STIFEL FINANCIAL CORP
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

OR

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

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant’s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant's common stock, $0.15 par value per share, as of the close of business on November 1, 2016, was 66,253,838.

STIFEL FINANCIAL CORP.

Form 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$675,057	$811,019
Cash segregated for regulatory purposes	166	227,727
Receivables:		
Brokerage clients, net	1,443,492	1,599,218
Brokers, dealers, and clearing organizations	548,470	601,831
Securities purchased under agreements to resell	297,827	160,423
Financial instruments owned, at fair value	1,148,785	749,443
Available-for-sale securities, at fair value	3,145,267	1,629,907
Held-to-maturity securities, at amortized cost	2,241,203	1,855,399
Loans held for sale, at lower of cost or market	217,316	189,921
Bank loans, net	4,956,676	3,143,515
Investments, at fair value	153,595	181,017
Fixed assets, net	173,874	181,966
Goodwill	989,126	915,602
Intangible assets, net	92,638	63,177
Loans and advances to financial advisors and other employees, net	407,233	401,293
Deferred tax assets, net	254,587	285,127
Other assets	459,596	329,466
Total Assets	$17,204,908	$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	September 30, 2016 (Unaudited)	December 31, 2015
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	$931,358	$1,000,422
Brokers, dealers, and clearing organizations	464,617	438,031
Drafts	59,909	183,857
Securities sold under agreements to repurchase	261,734	278,674
Bank deposits	9,885,441	6,638,356
Financial instruments sold, but not yet purchased, at fair value	665,757	521,744
Accrued compensation	242,714	363,791
Accounts payable and accrued expenses	404,208	349,040
Federal Home Loan Bank advances	500,000	148,000
Borrowings	234,200	89,084
Senior notes	795,780	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
Total liabilities	14,513,218	10,833,635
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; 6,000 issued	150,000	—
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 69,507,842 shares, respectively	10,426	10,426
Additional paid-in-capital	1,824,066	1,820,772
Retained earnings	852,422	805,685
Accumulated other comprehensive loss	(34,119)	(39,533)
	2,802,795	2,597,350
Treasury stock, at cost, 3,286,400 and 2,483,071 shares, respectively	(111,105)	(104,934)
Total Shareholders' Equity	2,691,690	2,492,416
Total Liabilities and Shareholders' Equity	$17,204,908	$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Revenues:				
Commissions	$171,272	$194,083	$551,306	$562,249
Principal transactions	117,002	95,593	364,376	281,794
Investment banking	144,799	118,753	378,582	400,302
Asset management and service fees	144,206	130,636	433,305	364,442
Interest	74,881	43,376	203,488	129,964
Other income	9,209	18,930	33,804	44,471
Total revenues	661,369	601,371	1,964,861	1,783,222
Interest expense	19,383	9,796	50,756	32,914
Net revenues	641,986	591,575	1,914,105	1,750,308
Non-interest expenses:				
Compensation and benefits	434,236	404,205	1,305,372	1,169,896
Occupancy and equipment rental	62,453	53,282	178,455	145,798
Communications and office supplies	31,182	35,678	105,268	96,026
Commissions and floor brokerage	10,777	12,430	34,653	31,623
Other operating expenses	75,356	63,632	202,669	176,480
Total non-interest expenses	614,004	569,227	1,826,417	1,619,823
Income from operations before income tax expense	27,982	22,348	87,688	130,485
Provision for income taxes	10,168	5,169	33,048	49,321
Net income	17,814	17,179	54,640	81,164
Preferred dividends	1,563	-	1,563	-
Net income available to common shareholders	$16,251	$17,179	$53,077	$81,164
Earnings per common share:				
Basic	$0.24	$0.25	$0.79	$1.18
Diluted	$0.21	$0.22	$0.69	$1.04
Weighted-average number of common shares outstanding:				
Basic	66,482	69,633	66,950	68,675
Diluted	77,544	79,759	76,612	78,326

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$17,814	$17,179	$54,640	$81,164
Other comprehensive income/(loss), net of tax: [1]				
Changes in unrealized gains/(losses) on available-for-sale securities [2]	4,494	(1,827)	14,915	1,770
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	1,633	1,216	2,942	3,491
Changes in unrealized gains/(losses) on cash flow hedging instruments [3]	4,279	(289)	(4,128)	199
Foreign currency translation adjustment	(1,036)	(2,935)	(8,315)	(1,620)
Total other comprehensive income/(loss), net of tax	9,370	(3,835)	5,414	3,840
Comprehensive income	$27,184	$13,344	$60,054	$85,004

(1) Net of tax expense of $5.8 million and $2.4 million for the three months ended September 30, 2016 and 2015, respectively. Net of tax expense of $3.4 million and tax expense of $2.4 million for the nine months ended September 30, 2016 and 2015, respectively.

