BLACK HILLS CORP /SD/
Form 10-Q
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009.

OR

o 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 001-31303

Black Hills Corporation
Incorporated in South Dakota IRS Identification Number 46-0458824
625 Ninth Street
Rapid City, South Dakota 57701

Registrant s telephone number (605) 721-1700

Former name, former address, and former fiscal year if changed since last report
NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 o 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	o
Non-accelerated filer	o	Smaller reporting company	o

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

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

Class	Outstanding at April 30, 2009
Common stock, $1.00 par value	38,798,483 shares

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GLOSSARY OF TERMS AND ABBREVIATIONS

The following terms and abbreviations appear in the text of this report and have the definitions described below:

Acquisition Facility	Our $1.0 billion single-draw, senior unsecured facility from which a $383 million draw was used to provide part of the funding for our Aquila Transaction
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ARB	Accounting Research Bulletin
ARB 51	ARB 51 Consolidated Financial Statements
Aquila	Aquila, Inc.
Aquila Transaction	Our July 14, 2008 acquisition of Aquila s regulated electric utility in Colorado and its regulated gas utilities in Colorado, Kansas, Nebraska and Iowa
Bbl	Barrel
BHCRPP	Black Hills Corporation Risk Policies and Procedures
BHEP	Black Hills Exploration and Production, Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, a direct wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Energy	The name used to conduct the business activities of Black Hills Utility Holdings, including the gas and electric utility properties acquired from Aquila
Black Hills Non-regulated Holdings	Black Hills Non-regulated Holdings, LLC, a direct, wholly-owned subsidiary of the Company that was formerly known as Black Hills Energy, Inc.
Black Hills Power	Black Hills Power, Inc., a direct, wholly-owned subsidiary of the Company
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of the Company formed to acquire and own the utility properties acquired from Aquila, all which are now doing business as Black Hills Energy
Black Hills Wyoming	Black Hills Wyoming, Inc., a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of the Company
Cheyenne Light Pension Plan	The Cheyenne Light, Fuel and Power Company Pension Plan
Colorado Electric	Black Hills Colorado Electric Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado electric utility properties acquired from Aquila
Colorado Gas	Black Hills Colorado Gas Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado gas utility properties acquired from Aquila
CPUC	Colorado Public Utilities Commission
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
EITF	Emerging Issues Task Force

EITF 02-3	EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities
EITF 87-24	EITF Issue No. 87-24, Allocation of Interest to Discontinued Operations
EITF 99-2	EITF Issue No. 99-2, Accounting for Weather Derivatives
Enserco	Enserco Energy Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretations
FIN 39	FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts an Interpretation of APB Opinion No. 10 and FASB Statement No. 105
FIN 46(R)	FIN 46-(R), Consolidation of Variable Interest Entities (Revised December 2003) an interpretation of ARB No. 51
FIN 48	FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109
FSP	FASB Staff Position
FSP FAS 107-1	FSP FAS 107-1, Interim Disclosure About Fair Value of Financial Instruments
FSP FAS 132(R)-1	FSP FAS 132(R)-1, Employer s Disclosures about Pensions and Other Postretirement Benefits (Revised)
FSP FAS 157-2	FSP FAS 157-2, Effective Date of FASB Statement No. 157
FSP FAS 157-4	FSP FAS 157-4, Determining Whether a Market is Not Active and a Transaction is Not Distressed
FSP FIN 39-1	FSP FIN 39-1, Amendment of FASB Interpretation No. 39
GAAP	Generally Accepted Accounting Principles
GE	GE Packaged Power, Inc.
Hastings	Hastings Funds Management Ltd
IIF	IIF BH Investment LLC, a subsidiary of an investment entity advised by JPMorgan Asset Management
Iowa Gas	Black Hills Iowa Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Iowa gas utility properties acquired from Aquila
IPP	Independent Power Production
IPP Transaction	Our July 11, 2008 sale of seven of our IPP plants to affiliates of Hastings and IIF
IUB	Iowa Utilities Board
Kansas Gas	Black Hills Kansas Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Kansas gas utility properties acquired from Aquila
KCC	Kansas Corporation Commission
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	One thousand cubic feet
Mcfe	One thousand cubic feet equivalent
MDU	MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska

MMBtu	One million British thermal units
MW	Megawatt
MWh	Megawatt-hour
Nebraska Gas	Black Hills Nebraska Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Nebraska gas utility properties acquired from Aquila
NPA	Nebraska Public Advocate
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
PGA	Purchase Gas Adjustment
SEC	United States Securities and Exchange Commission
SEC Release No. 33-8995	SEC Release No. 33-8995, Modernization of Oil and Gas Reporting
SFAS	Statement of Financial Accounting Standards
SFAS 71	SFAS 71, Accounting for the Effects of Certain Types of Regulation
SFAS 133	SFAS 133, Accounting for Derivative Instruments and Hedging Activities
SFAS 141(R)	SFAS 141(R), Business Combinations
SFAS 142	SFAS 142, Goodwill and Other Intangible Assets
SFAS 144	SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets
SFAS 157	SFAS 157, Fair Value Measurements
SFAS 160	SFAS 160, Non-controlling Interest in Consolidated Financial Statements an amendment of ARB No. 51
SFAS 161	SFAS 161, Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings, LLC

BLACK HILLS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended March 31,	
	2009	2008
	(in thousands, except per share amounts)	
Operating revenues	$ 437,943	$ 152,
Operating expenses:		
Fuel and purchased power	261,020	52,3
Operations and maintenance	39,335	21,9
Gain on sale of assets	(25,971)	
Administrative and general	41,766	24,0
Depreciation, depletion and amortization	33,325	19,3
Taxes, other than income taxes	11,698	9,50
Impairment of long-lived assets	43,301	
	404,474	127,

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restricted stock units and restricted stock awards outstanding was 16.4 million, of which 12.8 million were unvested. At June 30, 2018, the total number of PRSUs was 0.6 million, of which all were unvested.

At June 30, 2018, there was unrecognized compensation cost for stock units of approximately $299.7 million, which is expected to be recognized over a weighted-average period of 3.1 years.

Deferred Compensation Plans

The Plan is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units and debentures. Participants may elect to defer a portion of their incentive compensation. Deferred awards generally vest over a one- to ten-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's 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 5% of their gross commissions. The mandatory deferral will be split evenly between company restricted stock units and a company fixed-rate cash debenture. They have the option to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution.

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

Profit Sharing Plan

Eligible employees of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the "401(k) Plan"). Employees are permitted within limitations imposed by tax law to make pre-tax contributions to the 401(k) Plan. We may match certain employee contributions or make additional contributions to the 401(k) Plan at our discretion. Our contributions to the 401(k) Plan were $6.3 million and $3.3 million for the three months ended June 30, 2018 and 2017, respectively and $6.7 million and $3.7 million for the six months ended June 30, 2018 and 2017, respectively.

NOTE 20 – 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 two 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 June 30, 2018 and December 31, 2017, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $2.6 billion and $2.4 billion, respectively, and the fair value of the collateral that had been sold or repledged was $514.3 million and $233.7 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 12 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 June 30, 2018 and December 31, 2017, Stifel Bank had outstanding commitments to originate loans aggregating $210.3 million and $160.2 million, respectively. The commitments extended over varying periods of time, with all commitments at June 30, 2018, 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 June 30, 2018 and December 31, 2017, Stifel Bank had outstanding letters of credit totaling $18.5 million and $82.5 million, respectively. A majority of the standby letters of credit commitments at June 30, 2018, 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 June 30, 2018 and December 31, 2017, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating $695.5 million and $590.5 million, respectively.

NOTE 21 – 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, amortization of stock-based awards, 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 six months ended June 30, 2018 and 2017 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues: [1]				
Global Wealth Management	$497,327	$451,990	$982,902	$894,722
Institutional Group	252,825	276,153	522,903	513,620
Other	(7,420)	(2,496)	(12,715)	(7,164)
	$742,732	$725,647	$1,493,090	$1,401,178
Income/(loss) before income taxes:				
Global Wealth Management	$187,895	$153,237	$364,666	$295,289
Institutional Group	36,024	52,892	80,594	92,764
Other	(105,572)	(122,931)	(207,359)	(225,836)
	$118,347	$83,198	$237,901	$162,217

[1] No individual client accounted for more than 10 percent of total net revenues for the three and six months ended June 30, 2018 or 2017.

The following table presents our company’s total assets on a segment basis at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31,

		2017
Global Wealth Management	$18,726,316	$17,717,617
Institutional Group	3,508,068	3,313,304
Other	373,785	353,032
	$22,608,169	$21,383,953

We have operations in the United States, United Kingdom, Europe, and Asia. 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 six months ended June 30, 2018 and 2017, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States	$703,225	$689,756	$1,409,293	$1,337,494
United Kingdom	35,301	32,771	76,859	57,290
Other	4,206	3,120	6,938	6,394
	$742,732	$725,647	$1,493,090	$1,401,178

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NOTE 22 – 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 six months ended June 30, 2018 and 2017 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$87,287	$52,811	$176,048	$118,323
Preferred dividends	2,344	2,344	4,688	4,688
Net income available to common shareholders	$84,943	$50,467	$171,360	$113,635
Shares for basic and diluted calculation:				
Average shares used in basic computation	71,692	68,556	71,843	68,471
Dilutive effect of stock options and units [(1)]	9,607	11,465	9,705	11,920
Average shares used in diluted computation	81,299	80,021	81,548	80,391
Earnings per common share:				
Basic	$1.18	$0.74	$2.39	$1.66
Diluted	$1.04	$0.63	$2.10	$1.41

(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.

For the three and six months ended June 30, 2018 and 2017, the anti-dilutive effect from restricted stock units was immaterial.

