ADVANCE AUTO PARTS INC
Form DEF 14A
April 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [×]

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[×] Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

ADVANCE AUTO PARTS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[×] No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ADVANCE AUTO PARTS, INC.
5673 AIRPORT ROAD
ROANOKE, VIRGINIA 24012

NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS

May 18, 2005

We will hold our 2005 annual meeting of the stockholders of Advance Auto Parts, Inc., a Delaware corporation, on May 18, 2005, at 8:30 a.m., local time, at The Hotel Roanoke and Conference Center, 110 Shenandoah Ave, NW, Roanoke, Virginia. As further described in the accompanying proxy statement, at this meeting we will vote for the following purposes:

1. To elect nominees to our board of directors to serve until the 2006 annual meeting of stockholders and until their successors are duly elected and qualified.
2. To ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005.
3. To transact any other business that may properly come before the meeting or any meetings held upon adjournment thereof, including a stockholder proposal to request an amendment to our employment opportunity policy.

Our board of directors has fixed March 30, 2005 as the record date for determining stockholders entitled to vote at the meeting or any meetings held upon adjournment of the meeting. Only record holders of our common stock at the close of business on that day will be entitled to vote.

We invite you to attend the meeting and vote in person. **If you cannot attend, to assure that you are represented at the meeting, please sign and return the enclosed proxy card as promptly as possible in the enclosed postage prepaid envelope or vote your proxy by Internet or telephone by following the instructions on the form of proxy.** If you attend the meeting, you may vote in person, even if you previously voted by proxy.

By order of the board of directors,

Eric M. Margolin
Senior Vice President
General Counsel and Secretary

Roanoke, Virginia
April 13, 2005

TABLE OF CONTENTS

	Page
INTRODUCTION	1
OUTSTANDING SECURITIES AND VOTING RIGHTS	1
PROPOSAL NO. 1 ELECTION OF DIRECTORS	3
Nominees for Election to Our Board	3
Board Meetings and Committees	4
Corporate Governance	6
Non-Management Director Compensation	8
Compensation Committee Interlocks and Insider Participation	9
PROPOSAL NO. 2 RATIFICATION OF APPOINTMENT BY THE AUDIT COMMITTEE OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005	10
2004 and 2003 Audit Fees	10
STOCKHOLDER PROPOSAL	12
INFORMATION CONCERNING OUR EXECUTIVE OFFICERS	14
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	16
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	18
STOCK PRICE PERFORMANCE	19
AUDIT COMMITTEE REPORT	20
REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION	22
Compensation Philosophy	22
Evaluation and Approval of Annual and Long-Term Incentive Compensation	22
Annual Compensation	23
Long-Term Incentive Compensation	23
Chief Executive Officer Compensation for 2004	23
Chief Executive Officer Transition	24
Internal Revenue Code Section 162(m)	24
EXECUTIVE COMPENSATION	25
Summary Compensation Table	25
Option Grants in Last Fiscal Year	27
Aggregated Option Exercises in Last Fiscal Year and Fiscal-Year End Option Values	28
Executive Employment Agreements	28
RELATED-PARTY TRANSACTIONS	29
STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING	29
OTHER MATTERS	30

PROXY STATEMENT

INTRODUCTION

We are sending you this proxy statement on or about April 13, 2005 in connection with the solicitation of proxies by our board of directors. The proxies are for use at our 2005 annual meeting of stockholders, which we will hold at 8:30 a.m., local time, on May 18, 2005, at The Hotel Roanoke and Conference Center, 110 Shenandoah Ave, NW, Roanoke, Virginia. The proxies will remain valid for use at any meetings held upon adjournment of that meeting. Our principal executive offices are located at 5673 Airport Road, Roanoke, Virginia 24012, and our telephone number is (540) 362-4911. Unless the context otherwise requires, Advance, we, us, our and similar terms refer to Advance Auto Part Inc., its predecessor, its subsidiaries and their respective operations.

The record date for the meeting is March 30, 2005. All holders of record of our common stock on the record date are entitled to notice of the meeting and to vote at the meeting and any adjournment thereof.

A proxy card is enclosed. Whether or not you plan to attend the meeting in person, please date, sign and return the enclosed card as promptly as possible, in the postage prepaid envelope provided, or vote your proxy by Internet or telephone by following the instructions on the proxy card to ensure that your shares will be voted at the meeting. You may revoke your proxy at any time prior to its use by filing with our corporate secretary an instrument revoking it or a duly executed proxy card bearing a later date or by attending the meeting and voting in person.

Unless you instruct otherwise in the proxy, any proxy, if not revoked, will be voted at the meeting:

- for our board s slate of nominees;
- to ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005; and
- to transact such other business as may properly come before the meeting or any adjournment thereof, including against the stockholder proposal to request an amendment to our employment opportunity policy.

OUTSTANDING SECURITIES AND VOTING RIGHTS

Our only voting securities are the outstanding shares of our common stock. On the record date, we had 71,554,297 shares of common stock outstanding and 439 stockholders of record. If the stockholders of record present in person or represented by their proxies at the meeting hold at least a majority of our outstanding shares of common stock, or 35,777,149 shares, a quorum will exist to transact business at the meeting. Stockholders of record who abstain from voting, including brokers holding their customers shares who cause abstentions to be recorded, are counted as present for quorum purposes.

For each share of common stock you hold on the record date, you are entitled to one vote on each matter that we will consider at this meeting. You are not entitled to cumulate your votes.

1

If you hold shares through a broker, you should follow the instructions for voting that you receive from your broker. If you want to vote in person, you must obtain a legal proxy from your broker and bring it to the meeting. If you do not submit voting instructions to your broker, your broker may vote on the following matters in its discretion: (1) the election of directors, (2) the ratification of appointment by our audit committee of Deloitte & Touche LLP and (3) the stockholder proposal to request an amendment to our employment opportunity policy.

The voting requirements for the proposals we will consider at the meeting are:

Election of directors. Directors are elected by a plurality, and the ten candidates who receive the most votes will be elected to our board of directors. Votes withheld will have no effect on the election of any director.

Ratification of appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005. An affirmative vote of the holders of a majority of the shares, or represented by proxy, and entitled to vote at the annual meeting will be required to ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005. Abstentions count as votes cast and have the effect of a vote against the proposal.

Stockholder proposal. An affirmative vote of the holders of a majority of the shares present, or represented by proxy, and entitled to vote at the annual meeting will be required to approve the stockholder proposal to request an amendment to our employment opportunity policy. Abstentions count as votes cast and have the effect of a vote against the proposal.

We will pay for the cost of preparing, assembling, printing and mailing this proxy statement and the accompanying form of proxy to our stockholders, as well as the cost of soliciting proxies relating to the meeting. We may request banks and brokers to solicit their customers who beneficially own our common stock listed of record in names of nominees. We will reimburse these banks and brokers for their reasonable out-of-pocket expenses for these solicitations. Our officers, directors and employees may supplement these solicitations of proxies by telephone, facsimile, e-mail and personal solicitation. We will pay no additional compensation to our officers, directors or employees for these activities.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the meeting, you will elect ten members of our board of directors to serve until our 2006 annual meeting of stockholders and until their respective successors are elected and qualified. Our board has nominated John C. Brouillard, Lawrence P. Castellani, Michael N. Coppola, Darren R. Jackson, William S. Oglesby, Gilbert T. Ray, Carlos A. Saladrigas, William L. Salter, Francesca Spinelli and Nicholas F. Taubman for election as directors, all of whom are current members of our board. Each nominee has consented to being named in this proxy statement as a nominee and has agreed to serve as director if elected.

The persons named as proxies in the accompanying form of proxy have advised us that at the meeting, unless otherwise directed, they intend to vote the shares covered by the proxies for the election of the nominees named above. If one or more of the nominees are unable to serve, or for good cause will not serve, the persons named as proxies may vote for any election of the substitute nominees that our board may propose. The persons named as proxies may not vote for a greater number of persons than the number of nominees named above.

Nominees for Election to Our Board

The following table provides information about our directors at April 1, 2005.

Name	Age	Position
John C. Brouillard(1)(2)	56	Director
Lawrence P. Castellani	59	Chief Executive Officer and Chairman of the Board
Michael N. Coppola	56	Executive Vice President, Chief Operating Officer and Director
Darren R. Jackson(1)(3)	40	Director
William S. Oglesby(3)(4)	45	Director
Gilbert T. Ray(2)(4)	60	Director
Carlos A. Saladrigas(1)	56	Director
William L. Salter(2)(4)	61	Lead Director
Francesca Spinelli, Ph.D.(2)	51	Director
Nicholas F. Taubman(3)	70	Director

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(1) Member of audit committee.
(2) Member of compensation committee.
(3) Member of finance committee.
(4) Member of nominating and corporate governance committee.

Mr. Brouillard, Director, became a member of our board of directors in May 2004. Mr. Brouillard is currently Chief Administrative and Financial Officer of H.E. Butt Grocery Company and has held that position since February 1991. Mr. Brouillard also has served as a director of H.E. Butt Grocery Company since 2003. From 1977 to 1991, Mr. Brouillard held various positions with Hills Department Stores, including serving as President of the company.

Mr. Castellani, Chief Executive Officer and Chairman of the Board, joined us in February 2000. Mr. Castellani has served as our Chairman since February 2003. Effective May 18, 2005, after the annual meeting of stockholders, Mr. Castellani will retire as Chief Executive Officer. Mr. Castellani will retain the role of Chairman of the Board. Prior to joining us, Mr. Castellani served as President and Chief Executive Officer of Ahold Support Services in Latin America (a division of Royal Ahold, a supermarket company) from February 1998 to February 2000, as Executive Vice President of Ahold USA from September 1997 through February 1998, and as President and Chief Executive Officer of Tops Friendly Markets from 1991 through September 1997.

Mr. Coppola, Executive Vice President, Chief Operating Officer and Director, joined us in February 2001 and has held his current position since August 2003. Upon Mr. Castellani s retirement effective May 18, 2005, Mr.

Coppola will become our Chief Executive Officer. Mr. Coppola previously served as Senior Vice President, Merchandising from February 2001 to August 2003. Prior to joining us, Mr. Coppola operated his own retail company for two years and from April 1991 through December 1997, served as Executive Vice President of Marketing at Tops Friendly Markets, a division of Ahold USA.

Mr. Jackson, Director, became a member of our board of directors in July 2004. Mr. Jackson joined Minneapolis-based Best Buy Co., Inc. in 2000 and was appointed its Chief Financial Officer and Executive Vice President of Finance in February of 2001. Prior to 2000, he served as Vice President and Chief Financial Officer of Seattle-based Nordstrom, Full-line Stores and held various senior positions including Chief Financial Officer of Carson Pirie Scott & Company. He began his career at KPMG Peat Marwick.

Mr. Oglesby, Director, became a member of our board of directors in December 2004. Mr. Oglesby is currently Senior Managing Director for The Blackstone Group, L.P. and has held this position since April 2004. Mr. Oglesby has over twenty years of investment experience as a result of holding managing director positions with Credit Suisse First Boston; Donaldson Lufkin & Jenrette; and Kidder, Peabody & Co.

Mr. Ray, Director, became a member of our board of directors in December 2002. Mr. Ray was a partner of the law firm of O Melveny & Myers LLP until his retirement in February 2000. Mr. Ray is a member of the boards of Watson Wyatt & Company Holdings, IHOP Corp., Automobile Club of Southern California, Sierra Monolithics, Inc. and Diamond Rock Hospitality Company. Mr. Ray is also a trustee of SunAmerica Series Trust, Seasons Series Trust, The John Randolph Haynes and Dora Haynes Foundation and St. John s Health Center Foundation.

Mr. Saladrigas, Director, became a member of our board of directors in May 2003. Mr. Saladrigas has been the Chairman of Premier American Bank in Miami, Florida since September 2001. From November 1984 to May 2002, he was the Chief Executive Officer of ADP TotalSource (previously The Vincam Group, Inc.), a Miami-based human resources outsourcing company that provides human resource functions to small and mid-sized businesses. Mr. Saladrigas serves as a director of Progress Energy, Inc., Carolina Power & Light Company and Florida Progress Corporation.

Mr. Salter, Lead Director, became a member of our board of directors in April 1999 and was appointed Lead Director in May 2004. Mr. Salter is the retired President of the Specialty Retail Division of Sears, a position he held from March 1999 to December 1999. From November 1996 to March 1999, Mr. Salter served as President of the Home Stores division of Sears. From October 1995 to November 1996, he served as President of the Hardlines division of Sears, and from April 1993 to October 1995, he served as the Vice President and General Manager of the Home Appliances and Electronics Division of Sears.

Ms. Spinelli, Director, became a member of our board of directors in November 2002. Ms. Spinelli is currently the Senior Vice President, People for PETsMART and has held that position since September 2003. Previously, Ms. Spinelli served as the Senior Vice President of People of RadioShack Corporation, a position she held from December 1999 to June 2003. From July 1998 to December 1999, she served as Vice President of People of RadioShack Corporation. From February 1997 to July 1998, Ms. Spinelli served as Corporate Vice President of Organizational Development of Wal-Mart Stores, Inc. From March 1993 to February 1997, Ms. Spinelli served as Vice President of Human Resources of McLane Company, Inc., a division of Wal-Mart Stores, Inc.

Mr. Taubman, Director, rejoined our board of directors in February 2004. Mr. Taubman served as our Chairman from January 1985 to February 2003 and as our Chief Executive Officer from January 1985 to July 1997. From 1969 to 1984, Mr. Taubman served as our President. Mr. Taubman originally joined us in 1956.

None of the nominees to our board of directors has any family relationship with any other nominee or with any of our executive officers.

Board Meetings and Committees

Our board of directors met eight times during 2004. Each director attended 75% or more of the total

number of meetings of the board and meetings of the committees of the board on which he or she served. We currently have an audit committee, a compensation committee and a nominating and corporate governance committee, each of which is comprised of independent directors in accordance with the listing standards of the NYSE. In addition, in 2005 our board of directors established a finance committee. The following table sets forth the names of each committee member, the primary responsibilities of each committee and the number of times each committee met in 2004.

Name of Committee and Members	Primary Responsibilities	# of Meetings in 2004
Audit Carlos A. Saladrigas (Chair) John C. Brouillard Darren R. Jackson	monitors the integrity of our financial statements, reporting processes, internal controls, risk management and legal and regulatory compliance; selects, determines the compensation of, evaluates and, when appropriate, replaces our independent auditor; pre-approves all audit and permitted non-audit services; monitors the qualifications and independence of the independent auditor and performance of our internal audit function and independent auditor; and oversees our internal audit function.	8
Compensation Francesca Spinelli (Chair) John C. Brouillard Gilbert T. Ray William L. Salter	reviews and approves our executive compensation philosophy; annually reviews and approves corporate goals and objectives relevant to the compensation of the CEO and evaluates the CEO's performance in light of these goals; determines the compensation of our executive officers and key members of management; and administers our incentive and equity-based compensation plans.	5
Finance Nicholas F. Taubman (Chair) Darren R. Jackson William S. Oglesby	reviews and makes recommendations to the board regarding our financial policies, including investment guidelines and deployment of capital and short and long-term financing; reviews all aspects of financial planning, strategic planning, cash uses and our expansion program; and reviews and recommends the annual budget to the board.	0 (established in 2005)
Nominating and Corporate Governance Gilbert T. Ray (Chair) William S. Oglesby William L. Salter	assists the board in identifying, evaluating and recommending candidates for election to the board; establishes procedures and provides oversight for evaluating the board and management; develops, recommends and reassesses our corporate governance guidelines; and evaluates the size, structure and composition of the board and its committees.	4

Our board has adopted written charters for the audit, compensation and nominating and corporate governance committees setting forth the roles and responsibilities of each committee. Each of the charters is available on our website at www.advanceautoparts.com. The finance committee charter has not yet been finalized. Once the finance committee charter is finalized and adopted, it also will be available on our website at www.advanceautoparts.com.

Corporate Governance

Majority of Independent Directors

Our board of directors, after consultation with and the recommendation of the nominating and corporate governance committee, determined that Messrs. Brouillard, Jackson, Oglesby, Ray, Saladrigas, Salter, and Ms. Spinelli are each independent directors under the listing standards of the New York Stock Exchange, or the NYSE, because: (1) each director has no material relationship with us or our subsidiaries, either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with us or our subsidiaries, and (2) satisfies the bright line independence criteria set forth in Section 303A.02(b) of the NYSE s listing standards. The board of directors made this determination, after assessing the issue of materiality of any relationship not merely from the standpoint of each of these directors, but also from that of persons or organizations with which the director may have an affiliation, based upon all facts and circumstances known to the board of directors, including, among other things, a review of questionnaires submitted by these directors, an interview with each of the directors and a review of a recent resume or biography of each of the directors.

Our board of directors reviews each director s status under this definition annually with the assistance of the nominating and corporate governance committee. Each of our directors are required to keep the nominating and corporate governance committee fully and promptly informed as to any developments that might affect his or her independence.

Meetings of Non-Management Directors

During 2004, the non-management directors on our board of directors met a total of five times. John M. Roth, who resigned as a director effective December 17, 2004, served as lead director until May 2004 when he was succeeded by Mr. Salter. The lead director was the presiding director at these meetings. For 2005, our non-management directors are scheduled to meet separately in conjunction with each of the five scheduled meetings of the board of directors.