(2) There were no reclassifications to earnings during the three and nine months ended September 30, 2016. Amounts are net of reclassifications to earnings of realized gains of $0.2 million and $2.1 million for the three and nine months ended September 30, 2015, respectively.

(3) Amounts are net of reclassifications to earnings of losses of $1.4 million and $0.9 million for the three months ended September 30, 2016 and 2015, respectively. Amounts are net of reclassifications to earnings of losses of $4.3 million and $3.1 million for the nine months ended September 30, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2016	2015
Cash Flows From Operating Activities:		
Net income	$54,640	$81,164
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	31,928	27,386
Amortization of loans and advances to financial advisors and other employees	53,046	50,529
Amortization of premium on investment portfolio	8,561	2,557
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	11,402	5,509
Amortization of intangible assets	10,558	5,952
Deferred income taxes	26,448	8,814
Excess tax deficit/(tax benefits) from stock-based compensation	5,797	(17,031)
Stock-based compensation	149,093	110,569
Losses on sale of investments	3,680	10,102
Gain on extinguishment of Stifel Financial Capital Trust	(5,607)	—
Other, net	4,479	278
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	226,903	49,325
Receivables:		
Brokerage clients	149,744	(112,106)
Brokers, dealers, and clearing organizations	36,681	33,517
Securities purchased under agreements to resell	(137,404)	(33,389)
Financial instruments owned, including those pledged	(399,342)	31,484
Mortgages originated as held for sale	(1,919,714)	(1,347,547)
Proceeds from mortgages held for sale	1,893,352	1,317,242
Loans and advances to financial advisors and other employees	(61,660)	(68,468)
Other assets	(135,030)	19,619
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	(69,064)	102,353
Brokers, dealers, and clearing organizations	(42,812)	50,028
Drafts	(123,948)	(5,682)
Financial instruments sold, but not yet purchased	144,013	(74,942)
Other liabilities and accrued expenses	(142,799)	(248,703)
Net cash used in operating activities	$(227,055)	$(1,440)

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2016	2015
Cash Flows From Investing Activities:		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	$140,453	$853,441
Calls and principal paydowns of held-to-maturity securities	163,913	82,941
Sale or maturity of investments	33,615	52,959
Disposition of business, net	12,597	—
Increase in bank loans, net	(1,821,877)	(375,194)
Payments for:		
Purchase of available-for-sale securities	(1,637,419)	(423)
Purchase of held-to-maturity securities	(551,984)	—
Purchase of investments	(9,873)	(17,086)
Purchase of fixed assets	(21,315)	(61,663)
Acquisitions, net of cash received	(71,924)	18,456
Net cash provided by/(used in) investing activities	(3,763,814)	553,431
Cash Flows From Financing Activities:		
Proceeds from borrowings, net	145,116	86,617
Proceeds from Federal Home Loan Bank advances, net	352,000	96,000
Payment of contingent consideration	—	(29,598)
Proceeds from issuance of senior notes, net	201,632	—
Proceeds from issuance of preferred stock, net	145,275	—
(Decrease)/increase in securities sold under agreements to repurchase	(16,940)	67,757
Increase/(decrease) in bank deposits, net	3,247,085	(673,270)
Increase in securities loaned	69,055	42,752
Excess (tax deficit)/tax benefits from stock-based compensation	(5,797)	17,031
Proceeds from stock option exercises	214	343
Repurchase of common stock	(113,462)	(65,858)
Cash dividends on preferred stock	(1,563)	—
Extinguishment of Stifel Financial Capital Trust	(9,393)	—
Repayment of senior notes	(150,000)	(175,000)
Net cash provided by financing activities	3,863,222	(633,226)
Effect of exchange rate changes on cash	(8,315)	(1,447)
Decrease in cash and cash equivalents	(135,962)	(82,682)
Cash and cash equivalents at beginning of period	811,019	689,782
Cash and cash equivalents at end of period	$675,057	$607,100
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	$22,063	$45,115
Cash paid for interest	46,617	29,673
Noncash financing activities:		

Unit grants, net of forfeitures	158,345	132,145
Issuance of common stock for acquisitions	11,427	80,981
Shares surrendered into treasury	—	223

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

On January 4, 2016, the Company completed the acquisition of Eaton Partners, LLC ("Eaton Partners"), a global fund placement and advisory firm. Eaton Partners will retain its brand name and will be run as a Stifel company. The acquisition was funded with cash from operations and our common stock.

On May 5, 2016, the Company completed the acquisition of ISM Capital LLP ("ISM"), an independent investment bank focused on international debt capital markets. The acquisition of ISM adds to the Company's debt capital markets origination, sales and research capabilities in Europe, including an end-to-end platform for convertible securities and other equity-linked debt instruments. The acquisition was funded with cash from operations.

Basis of Presentation

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

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

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2015.