Cash Dividends

During the three and six months ended June 30, 2018, we declared and paid cash dividends of $0.12 and $0.24 per common share. There were no dividends declared or paid during the six months ended June 30, 2017.

NOTE 23 – 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 June 30, 2018, the maximum number of shares that may yet be purchased under this plan was 6.3 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 months ended June 30, 2018, we repurchased $43.0 million, or 0.8 million shares using existing Board authorizations at an average price of $56.28 per share to meet obligations under our company's employee benefit plans and for general corporate purposes. During the six months ended June 30, 2018, we repurchased $45.9 million, or 0.8 million shares using existing Board authorizations at an average price of $56.32 per share to meet obligations under our company's employee benefit plans and for general corporate purposes. During the three and six months ended June 30, 2017, we repurchased $13.0 million, or 0.3 million shares using existing Board authorizations at an average price of $43.83 per share to meet obligations under our company's employee benefit plans and for general corporate purposes.

Issuance of Common Stock

During the six months ended June 30, 2018, we issued 1.7 million shares, of which 0.4 million shares were reissued from treasury. Share issuances were primarily a result of the vesting and exercise transactions under our incentive stock award plans.

NOTE 24 – 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 $221.7 million at June 30, 2018. 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 six months ended June 30, 2018 and 2017. In addition, our direct investment interest in these entities is insignificant at June 30, 2018 and December 31, 2017.

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 $285.6 million at June 30, 2018. 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 June 30, 2018. Management fee revenue earned by our company was insignificant during the three and six months ended June 30, 2018 and 2017.

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.

NOTE 25 – 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 did not identify any recognized subsequent events that would have required adjustment to the consolidated financial statements.

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, 2017, 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, 2017, 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 r 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.

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

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On May 10, 2018, the Company entered into a definitive agreement with Business Bancshares, Inc. to acquire Business Bancshares, Inc. and its wholly owned subsidiary, The Business Bank of St. Louis, which operates a full-service banking facility from a single location. Business Bancshares, Inc. has, on a consolidated basis with its subsidiaries, approximately $620 million in total assets, $516 million of loans, $536 million of total deposits, and $70 million of tangible equity. The acquisition is expected to close in the third quarter of 2018.

Results for the three and six months ended June 30, 2018

For the three months ended June 30, 2018, net revenues increased 2.4% to $742.7 million from $725.6 million during the comparable period in 2017. Net income available to common shareholders increased 68.3% to $84.9 million, or $1.04 per diluted common share for the three months ended June 30, 2018, compared to $50.5 million, or $0.63 per diluted common share during the comparable period in 2017.

For the six months ended June 30, 2018, net revenues increased 6.6% to $1.5 billion compared to $1.4 billion during the comparable period in 2017. Net income available to common shareholders increased 50.8% to $171.4 million, or $2.10 per diluted common share for the six months ended June 30, 2018, compared to $113.6 million, or $1.41 per diluted common share during the comparable period in 2017.

Our revenue growth for the three and six months ended June 30, 2018 was primarily attributable to the growth in asset management and service fees as a result of increased assets under management; higher net interest income as a result of an increase in interest-earning assets at Stifel Bank and an increase in advisory fees; partially offset by a decrease in brokerage revenues and capital raising revenues.

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 June 30, 2018, the NASDAQ and S&P 500 closed 8.8% and 1.7% higher than their December 31, 2017 closing prices, respectively. At June 30, 2018, the Dow Jones

Industrial Average closed 1.8% lower than its December 31, 2017 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.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2018 Compared with Three Months Ended June 30, 2017

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

	Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2018	2017	% Change	2018	2017
Revenues:					
Commissions	$166,902	$172,264	(3.1)	22.5 %	23.7 %
Principal transactions	88,984	95,703	(7.0)	12.0	13.2
Brokerage revenues	255,886	267,967	(4.5)	34.5	36.9
Investment banking	161,063	185,261	(13.1)	21.7	25.5
Asset management and service fees	199,568	172,914	15.4	26.9	23.8
Interest	154,421	108,951	41.7	20.8	15.0
Other income	9,073	7,198	26.0	1.1	1.1
Total revenues	780,011	742,291	5.1	105.0	102.3
Interest expense	37,279	16,644	124.0	5.0	2.3
Net revenues	742,732	725,647	2.4	100.0	100.0
Non-interest expenses:					
Compensation and benefits	442,170	453,876	(2.6)	59.5	62.5
Occupancy and equipment rental	53,596	57,892	(7.4)	7.2	8.0
Communication and office supplies	36,639	34,192	7.2	4.9	4.7
Commissions and floor brokerage	10,095	11,232	(10.1)	1.4	1.5
Other operating expenses	81,885	85,257	(4.0)	11.0	11.8
Total non-interest expenses	624,385	642,449	(2.8)	84.0	88.5
Income before income taxes	118,347	83,198	42.2	16.0	11.5
Provision for income taxes	31,060	30,387	2.2	4.2	4.2
Net Income	87,287	52,811	65.3	11.8	7.3
Preferred dividends	2,344	2,344	—	0.3	0.3
Net income available to common shareholders	$84,943	$50,467	68.3	11.5 %	7.0 %

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Six Months Ended June 30, 2018 Compared with Six Months Ended June 30, 2017

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2018	2017	% Change	2018	2017
Revenues:					
Commissions	$332,677	$347,538	(4.3)	22.3 %	24.8 %
Principal transactions	186,766	212,560	(12.1)	12.5	15.2
Brokerage revenues	519,443	560,098	(7.3)	34.8	40.0
Investment banking	337,425	312,113	8.1	22.6	22.3
Asset management and service fees	395,369	335,653	17.8	26.5	24.0
Interest	292,155	209,904	39.2	19.6	15.0
Other income	12,430	15,950	(22.1)	0.8	1.0
Total revenues	1,556,822	1,433,718	8.6	104.3	102.3
Interest expense	63,732	32,540	95.9	4.3	2.3
Net revenues	1,493,090	1,401,178	6.6	100.0	100.0
Non-interest expenses:					
Compensation and benefits	900,063	890,263	1.1	60.3	63.5
Occupancy and equipment rental	111,191	110,437	0.7	7.4	7.9
Communication and office supplies	70,138	68,036	3.1	4.7	4.9
Commissions and floor brokerage	19,460	21,955	(11.4)	1.3	1.6
Other operating expenses	154,337	148,270	4.1	10.4	10.5
Total non-interest expenses	1,255,189	1,238,961	1.3	84.1	88.4
Income before income taxes	237,901	162,217	46.7	15.9	11.6
Provision for income taxes	61,853	43,894	40.9	4.1	3.2
Net Income	176,048	118,323	48.8	11.8	8.4
Preferred dividends	4,688	4,688	—	0.3	0.3
Net income available to common shareholders	$171,360	$113,635	50.8	11.5 %	8.1 %

NET REVENUES

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

Three Months Ended June 30,			Six Months Ended June 30,		
2018	2017	%	2018	2017	%

			Change			Change
Net revenues:						
Commissions	$166,902	$172,264	(3.1)	$332,677	$347,538	(4.3)
Principal transactions	88,984	95,703	(7.0)	186,766	212,560	(12.1)
Brokerage revenues	255,886	267,967	(4.5)	519,443	560,098	(7.3)
Capital raising	74,059	102,800	(28.0)	152,749	176,716	(13.6)
Advisory fees	87,004	82,461	5.5	184,676	135,397	36.4
Investment banking	161,063	185,261	(13.1)	337,425	312,113	8.1
Asset management and service fees	199,568	172,914	15.4	395,369	335,653	17.8
Net interest	117,142	92,307	26.9	228,423	177,364	28.8
Other income	9,073	7,198	26.0	12,430	15,950	(22.1)
Total net revenues	$742,732	$725,647	2.4	$1,493,090	$1,401,178	6.6

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 June 30, 2018, commission revenues decreased 3.1% to $166.9 million from $172.3 million in the comparable period in 2017. For the six months ended June 30, 2018, commission revenues decreased 4.3% to $332.7 million from $347.5 million in the comparable period in 2017. The decrease is primarily attributable to a decrease in OTC transactions from the comparable periods in 2017.

Principal transactions – Principal transaction revenues are gains and losses on secondary trading, principally fixed income brokerage revenues.

For the three months ended June 30, 2018, principal transactions revenues decreased 7.0% to $89.0 million from $95.7 million in the comparable period in 2017. For the six months ended June 30, 2018, principal transactions revenues decreased 12.1% to $186.8 million from $212.6 million in the comparable period in 2017. The decrease is primarily attributable to lower institutional fixed income brokerage revenues, as the industry continues to face systematic issues, including the impact of passive investing and the increase in electronic trading.

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. Investment banking revenues were positively impacted by the adoption of the new revenue recognition standard in 2018 that requires gross presentation of certain costs that were previously offset against investment banking revenues.

For the three months ended June 30, 2018, investment banking revenues decreased 13.1% to $161.1 million from $185.3 million in the comparable period in 2017.

Capital raising revenues decreased 28.0% to $74.1 million for the three months ended June 30, 2018 from $102.8 million in the comparable period in 2017. For the three months ended June 30, 2018, equity capital raising revenues decreased 14.8% to $48.6 million from $57.0 million in the comparable period in 2017. For the three months ended June 30, 2018, fixed income capital raising revenues decreased 44.4% to $25.5 million from $45.8 million in the comparable period in 2017.

Advisory fee revenues increased 5.5% to $87.0 million for the three months ended June 30, 2018 from $82.5 million in the comparable period in 2017. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2017, including growth in our fund placement business.

For the six months ended June 30, 2018, investment banking revenues increased 8.1% to $337.4 million from $312.1 million in the comparable period in 2017.

