RAYMOND JAMES FINANCIAL INC
Form 10-Q
May 06, 2016
Index

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: 1-9109

RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida	No. 59-1517485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)
(727) 567-1000
(Registrant's telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
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 (232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

141,531,601 shares of common stock as of May 4, 2016

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended March 31, 2016

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2016	September 30, 2015
	(in thousands)	
Assets:		
Cash and cash equivalents	$1,479,786	$2,601,006
Assets segregated pursuant to regulations and other segregated assets	3,614,811	2,905,324
Securities purchased under agreements to resell and other collateralized financings	428,864	474,144
Financial instruments, at fair value:		
Trading instruments	799,453	690,551
Available for sale securities	547,442	513,730
Private equity investments	204,398	209,088
Other investments	294,098	248,751
Derivative instruments associated with offsetting matched book positions	396,163	389,457
Receivables:		
Brokerage clients, net	2,219,963	2,185,296
Stock borrowed	123,156	124,373
Bank loans, net	14,348,481	12,988,021
Brokers-dealers and clearing organizations	152,905	134,890
Loans to financial advisors, net	551,701	488,760
Other	602,873	514,000
Deposits with clearing organizations	205,057	207,488
Prepaid expenses and other assets	660,366	705,391
Investments in real estate partnerships held by consolidated variable interest entities	191,801	199,678
Property and equipment, net	282,285	255,875
Deferred income taxes, net	272,644	266,899
Goodwill and identifiable intangible assets, net	376,964	376,962
Total assets	$27,753,211	$26,479,684

(continued on next page)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)
(continued from previous page)

	March 31, 2016	September 30, 2015
	($ in thousands)	
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	$325,410	$287,993
Securities sold under agreements to repurchase	190,679	332,536
Derivative instruments associated with offsetting matched book positions, at fair value	396,163	389,457
Payables:		
Brokerage clients	5,031,276	4,671,073
Stock loaned	610,476	478,573
Bank deposits	12,729,457	11,919,881
Brokers-dealers and clearing organizations	575,855	164,054
Trade and other	563,891	729,245
Other borrowings	610,884	703,065
Accrued compensation, commissions and benefits	673,200	842,527
Loans payable of consolidated variable interest entities	19,365	25,960
Senior notes payable	1,149,316	1,149,222
Total liabilities	22,875,972	21,693,586
Commitments and contingencies (see Note 16)		
Equity		
Preferred stock; $.10 par value; authorized 10,000,000 shares; issued and outstanding -0- shares	—	—
Common stock; $.01 par value; authorized 350,000,000 shares; issued 150,853,426 at March 31, 2016 and 149,283,682 at September 30, 2015	1,507	1,491
Additional paid-in capital	1,452,786	1,344,779
Retained earnings	3,592,753	3,419,719
Treasury stock, at cost; 9,751,304 common shares at March 31, 2016 and 6,364,706 common shares at September 30, 2015	(361,456)	(203,455)
Accumulated other comprehensive loss	(50,300)	(40,503)
Total equity attributable to Raymond James Financial, Inc.	4,635,290	4,522,031
Noncontrolling interests	241,949	264,067
Total equity	4,877,239	4,786,098
Total liabilities and equity	$27,753,211	$26,479,684

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Revenues:				
Securities commissions and fees	$853,330	$860,214	$1,702,992	$1,694,223
Investment banking	68,704	74,240	126,257	151,778
Investment advisory and related administrative fees	93,877	91,016	192,418	189,777
Interest	161,567	134,413	304,038	266,522
Account and service fees	127,528	111,966	244,351	223,124
Net trading profit	14,415	17,060	36,584	25,941
Other	21,497	23,715	35,804	41,103
Total revenues	1,340,918	1,312,624	2,642,444	2,592,468
Interest expense	(29,424)	(26,846)	(56,433)	(54,230)
Net revenues	1,311,494	1,285,778	2,586,011	2,538,238
Non-interest expenses:				
Compensation, commissions and benefits	887,945	882,234	1,754,355	1,720,488
Communications and information processing	68,482	67,635	140,620	126,747
Occupancy and equipment costs	40,891	41,604	82,680	80,831
Clearance and floor brokerage	10,517	13,588	20,513	23,086
Business development	35,417	42,490	76,041	79,480
Investment sub-advisory fees	14,282	14,987	28,836	29,242
Bank loan loss provision	9,629	3,937	23,539	13,302
Acquisition-related expenses	6,015	—	7,887	—
Other	48,112	43,670	99,161	90,780
Total non-interest expenses	1,121,290	1,110,145	2,233,632	2,163,956
Income including noncontrolling interests and before provision for income taxes	190,204	175,633	352,379	374,282
Provision for income taxes	72,271	66,857	134,280	143,469
Net income including noncontrolling interests	117,933	108,776	218,099	230,813
Net loss attributable to noncontrolling interests	(7,914)	(4,687)	(14,077)	(8,946)
Net income attributable to Raymond James Financial, Inc.	$125,847	$113,463	$232,176	$239,759
Net income per common share – basic	$0.89	$0.79	$1.63	$1.68
Net income per common share – diluted	$0.87	$0.77	$1.60	$1.64
Weighted-average common shares outstanding – basic	141,472	142,320	142,273	141,813
Weighted-average common and common equivalent shares outstanding – diluted	144,012	146,050	145,047	146,188
Net income attributable to Raymond James Financial, Inc.	$125,847	$113,463	$232,176	$239,759
Other comprehensive income (loss), net of tax:[1]				
Unrealized gain (loss) on available for sale securities and non-credit portion of other-than-temporary impairment losses	1,099	2,337	(5,692)	2,313
Unrealized gain (loss) on currency translations, net of the impact of net investment hedges	10,714	(15,279)	4,099	(21,719)
Unrealized loss on cash flow hedges	(11,469)	(1,501)	(8,204)	(1,501)

Total comprehensive income	$126,191	$99,020	$222,379	$218,852
Other-than-temporary impairment:				
Total other-than-temporary impairment, net	$(353)	$(627)	$21	$1,124
Portion of pre-tax losses (recoveries) recognized in other comprehensive income	353	627	(21)	(1,124)
Net impairment losses recognized in other revenue	$—	$—	$—	$—

(1) All components of other comprehensive income (loss), net of tax, are attributable to Raymond James Financial, Inc.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Six months ended March 31,	
	2016	2015
	(in thousands, except per share amounts)	
Common stock, par value $.01 per share:		
Balance, beginning of year	$1,491	$1,444
Share issuances	16	32
Balance, end of period	1,507	1,476
Additional paid-in capital:		
Balance, beginning of year	1,344,779	1,239,046
Employee stock purchases	18,938	11,116
Exercise of stock options and vesting of restricted stock units, net of forfeitures	13,954	22,286
Restricted stock, stock option and restricted stock unit expense	39,962	38,685
Excess tax benefit from share-based payments	34,791	7,577
Other	362	278
Balance, end of period	1,452,786	1,318,988
Retained earnings:		
Balance, beginning of year	3,419,719	3,023,845
Net income attributable to Raymond James Financial, Inc.	232,176	239,759
Cash dividends declared	(59,142)	(52,526)
Other	—	5
Balance, end of period	3,592,753	3,211,083
Treasury stock:		
Balance, beginning of year	(203,455)	(121,211)
Purchases/surrenders	(152,284)	(7,100)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(5,717)	(5,016)
Balance, end of period	(361,456)	(133,327)
Accumulated other comprehensive loss:[1]		
Balance, beginning of year	(40,503)	(1,888)
Net change in unrealized gain/loss on available for sale securities and non-credit portion of other-than-temporary impairment losses, net of tax	(5,692)	2,313
Net change in currency translations and net investment hedges, net of tax	4,099	(21,719)
Net change in cash flow hedges, net of tax	(8,204)	(1,501)
Balance, end of period	(50,300)	(22,795)
Total equity attributable to Raymond James Financial, Inc.	$4,635,290	$4,375,425
Noncontrolling interests:		
Balance, beginning of year	$264,067	$292,020
Net loss attributable to noncontrolling interests	(14,077)	(8,946)
Capital contributions	7,855	10,008

Distributions	(5,033)	(10,860)
Other	(10,863)	(5,737)
Balance, end of period	241,949	276,485
Total equity	$4,877,239	$4,651,910

(1) All components of other comprehensive (loss) income, net of tax, are attributable to Raymond James Financial, Inc.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended March 31,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$232,176	$239,759
Net loss attributable to noncontrolling interests	(14,077)	(8,946)
Net income including noncontrolling interests	218,099	230,813
Adjustments to reconcile net income including noncontrolling interests to net cash (used in) provided by operating activities:		
Depreciation and amortization	35,652	33,929
Deferred income taxes	(13,295)	(26,277)
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(3,852)	(21,278)
Provisions for loan losses, legal proceedings, bad debts and other accruals	38,955	22,312
Share-based compensation expense	42,735	40,509
Other	20,227	16,137
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	(709,487)	(71,185)
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	(96,577)	9,401
Stock loaned, net of stock borrowed	133,120	(30,124)
Loans provided to financial advisors, net of repayments	(70,836)	(47,438)
Brokerage client receivables and other accounts receivable, net	(141,555)	259,882
Trading instruments, net	(16,708)	34,333
Prepaid expenses and other assets	130,031	28,802
Brokerage client payables and other accounts payable	632,508	51,800
Accrued compensation, commissions and benefits	(168,896)	(125,006)
Purchases and originations of loans held for sale, net of proceeds from sales of securitizations and loans held for sale	(63,180)	(18,347)
Excess tax benefits from share-based payment arrangements	(34,791)	(7,577)
Net cash (used in) provided by operating activities	(67,850)	380,686
Cash flows from investing activities:		
Additions to property and equipment	(58,180)	(29,643)
Increase in bank loans, net	(1,490,887)	(1,279,233)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	(3,231)	(4,446)
Proceeds from sales of loans held for investment	65,443	42,255
Purchases, or contributions, to private equity or other investments, net of proceeds from sales of, or distributions received from, private equity and other investments	(60,639)	(19,776)
Purchases of available for sale securities	(87,676)	—
Available for sale securities maturations, repayments and redemptions	42,729	33,855
Proceeds from sales of available for sale securities	1,530	47
	(12,849)	(8,705)

Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity		
Net cash used in investing activities	$(1,603,760)	$(1,265,646)

(continued on next page)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(continued from previous page)

	Six months ended March 31,	
	2016	2015
	(in thousands)	
Cash flows from financing activities:		
(Repayments) proceeds of short-term borrowings, net	$(115,000)	$16,900
Proceeds from Federal Home Loan Bank advances	25,000	300,000
Repayments of Federal Home Loan Bank advances and other borrowed funds	(2,181)	(252,114)
Repayments of borrowings by consolidated variable interest entities which are real estate partnerships	(7,159)	(9,903)
Proceeds from capital contributed to and borrowings of consolidated variable interest entities which are real estate partnerships	—	110
Exercise of stock options and employee stock purchases	31,240	34,526
Increase in bank deposits	809,576	1,243,089
Purchases of treasury stock	(159,175)	(14,877)
Dividends on common stock	(56,152)	(49,405)
Excess tax benefits from share-based payments	34,791	7,577
Net cash provided by financing activities	560,940	1,275,903
Currency adjustment:		
Effect of exchange rate changes on cash	(10,550)	(49,869)
Net (decrease) increase in cash and cash equivalents	(1,121,220)	341,074
Cash and cash equivalents at beginning of year	2,601,006	2,199,063
Cash and cash equivalents at end of period	$1,479,786	$2,540,137
Supplemental disclosures of cash flow information:		
Cash paid for interest	$55,609	$53,080
Cash paid for income taxes	$124,521	$209,571
Non-cash transfers of loans to other real estate owned	$1,942	$3,653

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2016

NOTE 1 – INTRODUCTION AND BASIS OF PRESENTATION

Description of business

Raymond James Financial, Inc. ("RJF" or the "Company") is a financial holding company whose broker-dealer subsidiaries are engaged in various financial services businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, other subsidiaries of RJF provide investment management services for retail and institutional clients, corporate and retail banking, and trust services. As used herein, the terms "we," "our" or "us" refer to RJF and/or one or more of its subsidiaries.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition we consolidate any variable interest entity ("VIE") in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 2 on pages 118 - 121 in the section titled, "Evaluation of VIEs to determine whether consolidation is required" as presented in our Annual Report on Form 10-K for the year ended September 30, 2015, as filed with the United States ("U.S.") Securities and Exchange Commission (the "2015 Form 10-K") and in Note 9 herein. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting estimates and assumptions

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") but not required for interim reporting purposes has been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented.

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis and the consolidated financial statements and notes thereto included in our 2015 Form 10-K. To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Significant subsidiaries

As of March 31, 2016, our significant subsidiaries, all wholly owned, include: Raymond James & Associates, Inc. ("RJ&A") a domestic broker-dealer carrying client accounts, Raymond James Financial Services, Inc. ("RJFS") an introducing domestic broker-dealer, Raymond James Financial Services Advisors, Inc. ("RJFSA") a registered investment advisor, Raymond James Ltd. (“RJ Ltd.”) a broker-dealer headquartered in Canada, Eagle Asset Management, Inc. (“Eagle”) a registered investment advisor, and Raymond James Bank, N.A. (“RJ Bank”) a national bank.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period’s presentation.

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 on pages 103 - 121 of our 2015 Form 10-K. There have been no significant changes in our significant accounting policies since September 30, 2015.

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Brokerage client receivables, loans to financial advisors and allowance for doubtful accounts

As more fully described in Note 2 on page 110 - 111 of our 2015 Form 10-K, we have certain financing receivables that arise from businesses other than our banking business. Specifically, we offer loans to financial advisors and certain key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. We present the outstanding balance of loans to financial advisors on our Condensed Consolidated Statements of Financial Condition, net of their applicable allowances for doubtful accounts. Of such balance, the portion associated with financial advisors who are no longer affiliated with us is approximately $10 million at both March 31, 2016 and September 30, 2015, and our allowance for doubtful accounts associated with such loans is approximately $4 million in each respective period.

NOTE 3 – ACQUISITIONS

Acquisition announcements

On December 3, 2015 (the "Announcement Date"), we announced that we entered into a definitive asset purchase agreement to acquire the U.S. Private Client Services unit of Deutsche Bank Wealth Management ("Deutsche WM"). As of the Announcement Date, Deutsche WM had approximately 200 financial advisors with approximately $50 billion of client assets which generate approximately $300 million in total annual revenues. The Deutsche WM financial advisors are focused primarily on high net worth clients. Upon completion of the acquisition, which we expect to occur during the fourth quarter of this fiscal year 2016, we plan for the Deutsche WM financial advisors to operate within a newly formed "Alex. Brown" division of RJ&A.

See Note 16 for additional information regarding the commitments we have made that are associated with this acquisition.

The acquisition-related expenses presented on our Condensed Consolidated Statements of Income and Comprehensive income for the three and six months ended March 31, 2016 pertain to certain incremental expenses incurred in connection with the future acquisition of Deutsche WM. In the three and six months ended March 31, 2016 we incurred the following acquisition-related expenses:

	Three months ended March 31, 2016	Six months ended March 31, 2016
	(in thousands)	
Unrealized loss in fair value of equity securities purchased to satisfy certain deferred compensation obligations to be assumed at closing	$3,165	$3,319
Legal	422	1,923
Information systems integration costs	1,655	1,655
Travel and all other	773	990
Total acquisition-related expenses	$6,015	$7,887

Acquisitions completed in the prior fiscal year

Cougar Global Investments Limited

On April 30, 2015, we completed our acquisition of Cougar Global Investments Limited (“Cougar”), an asset management firm based in Toronto, Canada. Cougar’s global asset allocation strategies are now offered to our asset management clients worldwide through our Eagle subsidiary. Cougar’s results of operations have been included in our results prospectively since April 30, 2015. See Note 3 on pages 121 - 122 of our 2015 Form 10-K for additional information regarding the Cougar acquisition.

The Producers Choice LLC

On July 31, 2015 (the “TPC Closing Date”), we completed our acquisition of The Producers Choice LLC (“TPC”), a Troy, Michigan based private insurance and annuity marketing organization. TPC brings additional life insurance and annuity specialists to our existing insurance product offerings. TPC’s results of operations have been included in our results prospectively since July 31, 2015. See Note 3 on pages 121 - 122 of our 2015 Form 10-K for additional information regarding the TPC acquisition.

See Note 16 for information regarding the contingent consideration associated with this acquisition.

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NOTE 4 – CASH AND CASH EQUIVALENTS, ASSETS SEGREGATED PURSUANT TO REGULATIONS, AND DEPOSITS WITH CLEARING ORGANIZATIONS

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes. For discussion of our accounting policies regarding assets segregated pursuant to regulations and other segregated assets, see Note 2 on page 104 of our 2015 Form 10-K.

Our cash and cash equivalents, assets segregated pursuant to regulations or other segregated assets, and deposits with clearing organization balances are as follows:

	March 31, 2016	September 30, 2015
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	$1,477,197	$ 2,597,568
Money market fund investments	2,589	3,438
Total cash and cash equivalents (1)	$1,479,786	$ 2,601,006
Assets segregated pursuant to federal regulations and other segregated assets (2)	$3,614,811	$ 2,905,324
Deposits with clearing organizations:		
Cash and cash equivalents	$175,421	$ 177,787
Government and agency obligations	29,636	29,701
Total deposits with clearing organizations	$205,057	$ 207,488

(1) The total amounts presented include cash and cash equivalents of $929 million and $1.22 billion as of March 31, 2016 and September 30, 2015, respectively, which are either held directly by RJF in depository accounts at third party financial institutions, held in a depository account at RJ Bank (computed as the lesser of RJ Bank’s cash balance or the amount of RJF’s depository account balance), or are otherwise invested by one of our subsidiaries on behalf of RJF, all of which are available without restrictions.

(2) Consists of cash maintained in accordance with Rule 15c3-3 under the Securities Exchange Act of 1934. RJ&A, as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in segregated reserve accounts for the exclusive benefit of its’ clients. Additionally, RJ Ltd. is required to hold client Registered Retirement Savings Plan funds in trust.

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NOTE 5 – FAIR VALUE

For a discussion of our valuation methodologies for assets, liabilities measured at fair value, and the fair value hierarchy, see Note 2 on pages 105 - 110 of our 2015 Form 10-K. There have been no material changes to our valuation methodologies since our year ended September 30, 2015.