NOTE 2 – Recently Issued Accounting Guidance

Financial Instruments – Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." For trade receivables, loans, and held-to-maturity debt securities, the current probable loss recognition methodology is being replaced by an expected credit loss model. For available-for-sale debt securities, the recognition model on credit losses is generally unchanged, except the losses will be presented as an adjustable allowance. The guidance is effective for fiscal years beginning after December 15, 2019 (January 1, 2020 for our Company), including interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

Share-Based Payments

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09") that requires an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. The guidance is effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for our company). We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases" that requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The guidance is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company). Early adoption is permitted. We are currently evaluating the transition method that will be elected and the effect that the new guidance will have on our consolidated financial statements.

Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" that will change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The guidance is effective for fiscal years beginning after December 15, 2017 (January 1, 2018 for our company). We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

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

In May 2015, the FASB issued ASU No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" ("ASU 2015-07"). The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 (January 1, 2016 for our company). See Note 4 – Fair Value Measurements.

Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for fiscal years beginning after December 15, 2015 (January 1, 2016 for our company) and is required to be applied retrospectively to all periods presented beginning in the year of adoption. Upon the adoption of ASU 2015-03 by our company on January 1, 2016, the impact was a reduction in both other assets and senior notes of $9.9 million. In accordance with ASU No. 2015-03, previously reported amounts have been conformed to the current presentation, as reflected in the consolidated statements of financial condition. The impact as of December 31, 2015 was a reduction to both total assets and total liabilities of $9.9 million.

Revenue Recognition

In April 2016, the FASB issued ASU No. 2016-10, “Identifying Performance Obligations and Licensing” that amends the revenue guidance in ASU 2014-09 on identifying performance obligations. The effective date of the new guidance will coincide with ASU 2014-09 during the first quarter 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. We are currently evaluating the effect that the new guidance will have on our consolidated financial statements.

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

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

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2016 and December 31, 2015, included (in thousands):

	September 30, 2016	December 31, 2015
Deposits paid for securities borrowed	$428,274	$318,105
Securities failed to deliver	60,777	23,649
Receivables from clearing organizations	59,419	260,077

	$548,470	$601,831

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2016 and December 31, 2015, included (in thousands):

	September 30, 2016	December 31, 2015
Deposits received from securities loaned	$398,741	$329,670
Payable to clearing organizations	36,317	92,008
Securities failed to receive	29,559	16,353
	$464,617	$438,031

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

NOTE 4 – Fair Value Measurements

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

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

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

Financial Instruments Owned and Available-For-Sale Securities

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

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

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

Investments

Investments carried at fair value primarily include U.S. government securities, corporate equity securities, auction-rate securities (“ARS”), and private company investments.

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

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

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

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

Investments at fair value include investments in funds, including certain money market funds, that are measured at NAV. The Company uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value. The Company adopted ASU No. 2015-07 in January 2016 and, as required, disclosures in the paragraphs and tables below are limited to only those investments in funds that are measured at NAV. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation.

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

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

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

	September 30, 2016	
	Fair value of investments	Unfunded commitments
Private company investments	$28,868	$ 9,169
Partnership interests	17,030	1,822
Mutual funds	15,373	—
Private equity funds	9,326	9,335
Money market funds	19,946	—
Total	$90,543	$ 20,326

	December 31, 2015	
	Fair value of investments	Unfunded commitments
Private company investments	$34,385	$ 14,178
Partnership interests	22,502	2,018
Mutual funds	20,399	—
Private equity funds	12,970	9,352
Money market funds	77,097	—
Total	$167,353	$ 25,548

Financial Instruments Sold, But Not Yet Purchased

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

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

Derivatives

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2016, are presented below (in thousands):

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$19,616	$19,616	$—	$—
U.S. government agency securities	226,632	—	226,632	—
Mortgage-backed securities:				
Agency	295,666	—	295,666	—
Non-agency	35,369	—	34,213	1,156
Corporate securities:				
Fixed income securities	271,785	5,099	266,407	279
Equity securities	27,995	26,984	545	466
State and municipal securities	271,722	—	271,722	—
Total financial instruments owned	1,148,785	51,699	1,095,185	1,901
Available-for-sale securities:				
U.S. government agency securities	4,446	402	4,044	—
State and municipal securities	73,860	—	73,860	—
Mortgage-backed securities:				
Agency	365,636	—	365,636	—
Commercial	77,271	—	77,271	—
Non-agency	2,091	—	2,091	—
Corporate fixed income securities	828,770	—	828,770	—
Asset-backed securities	1,793,193	—	1,793,193	—
Total available-for-sale securities	3,145,267	402	3,144,865	—
Investments:				
Corporate equity securities	26,385	22,040	—	4,345
Auction rate securities:				
Equity securities	50,607	—	—	50,607
Municipal securities	1,356	—	—	1,356
Other [1]	4,650	—	383	4,267
Investments in funds measured at NAV	70,597			
Total investments	153,595	22,040	383	60,575
Cash equivalents measured at NAV	19,946			
	$4,467,593	$74,141	$4,240,433	$62,476

[1] Includes certain private company and other investments.