Stockholder and Interested Party Communications with our Board of Directors

Communications with our Board of Directors Generally. Stockholders who desire to communicate with our board of directors, or with a specific director, including on an anonymous or confidential basis, may do so by delivering a written communication to our board of directors, c/o Advance Auto Parts, Inc., 5673 Airport Road, Roanoke, Virginia, 24012, Attention: General Counsel. The general counsel will not edit or modify any such communication received and will forward each such communication to the appropriate member or members of our board of directors, as specified in the communication. The envelope of any communication which a stockholder wishes to be confidential should be conspicuously marked Confidential, in which case the general counsel will not open the communication. Communications will be forwarded by the general counsel to our board of directors or any specified directors on a bi-monthly basis, provided however, the general counsel will ensure the timely delivery of time sensitive communications to the extent such communication indicates time sensitivity.

In addition, we have a policy that each of our directors should make every reasonable effort to attend each annual meeting of stockholders. At our 2004 annual meeting of stockholders, all directors were in attendance.

Interested Party Communications with our Independent Directors. Any interested party, including stockholders, who desire to communicate directly with one or more of the independent directors, including on an anonymous or confidential basis, may do so by delivering a written communication to the independent directors, c/o Advance Auto Parts, Inc., 5673 Airport Road, Roanoke, Virginia, 24012, Attention: General Counsel. The general

counsel will not open any such communication received and will forward each such communication to the appropriate independent member or members of our board of directors, as specified in the communication. Such communications will not be disclosed to the non-independent members of our board of directors or management unless so instructed by the independent directors. Communications will be forwarded by the general counsel to the independent director or directors, as the case may be, on a bi-monthly basis, provided however, the general counsel will ensure the timely delivery of time sensitive communications to the extent such communication indicates time sensitivity.

Stockholder Recommendations for Director Candidates. The nominating and corporate governance committee will consider stockholder suggestions for nominees for directors. Any stockholder who desires to recommend a director candidate must submit the recommendation in writing and follow the procedures set forth in our by-laws. The committee does not evaluate any candidate for nomination as a director any differently solely because the candidate was recommended by a stockholder. You may obtain a copy of our bylaws by requesting a copy from our corporate secretary at Advance Auto Parts, Inc., 5673 Airport Road, Roanoke, Virginia 24012. Our by-laws also are available on our website at www.advanceautoparts.com.

The committee evaluates each candidate for director within the context of the needs of the board in its composition as a whole. The committee considers such factors as the candidates business experience, skills, independence, judgment and ability and willingness to commit sufficient time and attention to the activities of the board. At a minimum, committee-recommended candidates for nomination must posses the highest personal and professional ethics, integrity and values, and commit to representing the long-term interests of our stockholders.

Guidelines on Significant Governance Issues

The responsibility of our board of directors is to review, approve and regularly monitor the effectiveness of our fundamental operating, financial and other business plans, policies and decisions, including the execution of our strategies and objectives. Accordingly, in 2003 our board of directors adopted guidelines on the following significant governance issues:

- the structure of our board of directors, including among other things, the size, mix of independent and non-independent members, membership criteria, term of service, board compensation and assessment of performance, of our board of directors;
- board procedural matters, including among other things, selection of chairman of the board of directors, board meetings, board communications, retention of counsel and advisors and our expectations regarding the performance of our directors;
- committee matters including among other things, the types of committees and charters of committees, independence of committee members, chair of committees, service of committee members, committee agendas and committee minutes and reports;
- chief executive officer evaluation, management development and succession planning;
- code of conduct; and
- other matters, including our policy prohibiting company loans, charitable contributions, use of the corporate airplane, auditor services, board access to management and interaction with third parties, directors and officers insurance and the indemnification/limitation of liability of directors and confidential stockholder voting.

A complete copy of our guidelines on significant governance issues is available on our website at www.advanceautoparts.com or you may obtain a print copy by request to our corporate secretary at 5673 Airport Road, Roanoke, Virginia 24012.

Code of Ethics & Business Conduct

We expect and require all of our employees, who we refer to as our team members, our officers and our directors, and any parties with which we do business to conduct themselves in accordance with the highest ethical standards. Accordingly, we have adopted a code of ethics & business conduct, which outlines our commitment to and expectations for honest and ethical conduct by all of these persons and parties in their business dealings. A

complete copy of the code of ethics & business conduct is available on our website at www.advanceautoparts.com or you may obtain a print copy by request to our corporate secretary at 5673 Airport Road, Roanoke, Virginia 24012.

Code of Ethics for Finance Professionals

We also have adopted a code of ethics for finance professionals to promote and provide for the ethical conduct by our finance professionals, as well as for full, fair and accurate financial management and reporting. Our finance professionals include our chief executive officer, chief financial officer or controller and any other person performing similar functions. We expect all of these finance professionals to act in accordance with the highest standards of professional integrity, to provide full and accurate disclosure in reports and other documents filed with the SEC and other regulators or in any public communications and to comply with all applicable laws, rules and regulations, to deter wrongdoing. Our code of ethics for finance professionals is intended to supplement our code of ethics & business conduct. A complete copy of the code of ethics for finance professionals is available on our website at www.advanceautoparts.com or you may obtain a print copy by request to our corporate secretary at 5673 Airport Road, Roanoke, Virginia 24012.

Non-Management Director Compensation

Under our compensation program, each non-management director receives the following compensation for service on our board of directors:

Board Participation	Retainer/Fee
Annual - all members	$25,000
Lead Director	$25,000
Audit Committee Chair	$15,000
Committee Chair	$10,000
Attendance at each Board Meeting	$2,000
If Attendance is Telephonic	$1,000
Attendance at each Committee Meeting	$1,000
If Attendance is Telephonic	$750

Each non-management director may elect to receive all or a portion of their annual board or committee chair or member retainers and fees on a deferred basis in the form of deferred stock units. Each deferred stock unit is equivalent to one share of our common stock. Deferred stock units are payable to participating directors at a future date or over a specified period of time as elected by the participating director.

In addition, each non-management director receives the following equity based compensation:

- an initial grant of 5,000 options upon appointment to the board (such options vest over three years, conditioned upon continued service as a board member) and 550 deferred stock units; and
- 5,000 options (such options vest upon the same terms as the initial grant) and 550 deferred stock units. For the second year of service, each grant is prorated based upon the number of days served as a director during the year appointed.

As discussed in the Executive Employment Agreement section of the proxy statement, upon Mr. Castellani s retirement as chief executive officer, he will continue to serve as chairman of the board and will receive a retainer of $125,000 in excess of normal director fees for service as non-executive chairman until the May 2006 meeting of the board.

Compensation Committee Interlocks and Insider Participation

None of our executive officers currently serves on the compensation committee of any other company or board of directors of any other company of which any member of our compensation committee is an executive officer.

OUR BOARD OF DIRECTORS RECOMMENDS
A VOTE *FOR* EACH OF OUR BOARD S NOMINEES.

9

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT BY THE AUDIT COMMITTEE OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005

Our audit committee has selected Deloitte & Touche LLP as our independent registered public accounting firm for 2005. Deloitte & Touche LLP also served as our independent registered public accounting firm for fiscal 2004. You are being asked to ratify the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005.

Members of Deloitte & Touche LLP will be present at the meeting, will have an opportunity to make a statement if so desired, and will be available to respond to appropriate questions. If Deloitte & Touche LLP should decline to act or otherwise become incapable of acting, or if Deloitte & Touche LLP s engagement is discontinued for any reason, our audit committee will appoint another accounting firm to serve as our independent registered public accounting firm for 2005.

2004 and 2003 Audit Fees

The following table summarizes the aggregate fees billed by Deloitte & Touche LLP for 2004 and 2003 for the following professional services:

	2004	2003
	($ in thousands)	($ in thousands)
Audit Fees (a)	$1,511	$585
Audit-Related Fees	-	-
Tax Fees (b)	36	58
All Other Fees	-	-
Total	$1,547	$643

(a) Fees for audit services billed in 2004 consisted of:
- audit of our annual financial statements
- reviews of our quarterly financial statements
- attestation of management s assessment and effectiveness of internal controls for 2004, as required by the Sarbanes-Oxley Act of 2002, Section 404
- statutory and regulatory audits, consents and other services related to Securities and Exchange Commission, or SEC, matters

Fees for audit services billed in 2003 consisted of:
- audit of our annual financial statements
- reviews of our quarterly financial statements
- attestation of management s assessment and effectiveness of internal controls for 2004, as required by the Sarbanes-Oxley Act of 2002, Section 404
- statutory and regulatory audits, consents and other services related to SEC matters

(b) Fees for tax services related to property taxes and an annual license fee for tax preparation software. Professional service firms other than Deloitte & Touche LLP provide other tax consulting and preparation services. These fees are not included in the table above.

	2004	2003
Memo: Percentage of Tax Planning and Advice Fees and All Other Fees to Audit Fees, Audit-Related Fees and Tax Compliance Fees	2.4%	9.9%

Our audit committee is required by its charter to pre-approve audit services and permitted non-audit services to be performed by our independent registered public accounting firm. The audit committee approved all services provided by Deloitte & Touche LLP during 2004.

In considering the nature of the services provided by Deloitte & Touche LLP, the audit committee determined that such services are compatible with the provision of independent audit services. The audit committee discussed these services with Deloitte & Touche LLP and management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* RATIFICATION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005.

STOCKHOLDER PROPOSAL

We expect the following proposal will be presented for consideration at the 2005 annual meeting of stockholders. This proposal may be voted on at the annual meeting only if properly presented by the stockholder proponent or the proponent s qualified representative. Following SEC rules, other than minor formatting changes, we are reprinting this proposal and supporting statement as it was submitted to us. We take no responsibility for the contents of this proposal or the supporting statement.

SEXUAL ORIENTATION NON-DISCRIMINATION POLICY

Submitted by William C. Thompson, Jr., Comptroller, City of New York,
On behalf of the Boards of Trustees of the New York City Pension Funds

WHEREAS: Advance Auto Parts, Inc. does not explicitly prohibit discrimination based on sexual orientation;

Over 80% of companies in the Fortune 500 explicitly prohibit discrimination based on sexual orientation;

The hundreds of corporations with non-discrimination policies relating to sexual orientation have a competitive advantage to recruit and retain employees from the widest talent pool;

Employment discrimination on the basis of sexual orientation diminishes employee morale and productivity;

The company has an interest in preventing discrimination and resolving complaints internally so as to avoid costly litigation and damage its reputation as an equal opportunity employer;

Atlanta, Seattle, Los Angeles, and San Francisco have adopted legislation restricting business with companies that do not guarantee equal treatment for lesbian and gay employees and similar legislation is pending in other jurisdictions;

Fourteen states, the District of Columbia, and more than 200 cities and counties have laws prohibiting employment discrimination based on sexual orientation;

The company has operations in and makes sales to institutions in states and cities which prohibit discrimination on the basis of sexual orientation;

A recent National Gay and Lesbian Task Force study has found that 16% - 44% gay men and lesbians in twenty cities nationwide experienced workplace harassment or discrimination based on their sexual orientation;

National public opinion polls consistently find more than three-quarters of the American people support equal rights in the workplace for gay men, lesbians and bisexuals;

RESOLVED: The Shareholders request the Board of Directors to amend Advance Auto Part s written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and to substantially implement that policy.

STATEMENT: By implementing a written policy prohibiting discrimination based on sexual orientation, the Company will ensure a respectful and supportive atmosphere for all employees and enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

OUR BOARD OF DIRECTORS STATEMENT IN OPPOSITION TO THIS PROPOSAL

How does Advance s board of directors recommend that I vote on this proposal?

Our board of directors recommends that you vote against approval of this stockholder proposal.

Why does Advance s board of directors oppose this proposal?

Our board of directors believes this proposal is unnecessary. We are an equal opportunity employer. We are fully committed to complying with all applicable equal employment opportunity laws and believe that our current policies and practices fully achieve the objectives of this proposal. We believe it is not practical or even possible to list all possible categories on which to prohibit discrimination. We believe that such an effort would only divert attention from the overall goal of a truly non-discriminatory workplace.

What policies does Advance have prohibiting discrimination in the workplace?

Our written employment policies prohibit discrimination on the basis of race, color, religion, sex, age, national origin, disability or any other legally protected status, and mirror the non-discrimination categories of federal law. Our non-discrimination policy applies to all areas of employment, including but not limited to hiring and recruitment, training, promotion, transfer, demotion, counseling and discipline, team member benefits and compensation and termination of employment.

Each team member is a valuable part of our business and team. It is an essential part of our values to respect all people, and we require each of our team members to act in accordance with that value every day. We do not tolerate disrespectful treatment, discrimination or harassment of any team member, vendor or customer.

We recognize the value of a truly diverse workforce. We are dedicated to ensuring that diversity brings our team members, customers, vendors and communities to their full potential. We continually strive to maintain a diverse workforce that meets the needs of our customers and the communities where we work and live.

FOR THE REASONS SET FORTH ABOVE, OUR BOARD OF DIRECTORS RECOMMENDS A VOTE *AGAINST* APPROVAL OF THIS PROPOSAL.

INFORMATION CONCERNING OUR EXECUTIVE OFFICERS

The following table provides information about our executive officers at April 1, 2005.

Name	Age	Position
Lawrence P. Castellani	59	Chief Executive Officer and Chairman of the Board
Jimmie L. Wade	50	President
Michael N. Coppola	56	Executive Vice President, Chief Operating Officer and Director
Jeffrey T. Gray	40	Executive Vice President, Chief Financial Officer and Assistant Secretary
Paul W. Klasing	45	Executive Vice President, Stores
David B. Mueller	46	Executive Vice President, Merchandising and Marketing
Eric M. Margolin	51	Senior Vice President, General Counsel and Secretary
S. Lynn Stevens	56	Senior Vice President and Chief Information Officer

Our executive officers are elected by and serve at the discretion of our board of directors. We have entered into employment agreements with some of our executive officers. Set forth below is a brief description of the business experience of all executive officers other than Mr. Castellani, who is also Chairman of the Board and Mr. Coppola, who is also a Director and whose business experiences are set forth in the Information Concerning Members of Our Board of Directors section of this proxy statement.

Mr. Wade, President, joined us in February 1994. Mr. Wade was named President in October 1999 and Chief Financial Officer in March 2000. He served as President and Chief Financial Officer through August 2003. Mr. Wade also served as our Secretary from March 2000 until April 2001. From 1987 to 1993, Mr. Wade was Vice President, Finance and Operations, for S.H. Heironimus, a regional department store company, and from 1979 to 1987, he was Vice President of Finance for American Motor Inns, a hotel company. Mr. Wade is a certified public accountant.

Mr. Gray, Executive Vice President, Chief Financial Officer and Assistant Secretary, joined us in March 1994 and has held his current position since November 2004. From August 2003 to November 2004, Mr. Gray served as Senior Vice President, Chief Financial Officer and Assistant Secretary. From April 2000 to August 2003, Mr. Gray served as Senior Vice President, Controller and Assistant Secretary. From March 1994 to March 2000, Mr. Gray held several positions with us, most recently as Vice President of Inventory Management. From 1993 to 1994, Mr. Gray served as controller of Hollins University, and from 1987 to 1993, Mr. Gray was employed by KPMG LLP, a public accounting firm. Mr. Gray is a certified public accountant.

Mr. Klasing, Executive Vice President, Stores, joined us in April 1995 and has held his current position since August 2003. From October 1999 to August 2003, Mr. Klasing served as Executive Vice President, Merchandising and Marketing. From July 1997 to October 1999, Mr. Klasing served as our Senior Vice President, Purchasing. From April 1995 to July 1997, Mr. Klasing held various other positions with us.

Mr. Mueller, Executive Vice President, Merchandising and Marketing, joined the Company in March 2003 and has held his current position since November 2004. From October 2003 to November 2004, Mr. Mueller served as Senior Vice President of Merchandising and Marketing. From March 2003 to October 2003, he served as Vice President of Merchandising Support. Before joining Advance, Mr. Mueller served as Director of Operations

for Nutrition Warehouse, a vitamin supplements company, from December 2000 to October 2003. From February 1999 to December 2000, he served as a partner in a privately held retail company. Prior to February 1999, Mr. Mueller held various positions, including Director of Category Management for Ahold USA as well as Vice President of Merchandising for Fresh Fields.

Mr. Margolin, Senior Vice President, General Counsel and Secretary, joined us in April 2001. From 1993 to June 2000, Mr. Margolin was Vice President, General Counsel and Secretary of Tire Kingdom, Inc., now TBC Corporation, a retailer of tires and provider of automotive services. From 1985 to 1993, Mr. Margolin served as the general counsel for several companies in the apparel manufacturing and retail field.

Ms. Stevens, Senior Vice President and Chief Information Officer, joined us in July 1979 and has held her current position since July 1997. From 1979 until June 1997, Ms. Stevens held several positions with us, most recently serving as Vice President of Systems Development.

