STIFEL FINANCIAL CORP
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

OR

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

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant’s telephone number, including area code)

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

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 x No o

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 x		Accelerated filer	¨
Non-accelerated filer ¨	(Do not check if smaller reporting company)	Smaller reporting company	¨

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

The number of shares outstanding of the registrant’s common stock, $0.15 par value per share, as of the close of business on November 5, 2015, was 69,507,842.

STIFEL FINANCIAL CORP.

Form 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

	September 30,	December 31,
(in thousands)	2015 (Unaudited)	2014
Assets		
Cash and cash equivalents	$607,100	$689,782
Cash segregated for regulatory purposes	321	49,646
Receivables:		
Brokerage clients, net	708,067	483,887
Brokers, dealers, and clearing organizations	651,274	651,074
Securities purchased under agreements to resell	88,467	55,078
Financial instruments owned, at fair value	812,976	786,855
Available-for-sale securities, at fair value	659,832	1,513,478
Held-to-maturity securities, at amortized cost	1,095,793	1,177,565
Loans held for sale, at lower of cost or market	179,588	121,939
Bank loans, net of allowance	2,409,399	2,065,420
Investments, at fair value	160,240	210,255
Fixed assets, net	183,020	124,246
Goodwill	884,793	795,026
Intangible assets, net	58,479	54,563
Loans and advances to financial advisors and other employees, net	247,555	197,757
Deferred tax assets, net	268,157	258,142
Other assets	344,118	283,438
Total Assets	$9,359,179	$9,518,151

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

	September 30,	December 31,
(in thousands, except share and per share amounts)	2015 (Unaudited)	2014
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	$423,849	$321,496
Brokers, dealers, and clearing organizations	106,803	14,023
Drafts	69,516	75,198
Securities sold under agreements to repurchase	106,937	39,180
Bank deposits	4,116,811	4,790,081
Financial instruments sold, but not yet purchased, at fair value	512,323	587,265
Accrued compensation	259,863	359,050
Accounts payable and accrued expenses	339,149	302,320
Borrowings	398,338	—
Senior notes	450,000	625,000
Debentures to Stifel Financial Capital Trusts	82,500	82,500
Total liabilities	6,866,089	7,196,113
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 69,507,842 and 66,336,018 shares, respectively	10,426	9,950
Additional paid-in-capital	1,783,767	1,634,114
Retained earnings	798,377	716,305
Accumulated other comprehensive income	(34,491)	(38,331)
	2,558,079	2,322,038
Treasury stock, at cost, 1,438,862 and 5 shares, respectively	(64,989)	—
Total Shareholders' Equity	2,493,090	2,322,038
Total Liabilities and Shareholders' Equity	$9,359,179	$9,518,151

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Revenues:				
Commissions	$194,083	$167,601	$562,249	$510,070
Principal transactions	95,593	94,828	281,794	318,312
Investment banking	118,753	118,717	400,302	390,848
Asset management and service fees	130,636	96,638	364,442	280,039
Interest	43,376	52,096	129,964	141,035
Other income	18,930	4,803	44,471	18,745
Total revenues	601,371	534,683	1,783,222	1,659,049
Interest expense	9,796	11,228	32,914	28,701
Net revenues	591,575	523,455	1,750,308	1,630,348
Non-interest expenses:				
Compensation and benefits	404,205	331,440	1,169,896	1,033,478
Occupancy and equipment rental	53,282	41,611	145,798	125,110
Communications and office supplies	35,678	27,464	96,026	78,151
Commissions and floor brokerage	12,430	9,971	31,623	28,247
Other operating expenses	63,632	47,203	176,480	143,945
Total non-interest expenses	569,227	457,689	1,619,823	1,408,931
Income from continuing operations before income tax expense	22,348	65,766	130,485	221,417
Provision for income taxes	5,169	25,673	49,321	87,774
Income from continuing operations	17,179	40,093	81,164	133,643
Discontinued operations:				
Loss from discontinued operations, net of tax	—	(190)	—	(2,757)
Net income	$17,179	$39,903	$81,164	$130,886
Earnings per basic common share				
Income from continuing operations	$0.25	$0.60	$1.18	$2.01
Income from discontinued operations	—	—	—	(0.04)
Earnings per basic common share	$0.25	$0.60	$1.18	$1.97
Earnings per diluted common share				
Income from continuing operations	$0.22	$0.52	$1.04	$1.76
Income from discontinued operations	—	—	—	(0.04)
Earnings per diluted common share	$0.22	$0.52	$1.04	$1.72
Weighted-average number of common shares outstanding:				
Basic	69,633	66,691	68,675	66,344
Diluted	79,759	76,681	78,326	76,011

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Net income	$ 17,179	$ 39,903	$ 81,164	$ 130,886
Other comprehensive income, net of tax: [1]				
Changes in unrealized gains/(losses) on available-for-sale securities [2]	(611)	(3,884)	5,261	1,683
Changes in unrealized gains on cash flow hedging instruments [3]	(289)	1,108	199	2,094
Foreign currency translation adjustment	(2,935)	(8,388)	(1,620)	(6,320)
Total other comprehensive income/(loss), net of tax	(3,835)	(11,164)	3,840	(2,543)
Comprehensive income	$ 13,344	$ 28,739	$ 85,004	$ 128,343

[1] Net of tax benefit of $2.4 million and $7.0 million for the three months ended September 30, 2015 and 2014, respectively. Net of taxes of $2.4 million and a tax benefit of $1.6 million for the nine months ended September 30, 2015 and 2014, respectively.

[2] Amounts are net of reclassifications to earnings of realized gains of $0.2 million and $0.7 million for the three months ended September 30, 2015 and 2014, respectively. Amounts are net of reclassifications to earnings of realized gains of $2.1 million and $1.9 million for the nine months ended September 30, 2015 and 2014, respectively.

[3] Amounts are net of reclassifications to earnings of losses of $0.9 million and $1.5 million for the three months ended September 30, 2015 and 2014, respectively. Amounts are net of reclassifications to earnings of losses of $3.1 million and $4.7 million for the nine months ended September 30, 2015 and 2014, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Cash Flows From Operating Activities:		
Net income	$81,164	$130,886
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	27,386	21,727
Amortization of loans and advances to financial advisors and other employees	50,529	49,285
Amortization of premium on investment portfolio	2,557	4,385
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	5,509	6,832
Amortization of intangible assets	5,952	9,762
Deferred income taxes	8,814	17,111
Excess tax benefits from stock-based compensation	(17,031)	(18,220)
Stock-based compensation	110,569	70,852
(Gains)/losses on sale of investments	10,102	(894)
Other, net	278	1,990
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	49,325	4,264
Receivables:		
Brokerage clients	(112,106)	(19,195)
Brokers, dealers, and clearing organizations	33,517	(263,745)
Securities purchased under agreements to resell	(33,389)	99,562
Financial instruments owned, including those pledged	31,484	(139,012)
Loans originated as held for sale	(1,347,547)	(811,711)
Proceeds from mortgages held for sale	1,317,242	808,882
Loans and advances to financial advisors and other employees	(68,468)	(51,492)
Other assets	19,619	42,768
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	102,353	311
Brokers, dealers, and clearing organizations	50,028	35,297
Drafts	(5,682)	(16,121)
Financial instruments sold, but not yet purchased	(74,942)	131,809
Other liabilities and accrued expenses	(248,703)	(169,588)
Net cash used in operating activities	$(1,440)	$(54,255)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Cash Flows From Investing Activities:		
Proceeds from:		
Maturities, calls, sales, and principal paydowns of available-for-sale securities	$853,441	$542,565
Calls and principal paydowns of held-to-maturity securities	82,941	74,405
Sale or maturity of investments	52,884	48,278
Sale of other real estate owned	75	131
Increase in bank loans, net	(375,194)	(468,329)
Payments for:		
Purchase of available-for-sale securities	(423)	(271,548)
Purchase of held-to-maturity securities	—	(7,959)
Purchase of investments	(17,086)	(37,190)
Purchase of fixed assets	(61,663)	(22,384)
Acquisitions, net of cash acquired	18,456	(39,184)
Net cash provided by/(used in) investing activities	553,431	(181,215)
Cash Flows From Financing Activities:		
Proceeds/(repayments) of borrowings	86,617	(5,900)
Proceeds from Federal Home Loan Bank advances	96,000	—
Proceeds from issuance of senior notes, net	—	295,638
Payment of contingent consideration	(29,598)	—
Increase/(decrease) in securities sold under agreements to repurchase	67,757	(119,995)
Decrease in bank deposits, net	(673,270)	(110,801)
Increase/(decrease) in securities loaned	42,752	(14,321)
Excess tax benefits from stock-based compensation	17,031	18,220
Issuance of common stock for stock option exercises	343	135
Repurchase of common stock	(65,858)	—
Repayment of senior notes	(175,000)	—
Extinguishment of subordinated debt	—	(3,131)
Net cash provided by/(used in) financing activities	(633,226)	59,845
Effect of exchange rate changes on cash	(1,447)	(5,817)
Decrease in cash and cash equivalents	(82,682)	(181,442)
Cash and cash equivalents at beginning of period	689,782	716,560
Cash and cash equivalents at end of period	$607,100	$535,118
Supplemental disclosure of cash flow information:		
Cash paid for interest	$29,673	$31,205
Cash paid for income taxes, net of refunds	45,115	59,434
Noncash financing activities:		
Unit grants, net of forfeitures	132,145	152,115
Shares surrendered into treasury	223	—

Issuance of common stock for acquisitions	80,981	11,741

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management’s opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2014 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, 2014.

NOTE 2 – Recently Issued Accounting Guidance

Business Combinations

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2015-16, Business Combinations (Topic 805): "Simplifying the Accounting for Measurement-Period Adjustments" (“ASU 2015-16”), which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under this ASU, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We elected to early adopt this ASU in the third quarter of 2015. The adoption of ASU 2015-16 did not have a material impact on our consolidated financial statements.

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

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

Interest - Imputation of Interest

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

Consolidation

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

Repurchase Agreements

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

Revenue Recognition

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

Discontinued Operations

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

Note 3 – Acquisition of Sterne Agee Group, Inc.