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$319,219	$319,219	$—	$ —
Agency mortgage-backed securities	116,506	—	116,506	—
Corporate securities:				
Fixed income securities	207,080	1,487	205,593	—
Equity securities	22,905	22,905	—	—
State and municipal securities	47	—	47	—
Total financial instruments sold, but not yet purchased	665,757	343,611	322,146	—
Derivative contracts [2]	10,599	—	10,599	—
	$676,356	$343,611	$332,745	$ —

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015, are presented below (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$45,167	$45,167	$—	$—
U.S. government agency securities	116,949	—	116,949	—
Mortgage-backed securities:				
Agency	205,473	—	205,473	—
Non-agency	33,319	—	31,843	1,476
Corporate securities:				
Fixed income securities	203,910	13,203	190,707	—
Equity securities	31,642	29,388	1,635	619
State and municipal securities	112,983	—	112,983	—
Total financial instruments owned	749,443	87,758	659,590	2,095
Available-for-sale securities:				
U.S. government agency securities	1,698	—	1,698	—
State and municipal securities	74,167	—	74,167	—
Mortgage-backed securities:				
Agency	304,893	—	304,893	—
Commercial	11,310	—	11,310	—
Non-agency	2,518	—	2,518	—
Corporate fixed income securities	319,408	—	319,408	—
Asset-backed securities	915,913	—	915,913	—
Total available-for-sale securities	1,629,907	—	1,629,907	—

Investments:				
Corporate equity securities	30,737	26,436	—	4,301
U.S. government securities	102	102	—	—
Auction rate securities:				
Equity securities	55,710	—	5,268	50,442
Municipal securities	1,315	—	—	1,315
Other [1]	2,897	4	2,873	20
Investments measured at NAV	90,256			
Total investments	181,017	26,542	8,141	56,078
Cash equivalents measured at NAV	77,097			
	$2,637,464	$114,300	$2,297,638	$58,173

[1] Includes certain private company and other investments.

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$186,030	$186,030	$—	$ —
Agency mortgage-backed securities	50,830	—	50,830	—
Corporate securities:				
Fixed income securities	255,700	3,601	252,099	—
Equity securities	29,184	22,894	6,290	—
Total financial instruments sold, but not yet purchased	521,744	212,525	309,219	—
Derivative contracts [2]	3,591	—	3,591	—
	$525,335	$212,525	$312,810	$ —

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

The following table summarizes the changes in fair value associated with Level 3 financial instruments during the three months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016						
	Financial instruments owned			Investments			
	Mortgage-Backed Securities – Non-Agency	Fixed Income Securities	Equity Securities	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other [1]
Balance at June 30, 2016	$1,235	292	$ 619	$4,529	$ 50,750	$ 1,355	$1,240
Unrealized gains/(losses):							
Included in changes in net assets [2]	—	—	(406)	816	57	1	—
Included in OCI [3]	—	—	—	—	—	—	—
Realized gains/(losses) [2]	42	—	—	(999)	—	—	—
Purchases	—	—	253	—	50	—	3,027
Sales	(1)	—	—	(1)	—	—	—
Redemptions	(120)	(13)	—	—	(250)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—
Net change	(79)	(13)	(153)	(184)	(143)	1	3,027
Balance at September 30, 2016	$1,156	$ 279	$ 466	$4,345	$ 50,607	$ 1,356	$4,267

[1] Includes private company and other investments.

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

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

The following table summarizes the change in fair value associated with Level 3 financial instruments during the nine months ended September 30, 2016 (in thousands):

	Nine Months Ended September 30, 2016						
	Financial instruments owned			Investments			
	Mortgage-Backed Securities – Non-Agency	Fixed Income Securities	Equity Securities	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other [1]
Balance at December 31, 2015	$1,476	—	$ 619	$2,942	$ 50,442	$ 1,315	$20
Unrealized gains/(losses):							
Included in changes in net assets [2]	(18)	—	(406)	2,403	840	41	—
Included in OCI [3]	—	—	—	—	—	—	—
Realized gains/(losses) [2]	51	—	—	(999)	—	—	—
Purchases	—	292	253	—	50	—	3,782
Sales	(1)	—	—	(1)	—	—	—
Redemptions	(352)	(13)	—	—	(725)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	465
Out of Level 3	—	—	—	—	—	—	—
Net change	(320)	279	(153)	1,403	165	41	4,247
Balance at September 30, 2016	$1,156	$ 279	$ 466	$4,345	$ 50,607	$ 1,356	$4,267

[1] Includes private company and other investments.