There are no family relationships among any of our executive officers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to us regarding the ownership of our common stock at April 1, 2005 by:

- each person or entity known to us that beneficially owns more than 5% of our common stock;
- each member of our board of directors;
- each of our executive officers named in the Summary Compensation Table included in the Executive Compensation section of this proxy statement; and
- all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership held by that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or will become exercisable within 60 days after April 1, 2005 are deemed outstanding, while these shares are not deemed outstanding for computing percentage ownership of any other person. The address of each beneficial owner for which an address is not otherwise indicated is: c/o Advance Auto Parts, Inc., 5673 Airport Road, Roanoke, Virginia 24012. Unless otherwise indicated in the footnotes below the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable. We know of no agreements among our stockholders, which relate to voting or investment power over our common stock or any arrangement, which may at a subsequent date result in a change of control of us.

The percentages of common stock beneficially owned are based on 71,580,438 shares of our common stock outstanding at April 1, 2005.

Name	Shares Beneficially Owned	
	Number	Percentage
Federated Investors, Inc.[1]	6,167,500	8.6%
UBS Global Asset Management (Americas) Inc.[2]	4,423,950	6.2%
Nicholas F. Taubman[3]	1,550,828	2.2%
Arthur Taubman Trust dated July 13, 1964[3]	1,047,266	1.5%
Lawrence P. Castellani[4][5]	1,212,866	1.7%
Jimmie L. Wade[5]	133,333	*
Michael N. Coppola[5]	134,311	*
Paul W. Klasing[5]	250,334	*
Jeffrey T. Gray [5]	91,000	*
John C. Brouillard[6]	2,512	*
Darren R. Jackson[7]	550	*
William S. Oglesby[8]	550	*
Gilbert T. Ray[9]	6,171	*
Carlos A. Saladrigas[10]	12,216	*
William L. Salter[11]	16,058	*
Francesca Spinelli[12]	10,992	*
All executive officers and directors as a group (16 persons)[13]	4,598,908	6.3%

*Less than 1% of the outstanding shares of common stock.

(1) According to Amendment No. 3 to a Schedule 13G filed with the SEC on February 14, 2005 by Federated Investors, Inc., Voting Shares Irrevocable Trust, John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue. Federated Investors, Inc. is the parent holding company of Federated Investment Management Company, Federated Investment Counseling and Federated Global Investment Management Corp., which are investment advisors to registered investment companies and separate accounts that beneficially own 6,167,500 shares. All shares of Federated Investors, Inc. are held in the Voting Shares Irrevocable Trust, for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees. The business address of the reporting persons is Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779.

17

(2) According to a Schedule 13G filed with the SEC on February 17, 2005 by UBS AG, UBS Americas, Inc. and UBS Global Asset Management (Americas) Inc. UBS Global Asset Management (Americas) Inc. is a wholly- owned subsidiary of UBS Americas Inc., which is a wholly-owned subsidiary of UBS AG. The business address of UBS AG is Bahnhofstrasse 45 P.O. Box CH-8021 Zurich, Switzerland, the business address of UBS Americas Inc. is 677 Washington Blvd., Stanford, Connecticut 06901 and the business address of UBS Global Asset Management (Americas) Inc. is One North Wacker, Chicago, Illinois.

(3) Includes 1,281 shares of our common stock issuable with respect to deferred stock units and 2,083 shares of our common stock subject to options exercisable within 60 days of April 1, 2005. The trustees of the Arthur Taubman Trust dated July 13, 1964 are Eugenia L. Taubman, who is the spouse of Nicholas F. Taubman, First Premier Bank and John G. Rocovich, Jr, attorney at law. The business address of Mr. Taubman and the Arthur Taubman Trust is 2965 Colonnade Drive, Suite 300, Roanoke, Virginia 24018.

(4) Includes an aggregate of 23,780 shares held by Mr. Castellani s children.

(5) Includes shares of our common stock subject to options beneficially owned by the following persons and exercisable within 60 days of April 1, 2005: Mr. Castellani-1,170,000 options; Mr. Wade-113,333 options; Mr. Coppola-95,999 options; Mr. Klasing-228,334 options and Mr. Gray-71,000 options.

(6) Includes 846 shares of our common stock issuable with respect to deferred stock units and 1,666 shares of our common stock subject to options exercisable within 60 days of April 1, 2005. The business address of Mr. Brouillard is P.O. Box 839999, 646 South Main Avenue, San Antonio, Texas 78283-3999.

(7) Includes 550 shares of our common stock issuable with respect to deferred stock units. The business address of Mr. Jackson is 7075 Flying Cloud Drive, Eden Prairie, Minnesota 55344.

(8) Includes 550 shares of our common stock issuable with respect to deferred stock units. The business address of Mr. Oglesby is 4401 Northside Parkway, Suite 375, Atlanta, Georgia 30327.

(9) Includes 668 shares of our common stock issuable with respect to deferred stock units and 2,083 shares of our common stock subject to options exercisable within 60 days of April 1, 2005. The business address of Mr. Ray is 400 South Hope Street, Los Angeles, California 90071.

(10) Includes 550 shares of our common stock issuable with respect to deferred stock units and 11,666 shares of our common stock subject to options exercisable within 60 days of April 1, 2005. The business address of Mr. Saladrigas is 5900 Bird Road, Miami, Florida 33155.

(11) Includes 780 shares of our common stock issuable with respect to deferred stock units and 14,028 shares subject to options beneficially owned and exercisable within 60 days of April 1, 2005. The business address of Mr. Salter is 1235 Great Oaks Drive, Wilmington, North Carolina 28405.

(12) Includes 825 shares of our common stock issuable with respect to deferred stock units and 9,167 shares subject to options and exercisable within 60 days of April 1, 2005. The business address of Ms. Spinelli is 19601 North 27th Avenue, Phoenix, Arizona 85027.

(13) Includes 6,891 shares of our common stock issuable with respect to deferred stock units and 1,787,359 shares of our common stock subject to options beneficially owned and exercisable within 60 days of April 1, 2005 by our executive officers and directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires insiders, including our executive officers, directors and beneficial owners of more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the SEC and the NYSE, and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of copies of such forms received by us, or written representations from reporting persons that no Form 5 s were required for those persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during fiscal 2004.

STOCK PRICE PERFORMANCE

The following graph shows a comparison of our cumulative total return on our common stock, Standard & Poor s 500 Index and the Standard & Poor s 500 Specialty Retail Index. The graph assumes that the value of an investment in our common stock and in each such index was $100 on November 29, 2001, the date our common stock first became publicly traded, and that any dividends have been reinvested. The comparison in the graph below is based solely on historical data and is not intended to forecast the possible future performance of our common stock.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG ADVANCE AUTO PARTS, INC., S&P 500 INDEX AND S&P 500 SPECIALTY RETAIL INDEX

	November 29, 2001	December 29, 2001	December 28, 2002	January 3, 2004	January 1, 2005
Advance Auto Parts, Inc.	$100	$117.04	$122.24	$202.54	$217.31
S&P 500 Index	$100	$101.95	$78.14	$100.75	$112.06
S&P 500 Specialty Retail Index	$100	$112.21	$72.76	$105.54	$120.98

The information contained under the captions Stock Price Performance and Report of the Compensation Committee Regarding Compensation (which is located below) shall not be considered soliciting material or to be filed with the SEC, nor will that information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into a filing.

AUDIT COMMITTEE REPORT

We are responsible for providing independent, objective oversight of Advance s accounting functions and internal controls and operate pursuant to a written charter approved by Advance s board of directors. We are comprised entirely of three independent directors who meet independence, experience and other qualification requirements of the New York Stock Exchange listing standards, Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations of the SEC. Advance s board of directors has determined the committee s current chair, Mr. Saladrigas, is the audit committee financial expert, as defined by SEC rules.

Management is responsible for Advance s financial reporting process, including Advance s system of internal control, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Advance s independent accountants are responsible for auditing its consolidated financial statements and providing an opinion as to its conformity with accounting principles generally accepted in the United States as well as attesting and reporting on management s assertion about the effectiveness of its internal controls over financial reporting. Our responsibility is to monitor and review these processes. It is not our duty or responsibility to conduct auditing or accounting reviews or procedures. Consequently, in carrying out our oversight responsibilities, we shall not be charged with, and are not providing, any expert or special assurance as to Advance s financial statements, or any professional certification as to the independent auditor s work. In addition, we have relied on management s representation that the financial statements have been prepared with integrity and objectively in conformity with accounting principles generally accepted in the United States, and on the representations of independent accountants included in their report on Advance s financial statements.

During 2004, we met eight times, including three times via conference call. We schedule our meetings to ensure we have sufficient time to devote attention to all of our tasks. During 2004 and subsequent to the end of the year, we:

- appointed Deloitte & Touche LLP as the independent registered public accounting firm for fiscal year 2004;
- met with management and the independent accountants to review and discuss Advance s critical accounting policies and significant estimates;
- met with management and the independent accountants to review and approve the fiscal year 2004 audit plan;
- met regularly with both the independent accountants and internal audit outside the presence of management;
- met with management and the independent accountants to review the audited financial statements for the year ended January 1, 2005 and internal controls over financial reporting as of January 1, 2005;
- reviewed and approved the quarterly and annual reports prior to filing with the SEC;
- reviewed and approved the quarterly earnings press releases and other financial press releases;
- met with the Director of Internal Audit to review, among other things, the audit plan, test work, findings and recommendations, staffing; and
- completed all other responsibilities under the audit committee charter.

We have discussed with the independent accountants the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committee), which includes a review of significant accounting estimates, internal controls and Advance s accounting practices. In addition, we have received written disclosures from the independent accountants required by Independent Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with independent accountants their firm s independence.

Based upon our discussion with management and the independent accountants, and our review of the representations of management and the independent accountants, we recommended to the board of directors that the audited consolidated financial statements be included in Advance s annual report on Form 10-K for the year ended January 1, 2005.

We considered whether the independent accountant s provisions of non-audit services to Advance is compatible with maintaining the independent accountants independence, and have determined the provision of the non-audit services are compatible with the independent accountants independence. Accordingly, we have approved the retention of Deloitte & Touche LLP as Advance s independent registered public accounting firm for fiscal year 2005.

We reviewed and reassessed the adequacy of the charter as of December 2, 2004, with no changes being recommended.

THE AUDIT COMMITTEE

Carlos A. Saladrigas, Chair
John C. Brouillard
Darren R. Jackson

21

REPORT OF THE COMPENSATION COMMITTEE
ON EXECUTIVE COMPENSATION

We are responsible for the review and determination of compensation awarded to Advance s executive officers (including the named executive officers) and key members of management, including authorizing awards under Advance s long term incentive plan. We operate under a written compensation committee charter adopted by the board. We met five times during 2004.

Compensation Philosophy

Our general compensation philosophy is to ensure that:

compensation for executive officers is tied to annual and long-term company performance goals that are structured to align the interests of executive officers with those of Advance s stockholders;
a significant portion of total compensation is equity-based, thereby further aligning the interests of executive officers and Advance s stockholders; and
executive compensation is comparable with compensation levels at major competitors so that Advance can attract, retain, and motivate superior management talent who are essential to Advance s long-term success.

There are two primary types of compensation provided to Advance s executive officers:

annual compensation, which includes (1) base salary intended to provide a stable annual salary at a level consistent with individual contributions, and (2) annual incentive bonuses intended to link such bonuses to Advance s performance; and
long-term incentive compensation, which includes stock options or other equity based compensation intended to encourage the maximization of stockholder value.

Evaluation and Approval of Annual and Long-Term Incentive Compensation

Each year we review and evaluate the compensation programs for executive officers and key members of management. We review information provided by leading executive compensation consultants to establish the appropriate level and basis of base salary, annual bonus opportunity, and long-term incentive opportunities for executive officers and other key members of management. We conduct this review near the beginning of each fiscal year, at which time we also approve annual base salaries, criteria for bonus incentive plans and long-term incentive compensation.

We attempt to link executive compensation for each executive officer to those variables over which the executive generally has control. Included in our criteria for making salary adjustments, and particularly bonuses and stock option awards, are achievements against the following financial and non-financial targets:

Financial targets: these include growth in company net operating profit; improvement in net operating profit margin; revenue growth; comparable store sales growth; achievement of inventory levels; and
Non-financial targets: these include building organizational talent; development and implementation of key operating and strategic business initiatives; and enhancement of management performance throughout the company.

Annual Compensation

Base Salary. When establishing base salary for each executive officer, we consider Advance s performance, each executive s individual performance and the executive s level of experience, responsibilities and tenure, particularly in relation to other executive officers and key members of management. We aim to position base salaries for Advance s executive officers annually at levels consistent with industry average.

Annual Incentive Bonuses. Advance s bonus plan provides for the payment of cash bonuses based upon Advance s performance in relation to the predetermined financial targets established at the beginning of the year. We aim to establish bonus targets annually at levels slightly higher than the industry average. The overall bonus potential, calculated as a percentage of base salary, varies depending upon the level of the executive position. A maximum bonus payout of 120% of base salary can be achieved for our highest level of executives if all financial targets are exceeded.

We met in February 2004 and established financial performance targets, which consisted of operating income, sales growth and achievement of inventory levels. These targets are weighted based on the significance of the key performance indicators in driving stockholder value. We approved the payment of incentive bonuses to Advance s executive officers (excluding the incentive bonus paid to Advance s CEO) equal to an aggregate of $1,273,968 in 2004, compared to incentive bonuses of $1,381,225 for 2003. We approved the payment of these incentive bonuses primarily based on the level of achievement towards the above pre-established targets.

Long-Term Incentive Compensation

To be competitive in attracting and retaining qualified executive officers and to provide them with performance incentives, we also grant stock options to Advance s executive officers under the Advance long-term incentive plan. In approving stock option grants, we consider primarily the impact the executive is expected to have on increasing stockholder value and recent performance toward specific goals that contribute to that result. Such specific goals differ among executives, but all relate to the speed and effectiveness with which Advance increases stockholder value. In 2004, we approved the grant to Advance s executive officers of options to purchase 471,000 shares of common stock (excluding options granted to Advance s CEO), compared to options to purchase 415,000 shares of common stock in 2003, primarily in recognition of our favorable 2004 operating results and as a result of additional grants related to the designation of the next CEO.

Chief Executive Officer Compensation for 2004

The CEO s salary is based upon the criteria described in this report. In 2004, Mr. Castellani received base salary payments of $715,837, compared to base salary payments of $669,566 in 2003. This base salary is subject to annual increases at the discretion of the committee. In 2004, we approved an increase in Mr. Castellani s base salary as a result of his service for the past year and the key role he will play in the future.

Mr. Castellani s incentive bonus for 2004 was determined in accordance with the provisions of the overall bonus plan. Mr. Castellani s bonus potential for 2004 was 100% of his base salary. Mr. Castellani received an incentive bonus of $245,357 in 2004, compared to an incentive bonus of $359,746 in 2003.

For fiscal 2004, Mr. Castellani s bonus was converted from a quarterly payment cycle to an annual payment based on full-year 2004 results. As a result of the positive 2004 operating results, Mr. Castellani received a bonus of $522,226 in February 2005.

In addition, we approved the grant to Mr. Castellani of options to purchase 120,000 shares of common stock, unchanged from Mr. Castellani s 2003 grant. These options were issued as part of the 2004 annual grant awarded to all executive officers. We approved this grant in recognition of the role of Mr. Castellani in the success of the company.

Mr. Castellani s compensation also reflects (1) his individual leadership displayed throughout the year and (2) relative pay versus that of competitor CEOs.

Chief Executive Officer Transition

As previously publicly announced, a CEO transition is planned for May 2005. Mr. Coppola has been designated as the new CEO effective May 18, 2005. Mr. Castellani will continue to receive an annual base salary rate of $696,566 until May 2005 (when he relinquishes the CEO position and assumes the position of non-executive chairman of the board). As non-executive chairman of the board, Mr. Castellani will receive an annual retainer over and above normal director fees equal to $125,000 until May 2006. In recognition of Mr. Castellani s role in completing a successful transition, and his superb leadership during his tenure as Chairman and CEO, we also approved the grant of options to purchase 120,000 shares of common stock in February 2005. These options were granted at a price of $50.06 and vest in equal thirds over the next three years.

We utilized a nationally known executive compensation consulting firm to assist us in determining the appropriate transition compensation arrangements for Mr. Coppola. In recognition of Mr. Coppola s increased responsibilities, we approved an increase in his salary to $450,000 per year, effective September 2004 and approved the grant to Mr. Coppola of options to purchase 100,000 shares of common stock at an exercise price of $35.82 per share (such options vest in equal thirds over the next three years). In further recognition of the progress made toward his transition and anticipated full performance of his CEO duties, in February 2005 we also approved the grant to Mr. Coppola of 200,000 options to purchase common stock at an exercise price of $50.06 per share (such options vest in equal thirds over the next three years). Finally, we approved an increase in Mr. Coppola s base salary to $750,000 effective upon his becoming CEO in May 2005. We anticipate making no additional option grants to Mr. Coppola in 2005.

Internal Revenue Code Section 162(m)

We consider the potential impact of Section 162(m) of the Internal Revenue Code. Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1 million in any taxable year for the corporation s named executive officers, other than compensation that is performance-based under a plan that is approved by stockholders and that meets certain other technical requirements. In 2004, Advance s long-term incentive plan was approved by its stockholders in order to exclude from the $1 million limit any performance based compensation resulting from options or other awards granted under the plan to its named executive officers.

