76,709
State and municipal securities	163,644	141,274
	<b>\$ 951,854</b>	<b>\$ 801,494</b>
<b>Financial instruments sold, but not yet purchased:</b>		
U.S. government securities	\$ 99,447	\$ 253,221
U.S. government agency securities	21,981	
Agency mortgage-backed securities	97,492	37,201
Corporate securities:		
Fixed income securities	257,458	100,745
Equity securities	136,581	90,015
State and municipal securities	64	32
	<b>\$ 613,023</b>	<b>\$ 481,214</b>

At September 30, 2014 and December 31, 2013, financial instruments owned in the amount of \$493.0 million and \$687.0 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

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

**Table of Contents****NOTE 7 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, 2014 and December 31, 2013 (*in thousands*):

		<b>September 30, 2014</b>		
	Amortized cost	Gross unrealized gains <sup>(1)</sup>	Gross unrealized losses <sup>(1)</sup>	Estimated fair value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$ 1,716	\$ 1	\$ (4)	\$ 1,713
State and municipal securities	76,660	81	(2,628)	74,113
Mortgage-backed securities:				
Agency	205,163	2,637	(1,589)	206,211
Commercial	127,774	717	(606)	127,885
Non-agency	29,247	191		29,438
Corporate fixed income securities	358,773	2,797	(1,356)	360,214
Asset-backed securities	734,087	1,350	(7,264)	728,173
	<b>\$ 1,533,420</b>	<b>\$ 7,774</b>	<b>\$ (13,447)</b>	<b>\$ 1,527,747</b>

<b>Held-to-maturity securities <sup>(2)</sup></b>				
Mortgage-backed securities:				
Agency	\$ 906,177	\$ 20,764	\$ (18)	\$ 926,923
Commercial	59,447	1,376		60,823
Non-agency	1,226	1	(13)	1,214
Asset-backed securities	177,254	3,802	(2,319)	178,737
Corporate fixed income securities	55,260	5	(1,407)	53,858
	<b>\$ 1,199,364</b>	<b>\$ 25,948</b>	<b>\$ (3,757)</b>	<b>\$ 1,221,555</b>

		<b>December 31, 2013</b>		
	Amortized cost	Gross unrealized gains <sup>(1)</sup>	Gross unrealized losses <sup>(1)</sup>	Estimated fair value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$ 1,074	\$	\$ (2)	\$ 1,072
State and municipal securities	96,475	739	(6,537)	90,677
Mortgage-backed securities:				
Agency	184,533	2,859	(3,405)	183,987
Commercial	209,949	3,084	(1,787)	211,246
Non-agency	4,547	72		4,619
Corporate fixed income securities	496,385	4,769	(2,838)	498,316
Asset-backed securities	769,553	2,499	(5,716)	766,336

**\$ 1,762,516**    \$ 14,022    \$ (20,285)    **\$ 1,756,253**

**Held-to-maturity securities** <sup>(2)</sup>

Mortgage-backed securities:

Agency	<b>\$ 968,759</b>	\$ 1,156	\$ (7,915)	<b>\$ 962,000</b>
Commercial	<b>59,404</b>		(186)	<b>59,218</b>
Asset-backed securities	<b>228,623</b>	6,157	(2,774)	<b>232,006</b>
Corporate fixed income securities	<b>55,329</b>	11	(2,605)	<b>52,735</b>
	<b>\$ 1,312,115</b>	\$ 7,324	\$ (13,480)	<b>\$ 1,305,959</b>

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

**Table of Contents**

For the three and nine months ended September 30, 2014, we received proceeds of \$162.9 million and \$229.7 million, respectively, from the sale of available-for-sale securities, which resulted in realized gains of \$1.2 million and \$3.2 million, respectively. For the three and nine months ended September 30, 2013, we received proceeds of \$4.5 million and \$194.1 million, respectively, from the sale of available-for-sale securities, which resulted in realized gains of \$0.2 million and \$1.7 million, respectively.

During the three months ended September 30, 2014, unrealized losses, net of deferred tax benefits, of \$3.9 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the nine months ended September 30, 2014, unrealized gains, net of deferred taxes, of \$1.7 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the three and nine months ended September 30, 2013, unrealized losses, net of deferred tax benefits, of \$8.2 million and \$48.2 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	September 30, 2014			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
<b>Debt securities</b>				
Within one year	\$ 118,969	\$ 120,197	\$	\$
After one year through three years	66,062	66,405	15,031	15,034
After three years through five years	142,771	143,348	40,229	38,824
After five years through ten years	348,396	347,259		
After ten years	495,038	487,004	177,254	178,736
<b>Mortgage-backed securities</b>				
After three years through five years	180	184		
After five years through ten years	79,408	80,976	59,447	60,824
After ten years	282,596	282,374	907,403	928,137
	<b>\$ 1,533,420</b>	<b>\$ 1,527,747</b>	<b>\$ 1,199,364</b>	<b>\$ 1,221,555</b>



**Table of Contents**

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at September 30, 2014, are as follows (*in thousands*):

	Within 1 year	1-5 years	5-10 years	After 10 years	Total
<b>Available-for-sale:<sup>1</sup></b>					
U.S. government agency securities	\$ 327	\$ 1,386	\$	\$	\$ 1,713
State and municipal securities			1,639	72,474	74,113
Mortgage-backed securities:					
Agency			40,501	165,710	206,211
Commercial			40,474	87,411	127,885
Non-agency		184		29,254	29,438
Corporate fixed income securities	119,870	198,729	41,615		360,214
Asset-backed securities		9,638	304,006	414,529	728,173
	<b>\$ 120,197</b>	<b>\$ 209,937</b>	<b>\$ 428,235</b>	<b>\$ 769,378</b>	<b>\$ 1,527,747</b>
<b>Held-to-maturity:</b>					
Mortgage-backed securities:					
Agency	\$	\$	\$	\$ 906,177	\$ 906,177
Commercial			59,447		59,447
Non-agency				1,226	1,226
Asset-backed securities				177,254	177,254
Corporate fixed income securities		55,260			55,260
	<b>\$</b>	<b>\$ 55,260</b>	<b>\$ 59,447</b>	<b>\$ 1,084,657</b>	<b>\$ 1,199,364</b>

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

At September 30, 2014 and December 31, 2013, securities of \$1.2 billion and \$505.5 million, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits.

**Table of Contents**

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the available-for-sale and held-to-maturity securities have been in an unrealized loss position at September 30, 2014 and December 31, 2013 (*in thousands*):

	September 30, 2014					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
<b>Available-for-sale securities</b>						
U.S. government securities	\$ (4)	\$ 1,214	\$	\$	\$ (4)	\$ 1,,214
State and municipal securities	(1)	426	(2,627)	67,458	(2,628)	67,884
Mortgage-backed securities:						
Agency	(306)	73,769	(1,283)	47,285	(1,589)	121,054
Commercial	(404)	41,123	(202)	9,996	(606)	51,119
Corporate fixed income securities	(134)	37,915	(1,222)	64,541	(1,356)	102,456
Asset-backed securities	(2,950)	314,910	(4,314)	182,303	(7,264)	497,213
	\$ (3,799)	\$ 469,357	\$ (9,648)	\$ 371,583	\$ (13,447)	\$ 840,940

**Held-to-maturity securities**

Mortgage-backed securities						
Agency	(18)	3,221			(18)	3,221
Non-agency	(13)	524			(13)	524
Asset-backed securities	(129)	13,587	(2,190)	55,817	(2,319)	69,404
Corporate fixed income securities			(1,407)	48,855	(1,407)	48,855
	\$ (160)	\$ 17,332	\$ (3,597)	\$ 104,672	\$ (3,757)	\$ 122,004

	December 31, 2013					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
<b>Available-for-sale securities</b>						
U.S. government securities	\$ (2)	\$ 721	\$	\$	\$ (2)	\$ 721
State and municipal securities	(2,966)	32,272	(3,571)	41,182	(6,537)	73,454
Mortgage-backed securities:						
Agency	(3,260)	89,395	(145)	1,335	(3,405)	90,730
Commercial	(1,787)	46,970			(1,787)	46,970
Corporate fixed income securities	(2,062)	80,700	(776)	39,421	(2,838)	120,121
Asset-backed securities	(4,516)	436,770	(1,200)	31,938	(5,716)	468,708

\$ (14,593)	\$ 686,828	\$ (5,692)	\$ 113,876	\$ (20,285)	\$ 800,704
-------------	------------	------------	------------	-------------	------------

**Held-to-maturity securities**

## Mortgage-backed securities:

Agency	(91)	8,127	(7,824)	838,295	(7,915)	846,422
Commercial			(186)	59,219	(186)	59,219
Asset-backed securities			(2,774)	92,806	(2,774)	92,806
Corporate fixed income securities			(2,605)	47,727	(2,605)	47,727

\$	(91)	\$	8,127	\$	(13,389)	\$	1,038,047	\$	(13,480)	\$	1,046,174
----	------	----	-------	----	----------	----	-----------	----	----------	----	-----------

**Table of Contents**

At September 30, 2014, the amortized cost of 103 securities classified as available for sale exceeded their fair value by \$13.4 million, of which \$9.6 million related to investment securities that had been in a loss position for 12 months or longer. As of September 30, 2014, the carrying value of 20 securities held to maturity exceeded their fair value by \$3.8 million, of which \$3.6 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, 2014.

We believe the gross unrealized losses of \$13.4 million related to our available-for-sale portfolio as of September 30, 2014, 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 8 Bank Loans**

The following table presents the balance and associated percentage of each major loan category in our loan portfolio at September 30, 2014 and December 31, 2013 (*in thousands, except percentages*):

	September 30, 2014		December 31, 2013	
	Balance	Percent	Balance	Percent
Commercial and industrial	\$ 833,988	43.5%	\$ 552,333	37.7%
Consumer <sup>(1)</sup>	638,811	33.2	509,484	34.8
Residential real estate	418,806	21.8	372,789	25.5
Commercial real estate	15,970	0.8	12,284	0.8
Home equity lines of credit	13,776	0.7	16,327	1.1
Construction and land			490	0.1
	<b>1,921,351</b>	<b>100.0%</b>	1,463,707	100.0%
Unamortized loan discount	(32,772)		(45,100)	
Unamortized loan fees, net of origination costs	(1,251)		(1,920)	
Loans in process	(1,155)		334	
Allowance for loan losses	(18,996)		(12,668)	
	<b>\$ 1,867,177</b>		\$ 1,404,353	

(1)

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Includes securities-based loans of \$628.3 million and \$508.9 million at September 30, 2014 and December 31, 2013, respectively.

Changes in the allowance for loan losses for the periods presented were as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Allowance for loan losses, beginning of period</b>	<b>\$ 17,104</b>	<b>\$ 10,919</b>	<b>\$ 12,668</b>	<b>\$ 8,145</b>
Provision for loan losses	1,871	2,297	6,749	5,537
Charge-offs:				
Commercial and industrial			(468)	
Residential real estate				(501)
Other			(4)	
Total charge-offs			(472)	(501)
Recoveries	21	17	51	52
<b>Allowance for loan losses, end of period</b>	<b>\$ 18,996</b>	<b>\$ 13,233</b>	<b>\$ 18,996</b>	<b>\$ 13,233</b>

**Table of Contents**

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. At September 30, 2014, we had \$3.6 million of non-accrual loans, net of discount, which included \$0.4 million in troubled debt restructurings, for which there was a specific allowance of \$0.3 million. At December 31, 2013, we had \$1.5 million of non-accrual loans, which included \$0.4 million in troubled debt restructurings, for which there was a specific allowance of \$0.2 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2014 and 2013 were insignificant to the consolidated financial statements.

*Credit Quality*

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At September 30, 2014 and December 31, 2013, approximately 96.3% and 96.8% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction.

The following is a breakdown of the allowance for loan losses by type for as of September 30, 2014 and December 31, 2013 (*in thousands, except rates*):

	September 30, 2014		December 31, 2013	
	Balance	Percent <sup>(1)</sup>	Balance	Percent <sup>(1)</sup>
Commercial and industrial	\$ 15,545	43.5%	\$ 9,538	37.7%
Consumer	1,001	33.2	892	34.8
Residential real estate	674	21.8	408	25.5
Home equity lines of credit	274	0.7	174	1.1
Commercial real estate	239	0.8	198	0.8
Construction and land			12	0.1
Qualitative	1,263		1,446	
	<b>\$ 18,996</b>	<b>100.0%</b>	\$ 12,668	100.0%

<sup>(1)</sup> Loan category as a percentage of total loan portfolio.

At September 30, 2014 and December 31, 2013, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$0.6 million and \$0.6 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$5.6 million and \$6.4 million, respectively.

At September 30, 2014 and December 31, 2013, we had loans held for sale of \$104.3 million and \$109.1 million, respectively. For the three months ended September 30, 2014 and 2013, we recognized gains of \$2.2 million and \$1.9 million, respectively, from the sale of originated and purchased loans, net of fees and costs. For the nine months ended September 30, 2014 and 2013, we recognized gains of \$5.8 million and \$9.8 million, respectively, from the sale of originated and purchased loans, net of fees and costs.

**Table of Contents****NOTE 9 Fixed Assets**

The following is a summary of fixed assets as of September 30, 2014 and December 31, 2013 (*in thousands*):

	<b>September 30, 2014</b>	December 31, 2013
Furniture and equipment	<b>\$ 191,630</b>	\$ 174,976
Building and leasehold improvements	<b>122,202</b>	101,840
<b>Total</b>	<b>313,832</b>	276,816
Less accumulated depreciation and amortization	<b>(187,825)</b>	(170,370)
	<b>\$ 126,007</b>	\$ 106,446

For the three months ended September 30, 2014 and 2013, depreciation and amortization of furniture and equipment, and leasehold improvements totaled \$7.4 million and \$8.6 million, respectively. For the nine months ended September 30, 2014 and 2013, depreciation and amortization of furniture and equipment, and leasehold improvements totaled \$21.7 million and \$25.2 million, respectively.

**NOTE 10 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*):

	<b>December 31, 2013</b>	<b>Net additions</b>	<b>Impairment losses</b>	<b>September 30, 2014</b>
<b>Goodwill</b>				
Global Wealth Management	<b>\$ 161,358</b>	\$ 2,293	\$	<b>\$ 163,651</b>
Institutional Group	<b>565,978</b>	32,676		<b>598,654</b>
	<b>\$ 727,336</b>	\$ 34,969	\$	<b>\$ 762,305</b>

	<b>December 31, 2013</b>	<b>Net additions</b>	<b>Amortization</b>	<b>September 30, 2014</b>
<b>Intangible assets</b>				
Global Wealth Management	<b>\$ 19,394</b>	\$ 1,670	\$ (6,324)	<b>\$ 14,740</b>
Institutional Group	<b>30,495</b>		(3,438)	<b>27,057</b>
	<b>\$ 49,889</b>	\$ 1,670	\$ (9,762)	<b>\$ 41,797</b>

The adjustments to goodwill and intangible assets during the nine months ended September 30, 2014 are primarily attributable to our acquisition of De La Rosa & Co ( DLR ), which closed on April 3, 2014 and Oriel Securities, which



closed on July 31, 2014. The allocation of the purchase price of DLR and Oriel are preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of DLR and Oriel as of the respective acquisition dates and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments and the recording of identified intangible assets.

**Table of Contents**

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and core deposits that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2014 and December 31, 2013 were as follows (*in thousands*):

	September 30, 2014		December 31, 2013	
	Gross carrying value	Accumulated amortization	Gross carrying value	Accumulated amortization
Customer relationships	\$ 51,866	\$ 27,681	\$ 51,166	\$ 24,034
Trade name	19,342	4,930	18,442	3,585
Investment banking backlog	7,388	7,348	7,388	6,871
Core deposits	5,447	4,587	5,447	182
Non-compete agreements	2,511	2,494		
	<b>\$ 86,554</b>	<b>\$ 47,040</b>	\$ 82,443	\$ 34,672

Amortization expense related to intangible assets was \$1.6 million and \$1.3 million for the three months ended September 30, 2014 and 2013, respectively. Amortization expense related to intangible assets was \$9.8 million and \$4.1 million for the nine months ended September 30, 2014 and 2013, respectively.