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

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

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

Sterne, Agee & Leach, Inc. was a defendant in the Canyon Ridge, et al. matter and, prior to being acquired by Stifel, received an adverse jury verdict of $35.6 million. Prior to the closing date, Sterne Agee had established adequate reserves for various claims that were included the opening balance sheet. During the third quarter of 2015, this matter was settled and paid, and the excess reserves associated with the Canyon Ridge matter were distributed to Sterne Agee Group, Inc. shareholders. Under the terms of the agreements governing the acquisition, we have withheld a portion of the purchase price of Sterne Agee Group, Inc. pending the resolution of currently existing or subsequently arising liabilities relating to the operation of the Sterne Agee Group Inc. business prior to the closing of the acquisition. Based upon currently available information and review with counsel, we believe the amounts which we are allowed to withhold will be adequate to fully indemnify us from any losses related to the pre-closing operations of Sterne Agee Group, Inc.

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

NOTE 4 – Discontinued Operations

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30,		September 30,	
	2015	2014	2015	2014
Net revenues	$ —	$ (44)	$ —	$ (75)
Restructuring expense	—	—	—	217
Operating expenses	—	110	—	3,664
Total non-interest expenses	—	110	—	3,881
Loss from discontinued operations before income	—	(154)	—	(3,956)

tax expense				
Income tax expense/(benefit)	—	36	—	(1,199)
Loss from discontinued operations, net of tax	$ —	$ (190)	$ —	$ (2,757)

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

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2015 and December 31, 2014, included (in thousands):

	September 30, 2015	December 31, 2014
Deposits paid for securities borrowed	$ 333,348	$ 445,542
Receivables from clearing organizations	295,856	198,079
Securities failed to deliver	22,070	7,453
	$ 651,274	$ 651,074

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2015 and December 31, 2014, included (in thousands):

	September 30, 2015	December 31, 2014
Deposits received from securities loaned	$ 47,495	$ 4,215
Payable to clearing organizations	31,136	2,443
Securities failed to receive	28,172	7,365
	$ 106,803	$ 14,023

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

NOTE 6 – Fair Value Measurements

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

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

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

Cash Equivalents

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

Financial Instruments Owned and Available-For-Sale Securities

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

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

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

Investments

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

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

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

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

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

For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were $11.4 million and $11.5 million at September 30, 2015 and December 31, 2014, respectively.

Financial Instruments Sold, But Not Yet Purchased

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

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

Derivatives

Derivatives are valued using quoted market prices for identical instruments when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments, included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, are presented below (in thousands):

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$90,582	$90,582	$—	$—
Financial instruments owned:				
U.S. government securities	15,750	15,750	—	—
U.S. government agency securities	124,292	—	124,292	—
Mortgage-backed securities:				
Agency	202,480	—	202,480	—
Non-agency	18,704	—	18,304	400
Corporate securities:				
Fixed income securities	251,416	40,361	211,055	—
Equity securities	25,641	25,022	—	619
State and municipal securities	174,693	—	174,693	—
Total financial instruments owned	812,976	81,133	730,824	1,019
Available-for-sale securities:				
U.S. government agency securities	1,708	—	1,708	—
State and municipal securities	74,179	—	74,179	—
Mortgage-backed securities:				
Agency	27,420	—	27,420	—
Commercial	17,983	—	17,983	—
Non-agency	2,785	—	2,785	—
Corporate fixed income securities	88,725	—	88,725	—
Asset-backed securities	447,032	—	447,032	—
Total available-for-sale securities	659,832	—	659,832	—
Investments:				
Corporate equity securities	30,305	27,074	—	3,231
Mutual funds	14,836	14,836	—	—
U.S. government securities	103	103	—	—
Auction rate securities:				
Equity securities	56,224	—	—	56,224
Municipal securities	1,324	—	—	1,324
Other [1]	57,448	—	2,887	54,561
Total investments	160,240	42,013	2,887	115,340
	$1,723,630	$213,728	$1,393,543	$116,359

[1] Includes $36.6 million of partnership interests, $14.3 million of private company investments, and $3.7 million of private equity and other investments.

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$217,648	$217,648	$—	$ —
U.S. government agency securities	—	—	—	—
Mortgage-backed securities:				
Agency	38,927	—	38,927	
Non-agency	—	—	—	—
Corporate securities:				
Fixed income securities	234,429	20,795	213,634	—
Equity securities	21,089	21,084	5	—
State and municipal securities	230	—	230	—
Total financial instruments sold, but not yet purchased	512,323	259,527	252,796	$ —
Derivative contracts [2]	4,652	—	4,652	—
	$516,975	$259,527	$257,448	$ —

[2] Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014, are presented below (in thousands):

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$122,875	$122,875	$—	$—
Financial instruments owned:				
U.S. government securities	58,992	58,992	—	—
U.S. government agency securities	101,439	—	101,439	—
Mortgage-backed securities:				
Agency	159,057	—	159,057	—
Non-agency	13,366	189	12,371	806
Corporate securities:				
Fixed income securities	245,909	75,236	168,680	1,993
Equity securities	77,548	76,316	88	1,144
State and municipal securities	130,544	—	130,544	—
Total financial instruments owned	786,855	210,733	572,179	3,943
Available-for-sale securities:				
U.S. government agency securities	1,610	—	1,610	—
State and municipal securities	74,401	—	74,401	—
Mortgage-backed securities:				
Agency	209,206	—	209,206	—
Commercial	107,644	—	107,644	—
Non-agency	3,137	—	3,137	—
Corporate fixed income securities	337,406	50,892	286,514	—
Asset-backed securities	780,074	—	736,029	44,045
Total available-for-sale securities	1,513,478	50,892	1,418,541	44,045
Investments:				
Corporate equity securities	59,203	35,123	24,080	—
Mutual funds	18,144	18,144	—	—
U.S. government securities	6,555	104	6,451	—
Auction rate securities:				
Equity securities	46,197	—	—	46,197
Municipal securities	1,326	—	—	1,326
Other [1]	78,830	1,283	4,557	72,990
Total investments	210,255	54,654	35,088	120,513
	$2,633,463	$439,154	$2,025,808	$168,501

[1] Includes $42.1 million of partnership interests, $16.4 million of private company investments, and $14.3 million of private equity and other investments.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$146,592	$146,592	$—	$ —
U.S. government agency securities	10,029	—	10,029	—
Mortgage-backed securities:				
Agency	28,067	—	28,067	—
Non-agency	4,556	401	4,155	—
Corporate securities:				
Fixed income securities	293,008	17,116	275,892	—
Equity securities	105,013	105,013	—	—
Total financial instruments sold, but not yet purchased	587,265	269,122	318,143	—
Derivative contracts [2]	5,641	—	5,641	—
	$592,906	$269,122	$323,784	$ —

[2] Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three months ended September 30, 2015 (in thousands):

	Three Months Ended September 30, 2015			
	Financial instruments owned			Available-for-sale securities
	Mortgage-Backed Securities – Non-Agency	Corporate Fixed Income Securities	Equity Securities	Asset-Backed Securities
Balance at June 30, 2015	$ 670	$ 4,572	$ 619	$ —
Unrealized gains/(losses):				
Included in changes in net assets [2]	(157)	(126)	—	—
Included in OCI [3]	—	—	—	—
Realized gains/(losses) [2]	86	53	—	—
Purchases	—	—	—	—
Sales	—	(4,499)	—	—
Redemptions	(199)	—	—	—
Transfers:				

Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Net change	(270)	(4,572)	—	—
Balance at September 30, 2015	$ 400	$ —	$ 619	$ —

	Three Months Ended September 30, 2015			
	Investments			
	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other [1]
Balance at June 30, 2015	$ 2,962	$ 48,355	$ 1,324	$ 69,242
Unrealized gains/(losses):				
Included in changes in net assets [2]	269	(631)	—	(1,576)
Included in OCI [3]	—	—	—	—
Realized gains [2]	—	—	—	293
Purchases	—	8,500	—	1,117
Sales	—	—	—	(11,533)
Redemptions	—	—	—	(2,982)
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Net change	269	7,869	—	(14,681)
Balance at September 30, 2015	$ 3,231	$ 56,224	$ 1,324	$ 54,561

[1] Includes partnership interests, private company investments, and private equity investments.

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

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

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the nine months ended September 30, 2015 (in thousands):

	Nine Months Ended September 30, 2015			
	Financial instruments owned			Available-for-sale securities
	Mortgage-Backed Securities – Non-Agency	Corporate Fixed Income Securities	Equity Securities	Asset-Backed Securities
Balance at December 31, 2014	$ 806	$ 1,993	$ 1,144	$ 44,045

Unrealized gains/(losses):				
Included in changes in net assets [2]	(240)	84	—	—
Included in OCI [3]	—	—	—	342
Realized gains/(losses) [2]	119	53	—	(2,136)
Purchases	—	11,643	—	—
Sales	—	(13,773)	(525)	(42,251)
Redemptions	(285)	—	—	—
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Net change	(406)	(1,993)	(525)	(44,045)
Balance at September 30, 2015	$ 400	$ —	$ 619	$ —

	Nine Months Ended September 30, 2015			
	Investments			
	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other [1]
Balance at December 31, 2014	$—	$ 46,197	$ 1,326	$72,990
Unrealized gains/(losses):				
Included in changes in net assets [2]	354	(873)	(2)	2,392
Included in OCI [3]	—	—	—	—
Realized gains [2]	—	—	—	(210)
Purchases	—	15,125	—	4,396
Sales	—	—	—	(13,156)
Redemptions	—	(4,225)	—	(3,066)
Transfers:				
Into Level 3	2,877	—	—	—
Out of Level 3	—	—	—	(8,785)
Net change	3,231	10,027	(2)	(18,429)
Balance at September 30, 2015	$3,231	$ 56,224	$ 1,324	$54,561

[1] Includes partnership interests, private company investments, and private equity investments.
[2] Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.
[3] 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 private equity investments and ARS, offset by ARS purchases during the nine months ended September 30, 2015. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2015, relating to Level 3 assets still held at September 30, 2015, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of September 30, 2015.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	2.3% - 13.5%	7.7%
		Workout period	1 - 3 years	2.5 years
Municipal securities	Discounted cash flow	Discount rate	0.3% - 8.8%	7.1%

Workout period	1 - 4 years	2.8 years

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

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

General and limited partnership interests in investment partnerships totaled $36.6 million and $42.1 million at September 30, 2015 and December 31, 2014, respectively. The general and limited partnership interests in investment partnerships were primarily valued based upon NAVs received from third-party fund managers. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the funds to utilize pricing/valuation information, including independent appraisals, from third-party sources. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used as an input to value these investments.