We consider the anticipated tax treatment to Advance and the executive officers in our review and establishment of compensation programs and payments. We intend to structure all compensation payments to meet the requirements of Section 162(m), but may approve any compensation payments that may not be tax deductible if we determine that such compensation would be in Advance s best interests and those of its stockholders.

COMPENSATION COMMITTEE

Francesca Spinelli (Chair)
John C. Brouillard
Gilbert T. Ray
William L. Salter

24

EXECUTIVE COMPENSATION

The following table sets forth the compensation received by our chief executive officer and the four other most highly compensated executives at the end of our last completed year. We refer to these persons as our named executive officers.

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Securities Underlying Options/SARs**	**All Other Compensation[1]**
Lawrence P. Castellani	2004	$715,837	$245,357	120,000	$24,958
Chief Executive Officer and	2003	669,566	359,746	120,000	21,697
Chairman of the Board	2002	635,778	642,191	130,000	10,799
Jimmie L. Wade	2004	452,221	314,309	90,000	11,663
President	2003	357,435	316,071	110,000	12,076
	2002	301,547	300,778	80,000	6,396
Michael N. Coppola	2004	370,932	232,952	170,000	14,771
Executive Vice President and	2003	252,792	128,992	58,000	13,388
Chief Operating Officer	2002	206,530	109,297	24,000	6,440
Paul W. Klasing	2004	276,658	192,285	60,000	9,982
Executive Vice President, Stores	2003	251,090	206,674	70,000	11,783
	2002	242,227	249,632	60,000	5,694
Jeffrey T. Gray	2004	241,046	132,791	35,000	10,659
Executive Vice President and	2003	188,041	103,369	42,000	10,394
Chief Financial Officer	2002	141,013	72,988	20,000	5,950

(1) Set forth below is the detail of all other compensation for each of our named executive officers:

25

Summary Compensation Table Continued

	Fiscal Year	401(k)[(i)]	Corporate Plane[(ii)]	Life Insurance[(iii)]
Mr. Castellani	2004	$8,107	$10,696	$6,155
	2003	7,892	8,986	4,819
	2002	4,557	4,977	1,265
Mr. Wade	2004	8,632	1,033	1,998
	2003	9,263	1,825	988
	2002	4,632	1,323	441
Mr. Coppola	2004	8,648	3,160	2,963
	2003	9,474	1,840	2,074
	2002	4,425	1,338	677
Mr. Klasing	2004	8,688	532	762
	2003	10,039	1,282	462
	2002	4,620	780	294
Mr. Gray	2004	8,668	1,596	395
	2003	10,058	-	336
	2002	4,380	1,323	247

(i) Consists of matching contributions made by us under our 401(k) savings plan, net of 401(k) limits and nondiscrimination testing results.
(ii) Represents imputed income for personal use of our Company plane calculated in accordance with the Internal Revenue Code regulations.
(iii) Amount represents the portion of premiums paid by us for group term life insurance exceeding $50,000.

Option Grants in Last Fiscal Year

The following table sets forth information concerning options granted in 2004 to each of our named executive officers.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Price Appreciation for Option Term[2]	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2004	Exercise or Base Price Per Share[1]	Expiration Date	5%	10%
Lawrence P. Castellani	120,000	9.2%	$39.31	2/23/11	$1,920,374	$4,475,288
Jimmie L. Wade	90,000	6.9%	39.31	2/23/11	1,440,281	3,356,466
Michael N. Coppola	70,000	5.4%	39.31	2/23/11	1,120,218	2,610,585
	100,000	7.6%	35.82	9/14/11	1,458,234	3,398,305
Paul W. Klasing	60,000	4.6%	39.31	2/23/11	960,187	2,237,644
Jeffrey T. Gray	35,000	2.7%	39.31	2/23/11	560,109	1,305,292

(1) Represents the fair market value of the underlying shares of common stock at the time of the grant.

(2) The potential realizable value is calculated assuming that the fair market value of our common stock appreciates at the indicated annual rate compounded annually for the entire seven-year term of the option, and that the option is exercised and the underlying shares of our common stock sold on the last day of its seven-year term for the appreciated stock price. The assumed 5% and 10% rates of appreciation are mandated by the rules of the SEC and do not represent our estimate of the future prices or market value of our common stock.

Aggregated Option Exercises in Last Fiscal Year and Fiscal-Year End Option Values

The following table sets forth information with respect to our named executive officers concerning option exercises for 2004 and exercisable and unexercisable stock options held as of January 1, 2005.

			Number of Underlying Options at January 1, 2005		Value of In-the-Money Options at January 1, 2005(1)	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Lawrence P. Castellani	1,300,000	$42,612,690	1,046,666	243,334	$32,080,785	$3,386,415
Jimmie L. Wade	135,000	4,322,891	103,999	190,001	2,372,197	2,394,323
Michael N. Coppola	-	-	55,333	216,667	1,317,412	1,855,228
Paul W. Klasing	11,000	350,900	179,334	126,666	5,381,235	1,703,195
Jeffrey T. Gray	24,000	792,590	45,333	69,667	1,119,687	744,283

(1) Values for "in-the-money" outstanding options represent the positive spread between the respective exercise prices of the outstanding options and $43.68 per share, the closing price for our common stock on December 31, 2004 as reported by the NYSE.

Executive Employment Agreements

Mr. Castellani was appointed our Chief Executive Officer and began employment on February 1, 2000, at which time he signed an employment and non-competition agreement. Mr. Castellani s employment agreement had an initial term of two years, and renews automatically each year thereafter unless terminated by Mr. Castellani or us. The agreement provides for a base salary of $600,000, subject to annual increases at the discretion of the board of directors, and an annual cash bonus based on our achievement of performance targets established by the board of directors. In the event Mr. Castellani is terminated without cause, or terminates his employment for good reason, as defined in the employment agreement, he will receive salary through the later of the end of the term of employment or one year from the effective date of termination, less any amounts earned in other employment, and the pro rata share of the bonus due to Mr. Castellani prior to the termination of employment. Mr. Castellani has agreed not to compete with us, to preserve our confidential information, not to recruit or employ our employees to or in other businesses and not to solicit our customers or suppliers for competitors until one year after the effective date of termination.

Mr. Castellani has elected to retire as Chief Executive Officer effective at the close of business, May 18, 2005, at which time his employment agreement will be terminated. It is anticipated that Mr. Castellani will remain as chairman of the board subsequent to that date. Mr. Castellani will receive, as compensation for being non-executive chairman, a retainer of $125,000 in excess of normal director fees until the May 2006 meeting of the board.

On April 15, 1998, Messrs. Wade and Klasing and Ms. Stevens entered into employment agreements with us. These agreements contain severance provisions that provide for one year of base salary upon termination of employment, by us without cause or by the employee with good reason as defined in the employment agreement, less any amounts earned in other employment, and the pro rata share of the bonus due to the employee prior to the termination of employment. The agreements extend from year-to-year unless terminated by the employee or us. Other provisions require us to pay bonuses earned by the employee upon our achievement of certain financial targets that are approved by our board of directors, and an agreement by the employee not to compete with us, to preserve our confidential information, not to recruit or employ our employees to or in other businesses and not to solicit our customers or suppliers for competitors.

RELATED-PARTY TRANSACTIONS

We lease our Roanoke, Virginia distribution center, an office and warehouse facility, one warehouse, 14 of our stores and four former stores and have leased other former stores from Nicholas F. Taubman or members of his immediate family. We lease our corporate headquarters from Ki, L.C., a Virginia limited liability company owned by two trusts for the benefit of a child and a grandchild of Mr. Taubman. All these affiliated leases are on a triple net basis. Lease expense for these affiliated leases was $3.0 million for 2004, $3.0 million for 2003 and $3.1 million for 2002.

STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

Stockholders intending to present a proposal at the 2006 annual meeting and have it included in our proxy statement for that meeting must submit the proposal in writing at our offices at 5673 Airport Road, Roanoke, Virginia 24012, Attention: Corporate Secretary, on or before December 12, 2005. Applicable SEC rules and regulations govern the submission of stockholder proposals and our consideration of them for inclusion in next year s proxy statement.

Stockholders intending to present a proposal at the 2006 annual meeting (but not to include the proposal in our proxy statement), or to nominate a person for election as a director, must comply with the requirements set forth in our bylaws. Our bylaws require, among other things, that our corporate secretary receive written notice from the record holder of intent to present such proposal or nomination no less than 45 days and no more than 75 days prior to the anniversary of the preceding year s annual meeting. Therefore, we must receive notice of such proposal no earlier than January 26, 2006, and no later than February 25, 2006. The notice must contain the information required by our bylaws. You may obtain a print copy of our bylaws upon request from our corporate secretary at Advance Auto Parts, 5673 Airport Road, Roanoke, Virginia 24012. Our bylaws are also available on our website at www.advanceautoparts.com. Management may vote proxies in its discretion on any matter at the 2006 annual meeting if we do not receive notice of the matter within the time-frame described in this paragraph. In addition our chief executive officer or any other person presiding at the meeting may exclude any matter that is not properly presented in accordance with these requirements.

29

OTHER MATTERS

The board of directors does not intend to present any other matters at the meeting and knows of no other matters which will be presented at the meeting.

A copy of our 2004 annual report of stockholders is being mailed to each stockholder of record together with this proxy statement. The annual report is not part of our proxy soliciting material.

By order of the board of directors

Eric M. Margolin
Senior Vice President
General Counsel and Secretary

Roanoke, Virginia
April 13, 2005

30

Our Board of Directors recommends a vote FOR all Nominees listed in Proposal 1, FOR Proposal 2 and AGAINST Proposal 3.

Please Mark Here for Address Change or Comments O
SEE REVERSE SIDE

	FOR all nominees listed below (except as marked to the contrary)	**WITHHOLD AUTHORITY** to vote for all nominees listed below
1. Election of Directors.	O	O

(Instruction: To withhold authority to vote for any nominee, write that nominee s name on the line(s) below the names of the nominees for Directors.)

The election of: 01 John C. Brouillard, 02 Lawrence P. Castellani, 03 Michael N. Coppola, 04 Darren R. Jackson, 05 William S. Oglesby, 06 Gilbert T. Ray, 07 Carlos A. Saladrigas, 08 William L. Salter, 09 Francesca Spinelli and 10 Nicholas F. Taubman for a term expiring in 2006.

____

	FOR	AGAINST	ABSTAIN
2. Ratification of the appointment by our audit committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2005.	O	O	O

	FOR	AGAINST	ABSTAIN
3. Stockholder proposal to request an amendment to our employment opportunity policy.	O	O	O

4. Transact other business that may properly come before the meeting or any meetings held upon any postponement or adjournment of the meeting.

All proxies heretofore given or executed with respect to the shares of stock represented by this proxy are by the filing of this proxy, expressly revoked.

PLEASE DO NOT FOLD, STAPLE OR DAMAGE.

Signature ____________________________ **Signature** ____________________________ **Date** ______________

NOTE: Signature should conform exactly to name as stenciled hereon. Executors, administrators, guardians, trustees, attorneys and officers signing for a corporation should give full title. For joint accounts each owner must sign.

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Vote by Internet or Telephone or Mail

24 Hours a Day, 7 Days a Week

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to the annual meeting.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

Internet http://www.proxyvoting.com/aap	**OR**	**Telephone** 1-866-540-5760	**OR**	**Mail**

Use the internet to vote your proxy. Have your proxy card in hand when you access the web site.

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

Mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

You can view our Annual Report to Stockholders and Proxy Statement for the 2005 Annual Meeting on the Internet at http://www.advanceautoparts.com

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-PROXY- **-PROXY-**

This Proxy is Solicited on Behalf of the Board of Directors of Advance Auto Parts, Inc.

THE UNDERSIGNED hereby appoints each of Jeffrey T. Gray and Eric M. Margolin as a proxy with full power of substitution, to vote all shares of common stock of ADVANCE AUTO PARTS, INC. which the undersigned is entitled to vote at the 2005 Annual Meeting of Stockholders of ADVANCE AUTO PARTS, INC., to be held at The Hotel Roanoke & Conference Center, 110 Shenandoah Ave., NW, Roanoke, Virginia 24016 on Wednesday, May 18, 2005, at 8:30 a.m., local time, and any adjournments thereof, as specified by the undersigned, and to vote in his discretion on such other matters as may properly come before the meeting or any postponement or adjournment thereof.

WHEN PROPERLY EXECUTED THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSAL 2, AGAINST PROPOSAL 3 AND IN THE DISCRETION OF THE PROXIES NAMED HEREIN ON ANY OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF. RECEIPT OF NOTICE OF ANNUAL MEETING AND PROXY STATEMENT FOR THE 2005 ANNUAL MEETING IS HEREBY ACKNOWLEDGED.

PLEASE SIGN ON REVERSE SIDE and mail in the enclosed, postage prepaid envelope.

Address Change/Comments **(Mark the corresponding box on the reverse side)**

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7,652,659

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599,023

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3,086,956

$

1,538,009

Interest-bearing liabilities:

Transaction accounts and savings

$

11,138,865

$

20,155

$

370,609

$

—

Certificates of deposit

1,014

1,075

1,815

—

Borrowings

—

—

500,000

16,675

$

11,139,879

$

21,230

$

872,424

$

16,675

GAP

(3,487,220

)

577,793

2,214,532

1,521,334

Cumulative GAP

$

(3,487,220

)

$

(2,909,427

)

$

(694,895

)

$

826,439

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

Equity Price Risk

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

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

Credit Risk

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2016, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $2.5 billion and the fair value of the collateral that had been sold or repledged was $268.5 million.

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

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans, and non-real-estate commercial and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the

fundamental characteristics of credit, including character, capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized, which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures, including frequency and scope.

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

Operational Risk

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

Regulatory and Legal Risk

Legal risk includes the risk of large numbers of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under “Critical Accounting Policies and Estimates” in Item 7, Part II and “Legal Proceedings” in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. When acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence

investigation.

Effects of Inflation

Our assets are primarily monetary, consisting of cash, securities inventory, and receivables from customers and brokers and dealers. These monetary assets are generally liquid and turn over rapidly and, consequently, are not significantly affected by inflation. However, the rate of inflation affects various expenses of our company, such as employee compensation and benefits, communications and office supplies, and occupancy and equipment rental, which may not be readily recoverable in the price of services we offer to our clients. Further, to the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

68

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	70
Consolidated Statements of Financial Condition	71
Consolidated Statements of Operations	73
Consolidated Statements of Comprehensive Income	74
Consolidated Statements of Changes in Shareholders' Equity	75
Consolidated Statements of Cash Flows	77
Notes to Consolidated Financial Statements	80
Note 1 Nature of Operations and Basis of Presentation	80
Note 2 Summary of Significant Accounting Policies	81
Note 3 Acquisitions	88
Note 4 Discontinued Operations	90
Note 5 Receivables From and Payables to Brokers, Dealers, and Clearing Organizations	90
Note 6 Fair Value Measurements	90
Note 7 Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased	100
Note 8 Available-for-Sale and Held-to-Maturity Securities	101
Note 9 Bank Loans	103
Note 10 Fixed Assets	109
Note 11 Goodwill and Intangible Assets	109
Note 12 Borrowings and Federal Home Loan Bank Advances	110
Note 13 Senior Notes	111
Note 14 Bank Deposits	111
Note 15 Derivative Instruments and Hedging Activities	112
Note 16 Debentures to Stifel Financial Capital Trusts	114
Note 17 Disclosures About Offsetting Assets and Liabilities	115
Note 18 Commitments, Guarantees, and Contingencies	116
Note 19 Legal Proceedings	116
Note 20 Regulatory Capital Requirements	118
Note 21 Interest Income and Interest Expense	119
Note 22 Employee Incentive, Deferred Compensation, and Retirement Plans	119
Note 23 Off-Balance Sheet Credit Risk	121
Note 24 Income Taxes	122
Note 25 Segment Reporting	124
Note 26 Earnings Per Share	125
Note 27 Shareholders' Equity	126
Note 28 Variable Interest Entities	127
Note 29 Subsequent Events	128
Note 30 Quarterly Financial Information (Unaudited)	128

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Stifel Financial Corp.

We have audited the accompanying consolidated statements of financial condition of Stifel Financial Corp. as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stifel Financial Corp. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stifel Financial Corp.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 23, 2017

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	December 31,	
	2016	2015
Assets		
Cash and cash equivalents	$912,932	$811,019
Cash segregated for regulatory purposes	73,235	227,727
Receivables:		
Brokerage clients, net	1,415,936	1,599,218
Brokers, dealers, and clearing organizations	1,024,752	601,831
Securities purchased under agreements to resell	248,588	160,423
Financial instruments owned, at fair value	925,045	749,443
Available-for-sale securities, at fair value	3,181,313	1,629,907
Held-to-maturity securities, at amortized cost	3,038,405	1,855,399
Loans held for sale, at lower of cost or market	228,588	189,921
Bank loans, net	5,591,190	3,143,515
Investments, at fair value	133,563	181,017
Fixed assets, net	172,828	181,966
Goodwill	962,282	915,602
Intangible assets, net	116,304	63,177
Loans and advances to financial advisors and other employees, net	396,318	401,293
Deferred tax assets, net	225,453	285,127
Other assets	482,624	329,466
Total Assets	$19,129,356	$13,326,051

See accompanying Notes to Consolidated Financial Statements.