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

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

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments during the nine months ended September 30, 2016 were principally a result of purchases of partnership interests. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2016, relating to Level 3 assets still held at September 30, 2016, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of September 30, 2016.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	1.8 - 11.7%	5.8%
		Workout period	1 - 3 years	2.5 years
Municipal securities	Discounted cash flow	Discount rate	0.0 - 10.4%	4.9%
		Workout period	1 - 4 years	2.1 years

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

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

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were $0.3 million and $1.5 million of transfers of financial assets from Level 2 to Level 1 during the three and nine months ended September 30, 2016, respectively, primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were $3.7 million and $6.2 million of transfers of financial assets from Level 1 to Level 2 during the three and nine months ended September 30, 2016, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were $0.5 million of transfers into Level 3 during the nine months ended September 30, 2016.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments as of September 30, 2016 and December 31, 2015, whether or not recognized in the consolidated statements of financial condition at fair value (in thousands).

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$675,057	$675,057	$811,019	$811,019
Cash segregated for regulatory purposes	166	166	227,727	227,727
Securities purchased under agreements to resell	297,827	297,827	160,423	160,423
Financial instruments owned	1,148,785	1,148,785	749,443	749,443
Available-for-sale securities	3,145,267	3,145,267	1,629,907	1,629,907
Held-to-maturity securities	2,241,203	2,300,092	1,855,399	1,874,998
Loans held for sale	217,316	217,316	189,921	189,921
Bank loans	4,956,676	5,027,419	3,143,515	3,188,402
Investments	153,595	153,595	181,017	181,017
Financial liabilities:				
Securities sold under agreements to repurchase	$261,734	$261,734	$278,674	$278,674
Bank deposits	9,885,441	9,683,872	6,638,356	6,627,818
Financial instruments sold, but not yet purchased	665,757	665,757	521,744	521,744
Derivative contracts [1]	10,599	10,599	3,591	3,591
Borrowings	234,200	234,200	89,084	89,084
Federal Home Loan Bank advances	500,000	500,000	148,000	148,000
Senior notes	795,780	809,971	740,136	736,135
Debentures to Stifel Financial Capital Trusts	67,500	49,466	82,500	72,371

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

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$655,111	$655,111	$—	$—
Cash segregated for regulatory purposes	166	166	—	—
Securities purchased under agreements to resell	297,827	282,202	15,625	—
Held-to-maturity securities	2,300,092	—	2,078,767	221,325
Loans held for sale	217,316	—	217,316	—
Bank loans	5,027,419	—	5,027,419	—
Financial liabilities:				
Securities sold under agreements to repurchase	$261,734	$—	$261,734	$—
Bank deposits	9,683,872	—	9,683,872	—
Borrowings	234,200	—	234,200	—
Federal Home Loan Bank advances	500,000	500,000	—	—
Senior notes	809,971	809,971	—	—
Debentures to Stifel Financial Capital Trusts	49,466	—	—	49,466

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$733,922	$733,922	$—	$—
Cash segregated for regulatory purposes	227,727	227,727	—	—
Securities purchased under agreements to resell	160,423	160,423	-	—
Held-to-maturity securities	1,874,998	—	1,317,582	557,416
Loans held for sale	189,921	—	189,921	—
Bank loans	3,188,402	—	3,188,402	—
Financial liabilities:				
Securities sold under agreements to repurchase	$278,674	$278,674	$—	$—
Bank deposits	6,627,818	—	6,627,818	—
Borrowings	89,084	—	89,084	—
Federal Home Loan Bank advances	148,000	148,000	—	—
Senior notes	736,135	736,135	—	—
Debentures to Stifel Financial Capital Trusts	72,371	—	—	72,371

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of September 30, 2016 and December 31, 2015.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2016 and December 31, 2015 approximate fair value due to their short-term nature.

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2016 and December 31, 2015 approximate fair value due to the short-term nature.

Bank Deposits

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

Borrowings

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

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

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

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

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

The components of financial instruments owned and financial instruments sold, but not yet purchased, at September 30, 2016 and December 31, 2015 are as follows (in thousands):

	September 30, 2016	December 31, 2015
Financial instruments owned:		
U.S. government securities	$19,616	$45,167
U.S. government agency securities	226,632	116,949
Mortgage-backed securities:		
Agency	295,666	205,473
Non-agency	35,369	33,319
Corporate securities:		
Fixed income securities	271,785	203,910
Equity securities	27,995	31,642
State and municipal securities	271,722	112,983
	$1,148,785	$749,443
Financial instruments sold, but not yet purchased:		
U.S. government securities	$319,219	$186,030
Agency mortgage-backed securities	116,506	50,830
Corporate securities:		
Fixed income securities	207,080	255,700
Equity securities	22,905	29,184
State and municipal securities	47	—
	$665,757	$521,744

At September 30, 2016 and December 31, 2015, financial instruments owned in the amount of $711.4 million and $508.5 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