Direct investments in private equity companies totaled $18.0 million and $21.2 million at September 30, 2015 and December 31, 2014, respectively. Direct investments in private equity companies may be valued using the market approach and were valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance, and legal restrictions on disposition, among other factors. The fair value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation, and amortization (“EBITDA”) multiples. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. Transfers of financial assets from Level 1 to Level 2 during the three months ended September 30, 2015 were immaterial. There were $5.6 million of transfers of financial assets from Level 1 to Level 2 during the nine months ended September 30, 2015, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were no transfers of financial assets out of Level 3 during the three months ended September 30, 2015. There were $5.9 million of transfers of financial assets out of Level 3 during the nine months ended September 30, 2015, primarily related to other investments for which market trades were observed that provided transparency into the valuation of these assets.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments as of September 30, 2015 and December 31, 2014, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	September 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$607,100	$607,100	$689,782	$689,782
Cash segregated for regulatory purposes	321	321	49,646	49,646
Securities purchased under agreements to resell	88,467	88,467	55,078	55,078
Financial instruments owned	812,976	812,976	786,855	786,855
Available-for-sale securities	659,832	659,832	1,513,478	1,513,478
Held-to-maturity securities	1,095,793	1,132,501	1,177,565	1,211,976
Loans held for sale	179,588	179,588	121,939	121,939
Bank loans	2,409,399	2,427,355	2,065,420	2,086,864
Investments	160,240	160,240	210,255	210,255
Financial liabilities:				
Securities sold under agreements to repurchase	$106,937	$106,937	$39,180	$39,180
Bank deposits	4,116,811	4,070,949	4,790,081	4,246,214
Financial instruments sold, but not yet purchased	512,323	512,323	587,265	587,265
Derivative contracts [1]	4,652	4,652	5,641	5,641
Borrowings	398,338	398,338	—	—
Senior notes	450,000	454,282	625,000	638,690
Debentures to Stifel Financial Capital Trusts	82,500	73,875	82,500	76,714

[1] Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$516,518	$516,518	$—	$—
Cash segregated for regulatory purposes	321	321	—	—
Securities purchased under agreements to resell	88,467	88,467	—	—
Held-to-maturity securities	1,132,501	—	891,975	240,526
Loans held for sale	179,588	—	179,588	—
Bank loans	2,427,355	—	2,427,355	—
Financial liabilities:				
Securities sold under agreements to repurchase	$106,937	$19,476	$—	$87,461
Bank deposits	4,070,949	—	4,070,949	—

Borrowings	398,338	—	398,338	—
Senior notes	454,282	454,282	—	—
Debentures to Stifel Financial Capital Trusts	73,875	—	—	73,875

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$566,907	$566,907	$—	$—
Cash segregated for regulatory purposes	49,646	49,646	—	—
Securities purchased under agreements to resell	55,078	44,996	10,082	—
Held-to-maturity securities	1,211,976	—	969,913	242,063
Loans held for sale	121,939	—	121,939	—
Bank loans	2,086,864	—	2,086,864	—
Financial liabilities:				
Securities sold under agreements to repurchase	$39,180	$39,180	$—	$—
Bank deposits	4,246,214	—	4,246,214	—
Borrowings	—	—	—	—
Senior notes	638,690	638,690	—	—
Debentures to Stifel Financial Capital Trusts	76,714	—	—	76,714

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of September 30, 2015 and December 31, 2014.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2015 and December 31, 2014 approximate fair value due to their short-term nature.

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2015 and December 31, 2014 approximate fair value due to the short-term nature.

Bank Deposits

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

Borrowings

The carrying amount of borrowings approximates fair value due to the relative short-term nature of such borrowings, some of which are day-to-day. The portion of borrowings which are not "day-to-day" are primarily comprised of Stifel Bank's borrowings from the FHLB which, by their nature, reflect terms that approximate current market rates for similar borrowings.

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

The fair value of our trust preferred securities is based on the discounted value of contractual cash flows. We have assumed a discount rate based on the coupon achieved in our 5.375% senior notes due 2022.

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

NOTE 7 – Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

The components of financial instruments owned and financial instruments sold, but not yet purchased, at September 30, 2015 and December 31, 2014 are as follows (in thousands):

	September 30, 2015	December 31, 2014
Financial instruments owned:		
U.S. government securities	$ 15,750	$ 58,992
U.S. government agency securities	124,292	101,439
Mortgage-backed securities:		

Agency	202,480	159,057
Non-agency	18,704	13,366
Corporate securities:		
Fixed income securities	251,416	245,909
Equity securities	25,641	77,548
State and municipal securities	174,693	130,544
	$ 812,976	$ 786,855
Financial instruments sold, but not yet purchased:		
U.S. government securities	$ 217,648	$ 146,592
U.S. government agency securities	—	10,029
Mortgage-backed securities:		
Agency	38,927	28,067
Non-agency	—	4,556
Corporate securities:		
Fixed income securities	234,429	293,008
Equity securities	21,089	105,013
State and municipal securities	230	—
	$ 512,323	$ 587,265

At September 30, 2015 and December 31, 2014, financial instruments owned in the amount of $586.1 million and $425.1 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

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

NOTE 8 – Available-for-Sale and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains [1]	Losses [1]	Fair Value
Available-for-sale securities				
U.S. government agency securities	$1,703	$ 7	$ (2)	$1,708
State and municipal securities	76,095	10	(1,926)	74,179
Mortgage-backed securities:				
Agency	27,415	294	(289)	27,420
Commercial	17,775	212	(4)	17,983
Non-agency	2,829	2	(46)	2,785
Corporate fixed income securities	88,270	1,050	(595)	88,725
Asset-backed securities	449,685	1,342	(3,995)	447,032
	$663,772	$ 2,917	$ (6,857)	$659,832
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$802,549	$ 34,457	$ (27)	$836,979
Commercial	59,506	3,161	—	62,667
Non-agency	953	—	(13)	940
Asset-backed securities	177,617	2,429	(2,913)	177,133
Corporate fixed income securities	55,168	—	(385)	54,783
	$1,095,793	$ 40,047	$ (3,338)	$1,132,502

	December 31, 2014			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains [1]	Losses [1]	Fair Value
Available-for-sale securities				
U.S. government agency securities	$1,613	$ 1	$ (4)	$1,610
State and municipal securities	76,518	20	(2,137)	74,401
Mortgage-backed securities:				
Agency	206,982	3,137	(913)	209,206
Commercial	107,100	633	(89)	107,644
Non-agency	3,186	5	(54)	3,137
Corporate fixed income securities	336,210	2,016	(820)	337,406
Asset-backed securities	788,908	1,321	(10,155)	780,074
	$1,520,517	$ 7,133	$ (14,172)	$1,513,478
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$884,451	$ 32,926	$ (42)	$917,335
Commercial	59,462	2,257	—	61,719
Non-agency	1,081	—	(17)	1,064
Asset-backed securities	177,335	3,151	(2,645)	177,841
Corporate fixed income securities	55,236	4	(1,223)	54,017
	$1,177,565	$ 38,338	$ (3,927)	$1,211,976

[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.

For the three and nine months ended September 30, 2015 we received proceeds of $89.0 million and $641.6 million, respectively, from the sale of available-for-sale securities, which resulted in net realized gains of $0.1 million and $3.2 million, respectively.

During the three months ended September 30, 2015 and 2014, unrealized losses, net of deferred tax benefit, of $0.6 million and $3.9 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the nine months ended September 30, 2015 and 2014, unrealized gains, net of deferred taxes, of $5.3 million and $1.7 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, 2015			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$9,756	$9,816	$15,006	$15,004
After one year through three years	48,743	49,321	40,162	39,779
After three years through five years	1,006	1,220	—	—
After five years through ten years	158,380	156,642	—	—
After ten years	397,868	394,644	177,617	177,133
Mortgage-backed securities				
After one year through three years	80	81	—	—
After five years through ten years	653	677	59,506	62,667
After ten years	47,286	47,431	803,502	837,919
	$663,772	$659,832	$1,095,793	$1,132,502

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at September 30, 2015, are as follows (in thousands):

	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total
Available-for-sale:[1]					
U.S. government agency securities	$730	$978	$—	$—	$1,708
State and municipal securities	—	—	7,394	66,785	74,179
Mortgage-backed securities:					
Agency	—	—	677	26,744	27,421
Commercial	—	—	—	17,983	17,983
Non-agency	—	81	—	2,704	2,785
Corporate fixed income securities	9,086	49,563	30,075	—	88,724
Asset-backed securities	—	-	119,173	327,859	447,032
	$9,816	$50,622	$157,319	$442,075	$659,832
Held-to-maturity:					
Mortgage-backed securities:					
Agency	$—	$—	$—	$802,549	$802,549
Commercial	—	—	59,506	—	59,506
Non-agency	—	—	—	953	953
Asset-backed securities	—	—	—	177,617	177,617
Corporate fixed income securities	15,006	40,162	—	—	55,168
	$15,006	$40,162	$59,506	$981,119	$1,095,793

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

At September 30, 2015 and December 31, 2014, securities and loans of $908.2 million and $1.2 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At September 30, 2015, securities of $388.5 million were pledged with the Federal Reserve discount window.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2015 (in thousands):

	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value

Available-for-sale securities						
U.S. government securities	$(2)	$131	$—	$—	$(2)	$131
State and municipal securities	(519)	36,731	(1,408)	35,773	(1,927)	72,504
Mortgage-backed securities:						
Agency	—	—	(289)	8,794	(289)	8,794
Commercial	(4)	3,474	—	—	(4)	3,474
Non-agency	(46)	2,608	—	—	(46)	2,608
Corporate fixed income securities	(595)	25,102	—	—	(595)	25,102
Asset-backed securities	(1,073)	137,510	(2,921)	137,224	(3,994)	274,734
	$(2,239)	$205,556	$(4,618)	$181,791	$(6,857)	$387,347
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	$—	$—	$(27)	$2,309	$(27)	$2,309
Non-agency	—	—	(13)	940	(13)	940
Asset-backed securities	(73)	9,122	(2,578)	64,675	(2,651)	73,797
Corporate fixed income securities	—	—	(385)	49,783	(385)	49,783
	$(73)	$9,122	$(3,003)	$117,707	$(3,076)	$126,829

At September 30, 2015, the amortized cost of 48 securities classified as available for sale exceeded their fair value by $6.9 million, of which $4.6 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at September 30, 2015, was $387.3 million, which was 58.7% of our available-for-sale portfolio.