Capital raising revenues decreased 13.6% to $152.7 million for the six months ended June 30, 2018 from $176.7 million in the comparable period in 2017. For the six months ended June 30, 2018, equity capital raising revenues increased 3.6% to $106.3 million from $102.6 million in the comparable period in 2017. For the six months ended June 30, 2018, fixed income capital raising revenues decreased 37.3% to $46.4 million from $74.1 million in the comparable period in 2017.

Advisory fee revenues increased 36.4% to $184.7 million for the six months ended June 30, 2018 from $135.4 million in the comparable period in 2017. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2017, including growth in our fund placement business.

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 June 30, 2018, asset management and service fee revenues increased 15.4% to $199.6 million from $172.9 million in the comparable period in 2017. For the six months ended June 30, 2018, asset management and service fee revenues increased 17.8% to $395.4 million from $335.7 million in the comparable period in 2017. The increase is primarily a result of an increase in the number and value of fee-based accounts, an increase in fees earned on client cash balances, and an increase of interest rates on fees earned on client cash over the comparable periods in 2017. 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 June 30, 2018, other income increased 26.0% to $9.1 million from $7.2 million during the comparable period in 2017. The increase is primarily attributable to an increase in investment gains over the comparable period in 2017. For the six months ended June 30, 2018, other income decreased 22.1% to $12.4 million from $16.0 million during the comparable period in 2017. Other income primarily includes investment gains and losses and loan originations fees from Stifel Bank. The decrease is primarily attributable to an increase in investment losses over the comparable period in 2017.

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					
	June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Interest-bearing cash and federal funds sold	$396,201	$2,087	2.11%	$503,674	$648	0.51 %
Financial instruments owned	1,230,018	4,983	1.62%	1,060,875	4,346	1.64 %
Margin balances	1,311,103	12,306	3.75%	1,241,174	9,022	2.91 %
Investment portfolio	7,724,180	63,535	3.29%	6,625,526	46,385	2.80 %
Loans	7,533,133	68,389	3.63%	6,294,377	48,729	3.10 %
Other interest-bearing assets	810,903	3,121	1.54%	670,277	(179)	(0.11%)
Total interest-earning assets/interest income	$19,005,538	$154,421	3.25%	$16,395,903	$108,951	2.66 %
Interest-bearing liabilities:						
Short-term borrowings	$101,419	$688	2.71%	$209,585	$963	1.84 %
Stock loan	482,045	3,122	2.59%	339,847	558	0.66 %
Senior notes (Stifel Financial)	1,015,455	11,122	4.38%	800,000	8,140	4.07 %
Stifel Capital Trusts	67,500	730	4.33%	67,500	502	2.97 %
Deposits	13,441,341	15,343	0.46%	11,582,505	1,887	0.07 %
FHLB	844,643	3,095	1.47%	922,868	2,797	1.21 %
Other interest-bearing liabilities	1,128,443	3,179	1.13%	1,009,629	1,797	0.71 %
Total interest-bearing liabilities/interest	$17,080,846	37,279	0.87%	$14,931,934	16,644	0.45 %

expense					
Net interest income/margin		$117,142	2.47%		$92,307	2.25 %

	Six Months Ended June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Interest-bearing cash and federal funds sold	$395,729	$3,532	1.79%	$636,221	$2,096	0.66%
Financial instruments owned	1,230,018	9,912	1.61%	994,348	8,582	1.73%
Margin balances	1,293,871	23,256	3.59%	1,236,757	17,205	2.78%
Investment portfolio	7,635,094	118,438	3.10%	6,432,929	88,051	2.74%
Loans	7,398,108	132,024	3.57%	6,128,445	93,489	3.05%
Other interest-bearing assets	789,460	4,993	1.26%	660,084	481	0.15%
Total interest-earning assets/interest income	$18,742,280	$292,155	3.12%	$16,088,784	$209,904	2.61%
Interest-bearing liabilities:						
Short-term borrowings	$130,929	$1,613	2.46%	$174,494	$1,493	1.71%
Stock loan	403,266	3,749	1.86%	343,135	2,052	1.20%
Senior notes (Stifel Financial)	1,015,455	22,240	4.38%	800,000	16,280	4.07%
Stifel Capital Trusts	67,500	1,299	3.85%	67,500	969	2.87%
Deposits	13,297,248	23,473	0.35%	11,507,808	3,654	0.06%
FHLB	873,630	6,347	1.45%	762,271	4,516	1.18%
Other interest-bearing liabilities	1,002,602	5,011	1.00%	1,066,931	3,576	0.67%
Total interest-bearing liabilities/interest expense	$16,790,630	63,732	0.76%	$14,722,139	32,540	0.44%
Net interest income/margin		$228,423	2.44%		$177,364	2.20%

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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 June 30, 2018, net interest income increased to $117.1 million from $92.3 million during the comparable period in 2017. For the six months ended June 30, 2018, net interest income increased to $228.4 million from $177.4 million during the comparable period in 2017.

For the three months ended June 30, 2018, interest revenue increased 41.7% to $154.4 million from $109.0 million in the comparable period in 2017, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to $15.4 billion during the three months ended June 30, 2018 compared to $13.1 billion during the comparable period in 2017 at average interest rates of 3.46% and 2.92%, respectively.

For the six months ended June 30, 2018, interest revenue increased 39.2% to $292.2 million from $209.9 million in the comparable period in 2017, principally as a result of an increase in interest revenue generated from the interest-earning assets of Stifel Bank and higher margin interest income. The average interest-earning assets of Stifel Bank increased to $15.1 billion during the six months ended June 30, 2018 compared to $12.9 billion during the comparable period in 2017 at average interest rates of 3.33% and 2.85%, respectively.

For the three months ended June 30, 2018, interest expense increased 124.0% to $37.3 million from $16.6 million during the comparable period in 2017. For the six months ended June 30, 2018, interest expense increased 95.9% to $63.7 million from $32.5 million in the comparable period in 2017. The increase is primarily attributable to an increase in interest-bearing liabilities at Stifel Bank (deposits and FHLB advances) and the issuance of 5.20% senior notes in October 2017.

NON-INTEREST EXPENSES

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Non-interest expenses:						
Compensation and benefits	$442,170	$453,876	(2.6)	$900,063	$890,263	1.1
Occupancy and equipment rental	53,596	57,892	(7.4)	111,191	110,437	0.7
	36,639	34,192	7.2	70,138	68,036	3.1

Communications and office supplies						
Commissions and floor brokerage	10,095	11,232	(10.1)	19,460	21,955	(11.4)
Other operating expenses	81,885	85,257	(4.0)	154,337	148,270	4.1
Total non-interest expenses	$624,385	$642,449	(2.8)	$1,255,189	$1,238,961	1.3

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 June 30, 2018, compensation and benefits expense decreased 2.6% to $442.2 million from $453.9 million during the comparable period in 2017. For the six months ended June 30, 2018, compensation and benefits expense increased 1.1% to $900.1 million from $890.3 million during the comparable period in 2017.

Compensation and benefits expense as a percentage of net revenues was 59.5% and 60.3% for the three and six months ended June 30, 2018, respectively, compared to 62.5% and 63.5% for the three and six months ended June 30, 2017, respectively. The decrease is primarily attributable to growth of our higher margin businesses and the acceleration of compensation expense in the prior year related to actions taken in response to US Tax Reform.

Occupancy and equipment rental – For the three months ended June 30, 2018, occupancy and equipment rental expense decreased 7.4% to $53.6 million from $57.9 million during the comparable period in 2017. For the six months ended June 30, 2018, occupancy and equipment rental expense increased 0.7% to $111.2 million from $110.4 million during the comparable period in 2017.

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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 June 30, 2018, communications and office supplies expense increased 7.2% to $36.6 million from $34.2 million during the third quarter of 2017. For the six months ended June 30, 2018, communications and office supplies expense increased 3.1% to $70.1 million from $68.0 million during the comparable period in 2017. The increase is primarily attributable to an increase in communication and quote and office supplies.

Commissions and floor brokerage – For the three months ended June 30, 2018, commissions and floor brokerage expense decreased 10.1% to $10.1 million from $11.2 million during the comparable period in 2017. For the six months ended June 30, 2018, commissions and floor brokerage expense decreased 11.4% to $19.5 million from $22.0 million during the comparable period in 2017. The decrease is primarily attributable to a decrease in trading volumes.

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 June 30, 2018, other operating expenses decreased 4.0% to $81.9 million from $85.3 million during the comparable period in 2017. The decrease is primarily attributable to lower litigation expense and a decrease in the provision for loan losses, partially offset by the impact of the adoption of the new revenue standard that requires gross presentation of certain costs that were previously offset against revenue that added approximately $7.6 million to other operating expenses for during three months ended June 30, 2018.

For the six months ended June 30, 2018, other operating expenses increased 4.1% to $154.3 million from $148.3 million during the comparable period in 2017. The increase is primarily attributable to the adoption of the new revenue recognition standard that requires gross presentation of certain costs that were previously offset against revenue that added $16.2 million to other operating expenses for the six months ended June 30, 2018; and an increase in professional fees, travel costs, and advertising expense partially offset by a decrease in the provision for loan losses at Stifel Bank and FDIC insurance.

Provision for income taxes – For the three and six months ended June 30, 2018, our provision for income taxes was $31.1 million and $61.9 million, representing an effective tax rate of 26.2% and 26.0%, respectively, compared to $30.4 million and $43.9 million for the comparable periods in 2017, representing an effective tax rate of 36.5% and 27.1%, respectively. The provision for income taxes for the three months and six ended June 30, 2018 was primarily impacted by the tax reform enacted in the fourth quarter of 2017 that, among other things, lowered the federal corporate income tax rate from 35% to 21%.

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. 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, amortization of stock-based awards, 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.

