STIFEL FINANCIAL CORP
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

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

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

STIFEL FINANCIAL CORP.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

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

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

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

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014.

NOTE 2 – Recently Issued Accounting Guidance

Business Combinations

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

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

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

Interest - Imputation of Interest

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

Consolidation

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

Repurchase Agreements

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

Revenue Recognition

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

Discontinued Operations

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

Note 3 – Acquisition of Sterne Agee Group, Inc.

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

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

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

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

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

NOTE 4 – Discontinued Operations

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

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

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

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

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

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

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

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

NOTE 6 – Fair Value Measurements

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

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

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

Cash Equivalents

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

Financial Instruments Owned and Available-For-Sale Securities

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

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

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

Investments

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

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

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

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

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

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

Financial Instruments Sold, But Not Yet Purchased

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

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of sales of private equity investments and ARS, offset by ARS purchases during the nine months ended September 30, 2015. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2015, relating to Level 3 assets still held at September 30, 2015, were immaterial.

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

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

Workout period	1 - 4 years	2.8 years

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

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

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

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

Transfers Within the Fair Value Hierarchy

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Financial Assets

Securities Purchased Under Agreements to Resell

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

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

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

Bank Deposits

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

Borrowings

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

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the three months ended September 30, 2015 and 2014, unrealized losses, net of deferred tax benefit, of $0.6 million and $3.9 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the nine months ended September 30, 2015 and 2014, unrealized gains, net of deferred taxes, of $5.3 million and $1.7 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	September 30, 2015			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$9,756	$9,816	$15,006	$15,004
After one year through three years	48,743	49,321	40,162	39,779
After three years through five years	1,006	1,220	—	—
After five years through ten years	158,380	156,642	—	—
After ten years	397,868	394,644	177,617	177,133
Mortgage-backed securities				
After one year through three years	80	81	—	—
After five years through ten years	653	677	59,506	62,667
After ten years	47,286	47,431	803,502	837,919
	$663,772	$659,832	$1,095,793	$1,132,502

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

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