At September 30, 2015, the carrying value of 21 securities held to maturity exceeded their fair value by $3.1million, of which $3.0 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, 2015 and 2014.

We believe the gross unrealized losses related to all other securities of $9.9 million as of September 30, 2015, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. No OTTI charge was recorded during the three and nine months ended September 30, 2015 related to these securities. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 9 – Bank Loans

The following table presents the balance and associated percentage of each major loan category in our bank loan portfolio at September 30, 2015 and December 31, 2014 (in thousands, except percentages):

	September 30, 2015			December 31, 2014		
	Balance	Percent		Balance	Percent	
Commercial and industrial	$1,121,643	45.9	%	$896,853	42.4	%
Consumer [1]	1,026,197	42.0		758,288	35.8	
Residential real estate	260,958	10.7		432,646	20.4	
Commercial real estate	19,811	0.8		15,902	0.8	
Home equity lines of credit	11,260	0.5		12,945	0.6	
Construction and land	2,474	0.1				
Gross bank loans	2,442,343	100.0	%	2,116,634	100.0	%
Unamortized loan discount	(994)			(30,533)		
Unamortized loan fees, net of loan fees	(1,841)			(1,631)		
Loans in process	(2,402)			1,681		
Allowance for loan losses	(27,707)			(20,731)		

Bank loans, net	$2,409,399	$2,065,420

[1] Includes securities-based loans of $ 1.0 billion and $732.8 million at September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015 and December 31, 2014, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of $1.9 million and $0.6 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $9.6 million and $5.3 million, respectively.

At September 30, 2015 and December 31, 2014, we had mortgage loans held for sale of $179.6 million and $121.9 million, respectively. For the three months ended September 30, 2015 and 2014, we recognized gains of $3.3 million and $2.2 million, respectively, from the sale of originated loans, net of fees and costs. For the nine months ended September 30, 2015 and 2014, we recognized gains of $9.4 million and $5.8 million, respectively, from the sale of originated loans, net of fees and costs.

During the three months ended September 30, 2015, the Bank reclassified $227.6 million of residential mortgages to held for sale. In September 2015, Stifel Bank sold $184.4 million in unpaid principal balance. As these loans carried a significant portion on the unamortized loan discount at the time of sale, we recognized a $14.7 million gain which is reflected in other income on the consolidated statements of operations. At September 30, 2015, $33.9 million remains in held for sale.

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 (in thousands).

	Three Months Ended September 30, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$19,297	$ 3,117	$ —	$ —	$22,414
Consumer	1,568	39	—	6	1,613
Residential real estate	904	197	(27)	48	1,122
Commercial real estate	286	(36)	—	14	264
Home equity lines of credit	265	(20)	—	8	253
Construction & Land	—	47	—	—	47
Qualitative	1,603	391	—	—	1,994
	$23,923	$ 3,735	$ (27)	$ 76	$27,707

	Nine Months Ended September 30, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$16,609	$ 5,805	$ —	$ —	$22,414
Consumer	1,255	352	—	6	1,613
Residential real estate	787	425	(142)	52	1,122
Commercial real estate	232	(24)	—	56	264
Home equity lines of credit	267	(22)	—	8	253
Construction & Land	—	47	—	—	47
Qualitative	1,581	413	—	—	1,994
	$20,731	$ 6,996	$ (142)	$ 122	$27,707

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2015 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$—	$ 22,414	$22,414	$—	$ 1,121,643	$1,121,643
Consumer	21	1,592	1,613	21	1,026,176	1,026,197
Residential real estate	24	1,098	1,122	945	260,013	260,958
Commercial real estate	—	264	264	—	19,811	19,811
Home equity lines of credit	149	104	253	323	10,937	11,260

Construction & Land	—	47	47	—	2,474	2,474
Qualitative	—	1,994	1,994	—	—	—
	$194	$ 27,513	$27,707	$1,289	$ 2,441,054	$2,442,343

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014 (in thousands).

	Three Months Ended September 30, 2014				
	Beginning				Ending
	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial and industrial	$13,557	$ 2,346	$ —	$ —	$15,903
Consumer	937	64	—	—	1,001
Residential real estate	713	(41)	—	2	674
Commercial real estate	210	10	—	19	239
Home equity lines of credit	131	143	—	—	274
Construction & Land	—	—	—	—	—
Qualitative	1,555	(650)	—	—	905
	$17,103	$ 1,872	$ —	$ 21	$18,996

	Nine Months Ended September 30, 2014				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$9,832	$ 6,539	$ (468)	$ —	$15,903
Consumer	892	113	(4)	—	1,001
Residential real estate	408	261	—	5	674
Commercial real estate	198	(5)	—	46	239
Home equity lines of credit	174	100	—	—	274
Construction and land	12	(12)	—	—	—
Qualitative	1,152	(247)	—	—	905
	$12,668	$ 6,749	$ (472)	$ 51	$18,996

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2014 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$—	$ 15,903	$15,903	$—	$ 833,988	$833,988
Consumer	—	1,001	1,001	—	638,810	638,810
Residential real estate	87	587	674	378	418,428	418,806
Commercial real estate	30	209	239	235	15,736	15,971
Home equity lines of credit	149	125	274	323	13,453	13,776
Construction and land	—	—	—	—	—	—
Qualitative	—	905	905	—	—	—
	$266	$ 18,730	$18,996	$936	$ 1,920,415	$1,921,351

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2014 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$—	$ 16,609	$16,609	$—	$ 896,853	$896,853

Consumer	13	1,242	1,255	13	758,275	758,288
Residential real estate	87	700	787	378	432,268	432,646
Commercial real estate	23	209	232	228	15,674	15,902
Home equity lines of credit	149	118	267	323	12,622	12,945
Construction and land	—	—	—	—	—	—
Qualitative	—	1,581	1,581	—	—	—
	$272	$ 20,459	$20,731	$942	$ 2,115,692	2,116,634

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

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

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

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring ("TDR"), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At September 30, 2015, we had $0.6 million of non-accrual loans, net of discounts, which included $0.2 million in troubled debt restructurings, for which there was a specific allowance of $0.2 million. At December 31, 2014, we had $4.9 million of non-accrual loans, net of discounts, which included $1.0 million in troubled debt restructurings, for which there was a specific allowance of $0.3 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2015 and 2014, were insignificant to the consolidated financial statements.

The tables below present loans that were individually evaluated for impairment by portfolio segment at September 30, 2015 and December 31, 2014, included the average recorded investment balance (in thousands):

	September 30, 2015					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$—	$ —	$ —	$ —	$ —	$ —
Consumer	23	—	21	21	2	24
Residential real estate	378	145	206	351	24	381
Commercial real estate	—	—	—	—	—	—
Home equity lines of credit	323	—	323	323	148	323
Construction and land	—	—	—	—	—	—
Total	$724	$ 145	$ 550	$ 695	$ 174	$ 728

	December 31, 2014					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$—	$ —	$ —	$ —	$ —	$ —
Consumer	13	—	13	13	13	15
Residential real estate	5,006	3,944	377	4,321	87	4,646
Commercial real estate	228	—	228	228	23	235
Home equity lines of credit	323	—	323	323	149	323

Construction and land	—	—	—	—	—	—
Total	$5,570	$ 3,944	$ 941	$ 4,885	$ 272	$ 5,219

The following table presents the aging of the recorded investment in past due loans at September 30, 2015 and December 31, 2014 by portfolio segment (in thousands):

	As of September 30, 2015				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	$—	$ —	$ —	$1,121,643	$1,121,643
Consumer	9	12	21	1,026,176	1,026,197
Residential real estate	2,103	23	2,126	258,832	260,958
Commercial real estate	—	—	—	19,811	19,811
Home equity lines of credit	—	—	—	11,260	11,260
Construction and land	—	—	—	2,474	2,474
Total	$2,112	$ 35	$ 2,147	$2,440,196	$2,442,343

	As of September 30, 2015 *		
	Non-accrual	Restructured	Total
Commercial and industrial	$—	$ —	$—
Consumer	21	—	21
Residential real estate	23	328	351
Commercial real estate	—	—	—
Home equity lines of credit	323	—	323
Construction and land	—	—	—
Total	$367	$ 328	$695

*There were no loans past due 90 days and still accruing interest at September 30, 2015.

	As of December 31, 2014				
	30 – 89 Days	90 or More	Total	Current	
	Past Due	Days Past Due	Past Due	Balance	Total
Commercial and industrial	$—	$ —	$—	$896,853	$896,853
Consumer	28	14	42	758,246	758,288
Residential real estate	6,603	4,834	11,437	421,209	432,646
Commercial real estate	—	—	—	15,902	15,902
Home equity lines of credit	—	—	—	12,945	12,945
Construction and land	—	—	—	—	—
Total	$6,631	$ 4,848	$11,479	$2,105,155	$2,116,634

	As of December 31, 2014*		
	Non-accrual	Restructured	Total
Commercial and industrial	$—	$ —	$—
Consumer	13	—	13
Residential real estate	4,321	504	4,825
Commercial real estate	228	—	228
Home equity lines of credit	323	—	323
Construction and land	—	—	—
Total	$4,885	$ 504	$5,389

*There were no loans past due 90 days and still accruing interest at December 31, 2014.

