STIFEL FINANCIAL CORP
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 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 x No o

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

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

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

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

The number of shares outstanding of the registrant’s common stock, $0.15 par value per share, as of the close of business on May 2, 2016, was 66,472,096.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$577,350	$811,019
Cash segregated for regulatory purposes	37,051	227,727
Receivables:		
Brokerage clients, net	1,382,362	1,599,218
Brokers, dealers, and clearing organizations	719,790	601,831
Securities purchased under agreements to resell	207,946	160,423
Financial instruments owned, at fair value	1,028,781	749,443
Available-for-sale securities, at fair value	2,125,466	1,629,907
Held-to-maturity securities, at amortized cost	2,028,179	1,855,399
Loans held for sale, at lower of cost or market	132,900	189,921
Bank loans, net	3,467,187	3,143,515
Investments, at fair value	165,424	181,017
Fixed assets, net	182,450	181,966
Goodwill	974,266	915,602
Intangible assets, net	92,922	63,177
Loans and advances to financial advisors and other employees, net	407,403	401,293
Deferred tax assets, net	216,321	285,127
Other assets	467,930	329,466
Total Assets	$14,213,728	$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)	March 31, 2016 (Unaudited)	December 31, 2015
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	$1,077,414	$1,000,422
Brokers, dealers, and clearing organizations	282,920	438,031
Drafts	74,503	183,857
Securities sold under agreements to repurchase	290,729	278,674
Bank deposits	7,218,100	6,638,356
Financial instruments sold, but not yet purchased, at fair value	674,841	521,744
Accrued compensation	147,203	363,791
Accounts payable and accrued expenses	380,652	349,040
Borrowings	827,581	237,084
Senior notes	740,409	740,136
Debentures to Stifel Financial Capital Trusts	82,500	82,500
Total liabilities	11,796,852	10,833,635
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 69,508,281 and 69,507,842 shares, respectively	10,426	10,426
Additional paid-in-capital	1,733,605	1,820,772
Retained earnings	826,234	805,685
Accumulated other comprehensive loss	(47,218)	(39,533)
	2,523,047	2,597,350
Treasury stock, at cost, 3,054,716 and 2,483,071 shares, respectively	(106,171)	(104,934)
Total Shareholders' Equity	2,416,876	2,492,416
Total Liabilities and Shareholders' Equity	$14,213,728	$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 March 31, 2016	2015
Revenues:		
Commissions	$197,930	$180,302
Principal transactions	120,948	100,205
Investment banking	100,658	125,089
Asset management and service fees	144,532	113,869
Interest	62,786	42,736
Other income	7,231	11,800
Total revenues	634,085	574,001
Interest expense	14,111	13,019
Net revenues	619,974	560,982
Non-interest expenses:		
Compensation and benefits	411,113	355,693
Occupancy and equipment rental	57,255	44,170
Communications and office supplies	36,660	29,234
Commissions and floor brokerage	11,732	10,069
Other operating expenses	59,301	51,750
Total non-interest expenses	576,061	490,916
Income from operations before income tax expense	43,913	70,066
Provision for income taxes	16,858	26,969
Net income	$27,055	$43,097
Earnings per common share:		
Basic	$0.40	$0.62
Diluted	$0.36	$0.56
Weighted-average number of common shares outstanding:		
Basic	67,579	68,006
Diluted	76,086	77,359

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended March 31, 2016	2015
Net income	$27,055	$43,097
Other comprehensive income/(loss), net of tax: [1]		
Changes in unrealized gains/(losses) on available-for-sale securities [2]	(1,028)	6,945
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	509	731
Changes in unrealized losses on cash flow hedging instruments [3]	(4,980)	(225)
Foreign currency translation adjustment	(2,186)	(3,978)
Total other comprehensive income/(loss), net of tax	(7,685)	3,473
Comprehensive income	$19,370	$46,570

(1) Net of tax benefit of $4.7 million and tax expense of $2.4 million for the three months ended March 31, 2016 and 2015, respectively.