71

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	December 31, 2016	2015
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	$842,014	$1,000,422
Brokers, dealers, and clearing organizations	523,107	438,031
Drafts	94,451	183,857
Securities sold under agreements to repurchase	268,546	278,674
Bank deposits	11,527,483	6,638,356
Financial instruments sold, but not yet purchased, at fair value	699,032	521,744
Accrued compensation	295,354	363,791
Accounts payable and accrued expenses	400,570	349,040
Federal Home Loan Bank advances	500,000	148,000
Borrowings	377,000	89,084
Senior notes	795,891	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
Total liabilities	16,390,948	10,833,635
Shareholders' Equity:		
Preferred stock – $1 par value; authorized 3,000,000 shares; 6,000 issued	150,000	—
Common stock – $0.15 par value; authorized 97,000,000 shares; issued 69,507,842 shares, respectively	10,426	10,426
Additional paid-in-capital	1,840,551	1,820,772
Retained earnings	876,958	805,685
Accumulated other comprehensive loss	(39,042)	(39,533)
	2,838,893	2,597,350
Treasury stock, at cost, 2,866,492 and 2,483,071 shares, respectively	(100,485)	(104,934)
Total Shareholders' Equity	2,738,408	2,492,416
Total Liabilities and Shareholders' Equity	$19,129,356	$13,326,051

See accompanying Notes to Consolidated Financial Statements.

72

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(in thousands, except per share amounts)	Year Ended December 31, 2016	2015	2014
Revenues:			
Commissions	$729,989	$749,536	$674,418
Principal transactions	475,428	389,319	409,823
Investment banking	513,034	503,052	578,689
Asset management and service fees	582,789	493,761	386,001
Interest	294,332	179,101	185,969
Other income	46,798	62,224	14,785
Total revenues	2,642,370	2,376,993	2,249,685
Interest expense	66,874	45,399	41,261
Net revenues	2,575,496	2,331,594	2,208,424
Non-interest expenses:			
Compensation and benefits	1,726,016	1,568,862	1,403,932
Occupancy and equipment rental	231,324	207,465	169,040
Communications and office supplies	139,644	130,678	106,926
Commissions and floor brokerage	44,315	42,518	36,555
Other operating expenses	291,615	240,504	201,177
Total non-interest expenses	2,432,914	2,190,027	1,917,630
Income from continuing operations before income tax expense	142,582	141,567	290,794
Provision for income taxes	61,062	49,231	111,664
Income from continuing operations	81,520	92,336	179,130
Discontinued operations:			
Loss from discontinued operations, net of tax	—	—	(3,063)
Net income	81,520	92,336	176,067
Preferred dividends	3,906	—	—
Net Income available to common shareholders	$77,614	$92,336	$176,067
Earnings per basic common share			
Income from continuing operations	$1.16	$1.35	$2.69
Income from discontinued operations	—	—	(0.04)
Earnings per basic common share	$1.16	$1.35	$2.65
Earnings per diluted common share			
Income from continuing operations	$1.00	$1.18	$2.35
Income from discontinued operations	—	—	(0.04)
Earnings per diluted common share	$1.00	$1.18	$2.31
Weighted-average number of common shares outstanding:			
Basic	66,871	68,543	66,472
Diluted	77,563	78,554	76,376

See accompanying Notes to Consolidated Financial Statements.

73

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(in thousands)	Year Ended December 31, 2016	2015	2014
Net income	$81,520	$92,336	$176,067
Other comprehensive income: [1]			
Changes in unrealized gains/(losses) on available-for-sale securities [2]	5,803	1,389	1,838
Changes in unrealized gains on cash flow hedging instruments, net of tax [3]	7,288	1,088	2,141
Foreign currency translation adjustment, net of tax	(12,600)	(3,679)	(7,280)
	491	(1,202)	(3,301)
Comprehensive income	$82,011	$91,134	$172,766

[1] Net of taxes of $0.3 million, $0.7 million, and $2.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

[2] There were no reclassifications to earnings of realized gains for the year ended December 31, 2016. Amounts are net of reclassifications to earnings of realized gains of $2.1 million and $2.3 million for the years ended December 31, 2015 and 2014, respectively.

[3] Amounts are net of reclassifications to earnings of losses of $5.4 million, $3.8 million, and $6.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

See accompanying Notes to Consolidated Financial Statements.

74

STIFEL FINANCIAL CORP.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock, At Cost	Total
Balance at December 31, 2013	63,744	$9,562	$1,544,143	$540,238	$ (35,030)	$(64)	$2,058,849
Net income	—	—	—	176,067	—	—	176,067
Unrealized gain on securities, net of tax	—	—	—	—	1,838	—	1,838
Unrealized gain on cash flow hedging activities, net of tax	—	—	—	—	2,141	—	2,141
Foreign currency translation adjustment, net of tax	—	—	—	—	(7,280)	—	(7,280)
Issuance of stock for employee benefit plans	2,158	324	(67,653)	—	—	64	(67,265)
Stock option exercises	33	4	312	—	—	—	316
Unit amortization	—	—	118,271	—	—	—	118,271
Excess tax benefit from stock-based compensation	—	—	19,858	—	—	—	19,858
Issuance of common stock for acquisitions	401	60	19,183	—	—	—	19,243
Balance at December 31, 2014	66,336	$9,950	$1,634,114	$716,305	$ (38,331)	$—	$2,322,038
Net income	—	—	—	92,336	—	—	92,336
Unrealized gain on securities, net of tax	—	—	—	—	1,389	—	1,389
Unrealized gain on cash flow hedging activities, net of tax	—	—	—	—	1,088	—	1,088
	—	—	—	—	(3,679)	—	(3,679)

Foreign currency translation adjustment, net of tax							
Issuance of stock for employee benefit plans	1,754	263	(75,126)	(2,956)	—	11,819	(66,000)
Stock option exercises	17	3	(342)	—	—	999	660
Unit amortization	—	—	167,848	—	—	—	167,848
Excess tax benefit from stock-based compensation	—	—	14,741	—	—	—	14,741
Purchase of treasury stock	—	—	—	—	—	(117,752)	(117,752)
Issuance of common stock for acquisitions	1,400	210	79,537	—	—	—	79,747
Balance at December 31, 2015	69,507	$10,426	$1,820,772	$805,685	$ (39,533)	$(104,934)	$2,492,416

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Changes in Shareholders' Equity (continued)

(in thousands)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock, At Cost	Total
Balance at December 31, 2015	—	$ —	69,507	$10,426	$1,820,772	$805,685	$(39,533)	$(104,934)	$2,492,416
Net income	—	—	—	—	—	81,520	—	—	81,520
Unrealized gain on securities, net of tax	—	—	—	—	—	—	5,803	—	5,803
Unrealized gain on cash flow hedging activities, net of tax	—	—	—	—	—	—	7,288	—	7,288
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(12,600)	—	(12,600)
Issuance of stock for employee benefit plans	—	—	—	—	(158,569)	(6,341)	—	103,010	(61,900)
Stock option exercises	—				(822)			1,365	543
Unit amortization	—	—	—	—	189,746	—	—	—	189,746
Tax deficit from stock-based compensation	—	—	—	—	(4,904)	—	—	—	(4,904)
Purchase of treasury stock	—	—	—	—	—	—	—	(113,462)	(113,462)
Preferred offering	6	150,000	—	—	(4,949)	—	—	—	145,051
	—	—	—	—	—	(3,906)	—	—	(3,906)

Dividend on preferred stock									
Issuance of common stock for acquisitions	—	—	—	—	(723)	—	—	13,536	12,813
Balance at December 31, 2016	6	$ 150,000	69,507	$10,426	$1,840,551	$876,958	$(39,042)	$(100,485)	$2,738,408

See accompanying Notes to Consolidated Financial Statements.

76

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2016	2015	2014
Cash Flows From Operating Activities:			
Net income	$81,520	$92,336	$176,067
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization	43,147	36,715	29,280
Amortization of loans and advances to financial advisors and other employees	94,754	53,913	64,735
Amortization of premium on investment portfolio	12,258	2,750	5,847
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	17,793	14,694	9,713
Amortization of intangible assets	14,427	10,423	12,366
Deferred income taxes	46,062	(5,732)	(8,602)
Tax deficit/(excess tax benefits) from stock-based compensation	4,904	(14,741)	(19,858)
Stock-based compensation	186,303	165,641	94,006
Losses on sale of investments	5,563	9,255	22
Gain on extinguishment of Stifel Financial Capital Trust	(5,607)	—	—
Other, net	4,676	(13,159)	(9,778)
Decrease/(increase) in operating assets, net of assets acquired:			
Cash segregated for regulatory purposes	153,834	(178,081)	(45,343)
Receivables:			
Brokerage clients, net	177,300	(1,003,257)	58,917
Brokers, dealers, and clearing organizations	(439,601)	82,960	(263,391)
Securities purchased under agreements to resell	(88,165)	(105,345)	169,997
Financial instruments owned, including those pledged	(175,602)	90,716	26,280
Loans originated as held for sale	(2,658,254)	(1,855,714)	(1,132,671)
Proceeds from mortgages held for sale	2,624,950	1,814,168	1,112,318
Loans and advances to financial advisors and other employees	(92,830)	(187,234)	(79,216)
Other assets	(158,875)	100,670	(2,509)
Increase/(decrease) in operating liabilities, net of liabilities assumed:			
Payables:			
Brokerage clients	(158,408)	678,926	2,554
Brokers, dealers, and clearing organizations	(62,105)	98,301	(8,198)
Drafts	(89,406)	108,659	488
Financial instruments sold, but not yet purchased	177,288	(65,521)	106,051
Other liabilities and accrued expenses	(65,101)	(258,172)	(48,806)
Net cash provided by/(used in) operating activities	$(349,175)	$(326,829)	$250,269

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31,		
(in thousands)	2016	2015	2014
Cash Flows From Investing Activities:			
Proceeds from:			
Maturities, calls, sales, and principal paydowns of available-for-sale securities	$403,951	$866,899	$698,895
Calls and principal paydowns of held-to-maturity securities	251,439	126,258	96,618
Sale or maturity of investments	40,175	65,320	60,428
Sale of other real estate owned	—	—	131
Sale of bank foreclosed assets	—	75	—
Disposition of business, net	21,340	—	—
Increase in bank loans, net	(2,462,405)	(517,563)	(668,354)
Payments for:			
Purchase of available-for-sale securities	(1,961,419)	(991,954)	(416,851)
Purchase of held-to-maturity securities	(1,437,725)	(802,668)	(7,959)
Purchase of investments	(9,278)	(45,151)	(48,834)
Purchase of fixed assets	(28,211)	(69,822)	(26,632)
Acquisitions, net of cash acquired	(72,383)	(604,659)	(80,378)
Net cash used in investing activities	(5,254,516)	(1,973,265)	(392,936)
Cash Flows from Financing Activities:			
Proceeds from/(repayments of) short-term borrowings, net	287,916	(126,637)	(55,700)
Proceeds from issuance of senior notes, net	201,632	297,042	295,638
Proceeds from advances from the Federal Home Loan Bank, net	352,000	148,000	—
Issuance of preferred stock, net of issuance costs	145,051	—	—
Increase/(decrease) in securities sold under agreements to repurchase	(10,128)	239,494	(224,629)
Increase in bank deposits, net	4,889,127	1,848,275	126,758
Increase/(decrease) in securities loaned	146,838	325,707	(35,914)
(Tax deficit)/excess tax benefits from stock-based compensation	(4,904)	14,741	19,858
Proceeds from stock option exercises	543	660	317
Repurchase of common stock	(113,462)	(117,752)	—
Cash dividends on preferred stock	(3,906)	—	—
Extinguishment of Stifel Financial Capital Trust	(9,393)	—	—
Repayment of Senior Notes	(150,000)	(175,000)	—
Contingent consideration	(13,110)	(29,598)	—
Extinguishment of subordinated debt	—	—	(3,131)
Net cash provided by financing activities	5,718,204	2,424,932	123,197
Effect of exchange rate changes on cash	(12,600)	(3,601)	(7,308)
Increase/(decrease) in cash and cash equivalents	101,913	121,237	(26,778)
Cash and cash equivalents at beginning of year	811,019	689,782	716,560
Cash and cash equivalents at end of year	$912,932	$811,019	$689,782

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31,		
(in thousands)	2016	2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest	$62,145	$41,801	$40,471
Cash paid for income taxes, net of refunds	22,946	59,356	107,009
Noncash investing and financing activities:			
Unit grants, net of forfeitures	$190,211	$267,769	$190,003
Issuance of common stock for acquisitions	12,813	79,747	19,243
Shares surrendered into treasury	—	223	—

See accompanying Notes to Consolidated Financial Statements.

79

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which require management to make certain estimates and assumptions that affect the reported amounts. We consider significant estimates, which are most susceptible to change and impacted significantly by judgments, assumptions, and estimates, to be: valuation of financial instruments and investments in partnerships, accrual for contingencies, allowance for loan losses, derivative instruments and hedging activities, fair value of goodwill and intangible assets, provision for income taxes and related tax reserves, and forfeitures associated with stock-based compensation. Actual results could differ from those estimates.

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

Consolidation Policies

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities, we evaluate whether the entity is a voting interest entity or a variable interest entity ("VIE"). 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.

Voting Interest Entity – Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently, and (ii) equity holders who have the obligation to absorb losses or receive

residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

Variable Interest Entity – VIEs are entities that lack one or more of the characteristics of a voting interest entity. We are required to consolidate certain VIEs in which we have the power to direct the activities of the entity and the obligation to absorb significant losses or receive significant benefits. In other cases, we consolidate VIEs when we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that maintains control and receives benefits or will absorb losses that are not pro rata with its ownership interests.

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. With the exception of entities eligible for the deferral codified in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds" ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's control structure, expected benefits and losses, and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb benefits or losses, variability, related party relationships, and the design of the VIE. Where a qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events. See Note 28 for additional information on VIEs.

NOTE 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider money market mutual funds and highly liquid investments with original maturities of three months or less that are not restricted or segregated to be cash equivalents. Cash and cash equivalents include money market mutual funds, deposits with banks, certificates of deposit, and federal funds sold. Cash and cash equivalents also include balances that Stifel Bank maintains at the Federal Reserve Bank.

Cash Segregated for Regulatory Purposes

Our broker-dealer subsidiaries are subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which requires our company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In accordance with Rule 15c3-3, our company has portions of its cash segregated for the exclusive benefit of clients at December 31, 2016.

Brokerage Client Receivables, Net

Brokerage client receivables include receivables of our company's broker-dealer subsidiaries, which represent amounts due on cash and margin transactions and are generally collateralized by securities owned by clients. Brokerage client receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. The receivables are reported at their outstanding principal balance net of allowance for doubtful accounts. When a brokerage client receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources, such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the consolidated statements of financial condition.

Securities Borrowed and Securities Loaned

Securities borrowed require our company to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations in the consolidated statements of financial condition. For securities loaned, we generally receive collateral in the form of cash in an amount in excess of the market value of securities loaned. Securities loaned are included in payables to brokers, dealers, and clearing organizations in the consolidated statements of financial condition. We monitor the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Fees received or paid are recorded in interest revenue or interest expense in the consolidated statements of operations.

Substantially all of these transactions are executed under master netting agreements, which gives us right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set off in the consolidated statements of financial condition.

Securities Purchased Under Agreements to Resell and Repurchase Agreements

Securities purchased under agreements to resell ("resale agreements") are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. We obtain control of collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. These agreements are short-term in nature and are generally collateralized by U.S. government securities, U.S. government agency securities, and corporate bonds. We value collateral on a daily basis, with additional collateral obtained when necessary to minimize the risk associated with this activity.

Securities sold under agreements to repurchase ("repurchase agreements") are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. We make delivery of securities sold under agreements to repurchase and monitor the value of collateral on a daily basis. When necessary, we will deliver additional collateral.

Financial Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, financial instruments owned, available-for-sale securities, investments, financial instruments sold, but not yet purchased, and derivatives. Other than those separately discussed in the notes to the consolidated financial statements, the remaining financial instruments are generally short-term in nature, and their carrying values approximate fair value.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., "the exit price") in an orderly transaction between market participants at the measurement date. We have categorized our financial instruments measured at fair value into a three-level classification in accordance with Topic 820, "Fair Value Measurement," which established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement, because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments includes instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 – Instruments that have little to no pricing observability as of the measurement date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments

When available, we use observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

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

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

and the differences could be material.

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value. See Note 6 for additional information on how we value our financial instruments.

Available-for-Sale and Held-to-Maturity Securities

Securities available for sale include U.S. government agency securities; state and municipal securities; agency, non-agency, and commercial mortgage-backed securities; corporate fixed income securities; and asset-backed securities, which primarily includes collateralized loan obligations.

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include agency, commercial, and non-agency mortgage-backed securities, asset-backed securities, consisting of collateralized loan obligation securities and ARS, and corporate fixed income securities.

82

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary on a quarterly basis. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment, recent events specific to the issuer and/or industry to which the issuer belongs, the payment structure of the security, external credit ratings and the failure of the issuer to make scheduled interest or principal payments, the value of underlying collateral, current market conditions, and our company's ability and intent to hold the investment until its value recovers or the securities mature. We may determine that the decline in fair value of an investment is other-than-temporary if our analysis of these factors indicates that we will not recover our investment in the securities.