Assets and liabilities measured at fair value on a recurring and nonrecurring basis are presented below:

March 31, 2016	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of March 31, 2016
	(in thousands)				
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$102	$239,478	$ —	$ —	$239,580
Corporate obligations	4,976	132,085	—	—	137,061
Government and agency obligations	7,897	125,590	—	—	133,487
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	433	98,144	—	—	98,577
Non-agency CMOs and asset-backed securities (“ABS”)	—	35,925	8	—	35,933
Total debt securities	13,408	631,222	8	—	644,638
Derivative contracts	—	147,905	—	(96,630)	51,275
Equity securities	53,338	1,186	—	—	54,524
Brokered certificates of deposit	—	32,257	—	—	32,257
Other	534	1,929	14,296	—	16,759
Total trading instruments	67,280	814,499	14,304	(96,630)	799,453
Available for sale securities:					
Agency MBS and CMOs	—	354,430	—	—	354,430
Non-agency CMOs	—	63,694	—	—	63,694
Other securities	1,297	—	—	—	1,297
Auction rate securities (“ARS”):					
Municipals	—	—	25,422	—	25,422
Preferred securities	—	—	102,599	—	102,599
Total available for sale securities	1,297	418,124	128,021	—	547,442
Private equity investments	—	—	204,398 (3)	—	204,398
Other investments (4)	271,885	21,774	439	—	294,098
Derivative instruments associated with offsetting matched book positions	—	396,163	—	—	396,163
Deposits with clearing organizations:					
Government and agency obligations	29,636	—	—	—	29,636
Other assets:					
Derivative contracts (5)	—	2,938	—	—	2,938
Other assets	—	—	3,112 (6)	—	3,112

Total other assets	—	2,938	3,112	—	6,050
Total assets at fair value on a recurring basis	$370,098	$1,653,498	$ 350,274	$ (96,630)	$2,277,240
Assets at fair value on a nonrecurring basis:					
Bank loans, net:					
Impaired loans	$—	$26,228	$ 35,720	$—	$61,948
Loans held for sale(7)	—	78,297	—	—	78,297
Total bank loans, net	—	104,525	35,720	—	140,245
Other real estate owned ("OREO")(8)	—	238	—	—	238
Total assets at fair value on a nonrecurring basis	$—	$104,763	$ 35,720	$—	$140,483

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March 31, 2016	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of March 31, 2016
	(in thousands) (continued from previous page)				
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	$4	$—	$ —	$—	$4
Corporate obligations	1,102	47,758	—	—	48,860
Government obligations	260,727	—	—	—	260,727
Agency MBS and CMOs	3,122	—	—	—	3,122
Total debt securities	264,955	47,758	—	—	312,713
Derivative contracts	—	135,641	—	(128,002)	7,639
Equity securities	4,958	—	—	—	4,958
Other securities	—	100	—	—	100
Total trading instruments sold but not yet purchased	269,913	183,499	—	(128,002)	325,410
Derivative instruments associated with offsetting matched book positions	—	396,163	—	—	396,163
Trade and other payables:					
Derivative contracts(5)	—	21,004	—	—	21,004
Other liabilities	—	—	67	—	67
Total trade and other payables	—	21,004	67	—	21,071
Total liabilities at fair value on a recurring basis	$269,913	$600,666	$ 67	$(128,002)	$742,644

(1) We had $1.3 million in transfers of financial instruments from Level 1 to Level 2 during the six months ended March 31, 2016. These transfers were a result of a decrease in the availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. There were no transfers of financial instruments from Level 1 to Level 2 during the three months ended March 31, 2016. We had $300 thousand and $700 thousand in transfers of financial instruments from Level 2 to Level 1 during the three and six months ended March 31, 2016. These transfers were a result of an increase in the availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

(2) For derivative transactions not cleared through an exchange, and where permitted, we have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists (see Note 14 for additional information regarding offsetting financial instruments). Deposits associated with derivative transactions cleared through an exchange are included in deposits with clearing organizations on our Condensed Consolidated Statements of Financial Condition.

(3) The portion of these investments we do not own is approximately $50 million as of March 31, 2016 and are included as a component of noncontrolling interest in our Condensed Consolidated Statements of Financial Condition. The weighted average portion we own is approximately $154 million or 75% of the total private equity investments of $204 million included in our Condensed Consolidated Statements of Financial Condition.

(4) Other investments include $103 million of financial instruments that are related to obligations to perform under certain deferred compensation plans (see Note 2 on pages 117 - 118, and Note 24 on page 176, of our 2015 Form 10-K for further information regarding these plans).

(5) Consists of derivatives arising from RJ Bank's business operations, see Note 13 for additional information.

(6) Includes the fair value of forward commitments to purchase GNMA or FNMA (as hereinafter defined) MBS arising from our fixed income public finance operations. See Note 2 on page 107, and Note 21 on page 170 of our 2015 Form 10-K, as well as Note 16 in this report, for additional information regarding the GNMA or FNMA MBS commitments.

(7) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.

(8) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.

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September 30, 2015	Quoted prices in active markets for identical assets (Level 1) [1]	Significant other observable inputs (Level 2) [1]	Significant unobservable inputs (Level 3)	Netting adjustments [2]	Balance as of September 30, 2015
	(in thousands)				
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$17,318	$188,745	$ —	$ —	$206,063
Corporate obligations	2,254	92,907	156	—	95,317
Government and agency obligations	7,781	108,166	—	—	115,947
Agency MBS and CMOs	253	117,317	—	—	117,570
Non-agency CMOs and ABS	—	46,931	9	—	46,940
Total debt securities	27,606	554,066	165	—	581,837
Derivative contracts	—	132,707	—	(90,621)	42,086
Equity securities	24,859	3,485	—	—	28,344
Brokered certificates of deposit	—	30,803	—	—	30,803
Other	679	4,816	1,986	—	7,481
Total trading instruments	53,144	725,877	2,151	(90,621)	690,551
Available for sale securities:					
Agency MBS and CMOs	—	302,195	—	—	302,195
Non-agency CMOs	—	71,369	—	—	71,369
Other securities	1,402	—	—	—	1,402
ARS:					
Municipals	—	—	28,015	—	28,015
Preferred securities	—	—	110,749	—	110,749
Total available for sale securities	1,402	373,564	138,764	—	513,730
Private equity investments	—	—	209,088 [3]	—	209,088
Other investments [4]	230,839	17,347	565	—	248,751
Derivative instruments associated with offsetting matched book positions	—	389,457	—	—	389,457
Deposits with clearing organizations: [5]					
Government and agency obligations	29,701	—	—	—	29,701
Other assets:					
Derivative contracts [6]	—	917	—	—	917
Other assets	—	—	4,975 [7]	—	4,975
Total other assets	—	917	4,975	—	5,892
Total assets at fair value on a recurring basis	$315,086	$1,507,162	$ 355,543	$ (90,621)	$2,087,170
Assets at fair value on a nonrecurring basis:					
Bank loans, net:					
Impaired loans	$—	$28,082	$ 37,830	$ —	$65,912
Loans held for sale [8]	—	14,334	—	—	14,334
Total bank loans, net	—	42,416	37,830	—	80,246

OREO (9)	—	671	—	—	671
Total assets at fair value on a nonrecurring basis	$—	$43,087	$ 37,830	$ —	$80,917

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September 30, 2015	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of September 30, 2015
	(in thousands) (continued from previous page)				
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	$17,966	$347	$ —	$—	$18,313
Corporate obligations	167	33,017	—	—	33,184
Government obligations	205,658	—	—	—	205,658
Agency MBS and CMOs	5,007	—	—	—	5,007
Total debt securities	228,798	33,364	—	—	262,162
Derivative contracts	—	109,120	—	(88,881)	20,239
Equity securities	3,098	—	—	—	3,098
Other securities	—	2,494	—	—	2,494
Total trading instruments sold but not yet purchased	231,896	144,978	—	(88,881)	287,993
Derivative instruments associated with offsetting matched book positions	—	389,457	—	—	389,457
Trade and other payables:					
Derivative contracts (6)	—	7,545	—	—	7,545
Other liabilities	—	—	58	—	58
Total trade and other payables	—	7,545	58	—	7,603
Total liabilities at fair value on a recurring basis	$231,896	$541,980	$ 58	$(88,881)	$685,053

(1) We had $1.1 million in transfers of financial instruments from Level 1 to Level 2 during the year ended September 30, 2015. These transfers were a result of a decrease in the availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. We had $1.8 million in transfers of financial instruments from Level 2 to Level 1 during the year ended September 30, 2015. These transfers were a result of an increase in the availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

(2) For derivative transactions not cleared through an exchange, and where permitted, we have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists (see Note 14 for additional information regarding offsetting financial instruments). Deposits associated with derivative transactions cleared through an exchange are included in deposits with clearing organizations on our Condensed Consolidated Statements of Financial Condition.

(3) The portion of these investments we do not own is approximately $52 million as of September 30, 2015 and are included as a component of noncontrolling interest in our Condensed Consolidated Statements of Financial Condition. The weighted average portion we own is approximately $157 million or 75% of the total private equity investments of $209 million included in our Condensed Consolidated Statements of Financial Condition.