The weighted-average remaining lives of the following intangible assets at September 30, 2014 are: customer relationships, 5.1 years; trade name, 8.5 years; core deposits, 0.8 years; and non-compete agreements, 0.5 year. The investment banking backlog will be amortized over its estimated life, which we expect to be within the next 12 months. As of September 30, 2014, we expect amortization expense in future periods to be as follows (*in thousands*):

**Fiscal year**

Remainder of 2014	\$ 2,380
2015	5,257
2016	4,701
2017	4,129
2018	3,642
Thereafter	19,405
	<b>\$ 39,514</b>

**NOTE 11 Short-Term Borrowings**

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, committed short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at September 30, 2014 totaled \$680.0 million with four 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 are subject to approval by the individual banks each time an advance is

requested and may be denied. Our peak daily borrowing was \$414.9 million during the nine months ended September 30, 2014. There are no compensating balance requirements under these arrangements.

Our committed short-term bank line financing at September 30, 2014 consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2014. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate ( LIBOR ) plus 2.25%. At September 30, 2014, we had no advances on our revolving credit facility and were in compliance with all covenants.

At September 30, 2014, short-term borrowings from banks were \$49.8 million at an average rate of 1.00%, which were collateralized by company-owned securities valued at \$366.5 million. At December 31, 2013, short-term borrowings from banks were \$55.7 million at an average rate of 1.22%, which were collateralized by company-owned securities valued at \$440.8 million. The average bank borrowing was \$29.2 million and \$246.8 million for the three months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 1.10% and 1.33%, respectively. The average bank borrowing was \$126.1 million and \$290.4 million for the nine months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 1.12% and 1.25%, respectively.

**Table of Contents**

At September 30, 2014 and December 31, 2013, Stifel had a stock loan balance of \$25.8 million and \$40.1 million, respectively, at average daily interest rates of 0.20% and 0.16%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$31.3 million and \$120.7 million during the three months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 0.22% and 0.23%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$57.4 million and \$89.0 million during the nine months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 0.18% and 0.16%, respectively. Customer-owned securities were utilized in these arrangements.

**NOTE 12 Senior Notes**

The following table summarizes our senior notes as of September 30, 2014 and December 31, 2013 (*in thousands*):

	<b>September 30, 2014</b>	December 31, 2013
6.70% senior notes, due 2022 <sup>(1)</sup>	<b>\$ 175,000</b>	\$ 175,000
5.375% senior notes, due 2022 <sup>(2)</sup>	<b>150,000</b>	150,000
4.250% senior notes, due 2024 <sup>(3)</sup>	<b>300,000</b>	
	<b>\$ 625,000</b>	\$ 325,000

- (1) In January 2012, we sold in a registered underwritten public offering, \$175.0 million in aggregate principal amount of 6.70% senior notes due January 2022. Interest on these senior notes is payable quarterly in arrears. On or after January 15, 2015, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.
- (2) In December 2012, we sold in a registered underwritten public offering, \$150.0 million in aggregate principal amount of 5.375% senior notes due December 2022. Interest on these senior notes is payable quarterly in arrears. On or after December 31, 2015, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.
- (3) In July 2014, we sold in a registered underwritten public offering, \$300.0 million in aggregate principal amount of 4.250% senior notes due July 2024. Interest on these senior notes is payable semi-annually in arrears. We may redeem the Notes in whole or in part at our option at a redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest, if any, to the date of redemption.

Our senior notes mature as follows, based upon its contractual terms:

2014	\$
2015	
2016	
2017	
2018	

Thereafter	625,000
	<b>\$ 625,000</b>

**Table of Contents****NOTE 13 Bank Deposits**

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at September 30, 2014 and December 31, 2013 were as follows (*in thousands*):

	<b>September 30, 2014</b>	December 31, 2013
Money market and savings accounts	<b>\$ 4,410,904</b>	<b>\$ 4,310,223</b>
Certificates of deposit	<b>101,051</b>	<b>241,481</b>
Demand deposits (interest-bearing)	<b>30,071</b>	<b>93,684</b>
Demand deposits (non-interest-bearing)	<b>10,496</b>	<b>17,935</b>
	<b>\$ 4,552,522</b>	<b>\$ 4,663,323</b>

The weighted average interest rate on deposits was 0.18% and 0.07% at September 30, 2014 and December 31, 2013, respectively.

Scheduled maturities of certificates of deposit at September 30, 2014 and December 31, 2013 were as follows (*in thousands*):

	<b>September 30, 2014</b>	December 31, 2013
<b>Certificates of deposit, less than \$100:</b>		
Within one year	<b>\$ 37,820</b>	\$ 82,115
One to three years	<b>10,266</b>	34,694
Three to five years	<b>1,529</b>	3,701
Over five years		66
	<b>\$ 49,615</b>	\$ 120,576
<b>Certificates of deposit, \$100 and greater:</b>		
Within one year	<b>\$ 36,677</b>	\$ 75,577
One to three years	<b>13,723</b>	41,756
Three to five years	<b>783</b>	3,336
Over five years	<b>253</b>	236
	<b>51,436</b>	120,905
	<b>\$ 101,051</b>	\$ 241,481

At September 30, 2014 and December 31, 2013, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel Nicolaus of \$4.4 billion and \$4.3 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.3 million and \$0.4 million, respectively.

**NOTE 14 Derivative Instruments and Hedging Activities**

We use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our company making fixed payments. Our policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements.

**Table of Contents**

The following table provides the notional values and fair values of our derivative instruments as of September 30, 2014 and December 31, 2013 (*in thousands*):

	Notional value	September 30, 2014		September 30, 2014	
		Asset derivatives Balance sheet location	Positive fair value	Liability derivatives Balance sheet location	Negative fair value
<b>Derivatives designated as hedging instruments under Topic 815:</b>					
Cash flow interest rate contracts	\$ 296,722	Other assets	\$	Accounts payable and accrued expenses	\$ (5,772)

	Notional value	December 31, 2013		December 31, 2013	
		Asset derivatives Balance sheet location	Positive fair value	Liability derivatives Balance sheet location	Negative fair value
<b>Derivatives designated as hedging instruments under Topic 815:</b>					
Cash flow interest rate contracts	\$ 386,212	Other assets	\$	Accounts payable and accrued expenses	\$ (9,349)

**Cash Flow Hedges**

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next ten years.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. There was an immaterial loss recognized during the three and nine months ended September 30, 2014 related to ineffectiveness.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that \$4.4 million will be reclassified as an increase to interest expense.



**Table of Contents**

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 (*in thousands*):

	Three Months Ended September 30, 2014				
	Gain/(Loss) recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ 340	Interest expense	\$ 1,461	None	\$

	Three Months Ended September 30, 2013				
	Gain/(Loss) recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ (1,320)	Interest expense	\$ 2,092	None	\$

	Nine Months Ended September 30, 2014				
	Gain/(Loss) recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ (1,319)	Interest expense	\$ 4,728	None	\$

	Nine Months Ended September 30, 2013				
	Gain/(Loss) recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ 2,087	Interest expense	\$ 6,716	None	\$

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and

degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 5 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

**Table of Contents*****Credit Risk-Related Contingency Features***

We have agreements with our derivative counterparties containing provisions where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We have agreements with certain of our derivative counterparties that contain provisions where if our shareholders equity declines below a specified threshold or if we fail to maintain a specified minimum shareholders equity, then we could be declared in default on our derivative obligations.

Certain of our agreements with our derivative counterparties contain provisions where if a specified event or condition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

***Regulatory Capital-Related Contingency Features***

Certain of our derivative instruments contain provisions that require us to maintain our capital adequacy requirements. If we were to lose our status as adequately capitalized, we would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of September 30, 2014, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$5.8 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$13.6 million against our obligations under these agreements. If we had breached any of these provisions at September 30, 2014, we would have been required to settle our obligations under the agreements at the termination value.

***Counterparty Risk***

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our counterparties for interest rate swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period.

**NOTE 15 Debentures to Stifel Financial Capital Trusts**

The following table summarizes our debentures to Stifel Financial Capital Trusts as of September 30, 2014 and December 31, 2013 (*in thousands*):

	<b>September 30, 2014</b>	December 31, 2013
Debenture to Stifel Financial Capital Trust II <sup>(1)</sup>	<b>\$ 35,000</b>	\$ 35,000
Debenture to Stifel Financial Capital Trust III <sup>(2)</sup>	<b>35,000</b>	35,000

Debenture to Stifel Financial Capital Trust IV <sup>(3)</sup>	<b>12,500</b>	12,500
	<b>\$ 82,500</b>	\$ 82,500

- (1) On August 12, 2005, we completed a private placement of \$35.0 million of 6.38% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust II (the Trust II), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 30, 2035, but may be redeemed by our company, and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.70% per annum.
- (2) On March 30, 2007, we completed a private placement of \$35.0 million of 6.79% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust III (the Trust III), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on June 6, 2037, but may be redeemed by our company, and in turn, Trust III would call the debenture beginning June 6, 2012. Trust III requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

**Table of Contents**

- (3) On June 28, 2007, we completed a private placement of \$35.0 million of 6.78% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust IV (the Trust IV), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 6, 2037, but may be redeemed by our company, and in turn, Trust IV would call the debenture beginning September 6, 2012. Trust IV requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

**NOTE 16 Disclosures About Offsetting Assets and Liabilities**

The following table provides information about financial assets and derivative assets that are subject to offset as of September 30, 2014 and December 31, 2013 (*in thousands*):

	Gross amounts of recognized assets	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Gross amounts not offset in the Statement of Financial Condition	Collateral received	Net amount
<b>As of September 30, 2014:</b>						
Securities borrowing <sup>(1)</sup>	\$ 438,863	\$	\$ 438,863	\$	\$ (438,863)	\$
Reverse repurchase agreements <sup>(2)</sup>	125,513	\$	125,513	\$	(125,513)	\$
	<b>\$ 564,376</b>	<b>\$</b>	<b>\$ 564,376</b>	<b>\$</b>	<b>\$ (564,376)</b>	<b>\$</b>
<b>As of December 31, 2013:</b>						
Securities borrowing <sup>(1)</sup>	\$ 227,640	\$	\$ 227,640	\$	\$ (227,640)	\$
Reverse repurchase agreements <sup>(2)</sup>	225,075	\$	225,075	\$	(225,075)	\$
	<b>\$ 452,715</b>	<b>\$</b>	<b>\$ 452,715</b>	<b>\$</b>	<b>\$ (452,715)</b>	<b>\$</b>

- (1) Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 4 in the notes to our consolidated financial statements for additional information on receivables from brokers, dealers, and clearing organizations.
- (2) Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.



**Table of Contents**

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of September 30, 2014 and December 31, 2013:

	Gross amounts of recognized liabilities	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Gross amounts not offset in the Statement of Financial Condition instruments pledged	Net amount
<b>As of September 30, 2014:</b>					
Securities lending <sup>(3)</sup>	\$ 25,765	\$	\$ 25,765	\$ (25,765)	\$
Repurchase agreements <sup>(4)</sup>	143,814	\$	143,814	(143,814)	\$
Cash flow interest rate contracts	5,772	\$	5,772	(5,772)	\$
	<b>\$ 175,351</b>	<b>\$</b>	<b>\$ 175,351</b>	<b>\$ (175,351)</b>	<b>\$</b>
<b>As of December 31, 2013:</b>					
Securities lending <sup>(3)</sup>	\$ 40,101	\$	\$ 40,101	\$ (40,101)	\$
Repurchase agreements <sup>(4)</sup>	263,809	\$	263,809	(263,809)	\$
Cash flow interest rate contracts	9,349	\$	9,349	(9,349)	\$
	<b>\$ 313,259</b>	<b>\$</b>	<b>\$ 313,259</b>	<b>\$ (313,259)</b>	<b>\$</b>

(3) Securities lending transactions are included in payables to from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 4 in the notes to our consolidated financial statements for additional information on payables to brokers, dealers, and clearing organizations.

(4) Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included on the consolidated statements of financial condition unless we default.

**NOTE 17 Commitments, Guarantees, and Contingencies***Broker-Dealer Commitments and Guarantees*

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2014, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$58.6 million to satisfy the minimum margin deposit requirement at September 30, 2014.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$37.0 million in cash at September 30, 2014 to satisfy the minimum margin deposit requirement at September 30, 2014.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our liability under these agreements is not quantifiable and may exceed the cash and securities we have posted as collateral. However, the potential requirement for us to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

Thomas Weisel Partners LLC ( TWP ) entered into settlement and release agreements ( Settlement Agreements ) with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At September 30, 2014, we estimate that TWP customers held \$16.3 million par value of ARS, which may be repurchased over the next 2 years. The amount estimated for repurchase assumes no issuer redemptions.



## **Table of Contents**

### *Other Commitments*

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 22 in the notes to our consolidated financial statements for further details.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$34.5 million of commitments outstanding at September 30, 2014, of which \$22.9 million relate to commitments to certain strategic relationships with Business Development Corporations.

### *Concentration of Credit Risk*

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of September 30, 2014 and December 31, 2013, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

## **NOTE 18 Legal Proceedings**

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

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

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

believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, based on currently available information, we believe that such losses will not have a material effect on our consolidated financial statements.

*SEC/Wisconsin Lawsuit*

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the school districts) in transactions involving collateralized debt obligations (CDOs). This lawsuit relates to the same transactions that are the subject of the civil lawsuit filed by the school districts noted below. The SEC has asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. We have denied the substantive allegations of the SEC complaint, as amended, and asserted various

**Table of Contents**

affirmative defenses. The parties are currently taking written discovery and depositions, with all discovery scheduled to close in April 2015. After close of discovery, we anticipate the District Court will set the case for trial. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's lawsuit and intend to vigorously defend the SEC's claims.

*Wisconsin School Districts/RBC OPEB lawsuit*

We were named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the Wisconsin State Court) on September 29, 2008. The lawsuit was filed against our company, Stifel, as well as Royal Bank of Canada Europe Ltd. and certain of its affiliates (RBC) by the school districts and the individual trustees for other post-employment benefit (OPEB) trusts established by those school districts (collectively the Plaintiffs). This lawsuit relates to the same transactions that are the subject of the SEC action noted above. We entered into a settlement of the Plaintiffs' lawsuit against our company and Stifel in March 2012. The school districts are continuing their lawsuit against RBC, and we are pursuing claims against RBC to recover payments we have made to the school districts and for amounts owed to the OPEB trusts. Subsequent to the settlement, RBC asserted claims against the school districts, our company and Stifel for fraud, negligent misrepresentation, strict liability misrepresentation and information negligently provided for the guidance of others based upon our role in connection with the school districts' purchase of the CDOs. RBC has also asserted claims against Stifel for civil conspiracy and conspiracy to injure its business based upon the settlement by Stifel with the school districts and pursuit of claims against RBC. We have filed our Answer, denying RBC's claims, and discovery continues in the case. We believe we have meritorious legal and factual defenses to the claims asserted by RBC and we intend to vigorously defend those claims.

*EDC Bond Issuance Matter*

In January 2008, our company was the initial purchaser of a \$50.0 million bond offering under Rule 144A by the Lake of the Torches Economic Development Corporation (EDC) which is associated with Lac Du Flambeau Band of Lake Superior Chippewa Indians (together with EDC, the Tribe). We then sold all of the bonds to LDF Acquisition LLC, a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively, Saybrook), with Wells Fargo Bank, NA (Wells Fargo) as the indenture trustee for the bonds. In 2009 Saybrook and Wells Fargo brought an action in a Wisconsin federal court against the Tribe to enforce the bonds (the 2009 federal action). The Wisconsin federal court declared, in relevant part, the Bond Indenture to be void ab initio, and the Seventh Circuit Court of Appeals affirmed but remanded the case for further proceedings as to enforceability of the other bond documents. In April 2012 Saybrook dismissed the 2009 federal action.

On January 16, 2012, Saybrook filed a new action in Wisconsin state court (the State Action), naming as defendants our company, Stifel, the Tribe, and the law firm of Godfrey & Kahn, S.C. (G&K), which served as both issuer's and bond counsel. Saybrook seeks enforcement of the obligations under the bonds, a judgment for rescission, restitution (including the amounts paid by Saybrook for the bonds), and costs. Alternatively, if Saybrook fails to recover from the Tribe, Saybrook seeks to recover damages, costs and attorneys' fees from us and/or G&K. In the State Action, Saybrook asserts a claim against our company for fraud under the Wisconsin Uniform Securities Law, and with respect to Stifel, claims for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, and intentional and negligent misrepresentations relating to the validity of the bond documents and their sovereign immunity waivers. Saybrook also asserts claims against Stifel for rescission based on alleged misrepresentation or mutual mistake.