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 June 30, 2018 Compared with Three Months Ended June 30, 2017

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

	Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2018	2017	% Change	2018	2017
Revenues:					
Commissions	$118,129	$120,344	(1.8)	23.8 %	26.6 %
Principal transactions	41,161	47,741	(13.8)	8.3	10.6
Brokerage revenues	159,290	168,085	(5.2)	32.1	37.2
Asset management and service fees	199,557	172,889	15.4	40.1	38.3
Investment banking	8,049	10,641	(24.4)	1.6	2.4
Interest	146,402	106,888	37.0	29.4	23.6
Other income	5,444	4,677	16.4	1.1	1.0
Total revenues	518,742	463,180	12.0	104.3	102.5
Interest expense	21,415	11,190	91.4	4.3	2.5
Net revenues	497,327	451,990	10.0	100.0	100.0
Non-interest expenses:					
Compensation and benefits	237,879	229,158	3.8	47.8	50.7
Occupancy and equipment rental	25,701	26,275	(2.2)	5.2	5.8
Communication and office supplies	17,909	13,957	28.3	3.6	3.1
Commissions and floor brokerage	4,250	4,947	(14.1)	0.9	1.1
Other operating expenses	23,693	24,416	(3.0)	4.7	5.4
Total non-interest expenses	309,432	298,753	3.6	62.2	66.1
Income before income taxes	$187,895	$153,237	22.6	37.8 %	33.9 %

	June 30,	
	2018	2017
Branch offices (actual)	363	364
Financial advisors (actual)	2,161	2,158
Independent contractors (actual)	106	119

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Six Months Ended June 30, 2018 Compared with Six Months Ended June 30, 2017

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

	Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2018	2017	% Change	2018	2017
Revenues:					
Commissions	$237,334	$240,921	(1.5)	24.1 %	26.9 %
Principal transactions	84,690	98,658	(14.2)	8.7	11.1
Brokerage revenues	322,024	339,579	(5.2)	32.8	38.0
Asset management and service fees	395,346	335,553	17.8	40.2	37.5
Investment banking	15,737	22,495	(30.0)	1.6	2.5
Interest	279,119	205,138	36.1	28.4	22.9
Other income	6,353	11,702	(45.7)	0.6	1.3
Total revenues	1,018,579	914,467	11.4	103.6	102.2
Interest expense	35,677	19,745	80.7	3.6	2.2
Net revenues	982,902	894,722	9.9	100.0	100.0
Non-interest expenses:					
Compensation and benefits	479,639	457,629	4.8	48.8	51.1
Occupancy and equipment rental	51,654	51,626	0.1	5.3	5.8
Communication and office supplies	31,722	28,237	12.3	3.2	3.2
Commissions and floor brokerage	8,913	9,879	(9.8)	0.9	1.1
Other operating expenses	46,308	52,062	(11.1)	4.7	5.8
Total non-interest expenses	618,236	599,433	3.1	62.9	67.0
Income before income taxes	$364,666	$295,289	23.5	37.1 %	33.0 %

NET REVENUES

For the three months ended June 30, 2018, Global Wealth Management net revenues increased 10.0% to a record $497.3 million from $452.0 million for the comparable period in 2017. For the six months ended June 30, 2018, Global Wealth Management net revenues increased 9.9% to $982.9 million from $894.7 million for the comparable period in 2017. The increase in net revenues over the comparable periods in 2017, is primarily attributable to growth in asset management and service fees; an increase in net interest income, partially offset by a decrease in brokerage revenues and investment banking revenues.

Commissions – For the three months ended June 30, 2018, commission revenues decreased 1.8% to $118.1 million from $120.3 million in the comparable period in

2017. For the six months ended June 30, 2018, commission revenues decreased 1.5% to $237.3 million from $240.9 million in the comparable period in 2017.

Principal transactions – For the three months ended June 30, 2018, principal transactions revenues decreased 13.8% to $41.2 million from $47.7 million in the comparable period in 2017. For the six months ended June 30, 2018, principal transactions revenues decreased 14.2% to $84.7 million from $98.7 million in the comparable period in 2017.

Brokerage revenues - For the three months ended June 30, 2018, brokerage revenues decreased 5.2% to $159.3 million from $168.1 million in the comparable period in 2017. For the six months ended June 30, 2018, brokerage revenues decreased 5.2% to $322.0 million from $339.6 million in the comparable period in 2017. Brokerage revenues were impacted by continued migration of client activity from brokerage to asset management activities.

Asset management and service fees – For the three months ended June 30, 2018, asset management and service fees increased 15.4% to $199.6 million from $172.9 million in the comparable period in 2017. For the six months ended June 30, 2018, asset management and service fees increased 17.8% to $395.3 million from $335.6 million in the comparable period in 2017. The increase is primarily a result of continued migration to fee-based accounts and our continued expansion in the asset management business.

Fee-based account revenues, which are included within asset management and service fee revenues, are primarily billed based on asset values at the beginning of the period. The value of assets in fee-based accounts including Asset Management at June 30, 2018 increased 15.3% to $91.3 billion from $79.2 billion at June 30, 2017.

Investment banking – Investment banking, which represents sales credits for investment banking underwritings, decreased 24.4% to $8.0 million for the three months ended June 30, 2018 from $10.6 million during the comparable period in 2017. For the six months ended June 30, 2018, investment banking revenues decreased 30.0% to $15.7 million from $22.5 million during the comparable period in 2017. See “Investment banking” in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue – For the three months ended June 30, 2018, interest revenue increased 37.0% to $146.4 million from $106.9 million in the comparable period in 2017. For the six months ended June 30, 2018, interest revenue increased 36.1% to $279.1 million from $205.1 million during the comparable period in 2017. The increase is primarily due to a growth of interest-earning assets at Stifel Bank, and an increase in the weighted-average yield. See “Net Interest Income – Stifel Bank” below for a further discussion of the changes in net revenues.

Other income – For the three months ended June 30, 2018, other income increased 16.4% to $5.4 million from $4.7 million during the comparable period in 2017. For the six months ended June 30, 2018, other income decreased 45.7% to $6.4 million from $11.7 million during the comparable period in 2017.

Interest expense – For the three months ended June 30, 2018, interest expense increased 91.4% to $21.4 million from $11.2 million during the comparable period in 2017. For the six months ended June 30, 2018, interest expense increased 80.7% to $35.7 million from $19.7 million during the comparable period in 2017. The increase in interest expense is primarily attributable to an increase in borrowings to fund the increase in the client margin debit book and an increase in interest-earning liabilities at Stifel Bank from the comparable periods in 2017.

NET INTEREST INCOME – STIFEL BANK

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

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Interest-bearing cash and federal funds sold	$35,431	$174	1.96%	$129,095	$320	0.99%
State and political subdivisions:						
Non-taxable [1]	73,607	365	1.98	75,199	677	3.60
Mortgage-backed securities	1,684,695	9,039	2.15	1,956,075	10,578	2.16
Corporate bonds	1,273,213	8,709	2.74	929,105	5,268	2.27
Asset-backed securities	4,692,665	45,422	3.87	3,665,147	29,862	3.26
Federal Home Loan Bank ("FHLB") and other capital stock	64,545	715	4.43	67,472	191	1.13
Loans [2]						
Securities-based loans	1,835,368	17,183	3.74	1,742,164	12,378	2.84
Commercial and industrial	2,641,214	28,757	4.36	1,960,889	18,451	3.76
Residential real estate	2,703,436	18,785	2.78	2,264,946	15,039	2.66
Commercial real estate	103,829	1,124	4.33	74,928	684	3.65
Consumer	24,573	261	4.25	43,108	435	4.04
Home equity lines of credit	18,134	209	4.61	14,973	137	3.66
Construction and land	16,952	203	4.79	16,223	154	3.80
Loans held for sale	189,627	1,867	3.94	177,146	1,451	3.28
Total interest-earning assets [3]	$15,357,289	$132,813	3.46%	$13,116,470	$95,625	2.92%
Cash and due from banks	13,431			16,905		
	142,116			399,382		

Other non interest-earning assets						
Total assets	$15,512,836			$13,532,757		
Liabilities and stockholder's equity:						
Deposits:						
Money market	$12,508,628	$11,429	0.37%	$11,389,900	$1,845	0.06%
Demand deposits	358,923	1,000	1.11	189,495	26	0.05
Time deposits	541,329	2,780	2.05	3,106	16	2.06
Savings	32,461	134	1.65	4	—	—
FHLB advances	844,643	3,095	1.47	922,868	2,797	1.21
Other borrowings	16,105	175	4.35	16,236	146	3.60
Total interest-bearing liabilities [3]	14,302,089	18,613	0.52%	12,521,609	4,830	0.15%
Non-interest-bearing liabilities	37,405			13,133		
Other non-interest bearing liabilities	64,788			43,798		
Total liabilities	14,404,282			12,578,540		
Stockholder's equity	1,108,554			954,217		
Total liabilities and stockholder's equity	$15,512,836			$13,532,757		
Net interest income/spread		$114,200	2.94%		$90,795	2.76%
Net interest margin			2.97%			2.77%

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

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

(3) See Net Interest Income table included in “Results of Operations” for additional information on our company’s average balances and operating interest and expenses.