Credit quality indicators

As of September 30, 2015, bank loans were primarily extended to non-investment grade borrowers. Substantially all of these loans align with the U.S. Federal bank regulatory agencies' definition of Pass. Loans meet the definition of Pass when they are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss. A loan is determined to be impaired when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued (“non-accrual status”), and any accrued and unpaid interest income is reversed.

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At September 30, 2015 and December 31, 2014, 96.4 % and 95.8% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction. The Company uses the following definitions for risk ratings:

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

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

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

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

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

Portfolio segments:

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

Consumer. Consumer loans primarily include securities-based lending that allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through Stifel’s Pledged Asset ("SPA") program. The allowance methodology for securities-based lending considers the collateral type underlying the loan.

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

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

	As of September 30, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$1,108,067	$ 12,052	$ 1,524	$ —	$1,121,643
Consumer	1,026,176	—	21	—	1,026,197
Residential real estate	260,935	—	23	—	260,958
Commercial real estate	19,811	—	—	—	19,811
Home equity lines of credit	11,260	—	—	—	11,260
Construction and land	2,474	—	—	—	2,474
Total	$2,428,723	$ 12,052	$ 1,568	$ —	$2,442,343

	As of December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$896,853	$ —	$ —	$ —	$896,853
Consumer	758,246	28	14	—	758,288
Residential real estate	421,209	6,603	4,834	—	432,646
Commercial real estate	15,902	—	—	—	15,902
Home equity lines of credit	12,945	—	—	—	12,945
Construction and land	—	—	—	—	—
Total	$2,105,155	$ 6,631	$ 4,848	$ —	$2,116,634

NOTE 10 – Fixed Assets

The following is a summary of fixed assets as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Furniture and equipment	$238,315	$194,521
Building and leasehold improvements	155,528	124,390
Property on operating leases	21,164	—
	415,007	318,911
Less accumulated depreciation and amortization	(231,987)	(194,665)
	$183,020	$124,246

For the three months ended September 30, 2015 and 2014, depreciation and amortization of furniture and equipment, and leasehold improvements totaled $12.5 million and $7.4 million, respectively. For the nine months ended September 30, 2015 and 2014, depreciation and amortization of furniture and equipment, and leasehold improvements totaled $27.4 million and $21.7 million, respectively.

NOTE 11 – Goodwill and Intangible Assets

Our annual goodwill impairment testing was completed as of July 31, 2015, with no impairment identified.

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

	December 31, 2014	Net Additions	Impairment Losses	September 30, 2015
Goodwill				
Global Wealth Management	$177,171	$ 83,971	$ —	$ 261,142
Institutional Group	617,855	5,796	—	623,651
	$795,026	$ 89,767	$ —	$ 884,793

	December 31, 2014	Net Additions	Amortization	September 30, 2015
Intangible assets				
Global Wealth Management	$ 23,503	$ 9,868	$ (3,244)	$ 30,127
Institutional Group	31,060	—	(2,708)	28,352

$ 54,563	$ 9,868	$ (5,952)	$ 58,479

The additions to goodwill and intangible assets during the nine months ended September 30, 2015, are primarily attributable to the acquisition of Sterne Agee, which closed on June 5, 2015, and Merchant Capital, which closed on December 31, 2014. The allocation of the purchase price for these acquisitions is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of the acquisitions as of the respective acquisition dates and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from the preliminary estimate reflected herein. Goodwill for certain of our acquisitions is deductible for tax purposes.

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and non-compete agreements that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015		December 31, 2014	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Value	Amortization	Value	Amortization
Customer relationships	$71,649	$ 33,624	$63,661	$ 29,636
Trade name	23,303	6,426	21,423	5,322
Investment banking backlog	7,388	7,388	7,388	7,388
Core deposits	5,447	5,237	5,447	4,657
Non-compete agreements	1,484	235	1,484	120
	$109,271	$ 52,910	$99,403	$ 47,123

Amortization expense related to intangible assets was $1.9 million and $1.6 million for the three months ended September 30, 2015 and 2014, respectively. Amortization expense related to intangible assets was $6.0 million and $9.8 million for the nine months ended September 30, 2015 and 2014, respectively.

The weighted-average remaining lives of the following intangible assets at September 30, 2015, are: customer relationships, 7.2 years; core deposits, .3 years; trade name, 11.1 years; and non-compete agreements, 2.5 years. As of September 30, 2015, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
Remainder of 2015	$1,974
2016	6,639
2017	6,066
2018	5,578
2019	5,372
Thereafter	30,732
	$56,361

NOTE 12 – Borrowings

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

The following table details the components of borrowings (in thousands):

	September 30, 2015	December 31, 2014
Borrowings on secured lines of credit	$ 238,600	$ —
Federal Home Loan Bank advances	96,000	—
Term loans	63,738	—
	$ 398,338	$ —

Our uncommitted secured lines of credit at September 30, 2015, totaled $780.0 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 is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was $465.6 million during the nine months ended September 30, 2015. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are day-to-day and are generally utilized to finance certain fixed income securities. At September 30, 2015, our uncommitted secured lines of credit were collateralized by company-owned securities valued at $624.0 million.

Our committed bank line financing at September 30, 2015, consisted of a $100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.00%, as defined in the revolving credit facility. At September 30, 2015, we had no advances on our revolving credit facility and were in compliance with all covenants.

The Federal Home Loan advances as of September 30, 2015 are floating-rate advances. The weighted average interest rates during the three months ended September 30, 2015 on these advances is 0.28%. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

As of September 30, 2015, a subsidiary of the Parent was a party to two Term Loans ("Term Loans") with Regions Bank. The Term Loans mature on June 3, 2016. The interest rate under the Amended and Restated Credit Agreement is calculated as per annum rate equal to LIBOR, as defined. During the three months ended September 30, 2015, interest rates ranged from 1.68% to 1.72%.

NOTE 13 – Senior Notes

The following table summarizes our senior notes as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
6.70% senior notes, due 2022 [1]	$ —	$ 175,000
5.375% senior notes, due 2022 [2]	150,000	150,000
4.250% senior notes, due 2024 [3]	300,000	300,000
	$ 450,000	$ 625,000

[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 January 15, 2015, we redeemed 100% of our company's outstanding 6.70% senior notes.

[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 contractual terms:

2015	$—
2016	—
2017	—
2018	—
2019	—
Thereafter	450,000
	$450,000

NOTE 14 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015	December 31, 2014
Money market and savings accounts	$4,021,029	$4,600,757
Demand deposits (interest-bearing)	58,399	101,652
Certificates of deposit	24,198	77,197
Demand deposits (non-interest-bearing)	13,185	10,475
	$4,116,811	$4,790,081

The weighted-average interest rate on deposits was 0.17% and 0.19% at September 30, 2015 and December 31, 2014, respectively.

Scheduled maturities of certificates of deposit at September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015	December 31, 2014
Certificates of deposit, less than $100:		
Within one year	$ 7,597	$ 26,769
One to three years	2,614	6,874
Three to five years	332	1,268
Over five years	—	—
	$ 10,543	$ 34,911
Certificates of deposit, $100 and greater:		
Within one year	$ 11,139	$ 33,784
One to three years	1,733	7,520
Three to five years	783	723
Over five years	—	259
	13,655	42,286
	$ 24,198	$ 77,197

At September 30, 2015 and December 31, 2014, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of $4.1 billion and $4.7 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of $0.2 million and $0.3 million, respectively.

NOTE 15 – Derivative Instruments and Hedging Activities

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

The following table provides the notional values and fair values of our derivative instruments as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015				
		Asset Derivatives		Liability Derivatives	
	Notional Value	Balance Sheet Location	Positive Fair Value	Balance Sheet Location	Negative Fair Value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	$186,835	Other assets	$ —	Accounts payable and accrued expenses	$ (4,652)

	December 31, 2014				
		Asset Derivatives		Liability Derivatives	
	Notional Value	Balance Sheet Location	Positive Fair Value	Balance Sheet Location	Negative Fair Value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	$272,967	Other assets	$ —	Accounts payable and accrued expenses	$ (5,641)

Cash Flow Hedges

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

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. The loss recognized during the three and nine months ended September 30, 2015, related to ineffectiveness was insignificant.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that $2.4 million will be reclassified as an increase to interest expense.

The following table shows the effect of our company’s derivative instruments in the consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30, 2015				
		Location of		Location of	
	Gain/(Loss)	Loss	Loss	Loss	Loss
	Recognized in	Reclassified	Reclassified	Recognized in	Recognized
	OCI	From OCI	From OCI	OCI	Due to
	(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	$(1,418)	Interest expense	$ 853	None	$ —

	Three Months Ended September 30, 2014				
		Location of		Location of	
			Loss		
	Gain/(Loss)	Loss		Loss	Loss
			Reclassified		
	Recognized in	Reclassified		Recognized in	Recognized
			From OCI		
	OCI	From OCI		OCI	Due to
			Into		
	(Effectiveness)	Into Income	Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	$340	Interest expense	$ 1,461	None	$ —

	Nine Months Ended September 30, 2015				
		Location of		Location of	
	Gain/(Loss)	Loss	Loss	Loss	Loss
	Recognized in	Reclassified	Reclassified	Recognized in	Recognized
	OCI	From OCI	From OCI	OCI	Due to
	(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	$(2,816)	Interest expense	$ 3,060	None	$ —

	Nine Months Ended September 30, 2014				
		Location of		Location of	
	Gain/(Loss)	Loss	Loss	Loss	Loss
	Recognized in	Reclassified	Reclassified	Recognized in	Recognized
	OCI	From OCI	From OCI	OCI	Due to
	(Effectiveness)	Into Income	Into Income	(Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	$(1,318)	Interest expense	$ 4,728	None	$ —

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 5 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

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

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

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

Regulatory Capital-Related Contingency Features

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

As of September 30, 2015, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $4.7 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of $12.7 million against our obligations under these agreements. If we had breached any of these provisions at September 30, 2015, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

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

NOTE 16 – Debentures to Stifel Financial Capital Trusts

The following table summarizes our debentures to Stifel Financial Capital Trusts as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Debenture to Stifel Financial Capital Trust II [1]	$ 35,000	$ 35,000
Debenture to Stifel Financial Capital Trust III [2]	35,000	35,000
Debenture to Stifel Financial Capital Trust IV [3]	12,500	12,500
	$ 82,500	$ 82,500

[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.