We have answered the Complaint in the State Action, denying the claims, and filed cross claims against the Tribe and G&K. The Tribe also moved to dismiss our cross claim, but on November 6, 2014 the court denied that motion. The Tribe moved to dismiss Saybrook's claims against them on the grounds that the state court does not have jurisdiction

over them due to assertions that they have sovereign immunity from suit. On October 23, 2014 the state court denied the Tribe's motion to dismiss Saybrook's claims against the Tribe, thereby allowing the case to move forward against the Tribe in state court subject to the Tribe's anticipated appeal of that ruling to the Wisconsin intermediate court of appeals. Additionally, G&K filed a cross-claim against us seeking contribution and alleging that if G&K is found negligent then we too must have been negligent. We have answered G&K's cross-claim, denying those allegations. Additionally, G&K filed a third party complaint against Dentons US LLP. Written discovery is on-going between the non-Tribal Parties.

Additionally, on April 25, 2013, the Tribe filed a suit against Saybrook, our company, Stifel, G&K, and Wells Fargo in the Lac du Flambeau Tribal Court, seeking a declaration that all of the bond documents are void (the Tribal Action). Our motion to dismiss the Tribal Action was denied, and on August 27, 2013 we filed an Answer, denying the claims.

**Table of Contents**

In response to the Tribal Action, on May 24, 2013 we, together with Saybrook, Wells Fargo and G&K, also filed an action in a Wisconsin federal court (the Federal Action ) seeking to enjoin the Tribal Action. On May 16, 2014 the Wisconsin federal court preliminarily enjoined the Tribal Parties from litigating the Tribal Action. The Tribal Parties have appealed the preliminary injunction to the Seventh Circuit Court of Appeals. In light of the Tribal Parties' appeal, the Tribal Action is stayed pending the resolution of the appeal.

While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the substantive claims as well as the procedural attempt to move the litigation to the Lac du Flambeau Tribal Court.

*Lac Courte Oreilles Tribal Lawsuit*

On December 13, 2012, the Lac Courte Oreilles Band of Lake Superior Chippewa Indians of Wisconsin (the Tribe ) filed a civil lawsuit against Stifel in the Tribe's Tribal Court (the Tribal Lawsuit ) regarding Stifel's participation in the Tribe's offering of two series of taxable municipal bonds as a means of raising revenue to fund various projects (the 2006 Bond Transaction ). The Complaint alleges that we failed to disclose certain information before the 2006 Bond Transaction. On February 19, 2013 we filed a declaratory judgment action in a Wisconsin federal court seeking to establish that the Tribal Court lacks jurisdiction over the Tribal Lawsuit (the Federal Action ). On February 20, 2013, we filed a motion to dismiss the Tribal Lawsuit, challenging the jurisdiction of the Tribal Court, which motion was denied by the Tribal Court. The Tribe filed a motion to dismiss the Federal Action. Shortly thereafter, the Tribe agreed to withdraw its motion to dismiss the Federal Action and agreed to stay the Tribal Lawsuit pending a determination by the Wisconsin federal court as to whether the Tribal Court has jurisdiction over the claims. Basic discovery was taken in the Federal Action, and we filed a summary judgment motion with the U.S. District Court, asking the court for a determination that the Tribal Court does not have jurisdiction over the claims brought by the Tribe. On June 19, 2014, the District Court issued a conditional Order finding the Tribal Court has jurisdiction over the dispute. The conditional Order was issued subject to additional briefing of the issues by Stifel, which briefing has been filed with the District Court. We are currently waiting for a final decision from the District Court, which is expected in December 2014. If the District Court issues a final Order finding the Tribal Court has jurisdiction over the dispute, we intend to appeal the decision to the Seventh Circuit Court of Appeals. In the event of an appeal, the stay of proceedings in Tribal Court will remain in effect during the pendency of the appeal. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious defenses to the Tribe's claims and we intend to vigorously defend the allegations.

**NOTE 19 Regulatory Capital Requirements**

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). KBW, CSA, and Miller Buckfire calculate their net capital under the aggregate indebtedness method, whereby their aggregate indebtedness may not be greater than fifteen times their net capital (as defined).

At September 30, 2014, Stifel Nicolaus had net capital of \$339.4 million, which was 52.3% of aggregate debit items and \$326.4 million in excess of its minimum required net capital. At September 30, 2014, KBW's, CSA's, and Miller

Buckfire's net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries, SNEL, Oriel, and KBW Limited, are subject to the regulatory supervision and requirements of the Financial Conduct Authority ( FCA ) in the United Kingdom. At September 30, 2014, SNEL's, Oriel's, and KBW Limited's capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital

**Table of Contents**

guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require our company, as a bank holding company, and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). To be categorized as well capitalized, our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the tables below (*in thousands, except ratios*).

**Stifel Financial Corp. Federal Reserve Capital Amounts****September 30, 2014**

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Total capital to risk-weighted assets	\$ 1,373,999	28.3%	\$ 388,960	8.0%	\$ 486,200
Tier 1 capital to risk-weighted assets	1,354,869	27.9	194,480	4.0	291,720	6.0
Tier 1 capital to adjusted average total assets	1,354,869	16.0	339,540	4.0	424,425	5.0

**Stifel Bank Federal Reserve Capital Amounts****September 30, 2014**

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Total capital to risk-weighted assets	\$ 425,358	13.9%	\$ 244,883	8.0%	\$ 306,104
Tier 1 capital to risk-weighted assets	406,362	13.3	122,442	4.0	183,662	6.0
Tier 1 capital to adjusted average total assets	406,362	8.0	204,490	4.0	255,612	5.0

**Table of Contents****NOTE 20 Interest Income and Interest Expense**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Interest income:</b>				
Investment securities	<b>\$ 16,976</b>	\$ 17,514	<b>\$ 54,500</b>	\$ 44,046
Bank loans, net of unearned income	<b>23,475</b>	8,819	<b>52,377</b>	26,489
Margin balances	<b>4,873</b>	4,722	<b>14,382</b>	13,521
Other	<b>6,772</b>	8,075	<b>19,776</b>	17,773
	<b>\$ 52,096</b>	\$ 39,130	<b>\$ 141,035</b>	\$ 101,829
<b>Interest expense:</b>				
Senior notes	<b>\$ 7,831</b>	\$ 5,164	<b>\$ 18,158</b>	\$ 15,484
Bank deposits	<b>1,743</b>	2,636	<b>5,438</b>	8,365
Other	<b>1,654</b>	3,735	<b>5,105</b>	10,889
	<b>\$ 11,228</b>	\$ 11,535	<b>\$ 28,701</b>	\$ 34,738

**NOTE 21 Employee Incentive, Deferred Compensation, and Retirement Plans**

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

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ( Compensation Committee ), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 3.8 million shares at September 30, 2014.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$30.7 million and \$39.2 million for the three months ended September 30, 2014 and 2013, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was \$1.0 million and \$0.8 million for the three months ended September 30, 2014 and 2013, respectively.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$79.2 million and \$109.5 million for the nine months ended September 30, 2014 and 2013, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was \$18.2 million and \$10.4 million for the nine months ended September 30, 2014 and 2013,



respectively.

On closing date of our acquisition of Oriel Securities, certain employees of Oriel Securities were granted restricted stock units of Stifel as retention. The fair value of the awards issued as retention was \$11.6 million. Certain awards issued as retention had no continuing service requirements, and accordingly were expensed at date of grant. This charge of \$6.8 million is included in compensation and benefits in the consolidated statement of operations for the three and nine months ended September 30, 2014.

On closing date of our acquisition of KBW, Inc., certain employees of KBW, Inc. and our company were granted restricted stock or restricted stock units of Stifel as retention. The fair value of the awards issued as retention was \$30.6 million. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the nine months ended September 30, 2013.

---

**Table of Contents***Stock Options*

We have substantially eliminated the use of stock options as a form of compensation. During the three and nine months ended September 30, 2014, no options were granted.

At September 30, 2014, all outstanding options were exercisable. Cash proceeds from the exercise of stock options, including the tax benefits realized from the exercise of stock options, were immaterial for the three and nine months ended September 30, 2014 and 2013.

*Stock Units*

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next three to eight years and are distributable, if vested, at future specified dates. At September 30, 2014, the total number of stock units outstanding was 18.4 million, of which 11.8 million were unvested.

At September 30, 2014, there was unrecognized compensation cost for stock units of \$305.5 million, which is expected to be recognized over a weighted-average period of 2.6 years.

*Deferred Compensation Plans*

The Stifel Nicolaus Wealth Accumulation Plan (the SWAP Plan) is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to seven-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested.

Additionally, the SWAP Plan allows Stifel Nicolaus financial advisors who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the SWAP Plan, the financial advisors have the option to: 1) defer 4% of their gross commissions into company stock units with a 25% matching contribution or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of \$17.6 million and \$17.0 million at September 30, 2014 and December 31, 2013, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At September 30, 2014 and December 31, 2013, the deferred compensation liability related to the mutual fund option of \$14.7 million and \$14.3 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

**NOTE 22 Off-Balance Sheet Credit Risk**

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

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

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis, utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties' positions, and where deemed necessary, we may require a deposit

## Table of Contents

of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2014 and December 31, 2013, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.24 billion and \$1.16 billion, respectively, and the fair value of the collateral that had been sold or repledged was \$143.8 million and \$263.8 million, respectively.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 14 in the notes to our consolidated financial statements.

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit, and lines of credit. Commitments to originate loans are agreements to lend to a customer. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At September 30, 2014 and December 31, 2013, Stifel Bank had outstanding commitments to originate loans aggregating \$101.6 million and \$66.8 million, respectively. The commitments extended over varying periods of time, with all commitments at September 30, 2014 scheduled to be disbursed in the following three months.

Through Stifel Bank, in the normal course of business, we originate residential mortgage loans and sell them to investors. We may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that were sold to investors in the event that there was inadequate underwriting or fraud, or

in the event that the loans become delinquent shortly after they are originated. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2014 and December 31, 2013, Stifel Bank had outstanding letters of credit totaling \$11.1 million and \$5.1 million, respectively. One of the standby letters of credit has an expiration of December 31, 2015. All of the remaining standby letters of credit commitments at September 30, 2014 have expiration terms that are less than one year.

**Table of Contents**

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2014 and December 31, 2013, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$478.5 million and \$282.0 million, respectively.

**NOTE 23 Segment Reporting**

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

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

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

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

**Table of Contents**

Information concerning operations in these segments of business for the three and nine months ended September 30, 2014 and 2013 is as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Net revenues: <sup>(1)</sup></b>				
Global Wealth Management	\$ 317,241	\$ 274,669	\$ 921,671	\$ 824,344
Institutional Group	215,160	205,132	720,849	593,875
Other	(8,946)	(1,162)	(12,172)	(7,298)
	<b>\$ 523,455</b>	<b>\$ 478,639</b>	<b>\$ 1,630,348</b>	<b>\$ 1,410,921</b>
<b>Income/(loss) from continuing operations before income taxes:</b>				
Global Wealth Management	\$ 94,026	\$ 72,128	\$ 262,800	\$ 220,551
Institutional Group	29,500	34,986	117,812	94,298
Other	(57,760)	(76,106)	(159,195)	(207,608)
	<b>\$ 65,766</b>	<b>\$ 31,008</b>	<b>\$ 221,417</b>	<b>\$ 107,241</b>

<sup>(1)</sup> No individual client accounted for more than 10 percent of total net revenues for the three and nine months ended September 30, 2014 or 2013.

The following table presents our company's total assets on a segment basis at September 30, 2014 and December 31, 2013 (*in thousands*):

	September 30, 2014	December 31, 2013
Global Wealth Management	\$ 5,698,937	\$ 5,505,076
Institutional Group	3,406,450	3,290,573
Other	220,730	213,221
	<b>\$ 9,326,117</b>	<b>\$ 9,008,870</b>

We have operations in the United States, United Kingdom, and Europe. Our company's foreign operations are conducted through its wholly owned subsidiaries, SNEL, Oriel, and KBW Limited. Substantially all long-lived assets are located in the United States.

Revenues, classified by the major geographic areas in which they are earned for the three and nine months ended September 30, 2014 and 2013, were as follows (*in thousands*):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
United States	<b>\$ 491,860</b>	\$ 453,381	<b>\$ 1,532,196</b>	\$ 1,357,938
United Kingdom	<b>29,073</b>	22,697	<b>89,665</b>	45,120
Other European	<b>2,522</b>	2,561	<b>8,487</b>	7,863
	<b>\$ 523,455</b>	\$ 478,639	<b>\$ 1,630,348</b>	\$ 1,410,921



**Table of Contents****NOTE 24 Earnings Per Share ( EPS )**

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

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2014 and 2013 (*in thousands, except per share data*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Income from continuing operations</b>	<b>\$ 40,093</b>	\$ 74,929	<b>\$ 133,643</b>	\$ 120,782
Loss from discontinued operations, net of tax	(190)	(5,239)	(2,757)	(7,037)
<b>Net income</b>	<b>\$ 39,903</b>	\$ 69,690	<b>\$ 130,886</b>	\$ 113,745
Shares for basic and diluted calculation:				
Average shares used in basic computation	<b>66,691</b>	64,706	<b>66,344</b>	63,133
Dilutive effect of stock options and units <sup>(1)</sup>	<b>9,990</b>	10,485	<b>9,667</b>	9,718
Average shares used in diluted computation	<b>76,681</b>	75,191	<b>76,011</b>	72,851
<b>Earnings per basic common share:</b>				
Income from continuing operations	<b>\$ 0.60</b>	\$ 1.16	<b>\$ 2.01</b>	\$ 1.91
Loss from discontinued operations		(0.08)	<b>(0.04)</b>	(0.11)
Earnings per basic common share	<b>\$ 0.60</b>	\$ 1.08	<b>\$ 1.97</b>	\$ 1.80
<b>Earnings per diluted common share:</b>				
Income from continuing operations	<b>\$ 0.52</b>	\$ 1.00	<b>\$ 1.76</b>	\$ 1.66
Loss from discontinued operations		(0.07)	<b>(0.04)</b>	(0.10)
Earnings per diluted common share	<b>\$ 0.52</b>	\$ 0.93	<b>\$ 1.72</b>	\$ 1.56

<sup>(1)</sup> Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

For the three and nine months ended September 30, 2014 and 2013, the anti-dilutive effect from restricted stock units was immaterial.

**NOTE 25 Shareholders Equity**

*Share Repurchase Program*

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2014, the maximum number of shares that may yet be purchased under this plan was 3.5 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes.

On July 31, 2014, we acquired Oriel Securities. As part of the purchase consideration, at the close of the acquisition, we issued 0.3 million shares of our common stock.

**NOTE 26 Variable Interest Entities**

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. The determination as to whether we must consolidate a VIE is based on whether we are the primary beneficiary for certain entities. The primary beneficiary determination is based on a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships, and the design of the VIE. For other entities, the determination as to whether we must consolidate the VIE is based on an analysis of the power to direct the activities of the VIE as well as the obligation to absorb losses or benefits that could potentially be significant to the entity. Where qualitative analyses are not conclusive, we perform a quantitative analysis. Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts, and our issuance of a convertible promissory note.

---

**Table of Contents**

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies (LLCs) or limited partnerships. These partnerships and LLCs have assets of \$255.2 million at September 30, 2014. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2014 and 2013. In addition, our direct investment interest in these entities is insignificant at September 30, 2014 and December 31, 2013.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of \$272.8 million at September 30, 2014. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at September 30, 2014. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2014 and 2013.

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

*Debenture to Stifel Financial Capital Trusts*

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

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

*Interest in FSI Group, LLC ( FSI )*

We have provided financing of \$18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. In February 2013, the convertible promissory note was amended and restated. The convertible promissory note matures in April 2018, however, FSI has three 5 year extension options. The note is convertible at our election into a 49.9% interest in FSI only after the last extension option. The convertible promissory note has a minimum coupon rate equal to 8% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not required to consolidate this entity.