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

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

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$4,440	$ 8	$ (2)	$4,446
State and municipal securities	75,707	45	(1,892)	73,860
Mortgage-backed securities:				
Agency	366,610	820	(1,794)	365,636
Commercial	77,752	78	(559)	77,271
Non-agency	2,244	-	(153)	2,091
Corporate fixed income securities	819,843	9,247	(320)	828,770
Asset-backed securities	1,785,675	9,834	(2,316)	1,793,193
	$3,132,271	$ 20,032	$ (7,036)	$3,145,267
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,643,479	$ 48,873	$ (398)	$1,691,954
Commercial	59,566	3,701	—	63,267
Non-agency	701	—	(13)	688
Asset-backed securities	497,362	7,873	(1,312)	503,923
Corporate fixed income securities	40,095	165	—	40,260
	$2,241,203	$ 60,612	$ (1,723)	$2,300,092

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$1,700	$ 1	$ (3)	$1,698
State and municipal securities	75,953	28	(1,814)	74,167
Mortgage-backed securities:				
Agency	306,309	125	(1,541)	304,893
Commercial	11,177	134	(1)	11,310
Non-agency	2,679	2	(163)	2,518
Corporate fixed income securities	321,017	743	(2,352)	319,408

Asset-backed securities	922,563	774	(7,424)	915,913
	$1,641,398	$ 1,807	$ (13,298)	$1,629,907
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,257,808	$ 23,346	$ (3,105)	$1,278,049
Commercial	59,521	1,832	—	61,353
Non-agency	929	—	(15)	914
Asset-backed securities	496,996	2,076	(4,139)	494,933
Corporate fixed income securities	40,145	—	(396)	39,749
	$1,855,399	$ 27,254	$ (7,655)	$1,874,998

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

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

During the three and nine months ended September 30, 2016, there were no sales of available-for-sale securities. For the three and nine months ended September 30, 2015, we received proceeds of $89.0 million and $641.6 million, respectively, from the sale of available-for-sale securities, which resulted in net realized gains of $0.1 million and $3.2 million, respectively.

During the three months ended September 30, 2016, unrealized gains, net of deferred taxes, of $4.4 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the three months ended September 30, 2015, unrealized losses, net of deferred taxes, of $1.8 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

During the nine months ended September 30, 2016, unrealized gains, net of deferred taxes, of $14.9 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the nine months ended September 30, 2015, unrealized gains, net of deferred taxes, of $1.8 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

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

	September 30, 2016			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$23,542	$23,575	$	$
After one year through three years	272,434	274,519	40,095	40,260
After three years through five years	400,553	406,700	—	—
After five years through ten years	618,997	620,642	—	—
After ten years	1,370,139	1,374,833	497,361	503,923
Mortgage-backed securities				
Within one year	23	23	—	—
After one year through three years	—	—	—	—
After three years through five years	—	—	59,566	63,267
After five years through ten years	59,143	58,674	181,413	183,657
After ten years	387,440	386,301	1,462,768	1,508,985
	$3,132,271	$3,145,267	$2,241,203	$2,300,092

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at September 30, 2016, are as follows (in thousands):

	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total
Available-for-sale: [1]					
U.S. government agency securities	$1,428	$3,018	$—	$—	$4,446
State and municipal securities	—	—	17,337	56,523	73,860
Mortgage-backed securities:	—		-	-	
Agency	—	—	517	365,119	365,636
Commercial	—	—	58,157	19,114	77,271
Non-agency	23	—	—	2,068	2,091
Corporate fixed income securities	22,146	678,202	128,422	—	828,770
Asset-backed securities	—	—	474,884	1,318,309	1,793,193
	$23,597	$681,220	$679,317	$1,761,133	$3,145,267
Held-to-maturity:					
Mortgage-backed securities:					
Agency	$—	$—	$181,413	$1,462,066	$1,643,479
Commercial	—	59,566	—	—	59,566
Non-agency	—	—	—	701	701
Asset-backed securities	—	—	—	497,362	497,362
Corporate fixed income securities	—	40,095	—	—	40,095
	$—	$99,661	$181,413	$1,960,129	$2,241,203

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

At September 30, 2016 and December 31, 2015, securities of $1.9 billion and $1.4 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At September 30, 2016 and December 31, 2015, securities of $1.7 billion and $1.1 billion, respectively, were pledged with the Federal Reserve discount window.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at September 30, 2016 (in thousands):

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

Available-for-sale securities						
U.S. government securities	$(2)	$1,808	$—	$—	$(2)	$1,808
State and municipal securities	(33)	9,467	(1,859)	61,659	(1,892)	71,126
Mortgage-backed securities:						
Agency	(1,739)	224,447	(55)	7,550	(1,794)	231,997
Commercial	(559)	75,379	—	—	(559)	75,379
Non-agency	—	23	(153)	2,016	(153)	2,039
Corporate fixed income securities	(320)	175,119	—	—	(320)	175,119
Asset-backed securities	(2,233)	241,700	(83)	11,375	(2,316)	253,075
	$(4,886)	$727,943	$(2,150)	$82,600	$(7,036)	$810,543
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	$(377)	$192,269	$(21)	$1,595	$(398)	$193,864
Non-agency	—	—	(13)	689	(13)	689
Asset-backed securities	(80)	49,920	(1,232)	61,718	(1,312)	111,638
Corporate fixed income securities	—	—	—	—	—	—
	$(457)	$242,189	$(1,266)	$64,002	$(1,723)	$306,191

At September 30, 2016, the amortized cost of 73 securities classified as available for sale exceeded their fair value by $7.0 million, of which $2.2 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at September 30, 2016, was $810.5 million, which was 25.8% of our available-for-sale portfolio.