[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 17 – Disclosures About Offsetting Assets and Liabilities

The following table provides information about financial assets and derivative assets that are subject to offset as of September 30, 2015 and December 31, 2014 (in thousands):

				Gross amounts not offset in the Statement of Financial Condition		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Financial Instruments	Collateral Received	Net Amount
As of September 30, 2015:						
Securities borrowing [1]	$ 333,348	$ —	$ 333,348	$ —	$ (323,125)	$ 10,223
Reverse repurchase agreements [2]	88,467	—	88,467	—	(88,467)	—
	$ 421,815	$ —	$ 421,815	$ —	$ (411,592)	$ 10,223
As of December 31, 2014:						
Securities borrowing [1]	$ 445,542	$ —	$ 445,542	$ —	$ (431,301)	$ 14,241
Reverse repurchase agreements [2]	55,078	—	55,078	—	(54,955)	123
	$ 500,620	$ —	$ 500,620	$ —	$ (486,256)	$ 14,364

[1] Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 3 in the notes to consolidated financial statements for additional information on receivables from brokers, dealers, and clearing organizations.

[2] Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of September 30, 2015 and December 31, 2014 (in thousands):

Gross
amounts not

				offset in the Statement of Financial Condition		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Financial Instruments	Collateral Pledged	Net Amount
As of September 30, 2015:						
Securities lending [3]	$ (47,495)	$ —	$ (47,495)	$—	$44,765	$ (2,730)
Repurchase agreements [4]	(106,937)	—	(106,937)	—	106,937	—
Cash flow interest rate contracts	(4,652)	—	(4,652)	—	4,652	—
	$ (159,084)	$ —	$ (159,084)	$—	$156,354	$ (2,730)
As of December 31, 2014:						
Securities lending [3]	$ (4,215)	$ —	$ (4,215)	$—	$3,892	$ (323)
Repurchase agreements [4]	(39,180)	—	(39,180)	—	39,089	(91)
Cash flow interest rate contracts	(5,641)	—	(5,641)	—	5,641	—
	$ (49,036)	$ —	$ (49,036)	$—	$48,622	$ (414)

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

[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 18 – Commitments, Guarantees, and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2015, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at $57.1 million to satisfy the minimum margin deposit requirement at September 30, 2015.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited $57.0 million in cash to satisfy the minimum margin deposit requirement at September 30, 2015.

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

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 23 in the notes to consolidated financial statements for further details.

We have committed capital to certain entities, and these commitments generally have no specified call dates. We had $26.7 million of commitments outstanding at September 30, 2015, of which $15.3 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, 2015 and December 31, 2014, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

NOTE 19 – Legal Proceedings

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

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

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

SEC/Wisconsin Lawsuit

We have previously disclosed the civil lawsuit filed against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action has been set for trial commencing on April 11, 2016 and 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.

EDC Bond Issuance Matter

We have previously disclosed the various claims asserted by LDF Acquisition LLC, a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively "Saybrook") and by the Lac Du Flambeau Band of Lake Superior Chippewa Indians and its Lake of the Torches Economic Development Corporation (the "Tribe") in which, among other things, Saybrook seeks repayment from the Tribe for the proceeds from a 2008 bond offering and in which the Tribe seeks to avoid repayment. The claims are not yet set for trial. 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 claims.

NOTE 20 – Regulatory Capital Requirements

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

At September 30, 2015, Stifel had net capital of $333.4 million, which was 50.6% of aggregate debit items and $320.2 million in excess of its minimum required net capital. At September 30, 2015, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries are subject to the regulatory supervision and requirements of the Financial Conduct Authority ("FCA") in the United Kingdom. At September 30, 2015, our international subsidiaries' capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

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

Effective January 1, 2015, our company and Stifel Bank became subject to Basel III. Under the Basel III rules, the quantity and quality of regulatory capital increases, a capital conservation buffer was established, selected changes were made to the calculation of risk-weighted assets, and a new ratio, common equity Tier 1 was introduced, all of which are applicable to both our company and Stifel Bank. Various aspects of Basel III will be subject to multi-year transition periods through December 31, 2018.

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

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

Stifel Financial Corp. – Federal Reserve Capital Amounts
September 30, 2015

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	$1,431,187	29.4 %	$219,095	4.5 %	$316,471	6.5 %
Tier 1 capital	1,431,187	29.4	292,127	6.0	389,502	8.0
Total capital	1,459,683	30.0	389,502	8.0	486,878	10.0
Tier 1 leverage	1,431,187	16.4	348,017	4.0	435,022	5.0

Stifel Bank – Federal Reserve Capital Amounts
September 30, 2015

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital	$368,273	14.8 %	112,148	4.5 %	161,992	6.5 %
Tier 1 capital	368,273	14.8	149,531	6.0	199,375	8.0
Total capital	395,980	15.9	199,375	8.0	249,218	10.0
Tier 1 leverage	368,273	7.6	193,442	4.0	241,802	5.0

NOTE 21 – Interest Income and Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Investment securities	$ 10,641	$ 16,976	$ 38,674	$ 54,500
Bank loans, net of unearned income	20,705	23,475	60,460	52,377
Margin balances	6,183	4,873	15,668	14,382
Other	5,847	6,772	15,162	19,776
	$ 43,376	$ 52,096	$ 129,964	$ 141,035
Interest expense:				
Senior notes	$ 5,408	$ 7,831	$ 19,364	$ 18,158
Bank deposits	1,783	1,743	5,945	5,438
Other	2,605	1,654	7,605	5,105
	$ 9,796	$ 11,228	$ 32,914	$ 28,701

NOTE 22 – Employee Incentive, Deferred Compensation, and Retirement Plans

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance award, stock units and debentures to our employees. We are permitted to issue new shares under all stock award plans approved by shareholders or to reissue our treasury shares. Awards under our company’s incentive stock award plans are granted at market value at the date of grant. The awards generally vest ratably over a 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 2.1 million shares at September 30, 2015.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was $29.6 million and $30.7 million for the three months ended September 30, 2015 and 2014, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was $3.8 million and $1.0 million for the three months ended September 30, 2015 and 2014, 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 $107.6 million and $79.2 million for the nine months ended September 30, 2015 and 2014, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was $17.0 million and $18.2 million for the nine months ended September 30, 2015 and 2014, respectively.

On June 5, 2015, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was $23.8 million. The fair value of the awards is based upon the closing price of our company's common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the three and nine months ended September 30, 2015.

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, 2015, no options were granted.

At September 30, 2015, 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, 2015 and 2014.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next one to eight years and are distributable, if vested, at future specified dates. At September 30, 2015, the total number of stock units outstanding was 18.3 million, of which 13.2 million were unvested.

At September 30, 2015, there was unrecognized compensation cost for stock units of $315.5 million, which is expected to be recognized over a weighted-average period of 2.7 years.

Deferred Compensation Plans

The Wealth Accumulation Plan (the "Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units and debentures. Participants may elect to defer a portion of their incentive compensation. Deferred awards generally vest over a 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 Plan allows Stifel Nicolaus' financial advisors who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the Plan, the financial advisors will defer 4%

of their gross commissions. They have the option to: 1) defer 4% of their gross commissions into company stock units with a 25% matching contribution and may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution, or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of $14.8 million and $18.1 million at September 30, 2015 and December 31, 2014, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At September 30, 2015 and December 31, 2014, the deferred compensation liability related to the mutual fund option of $11.9 million and $15.7 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

NOTE 23 – Off-Balance Sheet Credit Risk

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

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

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2015 and December 31, 2014, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $1.1 billion and $1.2 billion, respectively, and the fair value of the collateral that had been sold or repledged was $106.9 million and $39.2 million, respectively.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 15 in the notes to consolidated financial statements.

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

At September 30, 2015 and December 31, 2014, Stifel Bank had outstanding commitments to originate loans aggregating $178.0 million and $122.8 million, respectively. The commitments extended over varying periods of time, with all commitments at September 30, 2015, scheduled to be disbursed in the following three months.

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

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2015 and December 31, 2014, Stifel Bank had outstanding letters of credit totaling $10.2 million and $10.4 million, respectively. A majority of the standby letters of credit commitments at September 30, 2015, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2015 and December 31, 2014, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating $476.0 million and $368.7 million, respectively.

NOTE 24 – Segment Reporting

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

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

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

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

Information concerning operations in these segments of business for the three and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues: [1]				
Global Wealth Management	$ 357,306	$ 317,241	$ 1,030,097	$ 921,671
Institutional Group	232,125	215,160	729,269	720,849
Other	2,144	(8,946)	(9,058)	(12,172)
	$ 591,575	$ 523,455	$ 1,750,308	$ 1,630,348
Income/(loss) before income taxes:				
Global Wealth Management	$ 97,227	$ 94,026	$ 290,049	$ 262,800
Institutional Group	25,853	29,500	100,124	117,812
Other	(100,732)	(57,760)	(259,688)	(159,195)
	$ 22,348	$ 65,766	$ 130,485	$ 221,417

[1] No individual client accounted for more than 10 percent of total net revenues for the three and nine months ended September 30, 2015 or 2014.