(4) Other investments include $106 million of financial instruments that are related to obligations to perform under certain deferred compensation plans (see Note 2 on pages 117 - 118, and Note 24 on page 176, of our 2015 Form 10-K for further information regarding these plans).

(5) Consists of deposits we provide to clearing organizations or exchanges that are in the form of marketable securities.

(6) Consists of derivatives arising from RJ Bank's business operations, see Note 13 for additional information.

(7) Includes the fair value of forward commitments to purchase GNMA or FNMA (as hereinafter defined) MBS arising from our fixed income public finance operations. See Note 2 on page 107, and Note 21 on page 170 of our 2015 Form 10-K for additional information.

(8) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.

(9) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.

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The adjustment to fair value of the nonrecurring fair value measures for the six months ended March 31, 2016 resulted in a $2 million additional provision for loan losses relating to impaired loans and $200 thousand in other losses relating to loans held for sale and OREO. The adjustment to fair value of the nonrecurring fair value measures for the six months ended March 31, 2015 resulted in a $200 thousand additional provision for loan losses relating to impaired loans and $100 thousand in other losses relating to loans held for sale and OREO.

Changes in Level 3 recurring fair value measurements

The realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

Additional information about Level 3 assets and liabilities measured at fair value on a recurring basis is presented below:
Three months ended March 31, 2016 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Corporate obligations	Non-agency CMOs & ABS	Other	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value December 31, 2015	$189	$ 9	$1,964	$27,480	$102,899	$207,523	$ 493	$1,526	$ (67)
Total gains (losses) for the period:									
Included in earnings	(97)	—	(100)	133	—	4,269	18	1,586	—
Included in other comprehensive income	—	—	—	(583)	(300)	—	—	—	—
Purchases and contributions	2	—	19,470	—	—	2,407	—	—	—
Sales	(94)	—	(7,038)	(1,583)	—	—	—	—	—
Redemptions by issuer	—	—	—	(25)	—	—	(5)	—	—
Distributions	—	(1)	—	—	—	(9,801)	(67)	—	—
Transfers: (1)									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—
Fair value March 31, 2016	$—	$ 8	$14,296	$25,422	$102,599	$204,398	$ 439	$3,112	$ (67)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$ —	$(60)	$—	$—	$4,269	$ 18	$1,586	$ —

(1)

Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

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Six months ended March 31, 2016 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Corporate obligations	Non-agency CMOs & ABS	Other	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value September 30, 2015	$156	$ 9	$1,986	$28,015	$110,749	$209,088	$ 565	$4,975	$ (58)
Total gains (losses) for the period:									
Included in earnings	(137)	—	(349)	133	—	4,440	11	(1,863)	—
Included in other comprehensive income	—	—	—	(1,118)	(8,150)	—	—	—	—
Purchases and contributions	75	—	38,487	—	—	6,961	—	—	(9)
Sales	(94)	—	(25,828)	(1,583)	—	(18)	—	—	—
Redemptions by issuer	—	—	—	(25)	—	—	(14)	—	—
Distributions	—	(1)	—	—	—	(16,073)	(123)	—	—
Transfers: (1)									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—
Fair value March 31, 2016	$—	$ 8	$14,296	$25,422	$102,599	$204,398	$ 439	$3,112	$ (67)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$(40)	$ 1	$(71)	$—	$—	$4,440	$ 11	$(1,863)	$ —

(1) Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

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Three months ended March 31, 2015 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Non-agency CMOs & ABS	Equity securities	Other	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value December 31, 2014	$11	$ 14	$5,264	$85,814	$112,955	$208,674	$ 1,564	$2,407	$ (58)
Total gains (losses) for the period:									
Included in earnings	—	—	(20)	2	25	14,414 [1]	41	(211)	—
Included in other comprehensive income	—	—	—	3,843	(282)	—	—	—	—
Purchases and contributions	—	—	11,358	—	—	2,241	—	—	—
Sales	—	—	(15,822)	(45)	—	—	—	—	—
Redemptions by issuer	—	—	—	—	(250)	—	(663)	—	—
Distributions	(1)	—	—	—	—	(4,385)	(26)	—	—
Transfers: [2]									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—
Fair value March 31, 2015	$10	$ 14	$780	$89,614	$112,448	$220,944	$ 916	$2,196	$ (58)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$ —	$—	$—	$—	$14,414	$ 41	$(211)	$ —

(1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of $9.8 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately $4.6 million.

(2) Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

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Six months ended March 31, 2015 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Non-agency CMOs & ABS	Equity securities	Other	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value September 30, 2014	$11	$ 44	$2,309	$86,696	$114,039	$211,666	$ 1,731	$787	$ (58)
Total gains (losses) for the period:									
Included in earnings	—	5	(40)	2	25	17,060 (1)	81	1,409	—
Included in other comprehensive income	—	—	—	2,961	(1,366)	—	—	—	—
Purchases and contributions	—	20	23,333	—	—	6,343	—	—	—
Sales	—	—	(24,822)	(45)	—	—	—	—	—
Redemptions by issuer	—	—	—	—	(250)	—	(673)	—	—
Distributions	(1)	—	—	—	—	(14,125)	(223)	—	—
Transfers: (2)									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	(55)	—	—	—	—	—	—	—
Fair value March 31, 2015	$10	$ 14	$780	$89,614	$112,448	$220,944	$ 916	$2,196	$ (58)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$ 5	$—	$—	$—	$17,060	$ 81	$1,409	$ —

(1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of $12.2 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately $4.9 million.

(2) Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

As of March 31, 2016, 8.2% of our assets and 3.2% of our liabilities are instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2016 represent 15.4% of our assets measured at fair value. In comparison, as of March 31, 2015, 8.9% and 3.9% of our assets and liabilities, respectively, represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2015 represented 19% of our assets measured at fair value. Level 3 instruments as a percentage of total financial instruments decreased by 4% as compared to March 31, 2015, primarily as a result of the sale or redemption of a portion of our ARS portfolio since March 31, 2015.

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Gains and losses related to Level 3 recurring fair value measurements included in earnings are presented in net trading profit, other revenues and other comprehensive income in our Condensed Consolidated Statements of Income and Comprehensive Income as follows:

	Net trading profit	Other revenues	Other comprehensive income
	(in thousands)		
For the three months ended March 31, 2016			
Total (losses) gains included in revenues	$(197)	$6,006	$ —
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(60)	$5,873	$ (883)
For the six months ended March 31, 2016			
Total (losses) gains included in revenues	$(486)	$2,721	$ —
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(110)	$2,588	$ (9,268)
For the three months ended March 31, 2015			
Total (losses) gains included in revenues	$(20)	$14,271	—
Change in unrealized gains for assets held at the end of the reporting period	$—	$14,244	$ 3,561
For the six months ended March 31, 2015			
Total (losses) gains included in revenues	$(35)	$18,577	$ —
Change in unrealized gains for assets held at the end of the reporting period	$5	$18,550	$ 1,595

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Quantitative information about level 3 fair value measurements

The significant assumptions used in the valuation of level 3 financial instruments are as follows (the table that follows includes the significant majority of the financial instruments we hold that are classified as level 3 measures):

Level 3 financial instrument	Fair value at March 31, 2016 (in thousands)	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements:				
Available for sale securities:				
ARS:				
Municipals - issuer is a municipality	$ 10,500	Discounted cash flow	Average discount rate[(a)]	5.37% - 6.61% (5.99%)
			Average interest rates applicable to future interest income on the securities[(b)]	1.29% - 2.31% (1.80%)
			Prepayment year[(c)]	2018 - 2025 (2022)
Municipals - tax-exempt preferred securities	$ 14,922	Discounted cash flow	Average discount rate[(a)]	4.58% - 5.58% (5.08%)
			Average interest rates applicable to future interest income on the securities[(b)]	1.07% - 1.07% (1.07%)
			Prepayment year[(c)]	2016 - 2021 (2020)
Preferred securities - taxable	$ 102,599	Discounted cash flow	Average discount rate[(a)]	4.58% - 6.38% (5.50%)
			Average interest rates applicable to future interest income on the securities[(b)]	1.07% - 2.83% (1.50%)
			Prepayment year[(c)]	2016 - 2021 (2020)
Private equity investments:	$ 49,393	Income or market approach:		
		Scenario 1 - income approach - discounted cash flow	Discount rate[(a)]	13% - 21% (17.8%)
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2017 - 2019 (2018)
		Scenario 2 - market approach - market multiple method	EBITDA Multiple[(d)]	4.75 - 7.5 (6.1)
			Weighting assigned to outcome of scenario 1/scenario 2	75%/25%
	$ 155,005		Not meaningful[(e)]	Not meaningful[(e)]

		Transaction price or other investment-specific events[(e)]		
Nonrecurring measurements:				
Impaired loans: residential	$ 22,937	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.21 yrs.)
Impaired loans: corporate	$ 12,783	Appraisal or discounted cash flow value[(f)]	Not meaningful[(f)]	Not meaningful[(f)]

(a) Represents discount rates used when we have determined that market participants would take these discounts into account when pricing the investments.

(b) Future interest rates are projected based upon a forward interest rate path, plus a spread over such projected base rate that is applicable to each future period for each security within this portfolio segment. The interest rates presented represent the average interest rate over all projected periods for securities within the portfolio segment.