If we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in other operating expenses in the consolidated statements of operations. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated other comprehensive loss. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows.

We estimate the portion of loss attributable to credit using a discounted cash flow model. Key assumptions used in estimating the expected cash flows include default rates, loss severity, and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

Unrealized gains and losses on our available-for-sale securities are reported, net of taxes, in accumulated other comprehensive loss included in shareholders' equity. Amortization of premiums and accretion of discounts are recorded as interest income in the consolidated statements of operations using the interest method. Realized gains and losses from sales of securities available for sale are determined on a specific identification basis and are included in other income in the consolidated statements of operations in the period they are sold. For securities transferred from available-for-sale to held-to-maturity, carrying value also includes unrealized gains and losses recognized in accumulated other comprehensive loss at the date of transfer. Such unrealized gains or losses are accreted over the remaining life of the security with no impact on future net income.

Loan Classification

We classify loans based on our investment strategy and management's assessment of our intent and ability to hold loans for the foreseeable future or until maturity. Management's intent and ability with respect to certain loans may change from time to time depending on a number of factors, including economic, liquidity, and capital conditions. The accounting and measurement framework for loans differs depending on the loan classification. The classification criteria and accounting and measurement framework for bank loans and loans held for sale are described below.

Bank Loans and Allowance for Loan Losses

Bank loans consist of commercial and residential mortgage loans, commercial and industrial loans, stock-secured loans, home equity loans, construction loans, and consumer loans originated or acquired by Stifel Bank. Bank loans include those loans that management has the intent and ability to hold and are recorded at outstanding principal adjusted for any charge-offs, allowance for loan losses, deferred origination fees and costs, and purchased discounts. Loan origination costs, net of fees, and premiums and discounts on purchased loans are deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. Bank loans are generally

collateralized by real estate, real property, marketable securities, or other assets of the borrower. Interest income is recognized using the effective interest rate method, which is based upon the respective interest rates and the average daily asset balance. Discount accretion/premium amortization is recognized using the effective interest rate method, which is based upon the respective interest rate and expected lives of loans.

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

Loans Held for Sale

Loans that we intend to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Loans held for sale consist of fixed-rate and adjustable-rate residential and multi-family real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or market value on an individual loan basis. Declines in market value below cost and any gains or losses on the sale of these assets are recognized in other income in the consolidated statements of operations.

Market value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Because loans held for sale are reported at lower of cost or market value, an allowance for loan losses is not established for loans held for sale.

Impaired Loans

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

We consider a loan a trouble debt restructuring when an existing borrower is granted concessionary rates or terms, which would not otherwise be offered. The concessions granted do not reflect current market conditions for a new loan of similar risk to another borrower in similar financial circumstances.

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

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

Investments

Our broker-dealer subsidiaries report changes in fair value of marketable and non-marketable securities in other income in the consolidated statements of operations. The fair value of marketable investments is generally based on either quoted market or dealer prices. The fair value of non-marketable securities is based on management’s estimate using the best information available, which generally consists of quoted market prices for similar securities and internally developed discounted cash flow models.

Investments in the consolidated statements of financial condition contain investments in securities that are marketable and securities that are not readily marketable. These investments are not included in our broker-dealer trading inventory or available-for-sale or held-to-maturity portfolios and represent the acquiring and disposing of debt or equity instruments for our benefit.

Fixed Assets, Net

Office equipment is depreciated on an accelerated basis over the estimated useful life of the asset of two to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease. Buildings and building improvements are amortized on a straight-line basis over the estimated useful life of the asset of three to thirty-nine years. Depreciation expense is recorded in occupancy and equipment rental expense in the consolidated statements of operations. Office equipment, leasehold improvements, and property are stated at cost net of accumulated depreciation and amortization in the consolidated statements of financial condition. Office equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the

84

reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. We have elected July 31 as our annual impairment testing date. No indicators of impairment were identified.

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

Loans and Advances to Financial Advisors and Other Employees, Net

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our company's overall growth strategy. These loans are generally forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. We monitor and compare individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial situation.

Derivative Instruments and Hedging Activities

We recognize all of our derivative instruments at fair value as either assets or liabilities in the consolidated statements of financial condition. These instruments are recorded in other assets or accounts payable and accrued expenses in the consolidated statements of financial condition and in the operating section of the consolidated statements of cash flows as increases or decreases of other assets and accounts payable and accrued expenses. Our company's policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must also designate the hedging instrument or transaction, based upon the exposure being hedged.

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss, net of tax, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. We do not use derivatives for trading or speculative purposes and, at December 31, 2016, all of our derivatives are designated as cash flow hedges. See Note 15 for additional details.

Revenue Recognition

Customer securities transactions are recorded on a settlement date basis, with related commission revenues and expenses recorded on a trade date basis. Commission revenues are recorded as the amount charged to the customer, which, in certain cases, may include varying discounts. Principal securities transactions are recorded on a trade date

basis. We typically distribute our proprietary equity research products to our client base of institutional investors at no charge. These proprietary equity research products are accounted for as a cost of doing business.

Investment banking revenues, which include underwriting fees, management fees, advisory fees, placement fees, and sales credits earned in connection with the distribution of the underwritten securities, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related unreimbursed expenses. We have not recognized any incentive income that is subject to contingent repayments.

Asset management and service fees are recorded when earned, based on the period-end assets in the accounts, and consist of customer account service fees, per account fees (such as IRA fees), and wrap fees, net of external manager costs on managed accounts.

We earn fees from the investment partnerships that we manage or of which we are a general partner. Such management fees are generally based on the net assets or committed capital of the underlying partnerships. We have agreed, in certain cases, to waive management fees, in lieu of making a cash contribution, in satisfaction of our general partner investment commitments to the investment partnerships. In these cases, we generally recognize our management fee revenues at the time when we are allocated a special profit interest in realized gains from these partnerships.

85

Operating Leases

We lease office space and equipment under operating leases. We recognize rent expense related to these operating leases on a straight-line basis over the lease term. The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For tenant improvement allowances and rent holidays, we record a deferred rent liability in accounts payable and accrued expenses in the consolidated statements of financial condition and amortize the deferred rent over the lease term as a reduction to occupancy and equipment rental expense in the consolidated statements of operations.

Income Taxes

We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our company's assets and liabilities. We establish a valuation allowance for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefits, or that future deductibility is uncertain.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in provision for income taxes in the consolidated statements of operations. See Note 24 for further information regarding income taxes.

Foreign Currency Translation

We consolidate our foreign subsidiaries, which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange. Revenues and expenses are translated at an average rate for the period. In accordance with FASB Accounting Standards Codification Topic 830, "Foreign Currency Matters," gains or losses resulting from translating foreign currency financial statements are reflected in accumulated other comprehensive loss, a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in other income in the consolidated statements of operations.

Recently Issued Accounting Guidance

Financial Instruments – Credit Losses

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

Revenue Recognition

In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" that amends the revenue guidance in ASU 2014-09 on identifying performance obligations. The effective date of the new guidance will coincide with ASU 2014-09 during the first quarter of 2018.

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

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

In 2016, we began analyzing the impact of the standard on our contract portfolio by reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts. In addition, we are in the early phases of identifying appropriate changes to our business processes, systems, and controls to support recognition and disclosure under the new standard.

We have been closely monitoring FASB activity related to the new standard. During the second half of 2016, we began developing a plan regarding the evaluation of the potential changes from adopting the new standard on our future financial reporting and disclosures. We also made progress on our contract reviews and detailed policy drafting. Based on our evaluation, we expect to adopt the requirements of the new standard in the first quarter of 2018 and anticipate using the modified retrospective approach.

Share-Based Payments

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

Leases

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

Financial Assets and Financial Liabilities

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

Recently Adopted Accounting Guidance

Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share

In May 2015, the FASB issued ASU No. 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent).” The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance became effective for us on January 1, 2016. See Note 6 – Fair Value

Measurements.

Interest – Imputation of Interest

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

NOTE 3 – Acquisitions

ISM Capital LLP

On May 3, 2016, the Company completed the acquisition of ISM Capital LLP (“ISM”), an independent investment bank focused on international debt capital markets. The acquisition of ISM adds to the Company’s debt capital markets origination, sales, and research capabilities in Europe, including an end-to-end platform for convertible securities and other equity-linked debt instruments. The acquisition was funded with cash from operations and our common stock, issued out of treasury.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (“ASC Topic 805”), “Business Combinations.” Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $6.9 million of goodwill in the consolidated statement of financial condition, which has been allocated to our company’s Institutional Group segment. Identifiable intangible assets purchased by our company consisted of customer relationships, non-compete, and customer backlog with aggregate acquisition-date fair values of $2.3 million.

The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of ISM at closing and the identified intangible assets. The final goodwill and intangible assets recorded in the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of ISM’s business and the addition of an end-to-end platform for convertible securities and other equity-linked debt instruments to our debt capital markets capabilities in Europe. Goodwill is not expected to be deductible for federal income tax purposes.

We recognized a liability for estimated earn-out payments. These payments will be based on ISM’s performance over a three-year period. The liability for earn-out payments was $3.7 million at December 31, 2016. The contingent consideration accrual is included in accounts payable and accrued expenses in the consolidated statements of financial condition.

Pro forma information is not presented, because the acquisition is not considered to be material, as defined by the Securities and Exchange Commission (the “SEC”). The results of operations of ISM have been included in our results prospectively from the date of acquisition.

Eaton Partners

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

The acquisition was accounted for under the acquisition method of accounting in accordance with Topic 805. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $72.0 million of goodwill in the consolidated statement of financial condition, which has been allocated to our company’s Institutional Group segment. Identifiable intangible assets purchased by our company consisted of customer relationships, trade name, non-compete, and customer backlog with aggregate acquisition-date fair values of $32.3 million.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of Eaton’s business and from the relationships Eaton has established with private

equity firms, hedge funds, high net worth family offices, and institutional investors. Goodwill is expected to be deductible for federal income tax purposes.

We recognized a liability for estimated earn-out payments. These payments will be based on Eaton Partner's performance over a four-year period. The liability for earn-out payments was $27.3 million at December 31, 2016. The contingent consideration accrual is included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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

Barclays Wealth and Investment Management, Americas

On December 4, 2015, we completed the purchase of the Barclays Wealth and Investment Management, Americas ("Barclays"), franchise in the U.S. The Company paid purchase consideration that was funded with cash from operations. As part of that transaction, Stifel Bank, a wholly owned subsidiary of the Company, acquired approximately $600.0 million of bank loans, at fair value, from Barclays. The fair values for those loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms.

The acquisition was accounted for under the acquisition method of accounting in accordance with Topic 805. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $24.8 million of goodwill in the consolidated statement of financial

88

condition, which has been allocated to our company's Global Wealth Management segment. Identifiable intangible assets purchased by our company consisted of customer relationships, with acquisition-date fair value of $7.3 million.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the hired financial advisors and the conversion of the customer accounts to the Stifel platform. Goodwill is expected to be deductible for federal income tax purposes.

In addition, deferred consideration is payable based on certain revenue generated by Stifel in accordance with the distribution agreement. The deferred consideration of $15.2 million has been recognized as a liability and is included in accounts payable and accrued expenses in the consolidated statements of financial condition at December 31, 2016.

During 2016, the Company's Board of Directors removed the continuing service requirements associated with restricted stock units that were granted to certain employees of Barclays in December 2015. As a result, the awards were expensed at date of modification resulting in a charge of $58.6 million during 2016. The fair value of the awards is based upon the closing price of our company's common stock on the date of the grant of the awards. These charges are included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2016.

Sterne Agee Group, Inc.

On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee Group, Inc. ("Sterne Agee"), a financial services firm that offers comprehensive wealth management and investment services to a diverse client base including corporations, municipalities, and individual investors. The purchase was completed pursuant to the merger agreement dated February 23, 2015. On July 1, 2016, the Company completed the sale of Sterne Agee's legacy independent brokerage and clearing businesses pursuant to two separate stock purchase agreements dated June 24, 2016.

The acquisition was accounted for under the acquisition method of accounting in accordance with Topic 805. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $60.8 million of goodwill and intangible assets in the consolidated statement of financial condition, which has been allocated to our company's Global Wealth Management and Institutional Group segments. Identifiable intangible assets purchased by our company consisted of customer relationships with acquisition-date fair value of $29.3 million.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of Sterne Agee's business and the reputation and expertise of Sterne Agee in the financial services sector.

On June 5, 2015, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was $23.8 million. The fair value of the awards is based upon the closing price of our company's common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2015. In addition, we paid $33.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

Prior to the closing date, Sterne Agee had established adequate reserves for various claims that were included in the opening balance sheet. During the third quarter of 2015, one legal matter was settled and paid, and the excess reserves associated with the Canyon Ridge matter were distributed to Sterne Agee Group, Inc. shareholders. Under the terms of the agreements governing the acquisition, we have withheld a portion of the purchase price of Sterne Agee Group, Inc.

pending the resolution of currently existing or subsequently arising liabilities relating to the operation of the Sterne Agee Group Inc. business prior to the closing of the acquisition. Based upon currently available information and review with counsel, we believe the amounts which we are allowed to withhold will be adequate to fully indemnify us from any losses related to the pre-closing operations of Sterne Agee Group, Inc.

1919 Investment Counsel & Trust Co., National Association ("1919 Investment Counsel")

On November 7, 2014, we completed the acquisition of 1919 Investment Counsel, an asset management firm and trust company that provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country.

On November 7, 2014, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was $11.2 million. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2014. In addition, we paid $10.8 million in the form of notes to associates for retention. These notes will be forgiven by a charge to compensation and benefits over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards.

89

Oriel Securities ("Oriel")

On July 31, 2014, we completed the acquisition of Oriel, a London-based stockbroking and investment banking firm. The combination of our company and Oriel has created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.

On July 31, 2014, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was $6.8 million. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2014.

NOTE 4 – Discontinued Operations

(in thousands)	Year Ended December 31, 2016	2015	2014
Net revenues	$—	$ —	$(121)
Restructuring expense	—	—	217
Operating expenses	—	—	3,924
Total non-interest expenses	—	—	4,141
Loss from discontinued operations before income tax expense	—	—	(4,262)
Income tax benefit	—	—	(1,199)
Loss from discontinued operations, net of tax	$—	$ —	$(3,063)

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

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

	December 31, 2016	2015
Deposits paid for securities borrowed	$382,691	$318,105
Receivables from clearing organizations	568,373	260,077
Securities failed to deliver	73,688	23,649
	$1,024,752	$601,831

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

	December 31,	
	2016	2015
Deposits received from securities loaned	$478,814	$329,670
Payable to clearing organizations	16,411	92,008
Securities failed to receive	27,882	16,353
	$523,107	$438,031

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

NOTE 6 – Fair Value Measurements

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

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

90

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

Financial Instruments Owned and Available-For-Sale Securities

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

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

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

Investments

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

Corporate equity securities that are valued based on quoted prices in active markets are reported in Level 1. Corporate equity securities with unobservable pricing inputs are reported in Level 3.

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

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

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

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

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

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

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

	December 31, 2016		December 31, 2015	
	Fair value of investments	Unfunded commitments	Fair value of investments	Unfunded commitments
Private company investments	$18,763	$ 8,526	$34,385	$ 14,178
Partnership interests	15,798	1,822	22,502	2,018
Mutual funds	11,301	—	20,399	—
Private equity funds	9,310	2,020	12,970	9,352
Money market funds	35,637	—	77,097	—
Total	$90,809	$ 12,368	$167,353	$ 25,548

Financial Instruments Sold, But Not Yet Purchased

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

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

Derivatives

Derivatives are valued using quoted market prices for identical instruments when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments,

included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

92

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, are presented below (in thousands):

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$9,951	$9,951	$—	$—
U.S. government agency securities	89,833	—	89,833	—
Mortgage-backed securities:				
Agency	305,774	—	305,774	—
Non-agency	28,402	—	27,320	1,082
Corporate securities:				
Fixed income securities	299,946	1,944	297,729	273
Equity securities	32,044	31,444	—	600
State and municipal securities	159,095	—	159,095	—
Total financial instruments owned	925,045	43,339	879,751	1,955
Available-for-sale securities:				
U.S. government agency securities	4,197	300	3,897	—
State and municipal securities	72,490	—	72,490	—
Mortgage-backed securities:				
Agency	338,732	—	338,732	—
Commercial	72,773	—	72,773	—
Non-agency	1,892	—	1,892	—
Corporate fixed income securities	823,511	—	823,511	—
Asset-backed securities	1,867,718	—	1,867,718	—
Total available-for-sale securities	3,181,313	300	3,181,013	—
Investments:				
Corporate equity securities	27,247	23,414	—	3,833
Auction rate securities:				
Equity securities	48,689	—	—	48,689
Municipal securities	832	—	—	832
Other	1,623	—	383	1,240
Investments measured at NAV	55,172			
Total investments	133,563	23,414	383	54,594
Cash equivalents measured at NAV	35,637			
Derivative contracts [(1)]	10,390	—	10,390	—
	$4,285,948	$67,053	$4,071,537	$56,549

[(1)] Included in other assets in the consolidated statements of financial condition.