The following table presents our company's total assets on a segment basis at September 30, 2015 and December 31, 2014 (in thousands):

	September 30,	December 31,
	2015	2014
Global Wealth Management	$ 5,719,140	$ 5,816,284
Institutional Group	3,418,526	3,476,592
Other	221,513	225,275
	$ 9,359,179	$ 9,518,151

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

Revenues, classified by the major geographic areas in which they are earned for the three and nine months ended September 30, 2015 and 2014, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
United States	$ 567,153	$ 491,860	$ 1,654,500	$ 1,532,196
United Kingdom	22,174	29,073	88,022	89,665
Other European	2,248	2,522	7,786	8,487

$ 591,575	$ 523,455	$ 1,750,308	$ 1,630,348

NOTE 25 – 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, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income from continuing operations	$ 17,179	$ 40,093	$ 81,164	$ 133,643
Loss from discontinued operations, net of tax	—	(190)	—	(2,757)
Net income	$ 17,179	$ 39,903	$ 81,164	$ 130,886
Shares for basic and diluted calculation:				
Average shares used in basic computation	69,633	66,691	68,675	66,344
Dilutive effect of stock options and units [(1)]	10,126	9,990	9,651	9,667
Average shares used in diluted computation	79,759	76,681	78,326	76,011
Earnings per basic common share:				
Income from continuing operations	$ 0.25	$ 0.60	$ 1.18	$ 2.01
Loss from discontinued operations	—	—	—	(0.04)
Earnings per basic common share	$ 0.25	$ 0.60	$ 1.18	$ 1.97
Earnings per diluted common share:				
Income from continuing operations	$ 0.22	$ 0.52	$ 1.04	$ 1.76
Loss from discontinued operations	—	—	—	(0.04)
Earnings per basic common share	$ 0.22	$ 0.52	$ 1.04	$ 1.72

[1] Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

For the three and nine months ended September 30, 2015 and 2014, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 26 – 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, 2015, the maximum number of shares that may yet be purchased under this plan was 2.1 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the three and nine months ended September 30, 2015, we repurchased $65.9 million, or 1.5 million shares, using existing Board authorizations at an average price of $45.17 per share to meet obligations under our company’s employee benefit plans and for general corporate purposes.

Issuance of Common Stock

On June 5, 2015, we issued 1.4 million shares related to the purchase of Sterne Agee Group, Inc. See Note 3 in the notes to consolidated financial statements for additional information regarding the acquisition.

NOTE 27 – Variable Interest Entities

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

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies (“LLCs”) or limited partnerships. These partnerships and LLCs have assets of $278.5 million at September 30, 2015. For those funds where we act as the general partner, our company’s economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2015 and 2014. In addition, our direct investment interest in these entities is insignificant at September 30, 2015 and December 31, 2014.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of $271.5 million at September 30, 2015. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at September 30, 2015. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2015 and 2014.

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

Debenture to Stifel Financial Capital Trusts

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

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

Interest in FSI Group, LLC ("FSI")

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

Our company’s exposure to loss is limited to the carrying value of the note with FSI at September 30, 2015, of $18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at September 30, 2015. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of September 30, 2015. Our company’s involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 28 – 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 non-recognized subsequent event:

Share Repurchase

We have an ongoing authorization, as amended, from the Board to repurchase our common stock in the open market or in negotiated transactions. On November 3, 2015, the Board authorized the repurchase of an additional 5.0 million shares. The share repurchase program will manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans.

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, 2014, 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, 2014, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.stifel.com and at the SEC web site at www.sec.gov.

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

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

Executive Summary

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

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

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

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

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

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

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

On June 8, 2015, we entered into a definitive purchase agreement to acquire Barclays' Wealth and Investment Management, Americas franchise in the U.S. The transaction is expected to close in the fourth quarter of 2015.

Results for the three and nine months ended September 30, 2015

For the three months ended September 30, 2015, net revenues from continuing operations increased 13.0% to $591.6 million compared to $523.5 million during the comparable period in 2014. Net income, including continuing and discontinued operations, decreased 56.9% to $17.2 million, or $0.22 per diluted common share for the three months ended September 30, 2015, compared to $39.9 million, or $0.52 per diluted common share during the comparable period in 2014. Net income from continuing operations decreased 57.2% to $17.2 million, or $0.22 per diluted common share for the three months ended September 30, 2015 compared to $40.1 million, or $0.52 per diluted common share during the comparable period in 2014.

For the nine months ended September 30, 2015, net revenues from continued operations increased 7.4% to $1,750.3 million compared to $1,630.3 million during the comparable period in 2014. Net income, including continuing and discontinued operations, decreased 38.0% to $81.2 million, or $1.04 per diluted common share for the nine months ended September 30, 2015, compared to $130.9 million, or $1.72 per diluted common share during the comparable period in 2014. Net income from continuing operations decreased 39.3% to $81.2 million, or $1.04 per diluted common share for the nine months ended September 30, 2015 compared to $133.6 million, or $1.76 per diluted common share during the comparable period in 2014.

Our revenue growth for the three months ended September 30, 2015 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; higher commission revenues; and an increase in other revenues, offset by lower net interest income.

Our revenue growth for the nine months ended September 30, 2015 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; higher commission revenues; an increase in other revenues; and a growth in investment banking revenues, offset by a decline in principal transaction revenues and lower net interest income.

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, 2015, the key indicators of the markets' performance, the Dow Jones Industrial Average and S&P 500 closed (4.4%) and (2.6%) lower than their September 30, 2014 closing prices, respectively and the NASDAQ closed 2.8% higher than their September 30, 2014 closing price.

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

RESULTS OF OPERATIONS

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

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

	Three Months Ended September 30,		%	As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2015	2014	Change	2015	2014
Revenues:					
Commissions	$194,083	$167,601	15.8	32.8 %	32.0 %
Principal transactions	95,593	94,828	0.8	16.2	18.1
Investment banking	118,753	118,717	*	20.1	22.7
Asset management and service fees	130,636	96,638	35.2	22.1	18.5
Interest	43,376	52,096	(16.7)	7.3	9.9
Other income	18,930	4,803	294.1	3.2	0.9
Total revenues	601,371	534,683	12.5	101.7	102.1
Interest expense	9,796	11,228	(12.8)	1.7	2.1
Net revenues	591,575	523,455	13.0	100.0	100.0
Non-interest expenses:					
Compensation and benefits	404,205	331,440	22.0	68.3	63.3
Occupancy and equipment rental	53,282	41,611	28.0	9.0	8.0
Communication and office supplies	35,678	27,464	29.9	6.0	5.2
Commissions and floor brokerage	12,430	9,971	24.7	2.1	2.0
Other operating expenses	63,632	47,203	34.8	10.8	9.0
Total non-interest expenses	569,227	457,689	24.4	96.2	87.5
Income before income taxes	22,348	65,766	(66.0)	3.8	12.6
Provision for income taxes	5,169	25,673	(79.9)	0.9	4.9
Income from continuing operations	17,179	40,093	(57.2)	2.9	7.7
Discontinued operations:					
Loss from discontinued operations, net of tax	—	(190)	—	—	—
Net Income	$17,179	$39,903	(56.9)	2.9 %	7.7 %

*Percentage not meaningful.

Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

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

	Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
			%		
	2015	2014	Change	2015	2014
Revenues:					
Commissions	$562,249	$510,070	10.2	32.1%	31.3%
Principal transactions	281,794	318,312	(11.5)	16.1	19.5
Investment banking	400,302	390,848	2.4	22.9	24.0
Asset management and service fees	364,442	280,039	30.1	20.8	17.2
Interest	129,964	141,035	(7.8)	7.4	8.7
Other income	44,471	18,745	137.2	2.6	1.1
Total revenues	1,783,222	1,659,049	7.5	101.9	101.8
Interest expense	32,914	28,701	14.7	1.9	1.8
Net revenues	1,750,308	1,630,348	7.4	100.0	100.0
Non-interest expenses:					
Compensation and benefits	1,169,896	1,033,478	13.2	66.8	63.4
Occupancy and equipment rental	145,798	125,110	16.5	8.3	7.7
Communication and office supplies	96,026	78,151	22.9	5.5	4.8
Commissions and floor brokerage	31,623	28,247	12.0	1.8	1.7
Other operating expenses	176,480	143,945	22.6	10.1	8.8
Total non-interest expenses	1,619,823	1,408,931	15.0	92.5	86.4
Income before income taxes	130,485	221,417	(41.1)	7.5	13.6
Provision for income taxes	49,321	87,774	(43.8)	2.8	5.4
Income from continuing operations	81,164	133,643	(39.3)	4.7	8.2
Discontinued operations:					
Loss from discontinued operations, net of tax	—	(2,757)	—	—	(0.2)
Net Income	$81,164	$130,886	(38.0)	4.7%	8.0%

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,

			%			%
	2015	2014	Change	2015	2014	Change
Net revenues:						
Commissions	$194,083	$167,601	15.8	$562,249	$510,070	10.2
Principal transactions	95,593	94,828	0.8	281,794	318,312	(11.5)
Investment banking:						
Capital raising	68,997	67,778	1.8	237,465	220,780	7.6
Advisory fees	49,756	50,939	(2.3)	162,837	170,068	(4.3)
	118,753	118,717	*	400,302	390,848	2.4
Asset management and service fees	130,636	96,638	35.2	364,442	280,039	30.1
Net interest	33,580	40,868	(17.8)	97,050	112,334	(13.6)
Other income	18,930	4,803	294.1	44,471	18,745	137.2
Total net revenues	$591,575	$523,455	13.0	$1,750,308	$1,630,348	7.4

*Percentage not meaningful.

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, 2015, commission revenues increased 15.8% to $194.1 million from $167.6 million in the comparable period in 2014. The increase is primarily attributable to an increase in agency transactions from the comparable period in 2014.

For the nine months ended September 30, 2015, commission revenues increased 10.2% to $562.2 million from $510.1 million in the comparable period in 2014. The increase is primarily attributable to an increase in agency transactions from the comparable period in 2014.

Principal transactions – For the three months ended September 30, 2015, principal transactions revenues increased 0.8% to $95.6 million from $94.8 million in the comparable period in 2014. The decrease is primarily attributable to a decrease in fixed income institutional brokerage revenues as a result of lower trading volumes.

For the nine months ended September 30, 2015, principal transactions revenues decreased 11.5% to $281.8 million from $318.3 million in the comparable period in 2014. The decrease is primarily attributable to a decrease in fixed income institutional brokerage revenues as a result of lower trading volumes.

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

For the three months ended September 30, 2015, investment banking revenues remained consistent with the comparable period in 2014 at $118.8 million.

Capital raising revenues increased 1.8% to $69.0 million for the three months ended September 30, 2015 from $67.8 million in the comparable period in 2014. For the three months ended September 30, 2015, fixed income capital raising revenues increased 101.7% to $32.4 million from $16.1 million in the comparable period in 2014. During the third quarter of 2015, equity capital raising revenues decreased 29.2% to $36.6 million from $51.7 million in the comparable period in 2014.