At September 30, 2016, the carrying value of 21 securities held to maturity exceeded their fair value by $1.7 million, of which $1.3 million related to securities held to maturity that have been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. There was no credit-related OTTI recognized during the three and nine months ended September 30, 2016 and 2015.

We believe the gross unrealized losses of $8.8 million related to our investment portfolio, as of September 30, 2016, are attributable to issuer-specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 7 – Bank Loans

Our loan portfolio consists primarily of the following segments:

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

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

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

Consumer. Consumer loans allow customers to purchase non-investment goods and services.

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

The following table presents the balance and associated percentage of each major loan category in our bank loan portfolio at September 30, 2016 and December 31, 2015 (in thousands, except percentages):

	September 30, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
Residential real estate	$1,804,112	36.1 %	$429,132	13.5 %
Commercial and industrial	1,558,284	31.2	1,216,656	38.2
Securities-based loans	1,452,913	29.1	1,388,953	43.7
Consumer	92,574	1.9	36,846	1.2
Commercial real estate	63,680	1.3	92,623	2.9
Home equity lines of credit	14,414	0.3	12,475	0.4
Construction and land	11,067	0.2	3,899	0.1
Gross bank loans	4,997,044	100.0 %	3,180,584	100.0 %
Unamortized loan premium/(discount), net	739		(5,296)	
Unamortized loan fees, net of loan fees	(2,401)		(1,567)	
Loans in process	439		(419)	
Allowance for loan losses	(39,145)		(29,787)	
Bank loans, net	$4,956,676		$3,143,515	

At September 30, 2016 and December 31, 2015, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of $0.5 million and $2.0 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $8.6 million and $7.2 million, respectively.

At September 30, 2016 and December 31, 2015, we had mortgage loans held for sale of $217.3 million and $189.9 million, respectively. For the three months ended September 30, 2016 and 2015, we recognized gains of $4.9 million and $3.5 million, respectively, from the sale of originated loans, net of fees and costs. For the nine months ended September 30, 2016 and 2015, we recognized gains of $11.7 million and $6.1 million, respectively, from the sale of originated loans, net of fees and costs.

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 (in thousands).

	Three Months Ended September 30, 2016				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$29,816	$ 2,631	$ (267)	$ —	$32,180
Securities-based loans	1,731	172	—	—	1,903
Consumer	107	203	(16)	1	295
Residential real estate	1,529	346	—	—	1,875
Commercial real estate	512	(8)	—	—	504
Home equity lines of credit	283	2	—	—	285
Construction and land	144	59	—	—	203
Qualitative	1,744	156	—	—	1,900
	$35,866	$ 3,561	$ (283)	$ 1	$39,145

	Nine Months Ended September 30, 2016				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$24,748	$ 7,699	$ (267)	$ —	$32,180
Securities-based loans	1,607	296	—	—	1,903
Consumer	105	205	(16)	1	295
Residential real estate	1,241	644	(13)	3	1,875
Commercial real estate	264	233	—	7	504
Home equity lines of credit	290	(5)	—	—	285
Construction and land	78	125	—	—	203
Qualitative	1,454	446	—	—	1,900
	$29,787	$ 9,643	$ (296)	$ 11	$39,145

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at September 30, 2016 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$2,415	$ 29,765	$32,180	$17,938	$ 1,540,346	$ 1,558,284
Securities-based loans	—	1,903	1,903	—	1,452,913	1,452,913
Consumer	7	288	295	9	92,565	92,574

Residential real estate	24	1,851	1,875	509	1,803,603	1,804,112
Commercial real estate	—	504	504	9,522	54,158	63,680
Home equity lines of credit	149	136	285	323	14,091	14,414
Construction and land	—	203	203	—	11,067	11,067
Qualitative	—	1,900	1,900	—	—	—
	$2,595	$ 36,550	$39,145	$28,301	$ 4,968,743	$4,997,044

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

	Three Months Ended September 30, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$19,297	$ 3,117	$ —	$ —	$22,414
Securities-based loans	1,445	61	—	—	1,506
Consumer	123	(22)	—	6	107
Residential real estate	904	197	(27)	48	1,122
Commercial real estate	286	(36)	—	14	264
Home equity lines of credit	265	(20)	—	8	253
Construction and land	—	47	—	—	47
Qualitative	1,603	391	—	—	1,994
	$23,923	$ 3,735	$ (27)	$ 76	$27,707