**Table of Contents**

Our company's exposure to loss is limited to the carrying value of the note with FSI at September 30, 2014, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at September 30, 2014. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of September 30, 2014. Our company's involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

**NOTE 27 Subsequent Events**

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

*Acquisition of Legg Mason Investment Counsel & Trust Co., N.A. ( LMIC )*

On November 7, 2014 we completed the acquisition of Legg Mason Investment Counsel & Trust Co., N.A. ( LMIC ). LMIC provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country.

**Table of Contents**

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

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under *External Factors Impacting Our Business* as well as the factors identified under *Risk Factors* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at [www.stifel.com](http://www.stifel.com) and at the SEC web site at [www.sec.gov](http://www.sec.gov).

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

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

***Executive Summary***

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

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

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to

seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our Global Wealth Management and Institutional Group businesses.

Stifel Financial Corp. (the Parent), through its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus), Stifel Bank & Trust (Stifel Bank), Stifel Nicolaus Europe Limited (SNEL), Century Securities Associates, Inc. (CSA), Keefe, Bruyette & Woods, Inc. (KBW), Keefe, Bruyette & Woods Limited (KBW Limited), Oriel Securities, and Miller Buckfire & Co. LLC (Miller Buckfire), 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 three European cities. Our major geographic area of concentration is the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. Our company's principal customers are individual investors, corporations, municipalities, and institutions.

## **Table of Contents**

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

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

On July 31, 2014 we completed the acquisition of Oriel Securities ( Oriel ), a London-based stockbroking and investment banking firm. The combination of our company and Oriel brought together more than 250 professionals, which created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.

On November 7, 2014 we completed the acquisition of Legg Mason Investment Counsel & Trust Co., N.A. ( LMIC ). LMIC provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country. LMIC's portfolio managers manage over \$9.0 billion in assets.

### ***Results for the three and nine months ended September 30, 2014***

For the three months ended September 30, 2014, net revenues from continuing operations increased 9.4% to \$523.5 million compared to \$478.6 million during the comparable period in 2013. Net income, including continuing and discontinued operations, decreased 42.7% to \$39.9 million, or \$0.52 per diluted common share for the three months ended September 30, 2014, compared to \$69.7 million, or \$0.93 per diluted common share during the comparable period in 2013. Net income from continuing operations decreased 46.5% to \$40.1 million, or \$0.52 per diluted common share for the three months ended September 30, 2014 compared to \$74.9 million, or \$1.00 per diluted common share during the comparable period in 2013.

For the nine months ended September 30, 2014, net revenues from continuing operations increased 15.6% to a record \$1.63 billion compared to \$1.41 billion during the comparable period in 2013. Net income, including continuing and discontinued operations, increased 15.1% to \$130.9 million, or \$1.72 per diluted common share for the nine months ended September 30, 2014, compared to \$113.7 million, or \$1.56 per diluted common share during the comparable period in 2013. Net income from continuing operations increased 10.6% to \$133.6 million, or \$1.76 per diluted common share for the nine months ended September 30, 2014 compared to \$120.8 million, or \$1.66 per diluted common share during the comparable period in 2013.

Our revenue growth for the three months ended September 30, 2014 was primarily attributable to higher investment banking revenues as a result of increased capital raising revenues and improved M&A activity; growth in asset management and service fees as a result of increased assets under management; and increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank. The increase in revenue growth over the comparable quarter in 2013 was offset by a decline in other revenues and lower brokerage revenues.

Our revenue growth for the nine months ended September 30, 2014 was primarily attributable to higher investment banking revenues as a result of improved M&A activity and increased capital raising revenues; growth in asset management and service fees as a result of increased assets under management; increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank; and an increase in brokerage revenues. The increase in revenue growth over the comparable period in 2013 was offset by a decline in other revenues.



The results for the three and nine months ended September 30, 2014 were impacted by certain non-recurring and merger-related expenses primarily related to the acquisition of Oriel Securities. The aggregate impact of these items was a reduction to net income from continuing operations of \$8.6 million (after-tax) or \$0.12 per diluted common share and \$18.3 million (after-tax) or \$0.24 per diluted common share, respectively.

**Table of Contents**

***External Factors Impacting our Business***

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

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At September 30, 2014, the key indicators of the markets performance, the Dow Jones Industrial Average, S&P 500, and the NASDAQ closed 2.8%, 6.7%, and 7.6% higher than their December 31, 2013 closing prices, respectively.

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

Table of Contents**RESULTS OF OPERATIONS***Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013*

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

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 151,621	\$ 145,837	4.0	29.0%	30.5%
Principal transactions	109,378	122,583	(10.8)	20.7	25.6
Investment banking	120,147	92,851	29.4	23.0	19.4
Asset management and service fees	96,638	76,710	26.0	18.5	16.0
Interest	52,096	39,130	33.1	10.0	8.2
Other income	4,803	13,063	(63.2)	0.9	2.7
<b>Total revenues</b>	<b>534,683</b>	<b>490,174</b>	<b>9.1</b>	<b>102.1</b>	<b>102.4</b>
Interest expense	11,228	11,535	(2.7)	2.1	2.4
<b>Net revenues</b>	<b>523,455</b>	<b>478,639</b>	<b>9.4</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	331,440	326,020	1.7	63.3	68.1
Occupancy and equipment rental	41,611	41,288	0.8	7.9	8.6
Communication and office supplies	27,464	26,122	5.1	5.2	5.5
Commissions and floor brokerage	9,971	10,150	(1.8)	1.9	2.1
Other operating expenses	47,203	44,051	7.2	9.1	9.2
<b>Total non-interest expenses</b>	<b>457,689</b>	<b>447,631</b>	<b>2.2</b>	<b>87.4</b>	<b>93.5</b>
<b>Income before from continuing operations income taxes</b>					
	65,766	31,008	112.1	12.6	6.5
Provision for income taxes	25,673	(43,921)	*	4.9	(9.2)
<b>Net income from continuing operations</b>	<b>40,093</b>	<b>74,929</b>	<b>(46.5)</b>	<b>7.7</b>	<b>15.7</b>
<b>Discontinued operations:</b>					
Loss from discontinued operations, net of tax	(190)	(5,239)	(96.4)		(1.1)

<b>Net income</b>	<b>\$ 39,903</b>	\$ 69,690	(42.7)	<b>7.7%</b>	14.6%
-------------------	------------------	-----------	--------	-------------	-------

\* Percentage not meaningful.

**Table of Contents*****Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013***

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

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 463,749	\$ 446,498	3.9	28.4%	31.7%
Principal transactions	361,515	341,153	6.0	22.1	24.2
Investment banking	393,966	289,199	36.2	24.2	20.5
Asset management and service fees	280,039	221,711	26.3	17.2	15.7
Interest	141,035	101,829	38.5	8.7	7.2
Other income	18,745	45,269	(58.6)	1.2	3.2
<b>Total revenues</b>	<b>1,659,049</b>	<b>1,445,659</b>	<b>14.8</b>	<b>101.8</b>	<b>102.5</b>
Interest expense	28,701	34,738	(17.4)	1.8	2.5
<b>Net revenues</b>	<b>1,630,348</b>	<b>1,410,921</b>	<b>15.6</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	1,033,478	958,179	7.9	63.4	67.9
Occupancy and equipment rental	125,110	116,090	7.8	7.7	8.2
Communication and office supplies	78,151	74,034	5.6	4.8	5.3
Commissions and floor brokerage	28,247	28,777	(1.8)	1.7	2.0
Other operating expenses	143,945	126,600	13.7	8.8	9.0
<b>Total non-interest expenses</b>	<b>1,408,931</b>	<b>1,303,680</b>	<b>8.1</b>	<b>86.4</b>	<b>92.4</b>
<b>Income before from continuing operations income taxes</b>					
	221,417	107,241	106.5	13.6	7.6
Provision for income taxes	87,774	(13,541)	*	5.4	(1.0)
<b>Net income from continuing operations</b>	<b>133,643</b>	<b>120,782</b>	<b>10.6</b>	<b>8.2</b>	<b>8.6</b>
<b>Discontinued operations:</b>					
Loss from discontinued operations, net of tax	(2,757)	(7,037)	(60.8)	(0.2)	(0.5)
<b>Net income</b>	<b>\$ 130,886</b>	<b>\$ 113,745</b>	<b>15.1</b>	<b>8.0%</b>	<b>8.1%</b>

\* Percentage not meaningful.

**Table of Contents****NET REVENUES**

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Net revenues:</b>						
Commissions	\$ 151,621	\$ 145,837	4.0	\$ 463,749	\$ 446,498	3.9
Principal transactions	109,378	122,583	(13.0)	361,515	341,153	6.0
Investment banking:						
Capital raising	69,208	53,885	28.4	223,898	175,037	27.9
Strategic advisory fees	50,939	38,966	30.7	170,068	114,162	49.0
	120,147	92,851	29.4	393,966	289,199	36.2
Asset management and service fees	96,638	76,710	26.0	280,039	221,711	26.3
Net interest	40,868	27,595	48.1	112,334	67,091	67.4
Other income	4,803	13,063	(63.2)	18,745	45,269	(58.6)
<b>Total net revenues</b>	<b>\$ 523,455</b>	<b>\$ 478,639</b>	<b>9.4</b>	<b>\$ 1,630,348</b>	<b>\$ 1,410,921</b>	<b>15.6</b>

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment.

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

For the three months ended September 30, 2014, commission revenues increased 4.0% to \$151.6 million from \$145.8 million in the comparable period in 2013. For the nine months ended September 30, 2014, commission revenues increased 3.9% to \$463.7 million from \$446.5 million in the comparable period in 2013. The increase is primarily attributable to an increase in mutual fund and equity transactions.

**Principal transactions** For the three months ended September 30, 2014, principal transactions revenues decreased 10.8% to \$109.4 million from \$122.6 million in the comparable period in 2013. For the nine months ended September 30, 2014, principal transactions revenues increased 6.0% to \$361.5 million from \$341.2 million in the comparable period in 2013. The decrease from the comparable quarter in 2013 is primarily attributable to lower fixed income institutional brokerage revenues as a result of lower volumes.

The increase over the comparable nine month period in 2013 is primarily attributable to an increase in institutional brokerage revenues as a result of the acquisition of the fixed income business from Knight Capital in July 2013 offset by lower volumes.

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

For the three months ended September 30, 2014, investment banking revenues increased 29.4%, to \$120.1 million from \$92.9 million in the comparable period in 2013.

Capital raising revenues increased 28.4% to \$69.2 million for the three months ended September 30, 2014 from \$53.9 million in the comparable period in 2013. During the third quarter of 2014, equity capital raising revenues increased 14.0% to \$44.1 million from \$38.7 million in the comparable period in 2013. For the three months ended September 30, 2014, fixed income capital raising revenues increased 65.1% to \$25.1 million from \$15.2 million in the comparable period in 2013.



**Table of Contents**

For the nine months ended September 30, 2014, investment banking revenues increased 36.2%, to \$394.0 million from \$289.2 million in the comparable period in 2013. The increase is primarily attributable to an increase in advisory fees and capital raising revenues.

Capital raising revenues increased 27.9% to \$224.0 million for the nine months ended September 30, 2014 from \$175.0 million in the comparable period in 2013. For the nine months ended September 30, 2014, equity capital raising revenues increased 25.2% to \$158.0 million from \$126.2 million in the comparable period in 2013. For the nine months ended September 30, 2014, fixed income capital raising revenues increased 34.9% to \$65.9 million from \$48.8 million in the comparable period in 2013.

Strategic advisory fees increased 30.7% to \$50.9 million for the three months ended September 30, 2014 from \$39.0 million in the comparable period in 2013. Strategic advisory fees increased 49.0% to \$170.1 million for the nine months ended September 30, 2014 from \$114.2 million in the comparable period in 2013. The increase is primarily attributable to an increase in the number of completed advisory transactions over the comparable period in 2013.

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

For the three months ended September 30, 2014, asset management and service fee revenues increased 26.0% to \$96.6 million from \$76.7 million in the comparable period in 2013. For the nine months ended September 30, 2014, asset management and service fee revenues increased 26.3% to \$280.0 million from \$221.7 million in the comparable period in 2013. The increase is primarily a result of an increase in the number and value of fee-based accounts. See *Asset management and service fees* in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

***Other income*** For the three months ended September 30, 2014, other income decreased 63.2% to \$4.8 million from \$13.1 million during the comparable period in 2013. For the nine months ended September 30, 2014, other income decreased 58.6% to \$18.7 million from \$45.3 million during the comparable period in 2013. Other income primarily includes investment gains, including gains on our private equity investments, and loan originations fees from Stifel Bank.

**Table of Contents****NET INTEREST INCOME**

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

	Three Months Ended					
	September 30, 2014			September 30, 2013		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Interest-earning assets:</b>						
Margin balances (Stifel Nicolaus)	\$ 483,425	\$ 4,873	4.03%	\$ 478,442	\$ 4,722	3.95%
Interest-earning assets (Stifel Bank)	5,023,574	40,611	3.24	4,396,590	26,458	2.41
Other (Stifel Nicolaus)		6,612			7,950	
<b>Total interest revenue</b>		<b>\$ 52,096</b>			<b>\$ 39,130</b>	
<b>Interest-bearing liabilities:</b>						
Short-term borrowings (Stifel Nicolaus)	\$ 29,176	\$ 321	1.10%	\$ 246,751	\$ 3,286	1.33%
Interest-bearing liabilities (Stifel Bank)	4,688,383	1,743	0.15	4,132,681	2,636	0.25
Stock loan (Stifel Nicolaus)	31,302	69	0.22	120,681	279	0.23
Senior notes (Stifel Financial)	566,304	7,831	5.53	325,000	5,164	6.36
Interest-bearing liabilities (Capital Trusts)	82,500	425	2.06	82,500	387	1.88
Other (Stifel Nicolaus)		839			(217)	
<b>Total interest expense</b>		<b>11,228</b>			<b>11,535</b>	
<b>Net interest income</b>		<b>\$ 40,868</b>			<b>\$ 27,595</b>	

	Nine Months Ended					
	September 30, 2014			September 30, 2013		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Interest-earning assets:</b>						
Margin balances (Stifel Nicolaus)	\$ 483,895	\$ 14,382	3.96%	\$ 459,197	\$ 13,521	3.93%
Interest-earning assets (Stifel Bank)	4,944,799	107,291	2.90	4,020,236	71,043	2.36
Other (Stifel Nicolaus)		19,362			17,265	
<b>Total interest revenue</b>		<b>\$ 141,035</b>			<b>\$ 101,829</b>	
<b>Interest-bearing liabilities:</b>						
	\$ 126,130	\$ 1,413	1.12%	\$ 290,417	\$ 3,716	1.28%

Short-term borrowings (Stifel Nicolaus)						
Interest-bearing liabilities (Stifel Bank)	4,579,257	5,438	0.16	3,770,097	8,365	0.30
Stock loan (Stifel Nicolaus)	57,416	103	0.18	88,992	144	0.16
Senior notes (Stifel Financial)	404,836	18,158	5.98	325,000	15,484	6.35
Interest-bearing liabilities (Capital Trusts)						
Other (Stifel Nicolaus)	82,500	1,268	2.05	82,500	1,301	2.10
		2,321			5,728	
<b>Total interest expense</b>		<b>28,701</b>			<b>34,738</b>	
<b>Net interest income</b>		<b>\$ 112,334</b>			<b>\$ 67,091</b>	

**Table of Contents**

**Net interest income** Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended September 30, 2014, net interest income increased to \$40.9 million from \$27.6 million during the comparable period in 2013. For the nine months ended September 30, 2014, net interest income increased to \$112.3 million from \$67.1 million during the comparable period in 2013.

For the three months ended September 30, 2014, interest revenue increased 33.1% to \$52.1 million from \$39.1 million in the comparable period in 2013, principally as a result of a \$14.1 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$5.0 billion during the three months ended September 30, 2014 compared to \$4.4 billion during the comparable period in 2013 at average interest rates of 3.24% and 2.41%, respectively.