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$362,536	$362,536	$—	$ —
U.S. government agency securities	20,549	—	20,549	—
Mortgage-backed securities:				
Agency	94,552	—	94,552	—

Non-agency	1	—	1	—
Corporate securities:				
Fixed income securities	202,968	980	201,988	—
Equity securities	18,395	18,395	—	—
State and municipal securities	31	—	31	—
Total financial instruments sold, but not yet purchased	699,032	381,911	317,121	—
Derivative contracts [2]	1,823	—	1,823	—
	$700,855	$381,911	$318,944	$ —

93

(2) Included in accounts payable and accrued expenses in the consolidated statements of financial condition.
Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015, are presented below (in thousands):

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial instruments owned:				
U.S. government securities	$45,167	$45,167	$—	$—
U.S. government agency securities	116,949	—	116,949	—
Mortgage-backed securities:				
Agency	205,473	—	205,473	—
Non-agency	33,319	—	31,843	1,476
Corporate securities:				
Fixed income securities	203,910	13,203	190,707	—
Equity securities	31,642	29,388	1,635	619
State and municipal securities	112,983	—	112,983	—
Total financial instruments owned	749,443	87,758	659,590	2,095
Available-for-sale securities:				
U.S. government agency securities	1,698	—	1,698	—
State and municipal securities	74,167	—	74,167	—
Mortgage-backed securities:				
Agency	304,893	—	304,893	—
Commercial	11,310	—	11,310	—
Non-agency	2,518	—	2,518	—
Corporate fixed income securities	319,408	—	319,408	—
Asset-backed securities	915,913	—	915,913	—
Total available-for-sale securities	1,629,907	—	1,629,907	—
Investments:				
Corporate equity securities	30,737	26,436	1,359	2,942
U.S. government securities	102	102	—	—
Auction rate securities:				
Equity securities	55,710	—	5,268	50,442
Municipal securities	1,315	—	—	1,315
Other	2,897	4	2,873	20
Investments measured at NAV	90,256			
Total investments	181,017	26,542	9,500	54,719
Cash equivalents measured at NAV	77,097			
	$2,637,464	$114,300	$2,298,997	$56,814

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	$186,030	$186,030	$—	$ —
Agency mortgage-backed securities:	50,830	—	50,830	—

Corporate securities:				
Fixed income securities	255,700	3,601	252,099	—
Equity securities	29,184	22,894	6,290	—
Total financial instruments sold, but not yet purchased	521,744	212,525	309,219	—
Derivative contracts [2]	3,591	—	3,591	—
	$525,335	$212,525	$312,810	$ —

[2] Included in accounts payable and accrued expenses in the consolidated statements of financial condition.
94

The following tables summarize the changes in fair value associated with Level 3 financial instruments during the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31, 2016 Financial instruments owned		
	Mortgage-Backed Securities – Non-Agency	Corporate Fixed Income Securities	Equity Securities
Balance at December 31, 2015	$1,476	$ —	$ 619
Unrealized gains/(losses):			
Included in changes in net assets [1]	(18)	—	(279)
Included in OCI [2]	—	—	—
Realized gains/(losses) [1]	54	—	—
Purchases	—	292	253
Sales	—	—	—
Redemptions	(430)	(19)	—
Transfers:			
Into Level 3	—	—	7
Out of Level 3	—	—	—
Net change	(394)	273	(19)
Balance at December 31, 2016	$1,082	$ 273	$ 600

	Year Ended December 31, 2016 Investments			
	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at December 31, 2015	$2,942	$ 50,442	$ 1,315	$20
Unrealized gains/(losses):				
Included in changes in net assets [1]	(361)	547	67	—
Included in OCI [2]	—	—	—	—
Realized gains [1]	2,453	—	—	—
Purchases	3,593	50	—	3,782
Sales	—	—	—	—
Redemptions	(4,794)	(2,350)	(550)	—
Transfers:				
Into Level 3	—	—	—	465
Out of Level 3	—	—	—	(3,027)

Net change	891	(1,753)	(483)	1,220
Balance at December 31, 2016	$3,833	$48,689	$ 832	$1,240

(1) Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.
(2) Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial condition.
95

	Year Ended December 31, 2015			
	Financial instruments owned			Available-for-sale securities
	Mortgage-Backed Securities – Non-Agency	Corporate Fixed Income Securities	Equity Securities	Asset-Backed Securities
Balance at December 31, 2014	$806	$1,993	$1,144	$44,045
Unrealized gains/(losses):				
Included in changes in net assets [1]	(241)	84	—	—
Included in OCI [2]	—	—	—	342
Realized gains/(losses) [1]	127	53	—	(2,136)
Purchases	—	11,643	—	—
Sales	—	(13,773)	(525)	(42,251)
Redemptions	(332)	—	—	—
Transfers:				
Into Level 3	1,116	—	—	—
Out of Level 3	—	—	—	—
Net change	670	(1,993)	(525)	(44,045)
Balance at December 31, 2015	$1,476	$—	$619	$—

	Year Ended December 31, 2015			
	Investments			
	Corporate Equity Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at December 31, 2014	$7,550	$46,197	$1,326	$2,026
Unrealized gains/(losses):				
Included in changes in net assets [1]	1,410	(413)	(11)	(938)
Included in OCI [2]	—	—	—	—
Realized gains [1]	—	—	—	—
Purchases	—	15,176	—	—
Sales	—	—	—	—
Redemptions	—	(5,250)	—	—
Transfers:				
Into Level 3	182	—	—	—
Out of Level 3	(6,200)	(5,268)	—	(1,068)

Net change	(4,608)	4,245	(11)	(2,006)
Balance at December 31, 2015	$2,942	$50,442	$1,315	$20

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

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

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments during the year ended December 31, 2016, were principally a result of redemptions of corporate equity securities, ARS redemptions, and transfers out of Level 3, offset by purchases of corporate equity securities and other investments, and realized and unrealized gains, net. The changes in unrealized gains/(losses) recorded in earnings for the year ended December 31, 2016, relating to Level 3 assets still held at December 31, 2016, were immaterial.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of December 31, 2016.

	Valuation technique	Unobservable input	Range	Weighted average
Investments:				
Corporate equity securities	Market comparable companies	Tangible book value multiple	1.41 - 2.28	1.95
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	2.0% - 12.6%	6.5%
		Workout period	1-3 years	2.5 years
Municipal securities	Discounted cash flow	Discount rate	2.2% - 10.6%	4.9%
		Workout period	1-4 years	1.9 years

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

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

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period.

There were $1.9 million of transfers of financial assets from Level 2 to Level 1 during the year ended December 31, 2016. There were $8.6 million of transfers of financial assets from Level 1 to Level 2 during the year ended December 31, 2016, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were $0.5 million of transfers of financial assets into Level 3 during the year ended December 31, 2016. There were $3.0 million of transfers of financial assets out of Level 3 during the year ended December 31, 2016, primarily related to other investments that were reclassified to NAV at December 31, 2016.

Fair Value of Financial Instruments

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

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$912,932	$912,932	$811,019	$811,019
Cash segregated for regulatory purposes	73,235	73,235	227,727	227,727
Securities purchased under agreements to resell	248,588	248,588	160,423	160,423
Financial instruments owned	925,045	925,045	749,443	749,443
Available-for-sale securities	3,181,313	3,181,313	1,629,907	1,629,907
Held-to-maturity securities	3,038,405	3,040,554	1,855,399	1,874,998
Loans held for sale	228,588	228,588	189,921	189,921
Bank loans	5,591,190	5,633,804	3,143,515	3,188,402
Investments	133,563	133,563	181,017	181,017
Derivative contracts (1)	10,390	10,390	—	—
Financial liabilities:				
Securities sold under agreements to repurchase	$268,546	$268,546	$278,674	$278,674
Bank deposits	11,527,483	11,092,185	6,638,356	6,627,818
Financial instruments sold, but not yet purchased	699,032	699,032	521,744	521,744
Derivative contracts (2)	1,823	1,823	3,591	3,591
Borrowings	377,000	377,000	89,084	89,084
Federal Home Loan Bank advances	500,000	500,000	148,000	148,000
Senior notes	795,891	799,632	740,136	736,135
Debentures to Stifel Financial Capital Trusts	67,500	52,525	82,500	72,371

(1) Included in other assets in the consolidated statements of financial condition.
(2) Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis for the periods indicated (in thousands):

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash	$877,295	$877,295	$—	$—
Cash segregated for regulatory purposes	73,235	73,235	—	—
Securities purchased under agreements to resell	248,588	227,983	20,605	—
Held-to-maturity securities	3,040,554	—	2,830,869	209,685
Loans held for sale	228,588	—	228,588	—
Bank loans	5,633,804	—	5,633,804	—
Financial liabilities:				
Securities sold under agreements to repurchase	$268,546	$149,881	$118,665	$—

Bank deposits	11,092,185	—	11,092,185	—
Borrowings	377,000	377,000	—	—
Federal Home Loan Bank advances	500,000	500,000	—	—
Senior notes	799,632	799,632	—	—
Debentures to Stifel Financial Capital Trusts	52,525	—	—	52,525

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

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

Financial Assets

Securities Purchased Under Agreements to Resell

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

Held-to-Maturity Securities

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

Loans Held for Sale

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

Bank Loans

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

secondary market.

Financial Liabilities

Securities Sold Under Agreements to Repurchase

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

Bank Deposits

The fair value for demand deposits is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money-market and savings accounts approximate their fair values at the reporting date as these are short-term in nature. The fair value of other interest-bearing deposits, including certificates of deposit, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Borrowings

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

Senior Notes

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

Debentures to Stifel Financial Capital Trusts

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

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

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

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

	December 31,	
	2016	2015
Financial instruments owned:		
U.S. government securities	$9,951	$45,167
U.S. government agency securities	89,833	116,949
Mortgage-backed securities:		
Agency	305,774	205,473
Non-agency	28,402	33,319
Corporate securities:		
Fixed income securities	299,946	203,910
Equity securities	32,044	31,642
State and municipal securities	159,095	112,983
	$925,045	$749,443
Financial instruments sold, but not yet purchased:		
U.S. government securities	$362,536	$186,030
U.S. government agency securities	20,549	—
Mortgage-backed securities:		
Agency	94,552	50,830
Non-agency	1	—

Corporate securities:		
Fixed income securities	202,968	255,700
Equity securities	18,395	29,184
State and municipal securities	31	—
	$699,032	$521,744

At December 31, 2016 and 2015, financial instruments owned in the amount of $992.9 million and $508.5 million, respectively, were pledged as collateral (on a settlement-date basis) for our repurchase agreements and short-term borrowings. Financial instruments owned on a settlement-date basis were $1.3 billion at December 31, 2016. Our financial instruments owned are presented on a trade-date basis in the consolidated statements of financial condition.

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

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

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

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$4,213	$ 2	$ (18)	$4,197
State and municipal securities	76,066	—	(3,576)	72,490
Mortgage-backed securities:				
Agency	340,738	298	(2,304)	338,732
Commercial	77,417	59	(4,703)	72,773
Non-agency	2,032	—	(140)	1,892
Corporate fixed income securities	830,695	1,418	(8,602)	823,511
Asset-backed securities	1,858,929	9,857	(1,068)	1,867,718
	$3,190,090	$ 11,634	$ (20,411)	$3,181,313
Held-to-maturity securities [2]				
Mortgage-backed securities:				
Agency	$1,567,758	$ 14,537	$ (17,037)	$1,565,258
Commercial	59,581	1,786	—	61,367
Non-agency	688	—	(13)	675
Asset-backed securities	1,370,300	6,242	(3,396)	1,373,146
Corporate fixed income securities	40,078	30	—	40,108
	$3,038,405	$ 22,595	$ (20,446)	$3,040,554

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains [1]	Gross Unrealized Losses [1]	Estimated Fair Value
Available-for-sale securities				
U.S. government agency securities	$1,700	$ 1	$ (3)	$1,698
State and municipal securities	75,953	28	(1,814)	74,167
Mortgage-backed securities:				
Agency	306,309	125	(1,541)	304,893
Commercial	11,177	134	(1)	11,310
Non-agency	2,679	2	(163)	2,518
Corporate fixed income securities	321,017	743	(2,352)	319,408
Asset-backed securities	922,563	774	(7,424)	915,913
	$1,641,398	$ 1,807	$ (13,298)	$1,629,907
Held-to-maturity securities [2]				
Mortgage-backed securities:				

Agency	$1,257,808	$ 23,346	$ (3,105)	$1,278,049
Commercial	59,521	1,832	—	61,353
Non-agency	929	—	(15)	914
Asset-backed securities	496,996	2,076	(4,139)	494,933
Corporate fixed income securities	40,145	-	(396)	39,749
	$1,855,399	$ 27,254	$ (7,655)	$1,874,998

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

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

For the year ended December 31, 2016, there were no sales of available-for-sale securities. For the years ended December 31, 2015 and 2014, we received proceeds of $641.6 million and $300.3 million, respectively, from the sale of available-for-sale securities, which resulted in net realized gains of $3.2 million and $3.7 million, respectively.

During the years ended December 31, 2016, 2015, and 2014, unrealized gains, net of deferred tax expense, of $5.8 million, $1.4 million, and $1.8 million, respectively, were recorded in accumulated other comprehensive loss in the consolidated statements of financial condition.

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

	December 31, 2016			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Within one year	$23,947	$23,952	$—	$—
After one year through three years	271,872	272,292	40,078	40,108
After three years through five years	409,576	405,986	—	—
After five years through ten years	840,487	840,590	141,576	141,973
After ten years	1,224,021	1,225,096	1,228,724	1,231,173
Mortgage-backed securities				
Within one year	9	9	—	—
After three years through five years	—	—	59,581	61,367
After five years through ten years	58,967	55,245	170,493	169,498
After ten years	361,211	358,143	1,397,953	1,396,435
	$3,190,090	$3,181,313	$3,038,405	$3,040,554

The maturities of our available-for-sale (fair value) and held-to-maturity (amortized cost) securities at December 31, 2016, are as follows (in thousands):

	Within 1 Year	1-5 Years	5-10 Years	After 10 Years	Total
Available-for-sale: (1)					
U.S. government agency securities	$1,351	$2,846	$—	$—	$4,197
State and municipal securities	301	375	16,821	54,993	72,490
Mortgage-backed securities:					
Agency	—	—	480	338,252	338,732
Commercial	—	—	54,764	18,009	72,773
Non-agency	8	—	—	1,884	1,892
Corporate fixed income securities	22,301	675,058	126,152	—	823,511
Asset-backed securities	—	—	697,616	1,170,102	1,867,718

	$23,961	$678,279	$895,833	$1,583,240	$3,181,313
Held-to-maturity:					
Mortgage-backed securities:					
Agency	$—	$—	$170,493	$1,397,265	$1,567,758
Commercial	—	59,581	—	—	59,581
Non-agency	—	—	—	688	688
Asset-backed securities	—	—	141,576	1,228,724	1,370,300
Corporate fixed income securities	—	40,078	—	—	40,078
	$—	$99,659	$312,069	$2,626,677	$3,038,405

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

At December 31, 2016 and 2015, securities of $2.0 billion and $1.1 billion, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. At December 31, 2016 and 2015, securities of $1.7 billion and $1.1 billion, respectively, were pledged with the Federal Reserve discount window.

102

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses, aggregated by investment category and length of time the individual investment securities have been in continuous unrealized loss positions, at December 31, 2016 (in thousands):

	Less than 12 months		12 months or more		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities						
U.S. government securities	$(18)	$3,497	—	—	$(18)	$3,497
State and municipal securities	(372)	12,297	(3,204)	60,192	(3,576)	72,489
Mortgage-backed securities:						
Agency	(876)	120,004	(1,428)	185,415	(2,304)	305,419
Commercial	(4,703)	71,001	—	—	(4,703)	71,001
Non-agency	—	—	(140)	1,838	(140)	1,838
Corporate fixed income securities	(8,602)	566,692	—	—	(8,602)	566,692
Asset-backed securities	(1,068)	261,341	—	—	(1,068)	261,341
	$(15,639)	$1,034,832	$(4,772)	$247,445	$(20,411)	$1,282,277
Held-to-maturity securities						
Mortgage-backed securities:						
Agency	$(17,017)	$895,258	$(20)	$1,415	$(17,037)	$896,673
Non-agency	—	—	(13)	675	(13)	675
Asset-backed securities	(534)	294,656	(2,862)	52,169	(3,396)	346,825
	$(17,551)	$1,189,914	$(2,895)	$54,259	$(20,446)	$1,244,173

At December 31, 2016, the amortized cost of 146 securities classified as available for sale exceeded their fair value by $20.4 million, of which $4.8 million related to investment securities that had been in a loss position for 12 months or longer. The total fair value of these investments at December 31, 2016, was $1.3 billion, which was 40.3% of our available-for-sale portfolio.

At December 31, 2016, the carrying value of 57 securities held to maturity exceeded their fair value by $20.4 million, of which $2.9 million related to securities held to maturity that have been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. There was no credit-related OTTI recognized during the years ended December 31, 2016, 2015, and 2014.

We believe the gross unrealized losses of $40.9 million related to our investment portfolio, as of December 31, 2016, are attributable to changes in market interest rates. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. No OTTI charge was recorded during the year ended December 31, 2016, related to these securities. Accordingly, we have concluded that

the impairment on these securities is not other-than-temporary.