(2) There were no reclassifications to earnings of realized gains during the three months ended March 31, 2016 and 2015, respectively.

(3) Amounts are net of reclassifications to earnings of losses of $1.3 million and $1.2 million for the three months ended March 31, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities:		
Net income	$27,055	$43,097
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	10,629	7,952
Amortization of loans and advances to financial advisors and other employees	18,995	15,769
Amortization of premium on investment portfolio	1,622	1,192
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	4,571	2,200
Amortization of intangible assets	2,974	1,942
Deferred income taxes	72,979	49,469
Excess tax benefits/(tax deficit) from stock-based compensation	4,215	(11,768)
Stock-based compensation	30,450	22,356
(Gains)/losses on sale of investments	3,826	(5,669)
Other, net	(2,524)	3,382
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	190,676	49,519
Receivables:		
Brokerage clients	216,856	(58,082)
Brokers, dealers, and clearing organizations	(117,959)	200,414
Securities purchased under agreements to resell	(47,523)	(143,534)
Financial instruments owned, including those pledged	(279,338)	(24,309)
Loans originated as held for sale	(419,601)	(464,087)
Proceeds from mortgages held for sale	472,886	394,751
Loans and advances to financial advisors and other employees	(25,417)	(10,782)
Other assets	(133,412)	(32,614)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	76,992	10,791
Brokers, dealers, and clearing organizations	(3,792)	(1,624)
Drafts	(109,354)	(20,357)
Financial instruments sold, but not yet purchased	153,097	(42,384)
Other liabilities and accrued expenses	(246,487)	(288,049)
Net cash used in operating activities	$(97,584)	$(300,425)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Three Months Ended March 31, 2016	2015
Cash Flows From Investing Activities:		
Proceeds from:		
Maturities and principal paydowns of available-for-sale securities	$31,303	$72,290
Calls and principal paydowns of held-to-maturity securities	37,577	23,186
Sale or maturity of investments	12,978	35,858
Increase in bank loans, net	(327,931)	(190,183)
Payments for:		
Purchase of available-for-sale securities	(529,707)	(199)
Purchase of held-to-maturity securities	(210,677)	—
Purchase of investments	(1,313)	(19,262)
Purchase of fixed assets	(9,270)	(20,996)
Acquisitions, net of cash acquired	(68,680)	(961)
Net cash used in investing activities	(1,065,720)	(100,267)
Cash Flows From Financing Activities:		
Proceeds from borrowings	238,497	20,500
Proceeds from Federal Home Loan Bank advances	352,000	—
Increase in securities sold under agreements to repurchase	12,055	216,678
Increase in bank deposits, net	579,744	43,959
Increase/(decrease) in securities loaned	(151,319)	442
Excess tax benefits/(tax deficit) from stock-based compensation	(4,215)	11,768
Issuance of common stock for stock option exercises	175	200
Repurchase of common stock	(95,116)	—
Repayment of senior notes	—	(175,000)
Net cash provided by financing activities	931,821	118,547
Effect of exchange rate changes on cash	(2,186)	(3,881)
Decrease in cash and cash equivalents	(233,669)	(286,026)
Cash and cash equivalents at beginning of period	811,019	689,782
Cash and cash equivalents at end of period	$577,350	$403,756
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	$20,061	$30,936
Cash paid for interest	13,630	10,135
Noncash financing activities:		
Unit grants, net of forfeitures	98,876	53,045
Issuance of common stock for acquisitions	11,427	—
Shares surrendered into treasury	—	223

See accompanying Notes to Consolidated Financial Statements.

8

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.

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

Share-Based Payments

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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,” which 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 $9.6 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") which supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application not permitted. We are currently evaluating the impact the new guidance will have on our consolidated financial statements.

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

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

	March 31, 2016	December 31, 2015
Deposits paid for securities borrowed	$420,417	$318,105
Receivables from clearing organizations	221,643	260,077
Securities failed to deliver	77,730	23,649
	$719,790	$601,831

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

	March 31, 2016	December 31, 2015
Deposits received from securities loaned	$178,347	$329,670
Securities failed to receive	71,263	16,353
Payable to clearing organizations	33,310	92,008
	$282,920	$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 mortgage-backed securities. Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Investments

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

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

ARS for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs.