For the nine months ended September 30, 2014, interest revenue increased 38.5% to \$141.0 million from \$101.8 million in the comparable period in 2013, principally as a result of an \$33.2 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$4.9 billion during the nine months ended September 30, 2014 compared to \$4.0 billion during the comparable period in 2013 at average interest rates of 2.90% and 2.36%, respectively.

For the three months ended September 30, 2014, interest expense decreased 2.7% to \$11.2 million from \$11.5 million during the comparable period in 2013. For the nine months ended September 30, 2014, interest expense decreased 17.4% to \$28.7 million from \$34.7 million during the comparable period in 2013. The decrease is primarily attributable to a decrease in interest expense on the interest-bearing liabilities of Stifel Bank and the payoff of our non-recourse debt during the fourth quarter of 2013, offset by the interest expense associated with our July 2014 issuance of \$300.0 million of 4.250% senior notes.

**NON-INTEREST EXPENSES**

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$ 331,440	\$ 326,020	1.7	\$ 1,033,478	\$ 958,179	7.9
Occupancy and equipment rental	41,611	41,288	0.8	125,110	116,090	7.8
Communications and office supplies	27,464	26,122	5.1	78,151	74,034	5.6
Commissions and floor brokerage	9,971	10,150	(1.8)	28,247	28,777	(1.8)
Other operating expenses	47,203	44,051	7.2	143,945	126,600	13.7
<b>Total non-interest expenses</b>	<b>\$ 457,689</b>	<b>\$ 447,631</b>	<b>2.2</b>	<b>\$ 1,408,931</b>	<b>\$ 1,303,680</b>	<b>8.1</b>

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

increased administrative overhead to support the growth in our segments.

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

For the three months ended September 30, 2014, compensation and benefits expense increased 1.7% to \$331.4 million from \$326.0 million during the comparable period in 2013. For the nine months ended September 30, 2014, compensation and benefits expense increased 7.9% to \$1.03 billion from \$958.2 million during the comparable period in 2013. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production and profitability; 2) an increase in fixed compensation for the additional administrative support staff; and 3) increased headcount.

---

**Table of Contents**

Compensation and benefits expense for the three and nine months ended September 30, 2014 includes a non-cash charge of \$6.8 million (pre-tax) related to the expensing of certain restricted stock units granted to former Oriel employees following the close of the acquisition of Oriel. There were no continuing service requirements associated with these restricted stock units, and accordingly were expensed on the date of grant.

Compensation and benefits expense for the nine months ended September 30, 2013 includes a non-cash charge of \$30.6 million (pre-tax) related to the expensing of restricted stock awards granted to certain employees of KBW, Inc and our company as retention related to the acquisition of KBW, Inc. There were no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant.

Compensation and benefits expense as a percentage of net revenues was 64.1% and 63.6% for the three and nine months ended September 30, 2014, respectively, compared to 68.1% and 67.9% for the three and nine months ended September 30, 2013, respectively. Excluding the expensing of the awards and merger-related expenses, compensation and benefits expense as a percentage of net revenues was 62.8% and 62.9% for the nine months ended September 30, 2014 and 2013, respectively.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$27.1 million (5.2% of net revenues) and \$77.4 million (4.8% of net revenues) for the three and nine months ended September 30, 2014, respectively, compared to \$24.0 million (5.0% of net revenues) and \$67.0 million (4.7% of net revenues) for the comparable periods in 2013, respectively. The upfront notes are amortized over a five to ten year period.

**Occupancy and equipment rental** For the three months ended September 30, 2014, occupancy and equipment rental expense increased 0.8% to \$41.6 million from \$41.3 million during the three months ended September 30, 2013. For the nine months ended September 30, 2014, occupancy and equipment rental expense increased 7.8% to \$125.1 million from \$116.1 million during the nine months ended September 30, 2013. The increase is primarily due to the increase in rent and depreciation expense due to an increase in office locations. As of September 30, 2014, we have 360 locations compared to 354 at September 30, 2013.

**Communications and office supplies** Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended September 30, 2014, communications and office supplies expense increased 5.1% to \$27.5 million from \$26.1 million during the third quarter of 2013. For the nine months ended September 30, 2014, communications and office supplies expense increased 5.6% to \$78.2 million from \$74.0 million during the comparable period in 2013. The increase is primarily attributable to our growth from our acquisitions and the addition of revenue producers and support staff.

**Commissions and floor brokerage** For the three months ended September 30, 2014, commissions and floor brokerage expense decreased 1.8% to \$10.0 million from \$10.2 million during the comparable period in 2013. For the nine months ended September 30, 2014, commissions and floor brokerage expense decreased 1.8% to \$28.2 million from \$28.3 million during the comparable period in 2013. The decrease is primarily attributable to a decrease in trade execution costs.

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

For the three months ended September 30, 2014, other operating expenses increased 7.2% to \$47.2 million from \$44.1 million during the three months ended September 30, 2013. For the nine months ended September 30, 2014, other

operating expenses increased 13.7% to \$143.9 million from \$126.6 million during the nine months ended September 30, 2013. The increase is primarily attributable to an increase in legal expenses, travel and promotion, professional service fees in connection with our acquisitions and subscriptions expenses.

***Provision for income taxes*** For the three and nine months ended September 30, 2014, our provision for income taxes was \$25.7 million and \$87.8 million, representing an effective tax rate of 39.0% and 39.6%, respectively, compared to a benefit of \$43.9 million and a benefit of \$13.5 million for the comparable periods in 2013. The provision for income taxes for the three and nine months ended September 30, 2013 was impacted by the U.S. tax benefit arising out of the Company's investment in SN Canada.

Table of Contents**DISCONTINUED OPERATIONS**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net revenues	<b>\$ (44)</b>	\$ 4,696	<b>\$ (75)</b>	\$ 12,930
Restructuring expense		5,516	<b>217</b>	5,516
Operating expenses	<b>110</b>	4,418	<b>3,664</b>	14,341
Total non-interest expenses	<b>110</b>	9,934	<b>3,881</b>	19,857
Loss from discontinued operations before income tax expense	<b>(154)</b>	(5,238)	<b>(3,956)</b>	(6,927)
Income tax expense/(benefit)	<b>36</b>	1	<b>(1,199)</b>	110
Loss from discontinued operations, net of tax	<b>\$ (190)</b>	\$ (5,239)	<b>\$ (2,757)</b>	\$ (7,037)

See Note 3 to our consolidated financial statements for further discussion of our discontinued operations.

**SEGMENT ANALYSIS**

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

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

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

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



general administration.

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

**Table of Contents***Results of Operations Global Wealth Management***Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013**

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

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 108,154	\$ 99,427	8.8	34.1%	36.2%
Principal transactions	51,218	58,658	(12.7)	16.1	21.4
Asset management and service fees	96,354	76,667	25.7	30.4	27.9
Investment banking	11,666	9,394	24.2	3.7	3.4
Interest	46,051	31,829	44.7	14.5	11.6
Other income	6,492	2,858	127.2	2.0	1.0
<b>Total revenues</b>	<b>319,935</b>	<b>278,833</b>	<b>14.7</b>	<b>100.8</b>	<b>101.5</b>
Interest expense	2,694	4,164	(35.3)	0.8	1.5
<b>Net revenues</b>	<b>317,241</b>	<b>274,669</b>	<b>15.5</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	177,296	159,949	10.8	55.9	58.2
Occupancy and equipment rental	17,691	16,549	6.9	5.6	6.0
Communication and office supplies	9,976	9,620	3.7	3.1	3.5
Commissions and floor brokerage	4,062	3,962	2.5	1.3	1.5
Other operating expenses	14,190	12,461	13.9	4.5	4.5
<b>Total non-interest expenses</b>	<b>223,215</b>	<b>202,541</b>	<b>10.2</b>	<b>70.4</b>	<b>73.7</b>
<b>Income before income taxes</b>	<b>\$ 94,026</b>	<b>\$ 72,128</b>	<b>30.4</b>	<b>29.6%</b>	<b>26.3%</b>
				<b>September 30, 2014</b>	September 30, 2013
Branch offices (actual)				<b>326</b>	316
Financial advisors (actual)				<b>1,957</b>	1,930

Independent contractors (actual)

**139**

145

60

**Table of Contents*****Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013***

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

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 323,331	\$ 306,089	5.6	35.1%	37.1%
Principal transactions	159,326	171,278	(7.0)	17.3	20.8
Asset management and service fees	279,671	221,577	26.2	30.3	26.9
Investment banking	31,484	35,832	(12.1)	3.4	4.4
Interest	123,396	86,620	42.5	13.4	10.5
Other income	13,401	15,911	(15.8)	1.5	1.9
<b>Total revenues</b>	<b>930,609</b>	<b>837,307</b>	<b>11.1</b>	<b>101.0</b>	<b>101.6</b>
Interest expense	8,938	12,963	(31.1)	1.0	1.6
<b>Net revenues</b>	<b>921,671</b>	<b>824,344</b>	<b>11.8</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	523,188	480,701	8.8	56.8	58.3
Occupancy and equipment rental	52,894	48,244	9.6	5.7	5.8
Communication and office supplies	29,171	27,840	4.8	3.2	3.4
Commissions and floor brokerage	11,004	11,637	(5.4)	1.2	1.4
Other operating expenses	42,614	35,371	20.5	4.6	4.3
<b>Total non-interest expenses</b>	<b>658,871</b>	<b>603,793</b>	<b>9.1</b>	<b>71.5</b>	<b>73.2</b>
<b>Income before income taxes</b>	<b>\$ 262,800</b>	<b>\$ 220,551</b>	<b>19.2</b>	<b>28.5%</b>	<b>26.8%</b>

**NET REVENUES**

For the three months ended September 30, 2014, Global Wealth Management net revenues increased 15.5% to a record \$317.2 million from \$274.7 million for the comparable period in 2013. For the nine months ended September 30, 2014, Global Wealth Management net revenues increased 11.8% to a record \$921.7 million from \$824.3 million for the comparable period in 2013. The increase in net revenues for the three and nine months ended September 30, 2014 over the comparable periods in 2013 is primarily attributable to growth in asset management and service fees; increased net interest revenues; and an increase in commission revenues. The increase in net revenues

was offset by a decline in principal transaction revenues.

**Commissions** For the three months ended September 30, 2014, commission revenues increased 8.8% to \$108.2 million from \$99.4 million in the comparable period in 2013. For the nine months ended September 30, 2014, commission revenues increased 5.6% to \$323.3 million from \$306.1 million in the comparable period in 2013. The increase is primarily attributable to an increase in agency transactions in equities, mutual funds, and insurance products, partially offset by lower trading volumes impacting the environment for both us and the industry.

**Principal transactions** For the three months ended September 30, 2014, principal transactions revenues decreased 12.7% to \$51.2 million from \$58.7 million in the comparable period in 2013. For the nine months ended September 30, 2014, principal transactions revenues decreased 7.0% to \$159.3 million from \$171.3 million in the comparable period in 2013. The decrease is primarily attributable to a decrease in fixed income products as a result of lower trading volumes and the current, low interest rate environment.

**Table of Contents**

**Asset management and service fees** For the three months ended September 30, 2014, asset management and service fees increased 25.7% to \$96.4 million from \$76.7 million in the comparable period in 2013. For the nine months ended September 30, 2014, asset management and service fees increased 26.2% to \$279.7 million from \$221.6 million in the comparable period in 2013. The increase is primarily a result of an increase in assets under management in our fee-based accounts. Fee-based account revenues for the three months ended September 30, 2014 and 2013 are billed in arrears based on values as of June 30, 2014 and 2013, respectively.

The value of assets in fee-based accounts at June 30, 2014 increased 26.0% from June 30, 2013, of which 43.7% is attributable to net inflows and 56.3% is attributable to market appreciation. The number of fee-based accounts at June 30, 2014 increased 17.2% from June 30, 2013. The following data has been restated to reflect the current way we monitor the value of assets in fee-based accounts. The following table summarizes the changes in our assets in fee-based accounts for the period presented (*in thousands*):

<b>Assets in fee-based accounts:</b>	
<b>Balance at June 30, 2013</b>	<b>\$ 25,413,121</b>
Inflows	2,891,851
Market appreciation	3,720,273
<b>Balance at June 30, 2014</b>	<b>\$ 32,025,245</b>

**Investment banking** Investment banking, which represents sales credits for investment banking underwritings, increased 24.2% to \$11.7 million for the three months ended September 30, 2014 from \$9.4 million during the comparable period in 2013. For the nine months ended September 30, 2014, investment banking revenues decreased 12.1% to \$31.5 million from \$35.8 million during the comparable period in 2013. See *Investment banking* in the Institutional Group segment discussion for information on the changes in net revenues.

**Interest revenue** For the three months ended September 30, 2014, interest revenue increased 44.7% to \$46.1 million from \$31.8 million in the comparable period in 2013. For the nine months ended September 30, 2014, interest revenue increased 42.5% to \$123.4 million from \$86.6 million during the comparable period in 2013. The increase is primarily due to the growth of the interest-earning assets of Stifel Bank and increased interest rates on our investment portfolio. See *Net Interest Income Stifel Bank* below for a further discussion of the changes in net revenues.

**Other income** For the three months ended September 30, 2014, other income increased 127.2% to \$6.5 million from \$2.9 million during the comparable period in 2013. For the nine months ended September 30, 2014, other income decreased 15.8% to \$13.4 million from \$15.9 million during the comparable period in 2013.

The increase over the third quarter of 2013 is primarily attributable to an increase in investment gains on our private equity investments. The decrease from the nine months ended September 30, 2013 is primarily attributable to a decrease in mortgage fees from loan originations at Stifel Bank.

**Interest expense** For the three months ended September 30, 2014, interest expense decreased 35.3% to \$2.7 million from \$4.2 million during the comparable period in 2013. For the nine months ended September 30, 2014, interest expense decreased 31.1% to \$8.9 million from \$13.0 million during the comparable period in 2013.



**Table of Contents****NET INTEREST INCOME STIFEL BANK**

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

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 238,420	\$ 234	0.39%	\$ 192,726	\$ 119	0.74%
State and political subdivisions:						
Taxable				115,839	789	2.72
Non-taxable <sup>(1)</sup>	76,752	676	3.52	78,982	460	2.33
Mortgage-backed securities	1,357,474	8,644	2.55	1,485,051	9,333	2.51
Corporate bonds	439,825	2,318	2.11	573,233	3,166	2.21
Asset-backed securities	956,065	5,338	2.23	751,821	3,766	2.00
Federal Home Loan Bank ( FHLB ) and other capital stock	6,498	6	0.37	4,560	6	0.53
Loans <sup>(2)</sup>	1,812,092	22,272	4.92	1,138,207	8,325	2.93
Loans held for sale	136,448	1,123	3.29	56,171	494	3.51
<b>Total interest-earning assets <sup>(3)</sup></b>	<b>\$ 5,023,574</b>	<b>\$ 40,611</b>	<b>3.24%</b>	<b>\$ 4,396,590</b>	<b>\$ 26,458</b>	<b>2.41%</b>
Cash and due from banks	3,442			2,910		
Other non interest-earning assets	84,662			24,772		
<b>Total assets</b>	<b>\$ 5,111,678</b>			<b>\$ 4,424,272</b>		
<b>Liabilities and stockholders equity:</b>						
Deposits:						
Money market	\$ 4,508,307	\$ 1,992	0.18%	\$ 4,065,173	\$ 2,623	0.26%
Demand deposits	66,763	8	0.05	65,731	9	0.05
Time deposits	113,274	(257)	(0.91)	639	3	2.17
Savings	39		0.05	51		0.04
FHLB advances				1,087	1	0.32
<b>Total interest-bearing liabilities <sup>(3)</sup></b>	<b>\$ 4,688,383</b>	<b>\$ 1,743</b>	<b>0.15%</b>	<b>\$ 4,132,681</b>	<b>\$ 2,636</b>	<b>0.25%</b>
Non interest-bearing deposits	18,919			7,604		
Other non interest-bearing liabilities	26,608			2,664		
<b>Total liabilities</b>	<b>4,733,910</b>			<b>4,142,949</b>		
Stockholders equity	377,768			281,323		
	<b>\$ 5,111,678</b>			<b>\$ 4,424,272</b>		



**Total liabilities and stockholders  
equity**

Net interest margin	<b>\$ 38,868</b>	<b>3.10%</b>	\$ 23,822	2.17%
---------------------	------------------	--------------	-----------	-------

- (1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.
- (2) Loans on non-accrual status are included in average balances.
- (3) See Net Interest Income table included in Results of Operations for additional information on our company's average balances and operating interest and expenses.