(c) Assumed year of at least a partial redemption of the outstanding security by the issuer.

(d) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.

(e) Certain private equity investments are valued initially at the transaction price until either our annual review, significant transactions occur, new developments become known, or we receive information from the fund manager that allows us to update our proportionate share of net assets, when any of which indicate that a change in the carrying values of these investments is appropriate.

(f) The valuation techniques used for the impaired corporate loan portfolio are appraisals less selling costs for the collateral dependent loans and discounted cash flows for the remaining impaired loans that are not collateral dependent.

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Qualitative disclosure about unobservable inputs

For our recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs are described below:

Auction rate securities:

One of the significant unobservable inputs used in the fair value measurement of auction rate securities presented within our available for sale securities portfolio relates to judgments regarding whether the level of observable trading activity is sufficient to conclude markets are active. Where insufficient levels of trading activity are determined to exist as of the reporting date, then management's assessment of how much weight to apply to trading prices in inactive markets versus management's own valuation models could significantly impact the valuation conclusion. The valuation of the securities impacted by changes in management's assessment of market activity levels could be either higher or lower, depending upon the relationship of the inactive trading prices compared to the outcome of management's internal valuation models.

The future interest rate and maturity assumptions impacting the valuation of the auction rate securities are directly related. As short-term interest rates rise, due to the variable nature of the penalty interest rate provisions embedded in most of these securities in the event auctions fail to set the security's interest rate, then a penalty rate that is specified in the security increases. These penalty rates are based upon a stated interest rate spread over what is typically a short-term base interest rate index. Management estimates that at some level of increase in short-term interest rates, issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. Therefore, the short-term interest rate assumption directly impacts the input related to the timing of any projected prepayment. The faster and steeper short-term interest rates rise, the earlier prepayments will likely occur and the higher the fair value of the security.

Private equity investments:

The significant unobservable inputs used in the fair value measurement of private equity investments relate to the financial performance of the investment entity and the market's required return on investments from entities in industries in which we hold investments. Significant increases (or decreases) in our investment entities' future economic performance will have a directly proportional impact on the valuation results. The value of our investment moves inversely with the market's expectation of returns from such investments. Should the market require higher returns from industries in which we are invested, all other factors held constant, our investments will decrease in value. Should the market accept lower returns from industries in which we are invested, all other factors held constant, our investments will increase in value.

Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. As of March 31, 2016, we have elected not to choose the fair value option for any of our financial assets or liabilities not already recorded at fair value.

Other fair value disclosures

Many, but not all, of the financial instruments we hold are recorded at fair value in the Condensed Consolidated Statements of Financial Condition. Refer to Note 5 on pages 132 - 133 of our 2015 Form 10-K for discussion of the methods and assumptions we apply to the determination of fair value of our financial instruments that are not otherwise recorded at fair value.

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The estimated fair values by level within the fair value hierarchy and the carrying amounts of our financial instruments that are not carried at fair value are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total estimated fair value	Carrying amount
	(in thousands)				
March 31, 2016					
Financial assets:					
Bank loans, net (1)	$—	$93,926	$14,149,555	$14,243,481	$14,208,236
Financial liabilities:					
Bank deposits	$—	$12,380,262	$353,612	$12,733,874	$12,729,457
Other borrowings (2)	$—	$36,549	$—	$36,549	$35,584
Senior notes payable	$367,080	$875,288	$—	$1,242,368	$1,149,316
September 30, 2015					
Financial assets:					
Bank loans, net (1)	$—	$105,199	$12,799,065	$12,904,264	$12,907,776
Financial liabilities:					
Bank deposits	$—	$11,564,963	$358,981	$11,923,944	$11,919,881
Other borrowings (2)	$—	$38,455	$—	$38,455	$37,716
Senior notes payable	$368,760	$892,963	$—	$1,261,723	$1,149,222

(1) Excludes all impaired loans and loans held for sale which have been recorded at fair value in the Condensed Consolidated Statements of Financial Condition at March 31, 2016 and September 30, 2015.

(2) Excludes the components of other borrowings that are recorded at amounts that approximate their fair value in the Condensed Consolidated Statements of Financial Condition at March 31, 2016 and September 30, 2015.

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NOTE 6 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	March 31, 2016		September 30, 2015	
	Trading instruments	Instruments sold but not yet purchased	Trading instruments	Instruments sold but not yet purchased
	(in thousands)			
Municipal and provincial obligations	$239,580	$ 4	$206,063	$ 18,313
Corporate obligations	137,061	48,860	95,317	33,184
Government and agency obligations	133,487	260,727	115,947	205,658
Agency MBS and CMOs	98,577	3,122	117,570	5,007
Non-agency CMOs and ABS	35,933	—	46,940	—
Total debt securities	644,638	312,713	581,837	262,162
Derivative contracts (1)	51,275	7,639	42,086	20,239
Equity securities	54,524	4,958	28,344	3,098
Brokered certificates of deposit	32,257	—	30,803	—
Other	16,759	100	7,481	2,494
Total	$799,453	$ 325,410	$690,551	$ 287,993

(1) Represents the derivative contracts held for trading purposes. These balances do not include all derivative instruments. See Note 13 for further information regarding all of our derivative transactions, and see Note 14 for additional information regarding offsetting financial instruments.

See Note 5 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

NOTE 7 – AVAILABLE FOR SALE SECURITIES

Available for sale securities are comprised of MBS and CMOs owned by RJ Bank and ARS owned by one of our non-broker-dealer subsidiaries. Refer to the discussion of our available for sale securities accounting policies, including the fair value determination process, in Note 2 on pages 107 - 108 of our 2015 Form 10-K.

There were no proceeds from the sale of available for sale securities held by RJ Bank during either of the three and six months ended March 31, 2016 or 2015.

There were $1.6 million of proceeds, and a gain in the amount of $100 thousand which is included in other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income arising from the sale or redemption of ARS in the three and six months ended March 31, 2016. Sale or redemption activities within the ARS portion of the portfolio during the three and six months ended March 31, 2015 resulted in aggregate proceeds of $300 thousand and an insignificant gain which is included in other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income.

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The amortized cost and fair values of available for sale securities are as follows:

	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
March 31, 2016				
Available for sale securities:				
Agency MBS and CMOs	$352,789	$ 1,896	$ (255)	$354,430
Non-agency CMOs [1]	68,135	9	(4,450)	63,694
Other securities	1,575	—	(278)	1,297
Total RJ Bank available for sale securities	422,499	1,905	(4,983)	419,421
Auction rate securities:				
Municipal obligations	27,491	14	(2,083)	25,422
Preferred securities	104,302	—	(1,703)	102,599
Total auction rate securities	131,793	14	(3,786)	128,021
Total available for sale securities	$554,292	$ 1,919	$ (8,769)	$547,442
September 30, 2015				
Available for sale securities:				
Agency MBS and CMOs	$301,001	$ 1,538	$ (344)	$302,195
Non-agency CMOs [2]	75,678	18	(4,327)	71,369
Other securities	1,575	—	(173)	1,402
Total RJ Bank available for sale securities	378,254	1,556	(4,844)	374,966
Auction rate securities:				
Municipal obligations	28,966	576	(1,527)	28,015
Preferred securities	104,302	6,447	—	110,749
Total auction rate securities	133,268	7,023	(1,527)	138,764
Total available for sale securities	$511,522	$ 8,579	$ (6,371)	$513,730

(1) As of March 31, 2016, the non-credit portion of other-than-temporary impairment (“OTTI”) recorded in accumulated other comprehensive income (loss) (“AOCI”) was $3.6 million (before taxes). See Note 17 for additional information.

(2) As of September 30, 2015, the non-credit portion of OTTI recorded in AOCI was $3.6 million (before taxes).

See Note 5 for additional information regarding the fair value of available for sale securities.

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The contractual maturities, amortized cost, carrying values and current yields for our available for sale securities are as presented below. Since RJ Bank's available for sale securities (MBS & CMOs) are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. Expected maturities of ARS 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				
	Within one year	After one but within five years	After five but within ten years	After ten years	Total
	($ in thousands)				
Agency MBS & CMOs:					
Amortized cost	$5	$24,179	$77,073	$251,532	$352,789
Carrying value	5	24,456	77,361	252,608	354,430
Weighted-average yield	0.86%	1.59 %	1.51 %	1.43 %	1.46 %
Non-agency CMOs:					
Amortized cost	$—	$—	$—	$68,135	$68,135
Carrying value	—	—	—	63,694	63,694
Weighted-average yield	—	—	—	2.52 %	2.52 %
Other securities:					
Amortized cost	$—	$—	$—	$1,575	$1,575
Carrying value	—	—	—	1,297	1,297
Weighted-average yield	—	—	—	—	—
Sub-total agency MBS & CMOs, non-agency CMOs, and other securities:					
Amortized cost	$5	$24,179	$77,073	$321,242	$422,499
Carrying value	5	24,456	77,361	317,599	419,421
Weighted-average yield	0.86%	1.59 %	1.51 %	1.65 %	1.62 %
Auction rate securities:					
Municipal obligations					
Amortized cost	$—	$—	$—	$27,491	$27,491
Carrying value	—	—	—	25,422	25,422
Weighted-average yield	—	—	—	0.55 %	0.55 %
Preferred securities:					
Amortized cost	$—	$—	$—	$104,302	$104,302
Carrying value	—	—	—	102,599	102,599
Weighted-average yield	—	—	—	0.80 %	0.80 %
Sub-total auction rate securities:					
Amortized cost	$—	$—	$—	$131,793	$131,793
Carrying value	—	—	—	128,021	128,021
Weighted-average yield	—	—	—	0.75 %	0.75 %