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 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):

	March 31, 2016	
	Fair value of investments	Unfunded commitments
Private company investments	$28,106	$ 13,651
Partnership interests	21,574	1,988
Mutual funds	20,521	—
Private equity funds	12,321	9,338
Money market funds	10,377	—
Total	$92,899	$ 24,977

	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 March 31, 2016, are presented below (in thousands):

	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$38,165	$38,165	$—	$—
U.S. government agency securities	71,900	—	71,900	—
Mortgage-backed securities:				
Agency	267,056	—	267,056	—
Non-agency	33,774	—	32,341	1,433
Corporate securities:				
Fixed income securities	340,946	24,873	316,073	—
Equity securities	75,837	72,662	2,556	619
State and municipal securities	201,103	—	201,103	—
Total financial instruments owned	1,028,781	135,700	891,029	2,052
Available-for-sale securities:				
U.S. government agency securities	1,780	101	1,679	—
State and municipal securities	74,105	—	74,105	—
Mortgage-backed securities:				
Agency	400,631	—	400,631	—
Commercial	19,565	—	19,565	—
Non-agency	2,283	—	2,283	—
Corporate fixed income securities	541,209	—	541,209	—
Asset-backed securities	1,085,893	—	1,085,893	—
Total available-for-sale securities	2,125,466	101	2,125,365	—
Investments:				
Corporate equity securities	27,035	22,714	1,342	2,979
Auction rate securities:				
Equity securities	50,864	—	—	50,864
Municipal securities	1,351	—	—	1,351
Other [1]	3,652	5	2,872	775
Investments in funds measured at NAV	82,522			
Total investments	165,424	22,719	4,214	55,969
Cash equivalents measured at NAV	10,377			
	$3,330,048	$158,520	$3,020,608	$58,021

[1] Includes certain private company and other investments.

	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				

Financial instruments sold, but not yet purchased:				
U.S. government securities	$257,214	$257,214	$—	$ —
Agency mortgage-backed securities	86,624	—	86,624	—
Corporate securities:				
Fixed income securities	302,961	7,314	295,647	—
Equity securities	27,999	27,999	—	—
State and municipal securities	43	—	43	—
Total financial instruments sold, but not yet purchased	674,841	292,527	382,314	—
Derivative contracts [2]	12,192	—	12,192	—
	$687,033	$292,527	$394,506	$ —

[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	1,359	2,942
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	9,500	54,719
Cash equivalents measured at NAV	77,097			
	$2,637,464	$114,300	$2,298,997	$56,814

[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.

15

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three months ended March 31, 2016 (in thousands):

	Three Months Ended March 31, 2016					
	Financial instruments owned		Investments			
	Mortgage-Backed Securities – Non-Agency	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:						
Included in changes in net assets [2]	—	—	37	422	36	—
Included in OCI [3]	—	—	—	—	—	—
Realized gains [2]	7	—	—	—	—	—
Purchases	—	—	—	—	—	755
Sales	—	—	—	—	—	—
Redemptions	(50)	—	—	—	—	—
Transfers:						
Into Level 3	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—
Net change	(43)	—	37	422	36	755
Balance at March 31, 2016	$1,433	$ 619	$2,979	$ 50,864	$ 1,351	$775

[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 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 three months ended March 31, 2016 were principally a result of purchases of partnership interests. The changes in unrealized gains/(losses) recorded in earnings for the three months ended March 31, 2016, relating to Level 3 assets still held at March 31, 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 March 31, 2016.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	2.0 - 12.2%	6.5%
		Workout period	1 - 3 years	2.4 years
Municipal securities	Discounted cash flow	Discount rate	0.0 - 11.3%	5.2%
		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 $1.2 million of transfers of financial assets from Level 2 to Level 1 during the three months ended March 31, 2016, primarily related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were $0.3 million of transfers of financial assets from Level 1 to Level 2 during the three months ended March 31, 2016, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed.