For the nine months ended September 30, 2015, investment banking revenues increased 2.4%, to $400.3 million from $390.8 million in the comparable period in 2014.

Capital raising revenues increased 7.6% to $237.5 million for the nine months ended September 30, 2015 from $220.8 million in the comparable period in 2014. For the nine months ended September 30, 2015, fixed income capital raising revenues increased 97.8% to $100.5 million from $50.8 million in the comparable period in 2014. During the nine months ended September 30, 2015, equity capital raising revenues decreased 19.4% to $137.0 million from $170.0 million in the comparable period in 2014.

Advisory fee revenues decreased 2.3% to $49.8 million for the three months ended September 30, 2015 from $50.9 million in the comparable period in 2014. Advisory fee revenues decreased 4.3% to $162.8 million for the nine months ended September 30, 2015 from $170.1 million in the comparable period in 2014. The decrease is primarily attributable to a decrease in the number of advisory transactions over the comparable period in 2014.

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

For the three months ended September 30, 2015, asset management and service fee revenues increased 35.2% to $130.6 million from $96.6 million in the comparable period in 2014. For the nine months ended September 30, 2015, asset management and service fee revenues increased 30.1% to $364.4 million from $280.0 million in the comparable period in 2014. 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, 2015, other income increased 294.1% to $18.9 million from $4.8 million during the comparable period in 2014. For the nine months ended September 30, 2015, other income increased 137.2% to $44.5 million from $18.7 million during the comparable period in 2014. Other income primarily includes gain on the sale of a portion of the Acacia loan portfolio and loan originations fees from Stifel Bank.

NET INTEREST INCOME

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

	Three Months Ended					
	September 30, 2015			September 30, 2014		
		Interest	Average		Interest	Average
	Average	Income/	Interest	Average	Income/	Interest
	Balance	Expense	Rate	Balance	Expense	Rate
Interest-earning assets:						
Margin balances	$678,157	$6,183	3.65 %	$483,425	$4,873	4.03 %
Interest-earning assets (Stifel Bank)	4,754,951	31,590	2.66 %	5,023,574	40,611	3.24 %
Financial instruments owned	878,895	5,120	2.33 %	991,868	5,817	2.35 %
Other		483			795	
Total interest revenue		$43,376			$52,096	
Interest-bearing liabilities:						
Short-term borrowings	$155,568	$451	1.16 %	$29,176	$321	1.10 %
Interest-bearing liabilities (Stifel Bank)	4,362,543	1,783	0.16 %	4,688,383	1,743	0.15 %
Senior notes (Stifel Financial)	450,000	5,408	4.81 %	566,304	7,831	5.53 %
Stifel Capital Trusts	82,500	436	2.11 %	82,500	425	2.06 %
Other		1,718			908	
Total interest expense		9,796			11,228	
Net interest income		$33,580			$40,868	

	Nine Months Ended					
	September 30, 2015			September 30, 2014		
		Interest	Average		Interest	Average
	Average	Income/	Interest	Average	Income/	Interest
	Balance	Expense	Rate	Balance	Expense	Rate
Interest-earning assets:						
Margin balances	$672,511	$15,668	3.11 %	$483,895	$14,382	3.96 %
Interest-earning assets (Stifel Bank)	5,019,080	99,797	2.65 %	4,944,799	107,291	2.90 %
Financial instruments owned	799,826	13,512	2.25 %	876,674	16,456	2.50 %
Other		987			2,906	
Total interest revenue		$129,964			$141,035	
Interest-bearing liabilities:						
Short-term borrowings	$115,822	$740	1.20 %	$126,130	$1,413	1.12 %
Interest-bearing liabilities (Stifel Bank)	4,614,064	5,945	0.17 %	4,579,257	5,438	0.16 %
Senior notes (Stifel Financial)	477,222	19,364	5.41 %	404,836	18,158	5.98 %
Stifel Capital Trusts	82,500	1,286	2.08 %	82,500	1,268	2.05 %
Other		5,579			2,424	

Total interest expense	32,914	28,701
Net interest income	$97,050	$112,334

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, 2015, net interest income decreased to $33.6 million from $40.9 million during the comparable period in 2014. For the nine months ended September 30, 2015, net interest income decreased to $97.1 million from $112.3 million during the comparable period in 2014.

For the three months ended September 30, 2015, interest revenue decreased 16.7% to $43.4 million from $52.1 million in the comparable period in 2014, principally as a result of a decrease in interest revenue generated from the interest-earning assets of Stifel Bank and a decrease in other interest income and higher margin interest. The average interest-earning assets of Stifel Bank decreased to $4.8 billion during the three months ended September 30, 2015 compared to $5.0 billion during the comparable period in 2014 at average interest rates of 2.66% and 3.24%, respectively.

For the nine months ended September 30, 2015, interest revenue decreased 7.8% to $130.0 million from $141.0 million in the comparable period in 2014, principally as a result of decrease in interest revenue generated from the interest-earning assets of Stifel Bank and a decrease in other interest income and higher margin interest. The average interest-earning assets of Stifel Bank increased to $5.0 billion during the nine months ended September 30, 2015 compared to $4.9 billion during the comparable period in 2014 at average interest rates of 2.65% and 2.90%, respectively.

For the three months ended September 30, 2015, interest expense decreased 12.8% to $9.8 million from $11.2 million during the comparable period in 2014. The decrease is primarily attributable to the redemption of our $175.0 million 6.70% senior notes in January 2015, offset by interest expense associated with our July 2014 issuance of $300.0 million of 4.250% senior notes.

For the nine months ended September 30, 2015, interest expense increased 14.7% to $32.9 million from $28.7 million during the comparable period in 2014. The increase is primarily attributable to interest expense associated with our July 2014 issuance of $300.0 million of 4.250% senior notes, offset by the redemption of our $175.0 million 6.70% senior notes in January 2015.

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,		
	2015	2014	% Change	2015	2014	% Change
Non-interest expenses:						
Compensation and benefits	$404,205	$331,440	22.0	$1,169,896	$1,033,478	13.2
Occupancy and equipment rental	53,282	41,611	28.0	145,798	125,110	16.5
Communications and office supplies	35,678	27,464	29.9	96,026	78,151	22.9
Commissions and floor brokerage	12,430	9,971	24.7	31,623	28,247	12.0
Other operating expenses	63,632	47,203	34.8	176,480	143,945	22.6
Total non-interest expenses	$569,227	$457,689	24.4	$1,619,823	$1,408,931	15.0

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

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

For the three months ended September 30, 2015, compensation and benefits expense increased 22.0% to $404.2 million from $331.4 million during the comparable period in 2014. For the nine months ended September 30, 2015, compensation and benefits expense increased 13.2% to $1,169.9 million from $1,033.5 million during the comparable period in 2014. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production; and 2) an increase in fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 68.3% and 66.8% for the three and nine months ended September 30, 2015, respectively, compared to 63.3% and 63.4% for the three and nine months ended September 30, 2014, 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 $28.9 million (4.9% of net revenues) and $84.1 million (4.8% of net revenues) for the three and nine months ended September 30, 2015, respectively, compared to $27.1 million (5.2% of net revenues) and $77.4 million (4.8% of net revenues) for the comparable periods in 2014, respectively. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental – For the three months ended September 30, 2015, occupancy and equipment rental expense increased 28.0% to $53.3 million from $41.6 million during the three months ended September 30, 2014. For the nine months ended September 30, 2015, occupancy and equipment rental expense increased 16.5% to $145.8 million from $125.1 million during the nine months ended September 30, 2014. The increase is primarily due to the increase in rent expense as a result of the growth of our office locations from the comparative period in 2014. As of September 30, 2015, we have 391 locations compared to 368 at September 30, 2014.

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, 2015, communications and office supplies expense increased 29.9% to $35.7 million from $27.5 million during the third quarter of 2014. For the nine months ended September 30, 2015, communications and office supplies expense increased 22.9% to $96.0 million from $78.2 million during the nine months ended September 30, 2014. The increase is primarily attributable to our continued expansion and the addition of revenue producers and support staff through acquisitions.

Commissions and floor brokerage – For the three months ended September 30, 2015, commissions and floor brokerage expense increased 24.7% to $12.4 million from $10.0 million during the comparable period in 2014. For the nine months ended September 30, 2015, commissions and floor brokerage expense increased 12.0% to $31.6 million from $28.2 million during the comparable period in 2014. The increase is primarily attributable to an increase in clearing fees as a result of an increase in volume of transactions.

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, 2015, other operating expenses increased 34.8% to $63.6 million from $47.2 million during the three months ended September 30, 2014. For the nine months ended September 30, 2015, other operating expenses increased 22.6% to $176.5 million from $143.9 million during the nine months ended September 30, 2014. The increase is primarily attributable to an increase in professional service fees as a result of maintaining compliance with regulatory requirements, travel and promotion, and subscriptions expenses.

Provision for income taxes – For the three and nine months ended September 30, 2015, our provision for income taxes was $5.2 million and $49.3 million, representing an effective tax rate of 23.1% and 37.8%, respectively, compared to $25.7 million and $87.8 million for the comparable periods in 2014, representing an effective tax rate of 39.0% and 39.6%, respectively. The effective tax rate for the third quarter of 2015 was positively impacted by a decrease in the Company’s FIN 48 reserve and adjustments associated with the filing of the 2014 Corporate tax return.

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.

Results of Operations – Global Wealth Management

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

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

	Three Months Ended September 30,		%	As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2015	2014	Change	2015	2014
Revenues:					
Commissions	$134,476	$113,177	18.8	37.6%	35.7%
Principal transactions	34,843	44,373	(21.5)	9.8	13.9
Asset management and service fees	129,032	96,354	33.9	36.1	30.4
Investment banking	10,146	13,488	(24.8)	2.8	4.3
Interest	39,214	46,051	(14.8)	11.0	14.5
Other income	12,483	6,492	92.3	3.5	2.0
Total revenues	360,194	319,935	12.6		