Total available for sale securities:					
Amortized cost	$5	$24,179	$77,073	$453,035	$554,292
Carrying value	5	24,456	77,361	445,620	547,442
Weighted-average yield	0.86%	1.59%	1.51%	1.39%	1.42%

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The gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

	March 31, 2016					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	$27,073	$ (35)	$24,687	$ (220)	$51,760	$ (255)
Non-agency CMOs	4,347	(37)	58,720	(4,413)	63,067	(4,450)
Other securities	1,297	(278)	—	—	1,297	(278)
ARS municipal obligations	13,392	(508)	11,782	(1,575)	25,174	(2,083)
ARS preferred securities	101,070	(1,703)	—	—	101,070	(1,703)
Total	$147,179	$ (2,561)	$95,189	$ (6,208)	$242,368	$ (8,769)

	September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	$3,488	$ (37)	$29,524	$ (307)	$33,012	$ (344)
Non-agency CMOs	—	—	65,854	(4,327)	65,854	(4,327)
Other securities	1,402	(173)	—	—	1,402	(173)
ARS municipal obligations	225	(3)	11,627	(1,524)	11,852	(1,527)
Total	$5,115	$ (213)	$107,005	$ (6,158)	$112,120	$ (6,371)

The reference point for determining when securities are in a loss position is the reporting period end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the period.

Agency MBS and CMOs

The Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), as well as the Government National Mortgage Association (“GNMA”), guarantee the contractual cash flows of the agency MBS and CMOs. At March 31, 2016 of the 10 U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, seven were in a continuous unrealized loss position for less than 12 months and three were for 12 months or more. We do not consider these securities other-than-temporarily impaired due to the guarantee provided by FNMA, FHLMC, and GNMA as to the full payment of principal and interest, and the fact that we have the ability and intent to hold these securities to maturity.

Non-agency CMOs

All individual non-agency securities are evaluated for OTTI on a quarterly basis. Only those non-agency CMOs whose amortized cost basis we do not expect to recover in full are considered to be other than temporarily impaired, as we have the ability and intent to hold these securities to maturity. To assess whether the amortized cost basis of non-agency CMOs will be recovered, RJ Bank performs a cash flow analysis for each security. This comprehensive process considers borrower characteristics and the particular attributes of the loans underlying each security. Loan level analysis includes a review of historical default rates, loss severities, liquidations, prepayment speeds and delinquency trends. In addition to historical details, home prices and the economic outlook are considered to derive the assumptions utilized in the discounted cash flow model to project security-specific cash flows, which factors in the amount of credit enhancement specific to the security. The difference between the present value of the cash flows expected and the amortized cost basis is the credit loss, and it is recorded as OTTI.

The significant assumptions used in the cash flow analysis of non-agency CMOs are as follows:

	March 31, 2016	
	Range	Weighted-average (1)
Default rate	0% - 6.6%	3.42%
Loss severity	0% - 69.2%	36.31%
Prepayment rate	5.6% - 32.0%	12.74%

(1) Represents the expected activity for the next twelve months.

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At March 31, 2016, 15 of the 16 non-agency CMOs were in a continuous unrealized loss position. Fourteen were in that position for 12 months or more and one was in a continuous unrealized loss position for less than 12 months. Based on the expected cash flows derived from the model utilized in our analysis, we expect to recover all unrealized losses not already recorded in earnings on our non-agency CMOs. However, it is possible that the underlying loan collateral of these securities will perform worse than current expectations, which may lead to adverse changes in the cash flows expected to be collected on these securities and potential future OTTI losses. As residential mortgage loans are the underlying collateral of these securities, the unrealized losses at March 31, 2016 reflect the uncertainty in the markets for these instruments.

ARS

Our cost basis in the ARS we hold is the fair value of the securities in the period in which we acquired them. The par value of the ARS we hold as of March 31, 2016 is $154.2 million. Only those ARS whose amortized cost basis we do not expect to recover in full are considered to be other-than-temporarily impaired, as we have the ability and intent to hold these securities to maturity. All of our ARS securities are evaluated for OTTI on a quarterly basis.

As of March 31, 2016, there were 37 ARS preferred securities with a fair value less than their cost basis, indicating potential impairment. We analyzed the credit ratings associated with each of these securities as an indicator of potential credit impairment, and including subsequent ratings changes, determined that all of these securities maintained investment grade ratings by at least one rating agency. We have the ability and intent to hold these securities to maturity and expect to recover their entire cost basis and therefore concluded that none of the potential impairment within our ARS preferred securities portfolio is related to potential credit loss.

Within our municipal ARS holdings as of March 31, 2016, there were nine municipal ARS with a fair value less than their cost basis, indicating potential impairment. We analyzed the credit ratings associated with these securities as an indicator of potential credit impairment, and including subsequent ratings changes, determined that all of these securities maintained investment grade ratings by at least one rating agency. We have the ability and intent to hold these securities to maturity and expect to recover their entire cost basis and therefore concluded that none of the potential impairment within our municipal ARS portfolio is related to potential credit loss.

Other-than-temporarily impaired securities

Although there is no intent to sell either our ARS or our non-agency CMOs, and it is not more likely than not that we will be required to sell these securities, as of March 31, 2016 we do not expect to recover the entire amortized cost basis of certain securities within the non-agency CMO available for sale security portfolio.

Changes in the amount of OTTI related to credit losses recognized in other revenues on available for sale securities are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Amount related to credit losses on securities we held at the beginning of the period	$11,847	$18,703	$11,847	$18,703
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	—	—	—	—
Amount related to credit losses on securities we held at the end of the period	$11,847	$18,703	$11,847	$18,703

NOTE 8 – BANK LOANS, NET

Bank client receivables are comprised of loans originated or purchased by RJ Bank, and include commercial and industrial ("C&I") loans, tax-exempt loans, securities based and other consumer loans ("SBL"), as well as commercial and residential real estate loans. These receivables are collateralized by first or second mortgages on residential or other real property, other assets of the borrower, a pledge of revenue, or are unsecured.

For a discussion of our accounting policies regarding bank loans and allowances for losses, including the policies regarding loans held for investment, loans held for sale, off-balance sheet loan commitments, nonperforming assets, troubled debt restructurings ("TDRs"), impaired loans, the allowance for loan losses and reserve for unfunded lending commitments, and loan charge-off policies, see Note 2 on pages 111 – 115 of our 2015 Form 10-K.

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We segregate our loan portfolio into six loan portfolio segments: C&I, commercial real estate ("CRE"), CRE construction, tax-exempt, residential mortgage, and SBL. These portfolio segments also serve as the portfolio loan classes for purposes of credit analysis, except for residential mortgage loans which are further disaggregated into residential first mortgage and residential home equity classes.

The following table presents the balances for both the held for sale and held for investment loan portfolios, as well as the associated percentage of each portfolio segment in RJ Bank's total loan portfolio:

	March 31, 2016		September 30, 2015	
	Balance	%	Balance	%
	($ in thousands)			
Loans held for sale, net[1]	$172,222	1 %	$119,519	1 %
Loans held for investment:				
Domestic:				
C&I loans	6,236,413	43 %	5,893,631	44 %
CRE construction loans	143,437	1 %	126,402	1 %
CRE loans	2,035,699	14 %	1,679,332	13 %
Tax-exempt loans	610,274	4 %	484,537	4 %
Residential mortgage loans	2,215,264	15 %	1,959,786	15 %
SBL	1,702,766	12 %	1,479,562	11 %
Foreign:				
C&I loans	1,046,801	7 %	1,034,387	8 %
CRE construction loans	2,468	—	35,954	—
CRE loans	412,569	3 %	374,822	3 %
Residential mortgage loans	2,320	—	2,828	—
SBL	1,909	—	1,942	—
Total loans held for investment	14,409,920		13,073,183	
Net unearned income and deferred expenses	(39,441)		(32,424)	
Total loans held for investment, net[1]	14,370,479		13,040,759	
Total loans held for sale and investment	14,542,701	100 %	13,160,278	100 %
Allowance for loan losses	(194,220)		(172,257)	
Bank loans, net	$14,348,481		$12,988,021	

(1) Net of unearned income and deferred expenses, which includes purchase premiums, purchase discounts, and net deferred origination fees and costs.

At March 31, 2016, the Federal Home Loan Bank of Atlanta ("FHLB") had a blanket lien on RJ Bank's residential mortgage loan portfolio as security for the repayment of certain borrowings. See Note 12 for more information regarding borrowings from the FHLB.

Loans held for sale

RJ Bank originated or purchased $397.5 million and $1.0 billion of loans held for sale during the three and six months ended March 31, 2016, respectively, and $219.7 million and $617.6 million during the three and six months ended March 31, 2015. Proceeds from the sale of held for sale loans amounted to $84.7 million and $170.9 million during the three and six months ended March 31, 2016, and $60.2 million and $97.5 million during the three and six months ended March 31, 2015. Net gains resulting from such sales amounted to $300 thousand and $600 thousand during the three and six months ended March 31, 2016 and were insignificant during both the three and six months ended March

31, 2015. Unrealized losses recorded in the Condensed Consolidated Statements of Income and Comprehensive Income to reflect the loans held for sale at the lower of cost or market value were insignificant in each of the three and six months ended March 31, 2016 and 2015.