**Table of Contents**

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 207,464	\$ 467	0.30%	\$ 253,678	\$ 490	0.26%
State and political subdivisions:						
Taxable	11,235	512	6.07	122,539	3,238	3.52
Non-taxable <sup>(1)</sup>	77,659	3,031	5.20	73,773	1,277	2.31
Mortgage-backed securities	1,396,199	27,350	2.61	1,184,041	19,555	2.20
Corporate bonds	493,845	8,034	2.17	550,349	9,113	2.21
Asset-backed securities	978,305	15,573	2.12	704,145	10,863	2.06
Federal Home Loan Bank ( FHLB ) and other capital stock	6,173	26	0.57	4,092	18	0.59
Loans <sup>(2)</sup>	1,653,037	49,655	4.01	1,030,210	24,059	3.11
Loans held for sale	120,882	2,643	2.92	97,409	2,430	3.33
<b>Total interest-earning assets <sup>(3)</sup></b>	<b>\$ 4,944,799</b>	<b>\$ 107,291</b>	<b>2.90%</b>	<b>\$ 4,020,236</b>	<b>\$ 71,043</b>	<b>2.36%</b>
Cash and due from banks	3,458			9,405		
Other non interest-earning assets	110,519			60,146		
<b>Total assets</b>	<b>\$ 5,058,776</b>			<b>\$ 4,089,787</b>		
<b>Liabilities and stockholders equity:</b>						
Deposits:						
Money market	\$ 4,404,330	\$ 6,304	0.19%	\$ 3,700,584	\$ 8,312	0.30%
Demand deposits	66,303	28	0.06	63,005	27	0.06
Time deposits	100,984	(910)	(1.20)	635	11	2.24
Savings	39			49		0.05
FHLB advances	7,601	16	0.28	5,824	15	0.34
<b>Total interest-bearing liabilities <sup>(3)</sup></b>	<b>\$ 4,579,257</b>	<b>\$ 5,438</b>	<b>0.16%</b>	<b>\$ 3,770,097</b>	<b>\$ 8,365</b>	<b>0.30%</b>
Non interest-bearing deposits	16,609			12,237		
Other non interest-bearing liabilities	26,587			25,432		
<b>Total liabilities</b>	<b>4,622,453</b>			<b>3,807,766</b>		
Stockholders equity	436,323			282,021		
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,058,776</b>			<b>\$ 4,089,787</b>		
Net interest margin		\$ 101,853	2.74%		\$ 62,678	2.08%

(1)

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

- (2) Loans on non-accrual status are included in average balances.
- (3) See Net Interest Income table included in Results of Operations for additional information on our company's average balances and operating interest and expenses.

**Table of Contents**

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and nine month periods ended September 30, 2014 compared to the three and nine month periods ended September 30, 2013 (*in thousands*):

	Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013			Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013		
	Increase/(decrease) due to: Volume	Rate	Total	Increase/(decrease) due to: Volume	Rate	Total
<b>Interest income:</b>						
Federal funds sold	\$ (115)	\$ 230	\$ 115	\$ (232)	\$ 209	\$ (23)
<b>State and political subdivisions:</b>						
Taxable	(394)	(395)	(789)	(13,413)	10,687	(2,726)
Non-taxable	(11)	227	216	71	1,683	1,754
Mortgage-backed securities	(1,456)	767	(689)	49,275	(41,480)	7,795
Corporate bonds	(709)	(139)	(848)	(922)	(157)	(1,079)
Asset-backed securities	1,107	465	1,572	4,355	355	4,710
FHLB and other capital stock	8	(8)		9	(1)	8
Loans	8,257	5,690	13,947	13,733	11,863	25,596
Loans held for sale	840	(211)	629	670	(457)	213
	\$ 7,527	\$ 6,626	\$ 14,153	\$ 53,546	\$ (17,298)	\$ 36,248
<b>Interest expense:</b>						
<b>Deposits:</b>						
Money market	\$ 1,537	\$ (2,168)	\$ (631)	\$ 1,117	\$ (3,125)	\$ (2,008)
Demand deposits	1	(2)	(1)	18	(17)	1
Time deposits	(262)	2	(260)	(930)	9	(921)
Savings						
FHLB advances	(1)		(1)	6	(5)	1
	\$ 1,275	\$ (2,168)	\$ (893)	\$ 211	\$ (3,138)	\$ (2,927)

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

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

For the three months ended September 30, 2014, interest revenue of \$40.6 million was generated from average interest-earning assets of \$5.0 billion at an average interest rate of 3.24%. Interest revenue of \$26.5 million for the comparable period in 2013 was generated from average interest-earning assets of \$4.4 billion at an average interest rate of 2.41%.

For the nine months ended September 30, 2014, interest revenue of \$107.3 million was generated from average interest-earning assets of \$4.9 billion at an average interest rate of 2.90%. Interest revenue of \$71.0 million for the comparable period in 2013 was generated from average interest-earning assets of \$4.0 billion at an average interest rate of 2.36%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market accounts, interest on time deposits and other interest expense. The average balance of interest-bearing liabilities during the three months ended September 30, 2014 was \$4.7 billion at an average interest rate of 0.15%. The average balance of interest-bearing liabilities for the comparable period in 2013 was \$4.1 billion at an average interest rate of 0.25%. The average balance of interest-bearing liabilities during the nine months ended September 30, 2014 was \$4.6 billion at an average interest rate of 0.16%. The average balance of interest-bearing liabilities for the comparable period in 2013 was \$3.8 billion at an average interest rate of 0.30%.

---

**Table of Contents**

The growth in Stifel Bank has been primarily driven by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At September 30, 2014, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$4.4 billion compared to \$4.2 billion at September 30, 2013.

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

**NON-INTEREST EXPENSES**

For the three months ended September 30, 2014, Global Wealth Management non-interest expenses increased 10.2% to \$223.2 million from \$202.5 million for the comparable period in 2013. For the nine months ended September 30, 2014, Global Wealth Management non-interest expenses increased 9.1% to \$658.9 million from \$603.8 million for the comparable period in 2013.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of September 30, 2014, we have 326 branch offices compared to 316 at September 30, 2013. In addition, since September 30, 2013, we have added 118 financial advisors and 258 support staff.

***Compensation and benefits*** For the three months ended September 30, 2014, compensation and benefits expense increased 10.8% to \$177.3 million from \$159.9 million during the three months ended September 30, 2013. For the nine months ended September 30, 2014, compensation and benefits expense increased 8.8% to \$523.2 million from \$480.7 million during the nine months ended September 30, 2013. The increase is principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff. Compensation and benefits expense as a percentage of net revenues was 55.9% and 56.8% for the three and nine months ended September 30, 2014, respectively, compared to 58.2% and 58.3% for the comparable periods in 2013, respectively.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$16.1 million (5.1% of net revenues) and \$49.2 million (5.3% of net revenues) for the three and nine months ended September 30, 2014, respectively, compared to \$16.3 million (5.9% of net revenues) and \$48.6 million (5.9% of net revenues) for the three and nine months ended September 30, 2013, respectively. The upfront notes are amortized over a five to ten year period.

***Occupancy and equipment rental*** For the three months ended September 30, 2014, occupancy and equipment rental expense increased 6.9% to \$17.7 million from \$16.5 million during the comparable period in 2013. For the nine months ended September 30, 2014, occupancy and equipment rental expense increased 9.6% to \$52.9 million from \$48.2 million during the comparable period in 2013. The increase is primarily due to the increase in office locations.

***Communications and office supplies*** For the three months ended September 30, 2014, communications and office supplies expense increased 3.7% to \$10.0 million from \$9.6 million during the third quarter of 2013. For the nine months ended September 30, 2014, communications and office supplies expense increased 4.8% to \$29.2 million from \$27.8 million during the comparable period in 2013. The increase is primarily attributable to higher office supplies expense.

***Commissions and floor brokerage*** For the three months ended September 30, 2014, commissions and floor brokerage expense increased 2.5% to \$4.1 million from \$4.0 million during the third quarter of 2013. For the nine months ended September 30, 2014, commissions and floor brokerage expense decreased 5.4% to \$11.0 million from

\$11.7 million during the comparable period in 2013. The decrease is primarily attributable to a decrease in clearing fees.

***Other operating expenses*** For the three months ended September 30, 2014, other operating expenses increased 13.9% to \$14.2 million from \$12.5 million during the comparable period in 2013. For the nine months ended September 30, 2014, other operating expenses increased 20.5% to \$42.6 million from \$35.4 million during the comparable period in 2013. The increase in other operating expenses is primarily attributable to an increase in legal expenses and the provision for loan losses from the third quarter of 2013.

#### **INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2014, income before income taxes increased 30.4% to \$94.0 million from \$72.1 million during the comparable period in 2013. For the nine months ended September 30, 2014, income before income taxes increased 19.2% to \$262.8 million from \$220.6 million during the comparable period in 2013. Profit margins (income before income taxes as a percent of net revenues) were positively impacted by revenue growth.

**Table of Contents****Results of Operations Institutional Group****Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013**

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

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 43,467	\$ 46,410	(6.3)	20.2%	22.6%
Principal transactions	58,160	63,925	(9.0)	27.1	31.2
Capital raising	57,542	44,270	29.3	26.7	21.6
Advisory	50,939	39,186	30.7	23.7	19.1
Investment banking	108,481	83,456	29.3	50.4	40.7
Interest	6,016	6,985	(13.9)	2.8	3.4
Other income	1,606	7,895	(79.6)	0.7	3.8
<b>Total revenues</b>	<b>217,730</b>	<b>208,671</b>	<b>4.3</b>	<b>101.2</b>	<b>101.7</b>
Interest expense	2,570	3,539	(27.4)	1.2	1.7
<b>Net revenues</b>	<b>215,160</b>	<b>205,132</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	131,589	119,874	9.8	61.2	58.4
Occupancy and equipment rental	12,685	12,609	0.6	5.9	6.2
Communication and office supplies	14,814	12,777	15.9	6.9	6.2
Commissions and floor brokerage	5,909	6,188	(4.5)	2.7	3.0
Other operating expenses	20,663	18,698	10.5	9.6	9.1
<b>Total non-interest expenses</b>	<b>185,660</b>	<b>170,146</b>	<b>9.1</b>	<b>86.3</b>	<b>82.9</b>
<b>Income before income taxes</b>	<b>\$ 29,500</b>	<b>\$ 34,986</b>	<b>(15.7)</b>	<b>13.7%</b>	<b>17.1%</b>



**Table of Contents*****Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013***

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

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2014	2013	% Change	2014	2013
<b>Revenues:</b>					
Commissions	\$ 140,418	\$ 140,409		19.5%	23.6%
Principal transactions	202,188	169,875	19.0	28.0	28.6
Capital raising	192,415	139,420	38.2	26.7	23.5
Advisory	170,068	113,947	49.0	23.6	19.2
Investment banking	362,483	253,367	43.1	50.3	42.7
Interest	17,655	15,036	17.4	2.4	2.5
Other income	5,490	24,398	(77.5)	0.8	4.2
<b>Total revenues</b>	<b>728,234</b>	<b>603,085</b>	<b>20.8</b>	<b>101.0</b>	<b>101.6</b>
Interest expense	7,385	9,210	(19.8)	1.0	1.6
<b>Net revenues</b>	<b>720,849</b>	<b>593,875</b>	<b>21.4</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	443,104	359,091	23.4	61.5	60.5
Occupancy and equipment rental	36,947	34,144	8.2	5.1	5.7
Communication and office supplies	40,594	35,385	14.7	5.6	5.9
Commissions and floor brokerage	17,243	17,140	0.6	2.4	2.9
Other operating expenses	65,149	53,817	21.1	9.1	9.1
<b>Total non-interest expenses</b>	<b>603,037</b>	<b>499,577</b>	<b>20.7</b>	<b>83.7</b>	<b>84.1</b>
<b>Income before income taxes</b>	<b>\$ 117,812</b>	<b>\$ 94,298</b>	<b>24.9</b>	<b>16.3%</b>	<b>15.9%</b>

**NET REVENUES**

For the three months ended September 30, 2014, Institutional Group net revenues increased 4.9% to \$215.2 million from \$205.1 million during the comparable period in 2013. For the nine months ended September 30, 2014, Institutional Group net revenues increased 21.4% to \$720.8 million from \$593.9 million during the comparable period in 2013. The increase in net revenues for the three and nine months ended September 30, 2014 over the comparable

periods in 2013 was primarily attributable to an increase in equity capital raising revenues; and an increase in advisory fees. The increase in net revenues was offset by lower institutional brokerage revenues.

The increase in net revenues for the nine months ended September 30, 2014 over the comparable periods in 2013 was primarily attributable to an increase in equity capital raising revenues; an increase in advisory fees; and higher institutional brokerage revenues. The increase in net revenues was offset by a reduction in other revenues as a result of gains recorded on the investment in Knight Capital during the first half of 2013.

**Commissions** For the three months ended September 30, 2014, commission revenues decreased 6.3% to \$43.5 million from \$46.4 million in the comparable period in 2013. For the nine months ended September 30, 2014, commission revenues of \$140.4 million were consistent with the comparable period in 2013.

**Principal transactions** For the three months ended September 30, 2014, principal transactions revenues decreased 9.0% to \$58.2 million from \$63.9 million in the comparable period in 2013. For the nine months ended September 30, 2014, principal transactions revenues increased 19.0% to \$202.2 million from \$169.9 million in the comparable period in 2013.

---

**Table of Contents**

For the three months ended September 30, 2014, fixed income brokerage revenues decreased 15.9% to \$43.4 million from \$51.7 million in the comparable period in 2013. For the nine months ended September 30, 2014, fixed income brokerage revenues increased 13.4% to \$156.6 million from \$138.1 million in the comparable period in 2013. The decrease from the three months ended September 30, 2013 is primarily attributable to lower trading volumes in the third quarter of 2014 that impacted the industry.

The increase over the nine months ended September 30, 2013 is primarily attributable to an improvement in fixed income trading volumes in the first half of 2014, as a result of the acquisition of the fixed income business from Knight Capital in July 2013, offset by of lower trading volumes in the third quarter of 2014 that impacted the industry.

For the three months ended September 30, 2014, equity brokerage revenues decreased 0.8% to \$58.2 million from \$58.7 million during the comparable period in 2013. The decrease is primarily attributable to lower trading volumes in the third quarter that impacted the industry.

For the nine months ended September 30, 2014, equity brokerage revenues increased 8.1% to \$186.1 million from \$172.2 million during the comparable period in 2013. The increase is primarily attributable to higher trading volumes as a result of market volatility during the first half of 2014. This growth was negatively impacted during the third quarter of 2014 as a result of industry-wide declines in volumes.

**Investment banking** For the three months ended September 30, 2014, investment banking revenues increased 29.3% to \$108.5 million from \$83.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, investment banking revenues increased 43.1% to \$362.5 million from \$253.4 million during the comparable period in 2013. The increase is attributable to higher capital raising revenues and advisory fee revenues over the comparable periods in 2013.

For the three months ended September 30, 2014, capital raising revenues increased 29.3% to \$57.5 million from \$44.5 million in the comparable period in 2013. For the nine months ended September 30, 2014, capital raising revenues increased 38.2% to \$192.4 million from \$139.4 million in the comparable period in 2013.

For the three months ended September 30, 2014, equity capital raising revenues increased 11.8% to \$34.3 million from \$30.7 million during the third quarter of 2013. For the nine months ended September 30, 2014, equity capital raising revenues increased 36.8% to \$130.6 million from \$95.5 million during the comparable period in 2013. The increase was primarily attributable to an increase in the number of transactions over the comparable period in 2013.

For the three months ended September 30, 2014, fixed income capital raising revenues increased 68.2% to \$23.2 million from \$13.8 million during the third quarter of 2013. For the nine months ended September 30, 2014, fixed income capital raising revenues increased 41.4% to \$61.8 million from \$43.7 million during the comparable period in 2013. The increase is primarily attributable to the acquisitions of Knight Capital, which closed July 2013, and De La Rosa, which closed on April 3, 2014, in addition to our investments over the past year in this business.