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

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Interest-bearing cash and federal funds sold	$30,983	$269	1.74%	$256,145	$1,094	0.85%
State and political subdivisions:						
Non-taxable [1]	73,843	617	1.67	75,269	1,355	3.60
Mortgage-backed securities	1,715,234	18,643	2.17	1,983,582	21,605	2.18
Corporate bonds	1,283,360	16,831	2.62	898,900	10,126	2.25
Asset-backed securities	4,562,657	82,347	3.61	3,475,178	54,965	3.16
Federal Home Loan Bank ("FHLB") and other capital stock	66,316	1,269	3.83	59,390	656	2.21
Loans [2]						
Securities-based loans	1,816,068	32,492	3.58	1,708,554	23,243	2.72
Commercial and industrial	2,557,541	55,492	4.34	1,837,414	35,288	3.84
Residential real estate	2,670,591	37,057	2.78	2,257,249	29,620	2.62
Commercial real estate	104,153	2,112	4.06	76,633	1,337	3.49
Consumer	24,468	499	4.08	43,654	961	4.40
Home equity lines of credit	15,699	353	4.50	15,037	264	3.51
Construction and land	14,767	324	4.39	14,737	270	3.66
Loans held for sale	194,821	3,695	3.79	175,167	2,506	2.86
Total interest-earning assets [3]	$15,130,501	$252,000	3.33%	$12,876,909	$183,290	2.85%
Cash and due from banks	12,614			14,030		
Other non interest-earning assets	218,701			371,618		
Total assets	$15,361,816			$13,262,557		

Liabilities and stockholder's equity:						
Deposits:						
Money market	$12,691,518	$19,219	0.30%	$11,313,905	$3,572	0.06%
Demand deposits	299,381	1,195	0.80	190,530	50	0.05
Time deposits	277,359	2,839	2.05	3,369	32	1.90
Savings	28,990	220	1.52	4	—	—
FHLB advances	873,630	6,347	1.45	762,271	4,516	1.18
Other borrowings	16,079	353	4.39	16,279	306	3.76
Total interest-bearing liabilities [3]	14,186,957	30,173	0.43%	12,286,358	8,476	0.14%
Non-interest-bearing liabilities	34,763			12,816		
Other non-interest bearing liabilities	43,007			24,750		
Total liabilities	14,264,727			12,323,924		
Stockholder's equity	1,097,089			938,633		
Total liabilities and stockholder's equity	$15,361,816			$13,262,557		
Net interest income/spread		$221,827	2.90%		$174,814	2.71%
Net interest margin			2.93%			2.71%

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

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

(3) See Net Interest Income table included in “Results of Operations” for additional information on our company’s average balances and operating interest and expenses.

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and six month periods ended June 30, 2018 compared to the three and six month periods ended June 30, 2017 (in thousands):

	Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017 Increase/(decrease) due to:			Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017 Increase/(decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Interest-bearing cash and federal funds sold	$(1,131)	$985	$(146)	$(2,455)	$1,630	$(825)
State and political - non-taxable	(13)	(299)	(312)	(25)	(713)	(738)
Mortgage-backed securities	(1,457)	(82)	(1,539)	(2,917)	(45)	(2,962)
Corporate bonds	2,210	1,231	3,441	4,845	1,860	6,705
Asset-backed securities	9,314	6,246	15,560	18,873	8,509	27,382
FHLB and other capital stock	(8)	532	524	84	529	613
Loans						
Securities-based loans	693	4,112	4,805	1,539	7,710	9,249
Commercial and industrial	7,093	3,213	10,306	15,179	5,025	20,204
Residential real estate	3,020	726	3,746	5,661	1,776	7,437
Commercial real estate	296	144	440	533	242	775
Consumer	(198)	24	(174)	(395)	(67)	(462)
Home equity lines of credit	33	39	72	12	77	89
Construction and land	7	42	49	—	54	54
Loans held for sale	109	307	416	305	884	1,189
	$19,968	$17,220	$37,188	$41,239	$27,471	$68,710
Interest expense:						
Deposits:						
Money market	$199	$9,385	$9,584	$486	$15,161	$15,647
Demand deposits	44	930	974	45	1,100	1,145
Time deposits	2,764	—	2,764	2,805	2	2,807
Savings	115	19	134	159	61	220
FHLB advances	(204)	502	298	718	1,113	1,831
Other borrowings	(1)	30	29	(4)	51	47
	$2,917	$10,866	$13,783	$4,209	$17,488	$21,697

Increases and decreases in interest revenue and interest expense result from changes in average balances (volume) of interest-earning bank assets and liabilities, as well as changes in average interest rates. The effect of changes in volume is determined by

multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

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

For the three months ended June 30, 2018, interest revenue of $132.8 million was generated from average interest-earning assets of $15.4 billion at an average interest rate of 3.46%. Interest revenue of $95.6 million for the comparable period in 2017 was generated from average interest-earning assets of $13.1 billion at an average interest rate of 2.92%.

For the six months ended June 30, 2018, interest revenue of $252.0 million was generated from average interest-earning assets of $15.1 billion at an average interest rate of 3.33%. Interest revenue of $183.3 million for the comparable period in 2017 was generated from average interest-earning assets of $12.9 billion at an average interest rate of 2.85%.

Interest expense represents interest on customer money market accounts, interest on time deposits, Federal Home Loan Bank advances, and other interest expense. The average balance of interest-bearing liabilities during the three months ended June 30, 2018 was $14.3 billion at an average interest rate of 0.52%. The average balance of interest-bearing liabilities for the comparable period in 2017 was $12.5 billion at an average interest rate of 0.15%. The average balance of interest-bearing liabilities during the six months

ended June 30, 2018 was $14.2 billion at an average interest rate of 0.43%. The average balance of interest-bearing liabilities for the comparable period in 2017 was $12.3 billion at an average interest rate of 0.14%.

The growth in Stifel Bank has been primarily funded by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At June 30, 2018, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was $13.6 billion compared to $12.1 billion at June 30, 2017.

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

NON-INTEREST EXPENSES

For the three months ended June 30, 2018, Global Wealth Management non-interest expenses increased 3.6% to $309.4 million from $298.8 million for the comparable period in 2017. For the six months ended June 30, 2018, Global Wealth Management non-interest expenses increased 3.1% to $618.2 million from $599.4 million for the comparable period in 2017.

Compensation and benefits – For the three months ended June 30, 2018, compensation and benefits expense increased 3.8% to $237.9 million from $229.2 million during the comparable period in 2017. For the six months ended June 30, 2018, compensation and benefits expense increased 4.8% to $479.6 million from $457.6 million during the comparable period in 2017. The increase is principally due to increased variable compensation. Compensation and benefits expense as a percentage of net revenues was 47.8% and 48.8% for the three and six months ended June 30, 2018, respectively, compared to 50.7% and 51.1% for the comparable periods in 2017, respectively.

Occupancy and equipment rental – For the three months ended June 30, 2018, occupancy and equipment rental expense decreased 2.2% to $25.7 million from $26.3 million during the comparable period in 2017. The decrease is primarily attributable to lower occupancy costs. For the six months ended June 30, 2018, occupancy and equipment rental expense increased 0.1% to $51.7 million from $51.6 million during the comparable period in 2017.

Communications and office supplies – For the three months ended June 30, 2018, communications and office supplies expense increased 28.3% to $17.9 million from $14.0 million during the comparable period in 2017. For the six months ended June 30, 2018, communications and office supplies expense increased 12.3% to $31.7 million from $28.2 million during the comparable period in 2017. The increase is primarily attributable to higher communication and quote expenses over the comparable periods in 2017.

Commissions and floor brokerage – For the three months ended June 30, 2018, commissions and floor brokerage expense decreased 14.1% to $4.3 million from $4.9 million during the comparable period in 2017. For the six months ended June 30, 2018, commissions and floor brokerage expense decreased 9.8% to $8.9 million from

$9.9 million during the comparable period in 2017. The decrease is consistent with the decrease in commission revenues.

Other operating expenses – For the three months ended June 30, 2018, other operating expenses decreased 3.0% to $23.7 million from $24.4 million during the comparable period in 2017. For the six months ended June 30, 2018, other operating expenses decreased 11.1% to $46.3 million from $52.1 million during the comparable period in 2017. The decrease in other operating expenses from the comparable periods in 2017 is primarily attributable to a decrease in the provision for loan losses, insurance expense, and subscription expense, partially offset by higher travel expenses, advertising costs, and professional fees.

INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2018, income before income taxes increased 22.6% to a $187.9 million from $153.2 million during the comparable period in 2017. For the six months ended June 30, 2018, income before income taxes increased 23.5% to a record $364.7 million from $295.3 million during the comparable period in 2017.

Profit margins (income before income taxes as a percent of net revenues) have increased to 37.8% and 37.1% for the three and six months ended June 30, 2018 from 33.9% and 33.0% during the comparable periods in 2017. The increase in profit margins from the comparable periods in 2017 is primarily due to the growth of our higher margin businesses.