Purchases and sales of loans held for investment

As more fully described in Note 2 of our 2015 Form 10-K, corporate loan sales generally occur as part of a loan workout situation.

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The following table presents purchases and sales of any loans held for investment by portfolio segment:

	C&I	CRE	Residential mortgage		Total
	(in thousands)				
Three months ended March 31, 2016					
Purchases	$91,256	$7,040	$ 131,788	(2)	$230,084
Sales (1)	$36,569	$—	$—		$36,569
Six months ended March 31, 2016					
Purchases	$149,107	$7,040	210,823	(3)	$366,970
Sales (1)	$71,815	$—	—		$71,815
Three months ended March 31, 2015					
Purchases	$106,197	$—	$ 1,337		$107,534
Sales (1)	$25,500	$—	$—		$25,500
Six months ended March 31, 2015					
Purchases	$260,281	$—	$ 213,309	(4)	$473,590
Sales (1)	$32,360	$—	$—		$32,360

(1) Represents the recorded investment of loans held for investment that were transferred to loans held for sale during the respective period and subsequently sold to a third party during the same period. Corporate loan sales generally occur as part of a loan workout situation.

(2) Includes the purchase from another financial institution of residential mortgage loans totaling $107.1 million in principal loan balance.

(3) Includes purchases from another financial institution of residential mortgage loans totaling $179.6 million in principal loan balance.

(4) Includes the purchase from another financial institution of residential mortgage loans totaling $207.3 million in principal loan balance.

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Aging analysis of loans held for investment

The following table presents an analysis of the payment status of loans held for investment:

	30-89 days and accruing	90 days or more and accruing	Total past due and accruing	Nonaccrual [1]	Current and accruing	Total loans held for investment [2]
	(in thousands)					
As of March 31, 2016:						
C&I loans	$152	$ —	$ 152	$ 11,391	$7,271,671	$7,283,214
CRE construction loans	—	—	—	—	145,905	145,905
CRE loans	—	—	—	4,497	2,443,771	2,448,268
Tax-exempt loans	—	—	—	—	610,274	610,274
Residential mortgage loans:						
First mortgage loans	1,504	—	1,504	43,365	2,153,501	2,198,370
Home equity loans/lines	—	—	—	172	19,042	19,214
SBL	—	—	—	—	1,704,675	1,704,675
Total loans held for investment, net	$1,656	$ —	$ 1,656	$ 59,425	$14,348,839	$14,409,920
As of September 30, 2015:						
C&I loans	163	$ —	$ 163	$ —	6,927,855	$6,928,018
CRE construction loans	—	—	—	—	162,356	162,356
CRE loans	—	—	—	4,796	2,049,358	2,054,154
Tax-exempt	—	—	—	—	484,537	484,537
Residential mortgage loans:						
First mortgage loans	2,906	—	2,906	47,504	1,891,384	1,941,794
Home equity loans/lines	30	—	30	319	20,471	20,820
SBL	—	—	—	—	1,481,504	1,481,504
Total loans held for investment, net	$3,099	$ —	$ 3,099	$ 52,619	$13,017,465	$13,073,183

(1) Includes $31.2 million and $22.4 million of nonaccrual loans at March 31, 2016 and September 30, 2015, respectively, which are performing pursuant to their contractual terms.

(2) Excludes any net unearned income and deferred expenses.

Nonperforming loans represent those loans on nonaccrual status, troubled debt restructurings, and accruing loans which are 90 days or more past due and in the process of collection. The gross interest income related to the nonperforming loans reflected in the previous table, which would have been recorded had these loans been current in accordance with their original terms, totaled $500 thousand and $800 thousand for the three and six months ended March 31, 2016, respectively, and $500 thousand and $1.2 million for the three and six months ended March 31, 2015, respectively. The interest income recognized on nonperforming loans was $200 thousand and $500 thousand for the three and six months ended March 31, 2016, respectively and $400 thousand and $600 thousand for the three and six months ended March 31, 2015, respectively.

Other real estate owned, included in other assets on our Condensed Consolidated Statements of Financial Condition, was $4.5 million at March 31, 2016 and $4.6 million at September 30, 2015. The recorded investment of mortgage loans secured by one-to-four family residential properties for which formal foreclosure proceedings are in process was $21.6 million at March 31, 2016 and $24.6 million at September 30, 2015.

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Impaired loans and troubled debt restructurings

The following table provides a summary of RJ Bank's impaired loans:

	March 31, 2016			September 30, 2015		
	Gross recorded investment	Unpaid principal balance	Allowance for losses	Gross recorded investment	Unpaid principal balance	Allowance for losses
	(in thousands)					
Impaired loans with allowance for loan losses:(1)						
C&I loans	$11,391	$11,535	$ 3,105	$10,599	$11,204	$ 1,132
Residential - first mortgage loans	33,437	45,090	2,804	35,442	48,828	4,014
Total	44,828	56,625	5,909	46,041	60,032	5,146
Impaired loans without allowance for loan losses:(2)						
CRE loans	4,497	11,611	—	4,796	11,611	—
Residential - first mortgage loans	18,532	27,189	—	20,221	29,598	—
Total	23,029	38,800	—	25,017	41,209	—
Total impaired loans	$67,857	$95,425	$ 5,909	$71,058	$101,241	$ 5,146

(1) Impaired loan balances have had reserves established based upon management's analysis.

(2) When the discounted cash flow, collateral value or market value equals or exceeds the carrying value of the loan, then the loan does not require an allowance. These are generally loans in process of foreclosure that have already been adjusted to fair value.

The preceding table includes $4.5 million CRE, and $30.6 million residential first mortgage TDR's at March 31, 2016, and $4.8 million CRE, $10.6 million C&I, and $32.8 million residential first mortgage TDR's at September 30, 2015.

The average balance of the total impaired loans and the related interest income recognized in the Condensed Consolidated Statements of Income and Comprehensive Income are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Average impaired loan balance:				
C&I loans	$7,258	$11,613	$8,882	$11,732
CRE loans	4,540	17,257	4,606	17,394
Residential mortgage loans:				
First mortgage loans	52,713	59,875	53,223	61,493
Total	$64,511	$88,745	$66,711	$90,619
Interest income recognized:				
Residential mortgage loans:				
First mortgage loans	$334	$426	$707	$741
Total	$334	$426	$707	$741

During the three and six months ended March 31, 2016 and 2015, RJ Bank granted concessions to borrowers having financial difficulties, for which the resulting modification was deemed a TDR. These concessions granted for the respective first mortgage residential loans were interest rate reductions, maturity date extensions, capitalization of past due payments, or release of liability ordered under Chapter 7 bankruptcy not reaffirmed by the borrower.

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The table below presents the TDRs that occurred during the respective periods presented:

	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
	($ in thousands)		
Three months ended March 31, 2016			
Residential – first mortgage loans	1	$ 236	$ 236
Six months ended March 31, 2016			
Residential – first mortgage loans	1	$ 236	$ 236
Three months ended March 31, 2015			
Residential – first mortgage loans	1	$ 133	$ 134
Six months ended March 31, 2015			
Residential – first mortgage loans	3	$ 290	$ 293

There were no TDRs for which there was a payment default and for which the respective loan was modified as a TDR within the 12 months prior to the default during the three and six months ended March 31, 2016 and 2015. As of March 31, 2016, RJ Bank had no outstanding commitments on TDRs and had one outstanding commitment on a C&I TDR at September 30, 2015 in the amount of $600 thousand.

Credit quality indicators

The credit quality of RJ Bank's loan portfolio is summarized monthly by management using the standard asset classification system utilized by bank regulators for the SBL and residential mortgage loan portfolios and internal risk ratings, which correspond to the same standard asset classifications for the corporate loan portfolios. These classifications are divided into three groups: Not Classified (Pass), Special Mention, and Classified or Adverse Rating (Substandard, Doubtful and Loss). These terms are defined as follows:

Pass – Loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less costs to acquire and sell, of any underlying collateral in a timely manner.

Special Mention – Loans which have potential weaknesses that deserve management's close attention. These loans are not adversely classified and do not expose RJ Bank to sufficient risk to warrant an adverse classification.

Substandard – Loans which are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans with this classification are characterized by the distinct possibility that RJ Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans which have all the weaknesses inherent in loans classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently-known facts, conditions and values.

Loss – Loans which are considered by management to be uncollectible and of such little value that their continuance on RJ Bank's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. RJ Bank does not have any loan balances within this classification because, in accordance with its accounting policy, loans, or a portion thereof considered to be uncollectible, are charged-off prior to the assignment of this classification.