For the three months ended September 30, 2014, strategic advisory fees increased 30.7% to \$50.9 million from \$39.0 million in the comparable period in 2013. For the nine months ended September 30, 2014, strategic advisory fees increased 49.0% to \$170.1 million from \$114.2 million in the comparable period in 2013. The increase is primarily attributable to an increase in the number of completed advisory transactions and the aggregate transaction value over the comparable period in 2013.

**Other income** For the three months ended September 30, 2014, other income decreased 79.6% to \$1.6 million from \$7.9 million in the comparable period in 2013. For the nine months ended September 30, 2014, other income

decreased 77.5% to \$5.5 million from \$24.4 million in the comparable period in 2013. The decrease in other income is primarily attributable to gains recognized on our investment in Knight Capital Group, Inc. during 2013.

#### **NON-INTEREST EXPENSES**

For the three months ended September 30, 2014, Institutional Group non-interest expenses increased 9.1% to \$185.7 million from \$170.1 million for the comparable period in 2013. For the nine months ended September 30, 2014, Institutional Group non-interest expenses increased 20.7% to \$603.0 million from \$500.0 million during the comparable period in 2013.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have added 213 revenue producers and 59 support staff since September 30, 2013.

---

**Table of Contents**

***Compensation and benefits*** For the three months ended September 30, 2014, compensation and benefits expense increased 9.8% to \$131.6 million from \$119.9 million during the comparable period in 2013. For the nine months ended September 30, 2014, compensation and benefits expense increased 23.4% to \$443.1 million from \$359.1 million during the comparable period in 2013. The increase is principally due to the growth of the business and fixed compensation for the additional administrative support staff. Compensation and benefits expense as a percentage of net revenues was 61.2% and 61.5% for the three and nine months ended September 30, 2014, respectively, compared to 58.4% and 60.5% for the comparable periods in 2013, respectively.

***Occupancy and equipment rental*** For the three months ended September 30, 2014, occupancy and equipment rental expense increased 0.6% to \$12.7 million from \$12.6 million during the comparable period in 2013. For the nine months ended September 30, 2014, occupancy and equipment rental expense increased 8.2% to \$36.9 million from \$34.1 million during the comparable period in 2013. The increase is primarily due to the growth of the business, which has resulted in more locations, offset by the decrease in depreciation expense as a result of the sale of certain aircraft from the operations of East Shore Aircraft LLC during the fourth quarter of 2013.

***Communications and office supplies*** For the three months ended September 30, 2014, communications and office supplies expense increased 15.9% to \$14.8 million from \$12.8 million during the third quarter of 2013.

For the nine months ended September 30, 2014, communications and office supplies expense increased 14.7% to \$40.6 million from \$35.4 million during the comparable period in 2013. The increase is primarily attributable to the growth of the business, which has resulted in an increase in communication and quote equipment.

***Commissions and floor brokerage*** For the three months ended September 30, 2014, commissions and floor brokerage expense decreased 4.5% to \$5.9 million from \$6.2 million during the third quarter of 2013. The decrease is primarily attributable to a decline in trade executions as a result of the industry-wide decline in volumes during the third quarter of 2014.

For the nine months ended September 30, 2014, commissions and floor brokerage expense increased 0.6% to \$17.2 million from \$17.1 million during the comparable period in 2013. The increase is primarily attributable to the growth in trade execution costs from our flow business during the first half of 2014. This growth was negatively impacted during the third quarter of 2014 as a result of industry-wide declines in volumes.

***Other operating expenses*** For the three months ended September 30, 2014, other operating expenses increased 10.5% to \$20.7 million from \$18.7 million during the comparable period in 2013. For the nine months ended September 30, 2014, other operating expenses increased 21.1% to \$65.1 million from \$53.8 million during the comparable period in 2013. The increase is primarily attributable to an increase in travel and promotion expenses, professional service fees, subscriptions, dues, and legal expenses.

**INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2014, income before income taxes for the Institutional Group segment decreased 15.7% to \$29.5 million from \$35.0 million during the comparable period in 2013. For the nine months ended September 30, 2014, income before income taxes for the Institutional Group segment increased 24.9% to \$117.8 million from \$94.3 million during the comparable period in 2013. Profit margins (income before income taxes as a percentage of net revenues) have declined as a result of an increase in operating expenses.



**Table of Contents****Results of Operations Other Segment****Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013**

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Net revenues</b>	<b>\$ (8,946)</b>	<b>\$ (1,162)</b>	<b>(669.9)</b>	<b>\$ (12,172)</b>	<b>\$ (7,298)</b>	<b>(66.8)</b>
<b>Non-interest expenses:</b>						
Compensation and benefits	<b>22,555</b>	46,198	(51.2)	<b>67,186</b>	118,387	(43.2)
Other operating expenses	<b>26,259</b>	28,746	(8.7)	<b>79,837</b>	81,923	(2.5)
<b>Total non-interest expenses</b>	<b>48,814</b>	74,944	(34.9)	<b>147,023</b>	200,310	(26.6)
<b>Loss before income taxes</b>	<b>\$ (57,760)</b>	<b>\$ (76,106)</b>	<b>(24.1)</b>	<b>\$ (159,195)</b>	<b>\$ (207,608)</b>	<b>(23.3)</b>

**Net revenues** For the three and nine months ended September 30, 2014, net revenues were negatively impacted by investment losses when compared to the prior year periods.

**Compensation and benefits** For the three months ended September 30, 2014, compensation and benefits expense decreased 51.2% to \$22.6 million from \$46.2 million during the comparable period in 2013. For the nine months ended September 30, 2014, compensation and benefits expense decreased 43.2% to \$67.2 million from \$118.4 million during the comparable period in 2013.

Compensation and benefits expense for the three and nine months ended September 30, 2014 includes a non-cash charge of \$6.8 million (pre-tax) related to the expensing of restricted stock units granted to former employees of Oriel Securities as retention. There were no continuing service requirements associated with these restricted stock units, and accordingly were expensed on the date of grant.

Compensation and benefits expense for the nine months ended September 30, 2013 includes a non-cash charge of \$30.6 million (pre-tax) related to the expensing of restricted stock awards granted to certain employees of KBW, Inc and our company as retention related to the acquisition of KBW, Inc. There were no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant.

**Other operating expenses** For the three months ended September 30, 2014, other operating expenses decreased 8.7% to \$26.3 million from \$28.7 million during the comparable period in 2013. For the nine months ended September 30, 2014, other operating expenses decreased 2.5% to \$79.8 million from \$81.9 million during the comparable period in 2013.

**Analysis of Financial Condition**

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, financial instruments owned, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. As of September 30, 2014, our total assets increased 3.5% to \$9.33 billion from \$9.01 billion at December 31, 2013. The increase is primarily attributable to increases in (1) bank loans, (2) receivables from brokers, dealers, and clearing organizations, and (3) financial instruments owned. The increase in assets was offset by decreases in (1) our investment portfolio, which consists of available-for-sale and held-to-maturity securities, and (2) cash and cash equivalents. Our broker-dealer subsidiary's gross assets and liabilities, including financial instruments owned, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of September 30, 2014, our liabilities were comprised primarily of short-term borrowings of \$49.8 million, senior notes of \$625.0 million, trust preferred securities of \$82.5 million, deposits of \$4.55 billion at Stifel Bank, and payables to customers of \$319.3 million at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, and accrued employee compensation of \$564.0 million. To meet our obligations to clients and operating needs, we had \$535.1 million in cash and cash equivalents at September 30, 2014. We also had client brokerage receivables of \$549.6 million at Stifel Nicolaus and \$1.97 billion in loans at Stifel Bank.



**Table of Contents***Cash Flow*

Cash and cash equivalents decreased \$181.4 million to \$535.1 million at September 30, 2014, from \$716.6 million at December 31, 2013. Operating activities used \$54.3 million of cash primarily due to an increase in operating assets, offset by an increase in operating liabilities, net income recognized during the nine months ended September 30, 2014, and the net effect of non-cash items. Investing activities used cash of \$181.2 million due to the growth of the loan portfolio, purchases of available-for-sale and held-to-maturity securities as part of our investment strategy at Stifel Bank, and fixed asset purchases, offset by proceeds from the maturity of available-for-sale and held-to-maturity securities, and sale of investments. Financing activities provided cash of \$59.8 million principally due to proceeds received from our issuance of 4.250% senior notes, offset by a decrease in repurchase agreements and bank deposits.

*Liquidity and Capital Resources*

The Company's senior management establishes the liquidity and capital policies of the Company. The Company's senior management reviews cash flow forecasts, internal liquidity risk limits, and performs liquidity stress tests for each key operating subsidiary, the holding company and at the consolidated level.

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

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

As of September 30, 2014, we had \$9.32 billion in assets, \$5.12 billion of which consisted of cash or assets readily convertible into cash as follows (*in thousands, except average days to conversion*):

	September 30, 2014	December 31, 2013	Avg. Conversion
Cash and cash equivalents	\$ 535,118	\$ 716,560	
Receivables from brokers, dealers, and clearing organizations	651,428	381,122	3 days
Securities purchased under agreements to resell	125,513	225,075	1 day
Financial instruments owned at fair value	947,425	779,214	5 days
Available-for-sale securities at fair value	1,527,747	1,756,253	3 days
Held-to-maturity securities at amortized cost	1,199,364	1,312,115	10 days
Investments	129,063	117,028	5 days
Total cash and assets readily convertible to cash	\$ 5,115,658	\$ 5,287,367	

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

As of September 30, 2014 and December 31, 2013, the amount of collateral by asset class is as follows (*in thousands*):

	September 30, 2014		December 31, 2013	
	Contractual	Contingent	Contractual	Contingent
Cash and cash equivalents	\$ 50,594	\$	\$ 43,104	\$
Financial instruments owned at fair value	143,814	492,986	263,809	686,997
Available-for-sale securities at fair value		1,249,158		504,100
Investments		42,425		51,051
	<b>\$ 194,408</b>	<b>\$ 1,784,569</b>	<b>\$ 306,913</b>	<b>\$ 1,242,148</b>

## **Table of Contents**

### ***Capital Management***

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2014, the maximum number of shares that may yet be purchased under this plan was 3.5 million. We utilize the share repurchase program to manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. We currently do not pay cash dividends on our common stock.

### ***Liquidity Risk Management***

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

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

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

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

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

### ***Monitoring of liquidity***

Senior management establishes our liquidity and capital policies. These policies include senior management's review of short and long-term cash flow forecasts, review of monthly capital expenditures, the monitoring of the availability of alternative sources of financing, and the daily monitoring of liquidity in our significant subsidiaries. Our decisions on the allocation of capital to our business units consider, among other factors, projected profitability and cash flow,

risk and impact on future liquidity needs. Our treasury department assists in evaluating, monitoring and controlling the impact that our business activities have on our financial condition, liquidity and capital structure as well as maintains our relationships with various lenders. The objectives of these policies are to support the successful execution of our business strategies while ensuring ongoing and sufficient liquidity.

*Liquidity stress testing (Stifel Bank)*

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

---

**Table of Contents**

Under both stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers Agency MBS, Corporate Bonds, and CMBS as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At September 30, 2014, available cash and highly liquid investments comprised approximately 40% of Stifel Bank's assets, which was well in excess of its internal target.

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

***Funding Sources***

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, FHLB advances, and federal funds agreements. At September 30, 2014, we have \$101.8 million of ARS. Any redemptions by issuers of the ARS will create liquidity during the period in which the redemption occurs. ARS redemptions have been at par, and we believe will continue to be at par.

***Cash and Cash Equivalents.*** We held \$535.1 million of cash and cash equivalents at September 30, 2014, compared to \$716.6 million at December 31, 2013. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

***Securities Available-for-Sale.*** We held \$1.53 billion in available-for-sale investment securities at September 30, 2014, compared to \$1.76 billion at December 31, 2013. As of September 30, 2014, the weighted average life of the investment securities portfolio was 2.6 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements.

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

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

As of September 30, 2014, we had \$4.55 billion in deposits compared to \$4.66 billion at December 31, 2013. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

**Short-term borrowings.** Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at September 30, 2014 totaled \$680.0 million with four 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 are subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing was \$414.9 million during the nine months ended September 30, 2014. There are no compensating balance requirements under these arrangements.

**Table of Contents**

At September 30, 2014, short-term borrowings from banks were \$49.8 million at an average rate of 1.00%, which were collateralized by company-owned securities valued at \$366.5 million. At December 31, 2013, short-term borrowings from banks were \$55.7 million at an average rate of 1.22%, which were collateralized by company-owned securities valued at \$440.8 million. The average bank borrowing was \$29.2 million and \$246.8 million for the three months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 1.10% and 1.33%, respectively. The average bank borrowing was \$126.1 million and \$290.4 million for the nine months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 1.12% and 1.25%, respectively.

At September 30, 2014 and December 31, 2013, Stifel had a stock loan balance of \$25.8 million and \$40.1 million, respectively, at average daily interest rates of 0.20% and 0.16%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$31.3 million and \$120.7 million during the three months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 0.22% and 0.23%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$57.4 million and \$89.0 million during the nine months ended September 30, 2014 and 2013, respectively, at average daily effective interest rates of 0.18% and 0.16%, respectively. Customer-owned securities were utilized in these arrangements.

***Unsecured short-term borrowings.*** Our committed short-term bank line financing at September 30, 2014 consisted of a \$100.0 million committed revolving credit facility. The credit facility expires in December 2014. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate ( LIBOR ) plus 2.25%.

We can draw upon this line as long as certain restrictive covenants are maintained. Under our revolving credit facility, we are also required to maintain compliance with a minimum consolidated tangible net worth covenant under which we are required to have at all times a consolidated tangible net worth, as defined in the revolving credit facility, and a maximum consolidated total capitalization ratio covenant under which we are required to have at all times a consolidated total capitalization ratio, as defined in the revolving credit facility. In addition, Stifel, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory net capital covenant of not less than 10% of aggregate debits, as defined in the revolving credit facility.

At September 30, 2014, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency and judgment defaults.

***Federal Home Loan Bank Advances and other secured financing.*** Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$1.41 billion at September 30, 2014, all of which was unused, and a \$25.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$4.4 billion at September 30, 2014.

***Public Offering of Senior Notes.*** On January 18, 2012, we issued \$175.0 million principal amount of 6.70% Senior Notes due 2022 (the notes ). Interest on the notes accrue from January 23, 2012 and will be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2012. The notes will mature on January 15, 2022. We may redeem the notes in whole or in part on or after January 15, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from the notes issuance of \$169.3 million, after discounts, commissions and expenses, were used for general corporate purposes.

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



---

**Table of Contents**

On July 15, 2014, we issued \$300.0 million principal amount of 4.250% Senior Notes due 2024 (the 2014 Notes ). Interest on the 2014 Notes accrue from July 18, 2014 and will be paid semi-annually in arrears on January 18 and July 18 of each year, commencing on January 18, 2015. The 2014 Notes will mature on July 18, 2024. We may redeem the 2014 Notes in whole or in part at our option at a redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest, if any, to the date of redemption. Proceeds from the 2014 Notes issuance of \$295.3 million, after discounts, commissions and expenses, were used for general corporate purposes. In July 2014, we received a BBB- rating on the 2014 Notes.

***Credit Rating***

In January 2012, we received an initial credit rating from Standard & Poor's Financial Services LLC of BBB-, along with a BBB- rating on the notes. In July 2014, we received an initial credit rating from Fitch of BBB-, along with a BBB- rating on our senior notes. We believe our current ratings depend upon a number of factors including industry dynamics, operating and economic environment, operating results, operating margins, earnings trends and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets or trigger our obligations under certain financial agreements. As such, we may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all.

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

***Use of Capital Resources***

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

On July 31, 2014 we completed the acquisition of Oriel Securities ( Oriel ), a London-based stockbroking and investment banking firm. The combination of our company and Oriel brought together more than 250 professionals, which created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.

On November 1, 2014 we completed the acquisition of Legg Mason Investment Counsel & Trust Co., N.A. ( LMIC ). LMIC provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country. LMIC's portfolio managers manage over \$9.0 billion in assets.

TWP entered into settlement and release agreements ( Settlement Agreements ) with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At September 30, 2014, we estimate that TWP customers held \$16.3 million par value of ARS, which may be repurchased over the next 2 years. The amount estimated for repurchase assumes no issuer redemptions.