Results of Operations – Institutional Group

Three Months Ended June 30, 2018 Compared with Three Months Ended June 30, 2017

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

	Three Months Ended June 30,		%	As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2018	2017	Change	2018	2017
Revenues:					
Commissions	$48,773	$51,920	(6.1)	19.3 %	18.8 %
Principal transactions	47,823	47,962	(0.3)	18.9	17.4
Brokerage revenues	96,596	99,882	(3.3)	38.2	36.2
Capital raising	66,112	92,159	(28.3)	26.1	33.4
Advisory fees	86,922	82,461	5.4	34.4	29.8
Investment banking	153,034	174,620	(12.4)	60.5	63.2
Interest	4,438	3,901	13.8	1.8	1.4
Other income	3,431	1,580	117.2	1.3	0.6
Total revenues	257,499	279,983	(8.0)	101.8	101.4
Interest expense	4,674	3,830	22.0	1.8	1.4
Net revenues	252,825	276,153	(8.4)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	149,984	164,532	(8.8)	59.3	59.6
Occupancy and equipment rental	12,279	11,700	4.9	4.9	4.2
Communication and office supplies	18,911	15,515	21.9	7.5	5.6
Commissions and floor brokerage	5,845	6,285	(7.0)	2.3	2.3
Other operating expenses	29,782	25,229	18.0	11.8	9.1
Total non-interest expenses	216,801	223,261	(2.9)	85.8	80.8
Income before income taxes	$36,024	$52,892	(31.9)	14.2 %	19.2 %

Six Months Ended June 30, 2018 Compared with Six Months Ended June 30, 2017

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

	Six Months Ended June 30,		%	As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2018	2017	Change	2018	2017
Revenues:					
Commissions	$95,343	$106,617	(10.6)	18.2 %	20.8 %
Principal transactions	102,076	113,902	(10.4)	19.5	22.2
Brokerage revenues	197,419	220,519	(10.5)	37.7	43.0
Capital raising	137,113	154,221	(11.1)	26.2	30.0
Advisory fees	184,595	135,397	36.3	35.3	26.4
Investment banking	321,708	289,618	11.1	61.5	56.4
Interest	8,697	7,545	15.3	1.7	1.5
Other income	4,106	3,427	19.8	0.8	0.6
Total revenues	531,930	521,109	2.1	101.7	101.5
Interest expense	9,027	7,489	20.5	1.7	1.5
Net revenues	522,903	513,620	1.8	100.0	100.0
Non-interest expenses:					
Compensation and benefits	309,328	308,172	0.4	59.2	60.0
Occupancy and equipment rental	23,506	23,644	(0.6)	4.5	4.6
Communication and office supplies	35,503	30,910	14.9	6.8	6.0
Commissions and floor brokerage	10,548	12,076	(12.7)	2.0	2.4
Other operating expenses	63,424	46,054	37.7	12.1	8.9
Total non-interest expenses	442,309	420,856	5.1	84.6	81.9
Income before income taxes	$80,594	$92,764	(13.1)	15.4 %	18.1 %

NET REVENUES

For the three months ended June 30, 2018, Institutional Group net revenues decreased 8.4% to $252.8 million from $276.2 million for the comparable period in 2017. For the six months ended June 30, 2018, Institutional Group net revenues increased 1.8% to $522.9 million from $513.6 million during the comparable period in 2017.

The decrease in net revenues for the three months ended June 30, 2018 over the comparable period in 2017 was primarily attributable to a decrease in capital raising and equity brokerage revenues.

The increase in net revenues for the six months ended June 30, 2018 over the comparable period in 2017 was primarily attributable to an increase in advisory fees, partially offset by a decrease in fixed income and equity brokerage revenues, and capital raising revenues.

Commissions – For the three months ended June 30, 2018, commission revenues decreased 6.1% to $48.8 million from $51.9 million in the comparable period in 2017. For the six months ended June 30, 2018, commission revenues decreased 10.6% to $95.3 million from $106.6 million in the comparable period in 2017.

Principal transactions – For the three months ended June 30, 2018, principal transactions revenues decreased 0.3% to $47.8 million from $48.0 million in the comparable period in 2017. For the six months ended June 30, 2018, principal transaction revenues decreased 10.4% to $102.1 million from $113.9 million in the comparable period in 2017.

Brokerage revenues – For the three months ended June 30, 2018, institutional brokerage revenues decreased 3.3% to $96.6 million from $99.9 million in the comparable period in 2017. For the six months ended June 30, 2018, institutional brokerage revenues decreased 10.5% to $197.4 million from $220.5 million in the comparable period in 2017. Brokerage revenues were impacted by lower market volatility and continued migration from active to passive management strategies.

For the three months ended June 30, 2018, fixed income institutional brokerage revenues increased 4.7% to $51.3 million from $49.0 million in the comparable period in 2017. For the six months ended June 30, 2018, fixed income brokerage revenues decreased 10.2% to $104.1 million from $115.8 million in the comparable period in 2017. The decrease is primarily attributable to lower fixed income trading volumes from the comparable period in 2017.

For the three months ended June 30, 2018, equity institutional brokerage revenues decreased 11.0% to $45.3 million from $50.9 million during the comparable period in 2017. For the six months ended June 30, 2018, equity brokerage revenues decreased 10.8% to $93.4 million from $104.7 million during the comparable period in 2017. The decrease is primarily attributable to reduced market volatility and continued migration from active to passive management strategies.

Investment banking – For the three months ended June 30, 2018, investment banking revenues decreased 12.4% to $153.0 million from $174.6 million during the comparable period in 2017. The decrease is primarily attributable to lower capital raising revenues, partially offset by an increase in advisory fees over the comparable period in 2017. For the six months ended June 30, 2018, investment banking revenues increased 11.1% to $321.7 million from $289.6 million during the comparable period in 2017. The increase is primarily attributable to an increase in advisory fee revenues, offset by a decrease in capital raising revenues. Investment banking revenues were positively impacted by the adoption of the new revenue recognition standard in 2018 that requires gross presentation of certain costs that were previously offset against investment banking revenues.

For the three months ended June 30, 2018, capital raising revenues decreased 28.3% to $66.1 million from $92.2 million in the comparable period in 2017. For the six months ended June 30, 2018, capital raising revenues decreased 11.1% to $137.1 million from $154.2 million in the comparable period in 2017.

For the three months ended June 30, 2018, equity capital raising revenues decreased 3.5% to $44.1 million from $45.7 million during the comparable period in 2017. The decrease is primarily attributable to lower transactions from the comparable period in 2017. For the six months ended June 30, 2018, equity capital raising revenues increased 18.6% to $96.8 million from $81.6 million during the comparable period in 2017. The increase was primarily attributable to the adoption of the new revenue recognition standard in 2018 and an increase in the average fees per deal over the comparable period in 2017.

For the three months ended June 30, 2018, fixed income capital raising revenues decreased 52.6% to $22.0 million from $46.5 million during the comparable period in 2017. For the six months ended June 30, 2018, fixed income capital raising revenues decreased 44.4% to $40.3 million from $72.6 million during the comparable period in 2017. The decrease is primarily attributable to a decrease in the municipal bond origination business.

For the three months ended June 30, 2018, advisory fee revenues increased 5.4% to $86.9 million from $82.5 million in the comparable period in 2017. For the six months ended June 30, 2018, advisory fees increased 36.3% to $184.6 million from $135.4 million in the comparable period in 2017. The increase is primarily attributable to an increase in the number of advisory transactions over the comparable period in 2017, including growth in our fund placement business.

Interest – For the three months ended June 30, 2018, interest increased 13.8% to $4.4 million from $3.9 million in the comparable period in 2017. For the six months ended

June 30, 2018, interest increased 15.3% to $8.7 million from $7.5 million during the comparable period in 2017.

Other income – For the three months ended June 30, 2018, other income increased 117.2% to $3.4 million from $1.6 million in the comparable period in 2017. For the six months ended June 30, 2018, other income increased 19.8% to $4.1 million from $3.4 million during the comparable period in 2017.

Interest expense – For the three months ended June 30, 2018, interest expense increased 22.0% to $4.7 million from $3.8 million in the comparable period in 2017. For the six months ended June 30, 2018, interest expense increased 20.5% to $9.0 million from $7.5 million in the comparable period in 2017.

NON-INTEREST EXPENSES

For the three months ended June 30, 2018, Institutional Group non-interest expenses decreased 2.9% to $216.8 million from $223.3 million for the comparable period in 2017. For the six months ended June 30, 2018, Institutional Group non-interest expenses increased 5.1% to $442.3 million from $420.9 million during the comparable period in 2017.

Compensation and benefits – For the three months ended June 30, 2018, compensation and benefits expense decreased 8.8% to $150.0 million from $164.5 million during the comparable period in 2017. For the six months ended June 30, 2018, compensation and benefits expense increased 0.4% to $309.3 million from $308.2 million during the comparable period in 2017.

Compensation and benefits expense as a percentage of net revenues was 59.3% and 59.2% for the three and six months ended June 30, 2018, respectively, compared to 59.6% and 60.0% for comparable periods in 2017, respectively.

Occupancy and equipment rental – For the three months ended June 30, 2018, occupancy and equipment rental expense increased 4.9% to $12.3 million from $11.7 million during the comparable period in 2017. The increase is primarily attributable to an increase in occupancy cost. For the six months ended June 30, 2018, occupancy and equipment rental expense decreased 0.6% to $23.5 million from $23.6 million during the comparable period in 2017.

Communications and office supplies – For the three months ended June 30, 2018, communications and office supplies expense increased 21.9% to $18.9 million from $15.5 million during the comparable period in 2017. The increase is primarily attributable to an increase in communication and quote equipment expense. For the six months ended June 30, 2018, communications and office supplies expense increased 14.9% to $35.5 million from $30.9 million during the comparable period in 2017. The increase is primarily attributable to an increase in communication and quote equipment expense.

Commissions and floor brokerage – For the three months ended June 30, 2018, commissions and floor brokerage expense decreased 7.0% to $5.8 million from $6.3 million during the comparable period in 2017. For the six months ended June 30, 2018, commissions and floor brokerage expense decreased 12.7% to $10.5 million from $12.1 million during the comparable period in 2017. The decrease is primarily attributable to lower electronic execution pricing.

Other operating expenses – For the three months ended June 30, 2018, other operating expenses increased 18.0% to $29.8 million from $25.2 million during the comparable period in 2017. The increase is primarily attributable to the adoption of the new revenue recognition standard that requires gross presentation of certain costs that were previously offset against revenue that added approximately $7.6 million to other operating expenses for the three months ended June 30, 2018.

For the six months ended June 30, 2018, other operating expenses increased 37.7% to $63.4 million from $46.1 million during the comparable period in 2017. The increase for the six months ended June 30, 2018 over the comparable period in 2017 is primarily due to the previously disclosed adoption of the new revenue recognition standard that added approximately $16.2 million to other operating expenses and an increase in travel costs.

INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2018, income before income taxes for the Institutional Group segment decreased 31.9% to $36.0 million from $52.9 million during the comparable period in 2017. For the six months ended June 30, 2018, income before income taxes for the Institutional Group segment decreased 13.1% to $80.6 million from $92.8 million during the comparable period in 2017.

Profit margins (income before income taxes as a percentage of net revenues) have decreased to 14.2% for the three months ended June 30, 2018 from 19.2% during the comparable period in 2017 as a result of lower revenues in the second quarter of 2018.

Profit margins (income before income taxes as a percentage of net revenues) have decreased to 15.4% for six months ended June 30, 2018 from 18.1% during the comparable period in 2017 as a result of an increase in expenses, offset by higher revenues.

Results of Operations – Other Segment

Three and Six Months Ended June 30, 2018 Compared with Three and Six Months Ended June 30, 2017

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Net revenues	$(7,420)	$(2,496)	(197.3)	$(12,715)	$(7,164)	(77.5)
Non-interest expenses:						
Compensation and benefits	54,307	60,186	(9.8)	111,096	124,462	(10.7)
Other operating expenses	43,845	60,249	(27.2)	83,548	94,210	(11.3)
Total non-interest expenses	98,152	120,435	(18.5)	194,644	218,672	(11.0)
Loss before income taxes	$(105,572)	$(122,931)	(14.1)%	$(207,359)	$(225,836)	(8.2)%

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Non-interest expenses:						
Compensation and benefits	$4,075	$7,971	(48.9)	$7,814	$22,312	(65.0)
Other operating expenses	14,892	26,849	(44.5)	20,915	32,174	(35.0)
Total non-interest expenses	$18,967	$34,820	(45.5)%	$28,729	$54,486	(47.3)%

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Non-interest expenses:						
Compensation and benefits	$50,232	$52,215	(3.8)	$103,282	$102,150	1.1
Other operating expenses	28,953	33,400	(13.3)	62,633	62,036	1.0
Total non-interest expenses	$79,185	$85,615	(7.5)%	$165,915	$164,186	1.1 %

Non-interest expenses for the three months ended June 30, 2018 decreased 7.5% from the comparable period in 2017. The decrease consisted of a 3.8% decrease in compensation and benefits and a 13.3% decrease in other operating expenses. Non-interest expenses for the six months ended June 30, 2018 increased 1.1% from the comparable period in 2017. The increase consisted of a 1.1% increase in compensation and benefits and a 1.0% increase in other operating expenses.

Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, financial instruments owned, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. As of June 30, 2018, our total assets increased 5.7% to $22.6 billion from $21.4 billion at December 31, 2017. Our broker-dealer subsidiary's gross assets and liabilities, including financial instruments owned, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of June 30, 2018, our liabilities were comprised primarily of deposits of $13.9 billion at Stifel Bank, senior notes, net of debt issuance costs, of $1.0 billion, Federal Home Loan Bank advances of $760.0 million, payables to customers of $720.5 million at our broker-dealer subsidiaries, accounts payable and accrued expenses of $360.8 million, accrued employee compensation of $330.5 million, borrowings of $243.0 million, and trust preferred securities of $67.5 million. To meet our obligations to clients and operating needs, we had $472.2 million in cash and cash equivalents and $7.6 billion in loans (including loans held for sale) at Stifel Bank at June 30, 2018. We also had highly liquid assets consisting of held-to-maturity securities of $4.5 billion, available-for-sale securities of $3.5 billion, client brokerage receivables of $1.4 billion, and financial instruments of $1.3 billion.

Cash Flow

Cash, cash equivalents, and restricted cash decreased $202.1 million to $585.0 million at June 30, 2018, from $787.1 million at December 31, 2017. Operating activities used $214.8 million of cash primarily due to an increase in operating assets during the six months ended June 30, 2018. Investing activities used cash of $1.0 billion due to the growth of our investment portfolio, growth of the loan portfolio, business acquisitions, and fixed asset purchases, partially offset by proceeds from the sale and maturity of securities in our investment portfolio and the sale of investments. Financing activities provided cash of $1.0 billion principally due to an increase in bank deposits, securities loaned, and securities sold under agreements to repurchase, partially offset by repurchases of our common stock, tax payments related to shares withheld for our stock-based compensation plans, and dividends paid on our common and preferred stock.

Liquidity and Capital Resources

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

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

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

As of June 30, 2018, we had $22.6 billion in assets, $11.1 billion of which consisted of cash or assets readily convertible into cash as follows (in thousands, except average days to conversion):

	June 30, 2018	December 31, 2017	Average Conversion
Cash and cash equivalents	$472,237	$696,283	
Receivables from brokers, dealers, and clearing organizations	672,160	459,107	5 days
Securities purchased under agreements to resell	566,041	512,220	1 day
Financial instruments owned at fair value	1,276,944	1,142,831	3 days
Available-for-sale securities at fair value	3,475,436	3,773,508	4 days
Held-to-maturity securities at amortized cost	4,519,985	3,698,098	3 days
Investments	73,797	85,613	10 days
Total cash and assets readily convertible to cash	$11,056,600	$10,367,660	

As of June 30, 2018 and December 31, 2017, the amount of collateral by asset class is as follows (in thousands):

June 30, 2018	December 31, 2017

	Contractual	Contingent	Contractual	Contingent
Cash and cash equivalents	$83,869	$—	$44,883	$—
Financial instruments owned at fair value	514,334	802,551	233,704	529,425
Available-for-sale securities at fair value	—	4,340,456	—	4,259,700
	$598,203	$5,143,007	$278,587	$4,789,125

Capital Management

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At June 30, 2018, the maximum number of shares that may yet be purchased under this plan was 6.3 million.

Liquidity Risk Management

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

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

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

subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

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

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

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

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

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

- No government support
- No access to equity and unsecured debt markets within the stress horizon
- Higher haircuts and significantly lower availability of secured funding

- Additional collateral that would be required by trading counter-parties, certain exchanges, and clearing organizations related to credit rating downgrades
- Additional collateral that would be required due to collateral substitution, collateral disputes, and uncalled collateral
- Drawdowns on unfunded commitments provided to third parties
- Client cash withdrawals and reduction in customer short positions that fund long positions
- Return of securities borrowed on an uncollateralized basis
- Maturity roll-off of outstanding letters of credit with no further issuance

At June 30, 2018, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its liquidity stress test model.

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

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Under all stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers agency mortgage-backed securities, corporate bonds, and commercial mortgage-backed securities as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At June 30, 2018, available cash and highly liquid investments comprised approximately 16% of Stifel Bank’s assets, which was well in excess of its internal target.

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

Funding Sources

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company’s liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company’s equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, Federal Home Loan Bank advances, and federal funds agreements.

Cash and Cash Equivalents – We held $472.2 million of cash and cash equivalents at June 30, 2018, compared to $696.3 million at December 31, 2017. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

Securities Available-for-Sale – We held $3.5 billion in available-for-sale investment securities at June 30, 2018, compared to $3.8 billion at December 31, 2017. As of June 30, 2018, the weighted-average life of the investment securities portfolio was approximately 1.7 years. These investment securities provide increased liquidity and flexibility to support our company’s funding requirements.

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

Deposits – Deposits have become one of our largest funding sources. Deposits provide a stable, low-cost source of funds that we utilize to fund loan and asset growth and to

diversify funding sources. We have continued to expand our deposit-gathering efforts through our existing private client network and through expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, and certificates of deposit ("CDs").

As of June 30, 2018, we had $13.9 billion in deposits compared to $13.4 billion at December 31, 2017. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

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

Our uncommitted secured lines of credit at June 30, 2018, totaled $1.0 billion with six banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was $391.0 million during the six months ended June 30, 2018. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are generally utilized to finance certain fixed income securities. At June 30, 2018, our uncommitted secured lines of credit of $243.0 million were collateralized by company-owned securities valued at $285.2 million.

The Federal Home Loan advances of $760.0 million as of June 30, 2018 are floating-rate advances. The weighted average interest rates during the three and six months ended June 30, 2018 on these advances is 1.47% and 1.45%, respectively. 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.

Unsecured short-term borrowings – On April 26, 2017, we amended our existing Credit Agreement, whereby increasing our revolving credit facility to $200.0 million. The credit facility expires in March 2020. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to LIBOR plus 2.00%, as defined.

We can draw upon this line as long as certain restrictive covenants are maintained. Under our amended and restatement Credit Agreement, we are required to maintain compliance with a minimum consolidated tangible net worth covenant, as defined, and a maximum consolidated total capitalization ratio covenant, as defined. In addition, Stifel, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory excess net capital covenant, as defined, and Stifel Bank, our bank subsidiary, is required to maintain its status as well-capitalized, as defined.

Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency, and judgment defaults. At June 30, 2018, we had no advances on our revolving credit facility and were in compliance with all covenants.

In June 2018, Stifel, our broker-dealer subsidiary, entered into a 364-day, Credit Agreement ("Stifel Credit Facility") with a maturity date of June 2019 in which the lenders are a number of financial institutions. This committed unsecured borrowing facility provides for maximum borrowings of up to $250.0 million at variable rates of interest.

Under the Stifel Credit Facility, Stifel is required to maintain compliance with a minimum consolidated tangible net worth covenant, as defined, and to maintain compliance with a minimum regulatory excess net capital covenant, as defined.

The Stifel Credit Facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency, and judgment defaults. At June 30, 2018, there were no advances on the Stifel Credit Facility and we were in compliance with all covenants.