	Nine Months Ended September 30, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$16,609	$ 5,805	$ —	$ —	$22,414
Securities-based loans	1,099	407	—	—	1,506
Consumer	156	(55)	—	6	107
Residential real estate	787	425	(142)	52	1,122
Commercial real estate	232	(24)	—	56	264
Home equity lines of credit	267	(22)	—	8	253
Construction and land	—	47	—	—	47
Qualitative	1,581	413	—	—	1,994
	$20,731	$ 6,996	$ (142)	$ 122	$27,707

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$—	$ 22,414	$22,414	$—	$ 1,121,643	$1,121,643

Securities-based loans	—	1,506	1,506	—	1,004,142	1,004,142
Consumer	21	86	107	21	22,034	22,055
Residential real estate	24	1,098	1,122	945	260,013	260,958
Commercial real estate	—	264	264	—	19,811	19,811
Home equity lines of credit	149	104	253	323	10,937	11,260
Construction and land	—	47	47	—	2,474	2,474
Qualitative	—	1,994	1,994	—	—	—
	$194	$ 27,513	$27,707	$1,289	$ 2,441,054	$2,442,343

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2015 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and industrial	$—	$ 24,748	$24,748	$—	$ 1,216,656	$1,216,656
Securities-based loans	—	1,607	1,607	—	1,388,953	1,388,953
Consumer	14	91	105	14	36,832	36,846
Residential real estate	24	1,217	1,241	182	428,950	429,132
Commercial real estate	—	264	264	—	92,623	92,623
Home equity lines of credit	149	141	290	323	12,152	12,475
Construction and land	—	78	78	—	3,899	3,899
Qualitative	—	1,454	1,454	—	—	—
	$187	$ 29,600	$29,787	$519	$ 3,180,065	$3,180,584

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

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

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

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring (“TDR”), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At September 30, 2016, we had $28.3 million of impaired loans, net of discounts, which included $9.8 million in troubled debt restructurings, for which there was a specific allowance of $2.6 million. At December 31, 2015, we had $1.1 million of impaired loans, net of discounts, which included $0.3 million in troubled debt restructurings, for which there was a specific allowance of $0.2 million. The gross interest income related to impaired loans, which would have been recorded, had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2016 and 2015, were insignificant to the consolidated financial statements.

The tables below present loans that were individually evaluated for impairment by portfolio segment at September 30, 2016 and December 31, 2015, including the average recorded investment balance (in thousands):

	September 30, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$17,938	$ —	$ 17,938	$ 17,938	$ 2,415	$ 24,338
Securities-based loans	—	—	—	—	—	—
Consumer	802	2	7	9	7	10
Residential real estate	419	329	180	509	24	562
Commercial real estate	10,503	9,522	-	9,522	-	8,915
Home equity lines of credit	323	-	323	323	149	323
Construction and land	—	—	—	—	—	—
Total	$29,985	$ 9,853	$ 18,448	$ 28,301	$ 2,595	$ 34,148

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	December 31, 2015					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$—	$ —	$ —	$ —	$ —	$ —
Securities-based loans	—	—	—	—	—	—
Consumer	944	—	15	15	15	23
Residential real estate	776	524	182	706	24	752
Commercial real estate	—	—	—	—	—	—
Home equity lines of credit	342	19	323	342	149	342
Construction and land	—	—	—	—	—	—
Total	$2,062	$ 543	$ 520	$ 1,063	$ 188	$ 1,117

The following table presents the aging of the recorded investment in past due loans at September 30, 2016 and December 31, 2015 by portfolio segment (in thousands):

	As of September 30, 2016				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	$—	$ —	$ —	$1,558,284	$1,558,284
Securities-based loans	—	—	—	1,452,913	1,452,913
Consumer	2	2	4	92,570	92,574
Residential real estate	2,716	238	2,954	1,801,158	1,804,112
Commercial real estate	—	—	—	63,680	63,680
Home equity lines of credit	195	—	195	14,219	14,414
Construction and land	—	—	—	11,067	11,067
Total	$2,913	$ 240	$ 3,153	$4,993,891	$4,997,044

	As of September 30, 2016 *		
	Non-Accrual	Restructured	Total
Commercial and industrial	$17,938	$ —	$17,938
Securities-based loans	—	—	—
Consumer	9	—	9
Residential real estate	369	140	509
Commercial real estate	9,522	—	9,522
Home equity lines of credit	323	—	323

Construction and land	—	—	—
Total	$28,161	$ 140	$28,301

*There were no loans past due 90 days and still accruing interest at September 30, 2016.

	As of December 31, 2015				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	$—	$ —	$ —	$1,216,656	$1,216,656
Securities-based loans	—				