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The credit quality of RJ Bank's held for investment loan portfolio is as follows:

	Pass	Special mention(1)	Substandard(1)	Doubtful(1)	Total
	(in thousands)				
March 31, 2016					
C&I	$7,046,244	$95,379	$ 141,591	$ —	$7,283,214
CRE construction	145,905	—	—	—	145,905
CRE	2,443,599	—	4,669	—	2,448,268
Tax-exempt	610,274	—	—	—	610,274
Residential mortgage:					
First mortgage	2,130,729	13,073	54,568	—	2,198,370
Home equity	18,827	215	172	—	19,214
SBL	1,704,675	—	—	—	1,704,675
Total	$14,100,253	$108,667	$ 201,000	$ —	$14,409,920
September 30, 2015					
C&I	$6,739,179	$97,623	$ 91,216	$ —	$6,928,018
CRE construction	162,356	—	—	—	162,356
CRE	2,034,692	39	19,423	—	2,054,154
Tax-exempt	484,537	—	—	—	484,537
Residential mortgage:					
First mortgage	1,868,044	14,890	58,860	—	1,941,794
Home equity	20,372	128	320	—	20,820
SBL	1,481,504	—	—	—	1,481,504
Total	$12,790,684	$112,680	$ 169,819	$ —	$13,073,183

(1) Loans classified as special mention, substandard or doubtful are all considered to be "criticized" loans.

The credit quality of RJ Bank's performing residential first mortgage loan portfolio is additionally assessed utilizing updated loan-to-value ("LTV") ratios. RJ Bank segregates all of its performing residential first mortgage loan portfolio with higher reserve percentages allocated to the higher LTV loans. Current LTVs are updated using the most recently available information (generally on a one-quarter lag) and are estimated based on the initial appraisal obtained at the time of origination, adjusted using relevant market indices for housing price changes that have occurred since origination. The value of the homes could vary from actual market values due to changes in the condition of the underlying property, variations in housing price changes within current valuation indices, and other factors.

The table below presents the most recently available update of the performing residential first mortgage loan portfolio summarized by current LTV. The amounts in the table represent the entire loan balance:

	Balance(1) (in thousands)
LTV range:	
LTV less than 50%	$658,860
LTV greater than 50% but less than 80%	1,085,978
LTV greater than 80% but less than 100%	88,862
LTV greater than 100%, but less than 120%	13,466
LTV greater than 120%	1,681
Total	$1,848,847

(1) Excludes loans that have full repurchase recourse for any delinquent loans.

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Allowance for loan losses and reserve for unfunded lending commitments

Changes in the allowance for loan losses of RJ Bank by portfolio segment are as follows:

	Loans held for investment						
	C&I	CRE construction	CRE	Tax-exempt	Residential mortgage	SBL	Total
	(in thousands)						
Three months ended March 31, 2016							
Balance at beginning of period	$128,721	$ 2,635	$31,304	$ 7,119	$ 12,265	$3,415	$185,459
Provision (benefit) for loan losses	9,590	(100)	1,149	(85)	(902)	(23)	9,629
Net (charge-offs)/recoveries:							
Charge-offs	(1,427)	—	—	—	(369)	—	(1,796)
Recoveries	—	—	—	—	260	20	280
Net (charge-offs)/recoveries	(1,427)	—	—	—	(109)	20	(1,516)
Foreign exchange translation adjustment	415	18	215	—	—	—	648
Balance at March 31, 2016	$137,299	$ 2,553	$32,668	$ 7,034	$ 11,254	$3,412	$194,220
Six months ended March 31, 2016							
Balance at beginning of period	$117,623	$ 2,707	$30,486	$ 5,949	$ 12,526	$2,966	$172,257
Provision (benefit) for loan losses	21,175	(152)	2,112	1,085	(1,106)	425	23,539
Net (charge-offs)/recoveries:							
Charge-offs	(1,694)	—	—	—	(916)	—	(2,610)
Recoveries	—	—	—	—	750	21	771
Net (charge-offs)/recoveries	(1,694)	—	—	—	(166)	21	(1,839)
Foreign exchange translation adjustment	195	(2)	70	—	—	—	263
Balance at March 31, 2016	$137,299	$ 2,553	$32,668	$ 7,034	$ 11,254	$3,412	$194,220
Three months ended March 31, 2015							
Balance at beginning of period	$109,582	$ 1,709	$25,095	$ 2,738	$ 15,319	$2,324	$156,767
Provision (benefit) for loan losses	1,530	(8)	900	1,171	168	176	3,937
Net (charge-offs)/recoveries:							
Charge-offs	—	—	—	—	(411)	—	(411)
Recoveries	536	—	—	—	—	6	542
Net (charge-offs)/recoveries	536	—	—	—	(411)	6	131
Foreign exchange translation adjustment	(523)	(26)	(278)	—	—	—	(827)
Balance at March 31, 2015	$111,125	$ 1,675	$25,717	$ 3,909	$ 15,076	$2,506	$160,008
Six months ended March 31, 2015							
Balance at beginning of period	$103,179	$ 1,594	$25,022	$ 1,380	$ 14,350	$2,049	$147,574
Provision for loan losses	8,364	117	1,062	2,529	787	443	13,302
Net (charge-offs)/recoveries:							
Charge-offs	(238)	—	—	—	(638)	—	(876)
Recoveries	536	—	—	—	577	14	1,127
Net recoveries/(charge-offs)	298	—	—	—	(61)	14	251
Foreign exchange translation adjustment	(716)	(36)	(367)	—	—	—	(1,119)

Balance at March 31, 2015	$111,125	$ 1,675	$25,717	$ 3,909	$ 15,076	$2,506	$160,008

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The following table presents, by loan portfolio segment, RJ Bank's recorded investment and related allowance for loan losses:

	Loans held for investment					
	Allowance for loan losses			Recorded investment[1]		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(in thousands)					
March 31, 2016						
C&I	$3,105	$ 134,194	$137,299	$11,391	$7,271,823	$7,283,214
CRE construction	—	2,553	2,553	—	145,905	145,905
CRE	—	32,668	32,668	4,497	2,443,771	2,448,268
Tax-exempt	—	7,034	7,034	—	610,274	610,274
Residential mortgage	2,814	8,440	11,254	58,403	2,159,181	2,217,584
SBL	—	3,412	3,412	—	1,704,675	1,704,675
Total	$5,919	$ 188,301	$194,220	$74,291	$14,335,629	$14,409,920
September 30, 2015						
C&I	$1,132	116,491	$117,623	$10,599	$6,917,419	$6,928,018
CRE construction	—	2,707	2,707	—	162,356	162,356
CRE	—	30,486	30,486	4,796	2,049,358	2,054,154
Tax-exempt	—	5,949	5,949	—	484,537	484,537
Residential mortgage	4,046	8,480	12,526	62,706	1,899,908	1,962,614
SBL	—	2,966	2,966	—	1,481,504	1,481,504
Total	$5,178	$ 167,079	$172,257	$78,101	$12,995,082	$13,073,183

(1) Excludes any net unearned income and deferred expenses.

The reserve for unfunded lending commitments, included in trade and other payables on our Condensed Consolidated Statements of Financial Condition, was $7.8 million and $9.7 million at March 31, 2016 and September 30, 2015, respectively.

NOTE 9 – VARIABLE INTEREST ENTITIES

A VIE requires consolidation by the entity's primary beneficiary. We evaluate all of the entities in which we are involved to determine if the entity is a VIE and, if so, whether we hold a variable interest and are the primary beneficiary.

We hold variable interests in the following VIE's: Raymond James Employee Investment Funds I and II (the "EIF Funds"), a trust fund established for employee retention purposes ("Restricted Stock Trust Fund"), certain low-income housing tax credit funds ("LIHTC Funds"), various other partnerships and limited liability companies ("LLCs") involving real estate ("Other Real Estate Limited Partnerships and LLCs"), certain new market tax credit funds ("NMTC Funds"), and certain funds formed for the purpose of making and managing investments in securities of other entities ("Managed Funds").

Refer to Note 2 on pages 118 - 121 of our 2015 Form 10-K for a description of our principal involvement with VIEs and the accounting policies regarding determination of whether we are deemed to be the primary beneficiary of any

VIEs. Other than as described below, as of March 31, 2016 there have been no significant changes in either the nature of our involvement with, or the accounting policies associated with the analysis of, VIEs as described in the 2015 Form 10-K.

Raymond James Tax Credit Funds, Inc. ("RJTCF"), a wholly owned subsidiary of RJF, is the managing member or general partner in LIHTC Funds having one or more investor members or limited partners. These LIHTC Funds are organized as limited partnerships or LLCs for the purpose of investing in a number of project partnerships, which are limited partnerships or LLCs that in turn purchase and develop low-income housing properties qualifying for tax credits.

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VIEs where we are the primary beneficiary

Of the VIEs in which we hold an interest, we have determined that the EIF Funds, the Restricted Stock Trust Fund and certain LIHTC Funds require consolidation in our financial statements, as we are deemed the primary beneficiary of those VIEs. The aggregate assets and liabilities of the VIEs we consolidate are provided in the table below.

	Aggregate assets [1]	Aggregate liabilities [1]
	(in thousands)	
March 31, 2016		
LIHTC Funds	$135,581	$ 34,173
Guaranteed LIHTC Fund [2]	64,715	2,427
Restricted Stock Trust Fund	11,186	11,186
EIF Funds	4,040	—
Total	$215,522	$ 47,786
September 30, 2015		
LIHTC Funds	$143,111	$ 41,125
Guaranteed LIHTC Fund [2]	71,231	2,263
Restricted Stock Trust Fund	6,405	6,405
EIF Funds	4,627	—
Total	$225,374	