Federal Home Loan Bank Advances and other secured financing – Stifel Bank has borrowing capacity with the Federal Home Loan Bank of $4.0 billion at June 30, 2018 and a $25.0 million federal funds agreement, for the purpose of purchasing short-term funds should additional liquidity be needed. At June 30, 2018, outstanding FHLB advances were $760.0 million. Stifel Bank is eligible to participate in the Fed's discount window program; however, Stifel Bank does not view borrowings from the Fed as a primary means of funding. The credit available in this program is subject to periodic review, may be terminated or reduced at the discretion of the Fed, and is secured by securities. Stifel Bank has borrowing capacity of $2.3 billion with the

Fed's discount window at June 30, 2018. Stifel Bank receives overnight funds from excess cash held in Stifel brokerage accounts, which are deposited into a money market account. These balances totaled $13.6 billion at June 30, 2018.

Public Offering of Senior Notes –On July 15, 2014, we sold in a registered underwritten public offering, $300.0 million in aggregate principal amount of 4.250% senior notes due July 2024 (the "2014 Notes"). Interest on the 2014 Notes is payable semi-annually in arrears. We may redeem the 2014 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a "make-whole" premium and accrued and unpaid interest, if any, to the date of redemption. In July 2014, we received a BBB- rating on the 2014 Notes.

On December 1, 2015, we sold in a registered underwritten public offering, $300.0 million in aggregate principal amount of 3.50% senior notes due December 2020 (the "December 2015 Notes"). Interest on the December 2015 Notes is payable semi-annually in arrears. We may redeem the December 2015 Notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a "make-whole" premium and accrued and unpaid interest, if any, to the date of redemption. In December 2015, we received a BBB- rating on the 2015 Notes.

On July 11, 2016, the Company completed the pricing of an additional $200.0 million in aggregate principal amount of the Company's 2014 Notes. The 2014 Notes mature in July 2024 and bear interest at 4.250%, payable semi-annually in arrears in January and July.

On October 4, 2017, we completed the pricing of a registered underwritten public offering of $200.0 million in aggregate principal amount of 5.20% senior notes due October 2047. Interest on the senior notes is payable quarterly in arrears on January 15, April 15, July 15, and October 15. On or after October 15, 2022, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date. On

October 27, 2017, we completed the sale of an additional $25.0 million aggregate principal amount of Notes pursuant to the over-allotment option. In October 2017, we received a BBB- rating on the 2017 Notes.

Credit Rating

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

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

Use of Capital Resources

On March 19, 2018, the Company completed the acquisition of Ziegler, a privately held investment bank, capital markets and proprietary investments firm that has 55 private client advisors in five states that manage approximately $5 billion in client assets. Ziegler provides its clients with capital raising, strategic advisory services, equity and fixed income sales & trading and research. The acquisition was funded with cash from operations.

On May 10, 2018, the Company entered into a definitive agreement with Business Bancshares, Inc. to acquire Business Bancshares, Inc. and its wholly owned subsidiary, The Business Bank of St. Louis, which operates a full-service banking facility from a single location. Business Bancshares, Inc. has, on a consolidated basis with its subsidiaries, approximately $620 million in total assets, $516 million of loans, $536 million of total deposits, and $70 million of tangible equity. The Company will issue shares of its common stock as consideration for the deal. The acquisition is expected to close in the third quarter of 2018.

We have paid $37.2 million in the form of upfront notes to financial advisors for transition pay during the six months ended June 30, 2018. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may decide to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost

compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors' trailing production and assets under management. These notes are generally forgiven over a five- to ten-year period based on production. The future estimated amortization expense of the upfront notes, assuming current-year production levels and static growth for the remaining six months in 2018, and the years ended December 31, 2019, 2020, 2021, 2022, and thereafter are $44.5 million, $74.4 million, $58.4 million, $47.9 million, $42.2 million, and $95.2 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards, and stock units to our employees. Historically, we have granted stock units to our employees as part of our retention program. In response to the Tax Legislation that was enacted in December 2017, the Company offered certain employees the opportunity to participate in the conversion of certain restricted stock units into restricted stock pursuant to a Modification Award Agreement. A restricted stock unit or restricted stock award 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 or restricted stock awards generally vest over the next one to ten years after issuance and are distributed at predetermined future payable dates once vesting occurs. At June 30, 2018, the total number of stock units and restricted stock awards outstanding was 16.4 million, of which 12.8 million were unvested. At June 30, 2018, the total number of performance-based restricted stock units was 0.6 million, of which all were unvested. At June 30, 2018, there was unrecognized compensation cost for stock units of approximately $299.7 million, which is expected to be recognized over a weighted-average period of 3.1 years.

The future estimated compensation expense of the unvested units, assuming current year forfeiture levels and static growth for the remaining six months in 2018, and the years ended December 31, 2019, 2020, 2021, 2022, and thereafter are $35.7 million, $67.5

million, $65.7 million, $53.3 million, $41.0 million, and $36.5 million, respectively. These estimates could change if our forfeitures change from historical levels.

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

At June 30, 2018, Stifel had net capital of $302.1 million, which was 17.4% of aggregate debit items and $267.4 million in excess of its minimum required net capital. At June 30, 2018, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule. At June 30, 2018, our international subsidiary's capital and reserves were in excess of the financial resources requirement under the rules of the FCA. At June 30, 2018, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 16 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

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

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

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, as well as Note 2 of the Notes to Consolidated Financial Statements in this Form 10-Q.

Valuation of Financial Instruments

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

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

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

When available, we use observable market prices, observable market parameters, or broker or dealer quotes (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable

market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

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

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

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

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions, certain corporate bonds and equity securities where there was less frequent or nominal market activity and auction rate securities

for which the market has been dislocated and largely ceased to function. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level 3 corporate bonds are valued using prices from comparable securities. Equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction rate securities are valued based upon our expectations of issuer redemptions and using internal models.

Contingencies

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

Allowance for Loan Losses

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

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

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

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

Derivative Instruments and Hedging Activities

Our derivative instruments are carried on the consolidated statement of financial condition at fair value. We utilize these derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, "Derivatives and Hedging." Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Legislation”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date.

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

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

Goodwill and Intangible Assets

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

Goodwill for certain acquisitions is deductible for tax purposes. The amortization of goodwill for tax purposes creates a cash tax savings due to a reduction in the current taxes payable. We have recorded cash tax savings for the six months ending June 30, 2018 of $3.2 million, and anticipate cumulative future cash savings of $55.5 million as of result of the tax amortization of goodwill.

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

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. Our annual goodwill impairment testing was completed as of October 1, 2017, with no impairment identified.

The goodwill impairment test requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments, and estimates about future cash flows and discount rates are complex and often subjective. They can be

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

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

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 20 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

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

Market Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the six months ended June 30, 2018, and the daily VaR at June 30, 2018 and December 31, 2017 (in thousands):

	Six Months Ended June 30, 2018			VAR Calculation at	
	High	Low	Daily Average	June 30, 2018	December 31, 2017
Daily VaR	$7,281	$2,507	$ 4,662	$2,757	$ 5,636

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

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

The following table illustrates the estimated change in net interest margin at June 30, 2018, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	8.5 %
+100	4.0
0	—
-100	(6.3)
-200	(25.6)

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at June 30, 2018 (in thousands):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
Interest-earning assets:				
Loans	$5,086,666	$199,078	$1,773,489	$589,257
Securities	5,487,926	167,054	1,234,910	1,195,641
Interest-bearing cash	32,441	—	—	—
	$10,607,033	$366,132	$3,008,399	$1,784,898
Interest-bearing liabilities:				
Transaction accounts and savings	$12,523,036	$—	$—	$—
Certificates of deposit	687,536	538,947	137,604	—
Borrowings	220,000	290,000	250,000	16,079
	$13,430,572	$828,947	$387,604	$16,079
GAP	(2,823,539)	(462,815)	2,620,795	1,768,819
Cumulative GAP	$(2,823,539)	$(3,286,354)	$(665,559)	$1,103,260

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

Equity Price Risk

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

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

Credit Risk

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At June 30, 2018, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $2.6 billion, and the fair value of the collateral that had been sold or repledged was $514.3 million.

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

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

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

Operational Risk

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

Regulatory and Legal Risk

Legal risk includes the risk of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under “Critical Accounting Policies and Estimates” in Item 2, Part I and “Legal Proceedings” in Item 1, Part II of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. Our international subsidiary, SNEL, is subject to the regulatory supervision and requirements of the FCA in the United Kingdom. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to

various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC") and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to, among other things, provide reasonable assurance that material information, both financial and non-financial, and other information required under the securities laws to be disclosed is accumulated and communicated to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis. Under the direction of the Chief Executive Officer and Chief Financial Officer, management has evaluated our disclosure controls and procedures as of June 30, 2018 and has concluded that the disclosure controls and procedures were adequate and effective as of such date.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please see our discussion set forth under Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2017 and Item 1. “Financial Statements” in our Form 10-Q for the quarter ended June 30, 2018.

ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

There were no unregistered sales of equity securities during the quarter ended June 30, 2018. The following table sets forth information with respect to purchases made by or on behalf of Stifel Financial Corp. or any “affiliated purchaser” (as defined in Rule 10b-10(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended June 30, 2018.

	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publically Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
April 1 - 30, 2018	351,030	$ 57.33	351,030	6,731,432
May 1 - 31, 2018	41,499	57.33	41,499	6,689,933
June 1 - 30, 2018	372,307	55.18	372,307	6,317,626
	764,836	$ 56.28	764,836	

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At June 30, 2018, the maximum number of shares that may yet be purchased under this plan was 6.3 million.

ITEM 6. EXHIBITS

Exhibit No.	Description
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of June 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements.

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

SIGNATURES

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

STIFEL FINANCIAL CORP.

/s/ Ronald J. Kruszewski
Ronald J. Kruszewski

Chairman of the Board and

Chief Executive Officer

/s/ James M. Zemlyak
James M. Zemlyak

Chief Financial Officer

Date: August 7, 2018

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