Fair Value of Financial Instruments

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

	March 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$577,350	$577,350	$811,019	$811,019
Cash segregated for regulatory purposes	37,051	37,051	227,727	227,727
Securities purchased under agreements to resell	207,946	207,946	160,423	160,423
Financial instruments owned	1,028,781	1,028,781	749,443	749,443
Available-for-sale securities	2,125,466	2,125,466	1,629,907	1,629,907
Held-to-maturity securities	2,028,179	2,064,996	1,855,399	1,874,998
Loans held for sale	132,900	132,900	189,921	189,921
Bank loans	3,467,187	3,494,993	3,143,515	3,188,402
Investments	165,424	165,424	181,017	181,017
Financial liabilities:				
Securities sold under agreements to repurchase	$290,729	$290,729	$278,674	$278,674
Bank deposits	7,218,100	7,098,427	6,638,356	6,627,818
Financial instruments sold, but not yet purchased	674,841	674,841	521,744	521,744
Derivative contracts [1]	12,192	12,192	3,591	3,591
Borrowings	827,581	827,581	237,084	237,084
Senior notes	740,409	739,058	740,136	736,135
Debentures to Stifel Financial Capital Trusts	82,500	66,779	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 March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$566,973	$566,973	$—	$—
Cash segregated for regulatory purposes	37,051	37,051	—	—
Securities purchased under agreements to resell	207,946	207,946	—	—
Held-to-maturity securities	2,064,996	—	1,377,031	687,965
Loans held for sale	132,900	—	132,900	—
Bank loans	3,494,993	—	3,494,993	—
Financial liabilities:				
Securities sold under agreements to repurchase	$290,729	$290,729	$—	$—
Bank deposits	7,098,427	—	7,098,427	—
Borrowings	827,581	—	827,581	—
Senior notes	739,058	739,058	—	—
Debentures to Stifel Financial Capital Trusts	66,779	—	—	66,779

	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	237,084	—	237,084	—
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 March 31, 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 March 31, 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 corporate obligations, collateralized debt obligation securities, and corporate fixed income securities. The estimated fair value, included in the above table, is determined using several factors; however, primary weight is given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at March 31, 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 5.375% senior notes due 2022.

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

NOTE 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 March 31, 2016 and December 31, 2015 are as follows (in thousands):

	March 31, 2016	December 31, 2015
Financial instruments owned:		
U.S. government securities	$38,165	$45,167
U.S. government agency securities	71,900	116,949
Mortgage-backed securities:		
Agency	267,056	205,473
Non-agency	33,774	33,319
Corporate securities:		
Fixed income securities	340,946	203,910
Equity securities	75,837	31,642
State and municipal securities	201,103	112,983
	$1,028,781	$749,443
Financial instruments sold, but not yet purchased:		
U.S. government securities	$257,214	$186,030
Agency mortgage-backed securities	86,624	50,830
Corporate securities:		
Fixed income securities	302,961	255,700
Equity securities	27,999	29,184
State and municipal securities	43	—
	$674,841	$521,744

At March 31, 2016 and December 31, 2015, financial instruments owned in the amount of $751.5 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 March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$1,776	$ 6	$ (2)	$1,780
State and municipal securities	75,813	18	(1,726)	74,105
Mortgage-backed securities:				
Agency	407,480	378	(7,227)	400,631
Commercial	19,572	83	(90)	19,565
Non-agency	2,459	1	(177)	2,283
Corporate fixed income securities	535,358	5,896	(45)	541,209
Asset-backed securities	1,096,144	1,250	(11,501)	1,085,893
	$2,138,602	$ 7,632	$ (20,768)	$2,125,466
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,430,586	$ 39,549	$ (4,504)	$1,465,631
Commercial	59,536	3,189	—	62,725
Non-agency	795	—	(18)	777
Asset-backed securities	497,134	3,440	(4,805)	495,769
Corporate fixed income securities	40,128	6	(40)	40,094
	$2,028,179	$ 46,184	$ (9,367)	$2,064,996

	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.