We have paid \$56.8 million in the form of upfront notes to financial advisors for transition pay during the period from January 1, 2014 through October 31, 2014. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may decide to devote more

significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors' trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the remaining three months of 2014 and the years ended December 31, 2015, 2016, 2017, 2018, and thereafter are \$14.2 million, \$48.0 million, \$37.4 million, \$26.2 million, \$19.2 million and \$34.7 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

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

---

**Table of Contents**

and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next three to eight years and are distributable, if vested, at future specified dates. At September 30, 2014, the total number of stock units outstanding was 18.4 million, of which 11.8 million were unvested. At September 30, 2014, there was unrecognized compensation cost for stock units of \$305.5 million, which is expected to be recognized over a weighted-average period of 2.6 years.

The future estimated compensation expense of the unvested units, assuming current year forfeiture levels and static growth for the remaining three months of 2014 and the years ended December 31, 2015, 2016, 2017, 2018, and thereafter are \$21.9 million, \$79.4 million, \$66.9 million, \$55.0 million, \$41.0 million and \$41.3 million, respectively. These estimates could change if our forfeitures change from historical levels.

*Net Capital Requirements*

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

At September 30, 2014, Stifel Nicolaus had net capital of \$339.4 million, which was 52.3% of aggregate debit items and \$326.4 million in excess of its minimum required net capital. At September 30, 2014, KBW s, CSA s, and Miller Buckfire s net capital exceeded the minimum net capital required under the SEC rule. At September 30, 2014, SNEL s, Oriel s, and KBW Limited s net capital and reserves was in excess of the financial resources requirement under the rules of the FCA. At September 30, 2014, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 19 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

*Critical Accounting Policies and Estimates*

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

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

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

***Valuation of Financial Instruments***

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

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

---

**Table of Contents**

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

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

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

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

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

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

Level 3 financial instruments to include certain asset-backed securities, consisting of auction-rate securities, that have experienced low volumes of executed transactions, certain corporate bonds and equity securities where there was less frequent or nominal market activity, investments in private equity funds, and auction rate securities for which the market has been dislocated and largely ceased to function. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level 3 corporate bonds are valued using prices from comparable securities. Equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction rate securities are valued based upon our expectations of issuer redemptions and using internal models.

---

**Table of Contents**

At September 30, 2014, Level 3 assets for which we bear economic exposure were \$177.8 million or 6.4% of the total assets measured at fair value. During the three months ended September 30, 2014, we recorded purchases of \$3.5 million and sales and redemptions of \$21.7 million of Level 3 assets. Our valuation adjustments (realized and unrealized) decreased the value of our Level 3 assets by \$0.3 million. During the nine months ended September 30, 2014, we recorded purchases of \$9.7 million and sales and redemptions of \$60.9 million of Level 3 assets. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$7.1 million. We transferred \$10.1 million out of Level 3 during the nine months ended September 30, 2014.

At September 30, 2014, Level 3 assets included the following: \$101.8 million of auction rate securities and \$75.9 million of partnership interests, private company investments, private equity, fixed income securities.

***Investments in Partnerships***

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. These interests are carried at estimated fair value. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The underlying investments held by such partnerships and direct investments in non-public companies are valued based on estimated fair value ultimately determined by us in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a ready market existed for these investments, and the differences could be material. Increases and decreases in estimated fair value are recorded based on underlying information of these non-public company investments, including third-party transactions evidencing a change in value, market comparables, operating cash flows and financial performance of the companies, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and specific rights or terms associated with the investment, such as conversion features and liquidation preferences. In cases where an estimate of fair value is determined based on financial statements prepared by an unaffiliated general partner, such financial statements are generally unaudited other than audited year-end financial statements. Upon receipt of audited financial statements from an investment partnership, we adjust the fair value of the investments to reflect the audited partnership results if they differ from initial estimates. We also perform procedures to evaluate fair value estimates provided by unaffiliated general partners. At September 30, 2014, we had commitments to invest in affiliated and unaffiliated investment partnerships of \$11.6 million. These commitments are generally called as investment opportunities are identified by the underlying partnerships. These commitments may be called in full at any time.

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

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

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

***Contingencies***

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration, and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with Topic 450 ( Topic 450 ),



---

**Table of Contents**

*Contingencies*, to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires us to use significant judgment, and our final liabilities may ultimately be materially different. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. See Item 3, *Legal Proceedings*, in Part I of this report for information on our legal, regulatory, and arbitration proceedings.

***Allowance for Loan Losses***

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

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

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

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

***Derivative Instruments and Hedging Activities***

Our derivative instruments are carried on the consolidated statement of financial condition at fair value. We utilize these derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity

characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, *Derivatives and Hedging*. Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

### ***Income Taxes***

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

---

**Table of Contents**

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

***Goodwill and Intangible Assets***

Under the provisions of Topic 805, *Business Combinations*, we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At September 30, 2014, we had goodwill of \$762.3 million and intangible assets of \$41.8 million.

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

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. Our annual goodwill impairment testing was completed as of July 31, 2014, with no impairment identified.

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

financial results.

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

**Table of Contents**

***Recent Accounting Pronouncements***

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

***Off-Balance Sheet Arrangements***

Information concerning our off-balance sheet arrangements is included in Note 22 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

***Contractual Obligations***

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Table of Contents**

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

***Risk Management***

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

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

***Market Risk***

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

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

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

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

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

***Interest Rate Risk***

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

necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

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

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

**Table of Contents**

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the nine months ended September 30, 2014, and the daily VaR at September 30, 2014 and December 31, 2013 (*in thousands*):

	Nine Months Ended September 30, 2014			VAR Calculation at	
	High	Low	Daily Average	September 30, 2014	December 31, 2013
Daily VaR	\$ 8,844	\$ 2,072	\$ 3,877	\$ 3,120	\$ 3,427

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

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

The following table illustrates the estimated change in net interest margin at September 30, 2014, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	21.4%
+100	8.7%
0	0.0%
-100	n/a
-200	n/a

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at September 30, 2014 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$ 1,438,270	\$ 381,810	\$ 199,860	\$ 18,789
Securities	1,271,348	171,837	765,965	528,860
Interest-bearing cash	141,801			



	\$ 2,851,419	\$ 553,647	\$ 965,825	\$ 547,649
--	--------------	------------	------------	------------

**Interest-bearing liabilities:**

Transaction accounts and savings	\$ 3,652,792	\$ 121,476	\$ 595,079	\$ 79,452
Certificates of deposit	43,995	30,504	26,302	253
Borrowings				16,672
	\$ 3,696,787	\$ 151,980	\$ 621,381	\$ 96,377
<b>GAP</b>	<b>(845,368)</b>	<b>401,667</b>	<b>344,444</b>	<b>451,272</b>
<b>Cumulative GAP</b>	<b>\$ (845,368)</b>	<b>\$ (443,701)</b>	<b>\$ (99,257)</b>	<b>\$ 352,015</b>

## **Table of Contents**

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

### ***Equity Price Risk***

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

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

### ***Credit Risk***

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2014, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.24 billion, and the fair value of the collateral that had been sold or repledged was \$143.8 million.

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

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans, and non-real-estate commercial

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

We are subject to concentration risk if we hold large positions, extend large loans to, or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (i.e., in the same industry). Securities purchased under agreements to resell consist of securities issued by the U.S. government or its

---

**Table of Contents**

agencies. Receivables from and payables to clients and stock borrow and lending activities, both with a large number of clients and counterparties, and any potential concentration is carefully monitored. Stock borrow and lending activities are executed under master netting agreements, which gives our company right of offset in the event of counterparty default. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. We seek to limit this risk through careful review of counterparties and borrowers and the use of limits established by our senior management group, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment, and other positions or commitments outstanding.

***Operational Risk***

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

***Regulatory and Legal Risk***

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

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ( FDIC ) and state banking authorities. Failure to meet minimum capital requirements

can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements.

***ITEM 4. CONTROLS AND PROCEDURES***

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

---

**Table of Contents****PART II OTHER INFORMATION*****ITEM 1. LEGAL PROCEEDINGS***

The following supplements and amends our discussion set forth under Item 3. **Legal Proceedings** in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

***SEC/Wisconsin Lawsuit***

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the **school districts**) in transactions involving collateralized debt obligations (**CDOs**). This lawsuit relates to the same transactions that are the subject of the civil lawsuit filed by the school districts noted below. The SEC has asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. We have denied the substantive allegations of the SEC complaint, as amended, and asserted various affirmative defenses. The parties are currently taking written discovery and depositions, with all discovery scheduled to close in April 2015. After close of discovery, we anticipate the District Court will set the case for trial. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's

lawsuit and intend to vigorously defend the SEC's claims.

*Wisconsin School Districts/RBC OPEB lawsuit*

We were named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the Wisconsin State Court ) on September 29, 2008. The lawsuit was filed against our company, Stifel, as well as Royal Bank of Canada Europe Ltd. and certain of its affiliates ( RBC ) by the school districts and the individual trustees for other post-employment benefit ( OPEB ) trusts established by those school districts (collectively the Plaintiffs ). This lawsuit relates to the same transactions that are the subject of the SEC action noted above. We entered into a settlement of the Plaintiffs' lawsuit against our company and Stifel in March 2012. The school districts are continuing their lawsuit against RBC, and we are pursuing claims against RBC to recover payments we have made to the school districts and for amounts owed to the OPEB trusts. Subsequent to the settlement, RBC asserted claims against the school districts, our company and Stifel for fraud, negligent misrepresentation, strict liability misrepresentation and

---

**Table of Contents**

information negligently provided for the guidance of others based upon our role in connection with the school districts purchase of the CDOs. RBC has also asserted claims against Stifel for civil conspiracy and conspiracy to injure its business based upon the settlement by Stifel with the school districts and pursuit of claims against RBC. We have filed our Answer, denying RBC's claims, and discovery continues in the case. We believe we have meritorious legal and factual defenses to the claims asserted by RBC and we intend to vigorously defend those claims.

*EDC Bond Issuance Matter*

In January 2008, our company was the initial purchaser of a \$50.0 million bond offering under Rule 144A by the Lake of the Torches Economic Development Corporation ( EDC ) which is associated with Lac Du Flambeau Band of Lake Superior Chippewa Indians (together with EDC, the Tribe ). We then sold all of the bonds to LDF Acquisition LLC, a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively, Saybrook ), with Wells Fargo Bank, NA ( Wells Fargo ) as the indenture trustee for the bonds. In 2009 Saybrook and Wells Fargo brought an action in a Wisconsin federal court against the Tribe to enforce the bonds (the 2009 federal action ). The Wisconsin federal court declared, in relevant part, the Bond Indenture to be void ab initio, and the Seventh Circuit Court of Appeals affirmed but remanded the case for further proceedings as to enforceability of the other bond documents. In April 2012 Saybrook dismissed the 2009 federal action.

On January 16, 2012, Saybrook filed a new action in Wisconsin state court (the State Action ), naming as defendants our company, Stifel, the Tribe, and the law firm of Godfrey & Kahn, S.C. ( G&K ), which served as both issuer's and bond counsel. Saybrook seeks enforcement of the obligations under the bonds, a judgment for rescission, restitution (including the amounts paid by Saybrook for the bonds), and costs. Alternatively, if Saybrook fails to recover from the Tribe, Saybrook seeks to recover damages, costs and attorneys' fees from us and/or G&K. In the State Action, Saybrook asserts a claim against our company for fraud under the Wisconsin Uniform Securities Law, and with respect to Stifel, claims for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, and intentional and negligent misrepresentations relating to the validity of the bond documents and their sovereign immunity waivers. Saybrook also asserts claims against Stifel for rescission based on alleged misrepresentation or mutual mistake.

We have answered the Complaint in the State Action, denying the claims, and filed cross claims against the Tribe and G&K. The Tribe also moved to dismiss our cross claim, but on November 6, 2014 the court denied that motion. The Tribe moved to dismiss Saybrook's claims against them on the grounds that the state court does not have jurisdiction over them due to assertions that they have sovereign immunity from suit. On October 23, 2014 the state court denied the Tribe's motion to dismiss Saybrook's claims against the Tribe, thereby allowing the case to move forward against the Tribe in state court subject to the Tribe's anticipated appeal of that ruling to the Wisconsin intermediate court of appeals. Additionally, G&K filed a cross-claim against us seeking contribution and alleging that if G&K is found negligent then we too must have been negligent. We have answered G&K's cross-claim, denying those allegations. Additionally, G&K filed a third party complaint against Dentons US LLP. Written discovery is on-going between the non-Tribal Parties.

Additionally, on April 25, 2013, the Tribe filed a suit against Saybrook, our company, Stifel, G&K, and Wells Fargo in the Lac du Flambeau Tribal Court, seeking a declaration that all of the bond documents are void (the Tribal Action ). Our motion to dismiss the Tribal Action was denied, and on August 27, 2013 we filed an Answer, denying the claims.

In response to the Tribal Action, on May 24, 2013 we, together with Saybrook, Wells Fargo and G&K, also filed an action in a Wisconsin federal court (the Federal Action ) seeking to enjoin the Tribal Action. On May 16, 2014 the Wisconsin federal court preliminarily enjoined the Tribal Parties from litigating the Tribal Action. The Tribal Parties



have appealed the preliminary injunction to the Seventh Circuit Court of Appeals. In light of the Tribal Parties' appeal, the Tribal Action is stayed pending the resolution of the appeal.

While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the substantive claims as well as the procedural attempt to move the litigation to the Lac du Flambeau Tribal Court.

---

**Table of Contents***Lac Courte Oreilles Tribal Lawsuit*

On December 13, 2012, the Lac Courte Oreilles Band of Lake Superior Chippewa Indians of Wisconsin (the Tribe) filed a civil lawsuit against Stifel in the Tribe's Tribal Court (the Tribal Lawsuit) regarding Stifel's participation in the Tribe's offering of two series of taxable municipal bonds as a means of raising revenue to fund various projects (the 2006 Bond Transaction). The Complaint alleges that we failed to disclose certain information before the 2006 Bond Transaction. On February 19, 2013 we filed a declaratory judgment action in a Wisconsin federal court seeking to establish that the Tribal Court lacks jurisdiction over the Tribal Lawsuit (the Federal Action). On February 20, 2013, we filed a motion to dismiss the Tribal Lawsuit, challenging the jurisdiction of the Tribal Court, which motion was denied by the Tribal Court. The Tribe filed a motion to dismiss the Federal Action. Shortly thereafter, the Tribe agreed to withdraw its motion to dismiss the Federal Action and agreed to stay the Tribal Lawsuit pending a determination by the Wisconsin federal court as to whether the Tribal Court has jurisdiction over the claims. Basic discovery was taken in the Federal Action, and we filed a summary judgment motion with the U.S. District Court, asking the court for a determination that the Tribal Court does not have jurisdiction over the claims brought by the Tribe. On June 19, 2014, the District Court issued a conditional Order finding the Tribal Court has jurisdiction over the dispute. The conditional Order was issued subject to additional briefing of the issues by Stifel, which briefing has been filed with the District Court. We are currently waiting for a final decision from the District Court, which is expected in December 2014. If the District Court issues a final Order finding the Tribal Court has jurisdiction over the dispute, we intend to appeal the decision to the Seventh Circuit Court of Appeals. In the event of an appeal, the stay of proceedings in Tribal Court will remain in effect during the pendency of the appeal. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious defenses to the Tribe's claims and we intend to vigorously defend the allegations.

**ITEM 1A. RISK FACTORS**

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

There were no unregistered sales of equity securities during the quarter ended September 30, 2014. There were also no purchases made by or on behalf of Stifel Financial Corp. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended September 30, 2014.

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2014, the maximum number of shares that may yet be purchased under this plan was 3.5 million.

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of September 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013; and (vi) Notes to Consolidated Financial Statements.

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

Table of Contents

***SIGNATURES***

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

**STIFEL FINANCIAL CORP.**

/s/ Ronald J. Kruszewski  
Ronald J. Kruszewski  
*Chairman of the Board and  
Chief Executive Officer*

/s/ James M. Zemlyak  
James M. Zemlyak

*Chief Financial Officer*

Date: November 10, 2014