There were no sales of available-for-sale securities during the three months ended March 31, 2016 and 2015, respectively.

21

During the three months ended March 31, 2016, unrealized losses, net of tax benefit, of $1.0 million were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition. During the three months ended March 31, 2015, unrealized gains, net of deferred taxes, of $6.9 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.

	March 31, 2016			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$955	$953	$—	$—
After one year through three years	198,269	199,697	40,128	40,094
After three years through five years	303,415	307,345	—	—
After five years through ten years	302,503	296,855	—	—
After ten years	903,949	898,137	497,134	495,769
Mortgage-backed securities				
After one year through three years	52	52	—	—
After five years through ten years	547	577	261,778	266,426
After ten years	428,912	421,850	1,229,139	1,262,707
	$2,138,602	$2,125,466	$2,028,179	$2,064,996

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at March 31, 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	$ 953	$827	$—	$—	$1,780
State and municipal securities	—	—	11,017	63,088	74,105
Mortgage-backed securities:					
Agency	—	—	577	400,054	400,631
Commercial	—	—	—	19,565	19,565
Non-agency	—	52	—	2,231	2,283
Corporate fixed income securities	—	506,215	34,994	—	541,209
Asset-backed securities	—	—	250,844	835,049	1,085,893
	$ 953	$507,094	$297,432	$1,319,987	$2,125,466

Held-to-maturity:					
Mortgage-backed securities:					
Agency	$ —	$—	$202,242	$1,228,344	$1,430,586
Commercial	—	—	59,536	—	59,536
Non-agency	—	—	—	795	795
Asset-backed securities	—	—	—	497,134	497,134
Corporate fixed income securities	—	40,128	—	—	40,128
	$ —	$40,128	$261,778	$1,726,273	$2,028,179

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

At March 31, 2016 and December 31, 2015, securities and loans of $2.1 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 March 31, 2016 and December 31, 2015, securities of $1.3 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 March 31, 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)	$578	$—	$—	$(2)	$578
State and municipal securities	(128)	13,784	(1,598)	56,128	(1,726)	69,912
Mortgage-backed securities:						
Agency	(7,060)	374,478	(167)	8,510	(7,227)	382,988
Commercial	(89)	12,341	(1)	111	(90)	12,452
Non-agency	—	—	(177)	2,149	(177)	2,149
Corporate fixed income securities	(45)	15,848	—	—	(45)	15,848
Asset-backed securities	(8,488)	729,217	(3,013)	63,917	(11,501)	793,134
	$(15,812)	$1,146,246	$(4,956)	$130,815	$(20,768)	$1,277,061
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	$(4,489)	$129,576	$(15)	$2,002	$(4,504)	$131,578
Non-agency	—	—	(18)	777	(18)	777
Asset-backed securities	(2,791)	316,535	(2,014)	69,521	(4,805)	386,056
Corporate fixed income securities	—	—	(40)	35,064	(40)	35,064
	$(7,280)	$446,111	$(2,087)	$107,364	$(9,367)	$553,475

At March 31, 2016, the amortized cost of 98 securities classified as available for sale exceeded their fair value by $20.8 million, of which $5.0 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 March 31, 2016, was $1.3 billion, which was 60.1% of our available-for-sale portfolio.

At March 31, 2016, the carrying value of 37 securities held to maturity exceeded their fair value by $9.4 million, of which $2.1 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 months ended March 31, 2016 and 2015.

We believe the gross unrealized losses of $30.0 million related to our investment portfolio, as of March 31, 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.

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 March 31, 2016 and December 31, 2015 (in thousands, except percentages):

	March 31, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
Securities-based loans	$1,345,719	38.4 %	$1,388,953	43.7 %
Commercial and industrial	1,295,318	37.0	1,216,656	38.2
Residential real estate	730,683	20.8	429,132	13.5
Commercial real estate	83,273	2.4	92,623	2.9
Consumer	31,036	0.9	36,846	1.2
Home equity lines of credit	12,511	0.4	12,475	0.4
Construction and land	6,969	0.1	3,899	0.1
Gross bank loans	3,505,509	100.0 %	3,180,584	100.0 %
Unamortized loan (discount)/premium, net	(2,846)		(5,296)	
Unamortized loan fees, net of loan fees	(1,979)		(1,567)	
Loans in process	553		(419)	
Allowance for loan losses	(34,050)		(29,787)	
Bank loans, net	$3,467,187		$3,143,515	

At March 31, 2016 and December 31, 2015, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of $1.2 million and $2.0 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $8.2 million and $7.2 million, respectively.

At March 31, 2016 and December 31, 2015, we had mortgage loans held for sale of $132.9 million and $189.9 million, respectively. For the three months ended March 31, 2016 and 2015, we recognized gains of $2.7 million and $2.6 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 months ended March 31, 2016 (in thousands).

	Three Months Ended March 31, 2016				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$24,748	$ 2,952	$ —	$ —	$27,700
Securities-based loans	1,607	(2)	—	—	1,605
Consumer	105	(21)	—	—	84
Residential real estate	1,241	88	—	1	1,330
Commercial real estate	264	1,022	—	3	1,289
Home equity lines of credit	290	(23)	—	—	267
Construction and land	78	40	—	—	118
Qualitative	1,454	203	—	—	1,657
	$29,787	$ 4,259	$ —	$ 4	$34,050

24

The following table presents the recorded balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at March 31, 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	$1,215	$ 26,485	$27,700	$12,148	$ 1,283,170	$1,295,318
Securities-based loans	—	1,605	1,605	—	1,345,719	1,345,719
Consumer	14	70	84	18	31,018	31,036
Residential real estate	24	1,306	1,330	704	729,979	730,683
Commercial real estate	981	308	1,289	9,809	73,464	83,273
Home equity lines of credit	149	118	267	323	12,188	12,511
Construction and land	—	118	118	—	6,969	6,969
Qualitative	—	1,657	1,657	—	—	—
	$2,383	$ 31,667	$34,050	$23,002	$ 3,482,507	$3,505,509

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2015 (in thousands).

	Three Months Ended March 31, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$16,609	$ 1,495	$ —	$ —	$18,104
Securities-based loans	1,099	189	—	—	1,288
Consumer	156	(51)	—	—	105
Residential real estate	787	114	(47)	3	857
Commercial real estate	232	38	—	35	305
Home equity lines of credit	267	2	—	—	269
Construction and land	—	—	—	—	—
Qualitative	1,581	59	—	—	1,640
	$20,731	$ 1,846	$ (47)	$ 38	$22,568

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 March 31, 2016, we had $23.0 million of impaired loans, net of discounts, which included $0.3 million in troubled debt restructurings, for which there was a specific allowance of $2.4 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 months ended March 31, 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 March 31, 2016 and December 31, 2015, including the average recorded investment balance (in thousands):

	March 31, 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	$12,148	$ —	$ 12,148	$ 12,148	$ 1,215	$ 12,219
Securities-based loans	—	—	—	—	—	—
Consumer	858	4	14	18	14	18
Residential real estate	774	523	181	704	24	705
Commercial real estate	9,809	—	9,809	9,809	981	6,539
Home equity lines of credit	323	—	323	323	149	323
Construction and land	—	—	—	—	—	—
Total	$23,912	$ 527	$ 22,475	$ 23,002	$ 2,383	$ 19,804

	December 31, 2015					
	Unpaid Contractual	Recorded Investment	Recorded Investment	Total Recorded	Related Allowance	Average Recorded

	Principal Balance	with No Allowance	with Allowance	Investment		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 March 31, 2016 and December 31, 2015 by portfolio segment (in thousands):

	As of March 31, 2016				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Commercial and industrial	$ —	$ —	$ —	$1,295,318	$1,295,318
Securities-based loans	—	—	—		