NOTE 9 – Bank Loans

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

103

	December 31, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
Residential real estate	$2,161,400	38.4 %	$429,132	13.5 %
Commercial and industrial	1,710,399	30.3	1,216,656	38.2
Securities-based loans	1,614,033	28.6	1,388,953	43.7
Commercial real estate	78,711	1.4	92,623	2.9
Consumer	45,391	0.8	36,846	1.2
Home equity lines of credit	15,008	0.3	12,475	0.4
Construction and land	12,623	0.2	3,899	0.1
Gross bank loans	5,637,565	100.0 %	3,180,584	100.0 %
Unamortized loan premium/(discount), net	858		(5,296)	
Loans in process	(49)		(419)	
Unamortized loan fees, net	(2,021)		(1,567)	
Allowance for loan losses	(45,163)		(29,787)	
Bank loans, net	$5,591,190		$3,143,515	

At December 31, 2016 and 2015, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of $3.7 million and $2.0 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $5.6 million and $7.2 million, respectively.

At December 31, 2016 and 2015, we had loans held for sale of $228.6 million and $189.9 million, respectively. For the years ended December 31, 2016, 2015, and 2014, we recognized gains of $16.0 million, $12.7 million, and $8.1 million, respectively, from the sale of originated loans, net of fees and costs.

At December 31, 2016 and 2015, residential and commercial real estate loans of $2.3 billion and $207.5 million, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings.

During the year ended December 31, 2015, the Bank reclassified $227.6 million of residential mortgages to held for sale. During the year ended December 31, 2015, Stifel Bank sold $184.4 million in unpaid principal balance. As these loans carried a significant portion of the unamortized loan discount at the time of sale, we recognized a $14.7 million gain, which is reflected in other income on the consolidated statements of operations.

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2016 and 2015 (in thousands).

	Year Ended December 31, 2016				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$24,748	$10,646	$ (267)	$ —	$35,127
Securities-based loans	1,607	1,487	—	—	3,094
Residential real estate	1,241	1,430	(13)	2	2,660
Commercial real estate	264	1,090	—	9	1,363
Home equity lines of credit	290	81	—	—	371
Construction and land	78	154	—	—	232
Consumer	105	38	(16)	2	129

Qualitative	1,454	733	—	—	2,187
	$29,787	$15,659	$(296)	$13	$45,163

104

	Year Ended December 31, 2015				
	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial and industrial	$16,609	$ 8,139	$ —	$ —	$24,748
Securities-based loans	1,099	508	—	—	1,607
Residential real estate	787	544	(144)	54	1,241
Home equity lines of credit	267	15	—	8	290
Commercial real estate	232	(30)	—	62	264
Consumer	156	(58)	—	7	105
Construction and land	—	78	—	—	78
Qualitative	1,581	(127)	—	—	1,454
	$20,731	$ 9,069	$ (144)	$ 131	$29,787

The following table presents the unpaid principal balances of loans and amount of allowance allocated based upon impairment method by portfolio segment at December 31, 2016 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Residential real estate	$24	$ 2,636	$2,660	$178	$2,161,222	$2,161,400
Commercial and industrial	2,392	32,735	35,127	16,815	1,693,584	1,710,399
Securities-based loans	—	3,094	3,094	—	1,614,033	1,614,033
Commercial real estate	722	641	1,363	9,522	69,189	78,711
Consumer	6	123	129	6	45,385	45,391
Home equity lines of credit	231	140	371	413	14,595	15,008
Construction and land	—	232	232	—	12,623	12,623
Qualitative	—	2,187	2,187	—	—	—
	$3,375	$ 41,788	$45,163	$26,934	$5,610,631	$5,637,565

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Securities-based loans	$—	$ 1,607	$1,607	$—	$1,388,953	$1,388,953

Commercial and industrial	—	24,748	24,748	—	1,216,656	1,216,656
Residential real estate	24	1,217	1,241	182	428,950	429,132
Commercial real estate	—	264	264	—	92,623	92,623
Consumer	14	91	105	14	36,832	36,846
Home equity lines of credit	149	141	290	323	12,152	12,475
Construction and land	—	78	78	—	3,899	3,899
Qualitative	—	1,454	1,454	—	—	—
	$187	$ 29,600	$29,787	$519	$3,180,065	$3,180,584

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

There are two components of the allowance for loan losses: the inherent allowance component and the specific allowance component. The inherent allowance component of the allowance for loan losses is used to estimate the probable losses inherent in the loan portfolio and includes non-homogeneous loans that have not been identified as impaired and portfolios of smaller balance homogeneous loans. Our company maintains methodologies by loan product for calculating an allowance for loan losses that estimates the inherent losses in the loan portfolio. Qualitative and environmental factors, such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations. The

allowance for loan losses is maintained at a level reasonable to ensure that it can adequately absorb the estimated probable losses inherent in the portfolio.

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring (TDR), which have been specifically identified for impairment analysis by our company and determined to be impaired. At December 31, 2016, we had $26.9 million of non-accrual loans, net of discounts, which included $9.7 million in troubled debt restructurings, for which there was a specific allowance of $3.4 million. At December 31, 2015, we had $0.9 million of non-accrual loans, net of discounts, which included $0.2 million in troubled debt restructurings, for which there was a specific allowance of $0.2 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year ended December 31, 2016 and 2015, were insignificant to the consolidated financial statements.

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

	December 31, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	$16,815	$ —	$ 16,815	$ 16,815	$ 2,392	$ 22,559
Commercial real estate	10,503	—	9,522	9,522	722	9,080
Consumer	833	—	6	6	6	9
Home equity lines of credit	413	—	413	413	231	413
Residential real estate	178	—	178	178	24	181
Construction and land	—	—	—	—	—	—
Total	$28,742	$ —	$ 26,934	$ 26,934	$ 3,375	$ 32,242

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

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

	December 31, 2016				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Residential real estate	$1,923	$—	$1,923	$2,159,477	2,161,400
Commercial and industrial	—	—	—	1,710,399	1,710,399
Securities-based loans	—	—	—	1,614,033	1,614,033
Commercial real estate	9,522	—	9,522	69,189	78,711
Consumer	—	2	2	45,389	45,391
Home equity lines of credit	78	196	274	14,734	15,008
Construction and land	—	—	—	12,623	12,623
Total	$11,523	$198	$11,721	$5,625,844	$5,637,565

	December 31, 2016 *		
	Non-accrual	Restructured [1]	Total
Commercial and industrial	$16,815	$ —	$16,815
Commercial real estate	—	9,522	9,522
Home equity lines of credit	413	—	413
Residential real estate	—	178	178
Consumer	6	—	6
Construction and land	—	—	—
Total	$17,234	$ 9,700	$26,934

(1) On non-accrual status.

* There were no loans past due 90 days and still accruing interest at December 31, 2016.

	December 31, 2015				
	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current Balance	Total
Securities-based loans	$—	$—	$—	$1,388,953	1,388,953
Commercial and industrial	—	—	—	1,216,656	1,216,656
Residential real estate	3,310	450	3,760	425,372	429,132
Commercial real estate	—	—	—	92,623	92,623
Consumer	7	7	14	36,832	36,846
Home equity lines of credit	323	19	342	12,133	12,475
Construction and land	—	—	—	3,899	3,899
Total	$3,640	$476	$4,116	$3,176,468	$3,180,584

	December 31, 2015 *		
	Non-accrual	Restructured	Total
Commercial and industrial	$—	$ —	$—
Consumer	15	—	15
Residential real estate	380	326	706
Commercial real estate	—	—	—
Home equity lines of credit	342	—	342
Construction and land	—	—	—
Total	$737	$ 326	$1,063

* There were no loans past due 90 days and still accruing interest at December 31, 2015.

Credit quality indicators

As of December 31, 2016, bank loans were primarily extended to non-investment-grade borrowers. Substantially all of these loans align with the U.S. federal bank regulatory agencies' definition of Pass. Loans meet the definition of Pass when they are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss. A loan is determined to be impaired when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued (non-accrual status), and any accrued and unpaid interest income is reversed.

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At December 31, 2016 and 2015, 97.9 % and 97.2% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction. Our company uses the following definitions for risk ratings:

Pass. A credit exposure rated pass has a continued expectation of timely repayment, all obligations of the borrower are current, and the obligor complies with material terms and conditions of the lending agreement.

Special Mention. Extensions of credit that have potential weakness that deserve management's close attention and, if left uncorrected, may, at some future date, result in the deterioration of the repayment prospects or collateral position.

Substandard. Obligor has a well-defined weakness that jeopardizes the repayment of the debt and has a high probability of payment default with the distinct possibility that we will sustain some loss if noted deficiencies are not corrected.

Doubtful. Inherent weakness in the exposure makes the collection or repayment in full, based on existing facts, conditions, and circumstances, highly improbable, and the amount of loss is uncertain.

Doubtful loans are considered impaired. Substandard loans are regularly reviewed for impairment. When a loan is impaired, the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

Portfolio segments:

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

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

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

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

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

Based on the most recent analysis performed, the risk category of our loan portfolio was as follows: (in thousands):

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate	$2,161,223	$—	$ 177	$ —	$2,161,400
Commercial and industrial	1,652,211	27,905	30,283	—	1,710,399
Securities-based loans	1,614,033	—	—	—	1,614,033
Commercial real estate	69,189	—	9,522	—	78,711
Consumer	45,385	—	6	—	45,391
Home equity lines of credit	14,595	—	413	—	15,008
Construction and land	12,623	—	—	—	12,623
Total	$5,569,259	$27,905	$ 40,401	$ —	$5,637,565

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Securities-based loans	$1,388,939	$—	$ 14	$ —	1,388,953
Commercial and industrial	1,191,030	11,320	14,306	—	1,216,656
Residential real estate	427,950	1,182	—	—	429,132
Commercial real estate	92,623	—	—	—	92,623
Consumer	36,846	—	—	—	36,846
Home equity lines of credit	12,456	—	19	—	12,475
Construction and land	3,899	—	—	—	3,899
Total	$3,153,743	$12,502	$ 14,339	$ —	$3,180,584

NOTE 10 – Fixed Assets

The following is a summary of fixed assets as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016	December 31, 2015
Furniture and equipment	$254,705	$238,075
Building and leasehold improvements	160,369	146,954
Property on operating leases	21,064	21,064
	436,138	406,093
Less accumulated depreciation and amortization	(263,310)	(224,127)
	$172,828	$181,966

For the years ended December 31, 2016, 2015, and 2014, depreciation and amortization totaled $43.1 million, $36.7 million, and $29.3 million, respectively.

NOTE 11 – Goodwill and Intangible Assets

Our annual goodwill impairment testing was completed as of July 31, 2016, with no impairment identified.

The carrying amount of goodwill and intangible assets attributable to each of our reporting segments is presented in the following table (in thousands):

	December 31, 2015	Net Additions	Write-off	December 31, 2016
Goodwill				
Global Wealth Management	$295,384	$(24,605)	$—	$270,779
Institutional Group	620,218	73,885	(2,600)	691,503
	$915,602	$49,280	$(2,600)	$962,282

	December 31, 2015	Net Additions	Amortization	December 31, 2016
Intangible assets				
Global Wealth Management	$30,027	$21,230	$(6,026)	$45,231
Institutional Group	33,150	46,324	(8,401)	71,073
	$63,177	$67,554	$(14,427)	$116,304

The adjustments to goodwill and intangible assets during the year ended December 31, 2016, are primarily attributable to the acquisitions of ISM, which closed on May 3, 2016, Eaton Partners, which closed on January 4, 2016, and Barclays, which closed on December 4, 2015. The allocation of the purchase price for the ISM acquisition is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets as of the acquisition date and the identified intangible assets. The final goodwill recorded on the consolidated statements of financial condition may differ from the preliminary estimate reflected herein.

Goodwill for certain of our acquisitions is deductible for tax purposes. Goodwill and intangible assets were also impacted by the completion of the purchase price allocation for the Sterne Agee, Barclays, and Eaton acquisitions and the write-off of goodwill and intangibles related to certain Sterne businesses that were disposed of on July 1, 2016.

Amortizable intangible assets consist of acquired customer relationships, trade name, investment banking backlog, and non-compete agreements that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of December 31, 2016 and 2015, were as follows (in thousands):

	December 31, 2016		December 31, 2015	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Customer relationships	$141,621	$ 46,209	$78,580	$ 37,322
Trade name	24,713	8,670	24,456	6,969
Investment banking backlog	1,345	379	7,440	7,388
Non-compete agreements	2,578	813	2,517	255
	$170,257	$ 56,071	$112,993	$ 51,934

109

Amortization expense related to intangible assets was $14.4 million, $10.4 million, and $12.3 million for the years ended December 31, 2016, 2015, and 2014, respectively.

The weighted-average remaining lives of the following intangible assets at December 31, 2016, are: customer relationships, 9.5 years; trade name, 9.9 years; and non-compete agreements, 3.7 years. We have an intangible asset that is not subject to amortization and is, therefore, not included in the table below. As of December 31, 2016, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	
2017	$11,506
2018	10,873
2019	10,285
2020	10,068
2021	9,506
Thereafter	61,948
	$114,186

NOTE 12 – Borrowings and Federal Home Loan Bank Advances

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

The following table details the components of borrowings (in thousands):

	December 31,	
	2016	2015
Borrowings on secured lines of credit	$377,000	$30,000
Term loans	—	59,084
	$377,000	$89,084

Our uncommitted secured lines of credit at December 31, 2016, totaled $1.0 billion with six banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was $525.7 million during the year ended December 31, 2016. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are day-to-day and are generally utilized to finance certain fixed income securities. At December 31, 2016, our uncommitted secured lines of credit were collateralized by company-owned securities valued at $511.1 million.

Our committed bank line financing at December 31, 2016, consisted of a $100.0 million revolving credit facility. The credit facility expires in December 2017. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.00%, as defined in the revolving credit facility. At December 31, 2016, we had no advances on our revolving credit facility and were in compliance with all covenants.

The Federal Home Loan advances of $500.0 million as of December 31, 2016, are floating-rate advances. The weighted average interest rates on these advances during the year ended December 31, 2016, was 1.15%. The advances are secured by Stifel Bank's residential mortgage loan portfolio and investment portfolio. The interest rates reset on a daily basis. Stifel Bank has the option to prepay these advances without penalty on the interest reset date.

As of December 31, 2015, a subsidiary of the Parent was a party to two Term Loans ("Term Loans"). The Term Loans were paid off in July 2016.

NOTE 13 – Senior Notes

The following table summarizes our senior notes as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
4.250% senior notes, due 2024 [1]	$500,000	$300,000
3.50% senior notes, due 2020 [2]	300,000	300,000
5.375% senior notes, due 2022 [3]	—	150,000
	800,000	750,000
Debt issuance costs, net	(4,109)	(9,864)
	$795,891	$740,136

[1] In July 2014, we sold in a registered underwritten public offering, $300.0 million in aggregate principal amount of 4.250% senior notes due July 2024. Interest on these senior notes is payable semi-annually in arrears. We may redeem the notes in whole or in part, at our option, at a redemption price equal to 100% of their principal amount, plus a "make-whole" premium and accrued and unpaid interest, if any, to the date of redemption. In July 2016, we issued an additional $200.0 million in aggregate principal amount of 4.25% senior notes due 2024.

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

[3] In December 2012, we sold in a registered underwritten public offering, $150.0 million in aggregate principal amount of 5.375% senior notes due December 2022. Interest on these senior notes was payable quarterly in arrears. The notes were redeemed in August 2016.

Our senior notes mature as follows, based upon contractual terms (in thousands):

2017	$—
2018	—
2019	—
2020	300,000
2021	—
Thereafter	500,000
	$800,000

NOTE 14 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at December 31, 2016 and 2015, were as follows (in thousands):

December 31,

	2016	2015
Money market and savings accounts	$11,264,285	$6,429,780
Demand deposits (interest-bearing)	253,545	185,275
Certificates of deposit	3,901	15,087
Demand deposits (non-interest-bearing)	5,752	8,214
	$11,527,483	$6,638,356

The weighted-average interest rate on deposits was 0.09% and 0.17% at December 31, 2016 and 2015, respectively.

111

Scheduled maturities of certificates of deposit at December 31, 2016 and 2015, were as follows (in thousands):

	December 31,	
	2016	2015
Certificates of deposit, less than $100:		
Within one year	$1,213	$4,863
One to three years	855	2,356
Three to five years	—	145
Over five years	—	—
	$2,068	$7,364
Certificates of deposit, $100 and greater:		
Within one year	$877	$5,464
One to three years	956	1,975
Three to five years	—	284
Over five years	—	—
	1,833	7,723
	$3,901	$15,087

At December 31, 2016 and 2015, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel of $11.5 billion and $6.6 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of $0.5 million and $0.3 million, respectively.

NOTE 15 – Derivative Instruments and Hedging Activities

We use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our company making fixed payments. Our policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements.

The following table provides the notional values and fair values of our derivative instruments as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016		
	Asset Derivatives		
	Notional Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Topic 815:			
Cash flow interest rate contracts	$790,000	Other assets	$10,390

	December 31, 2016		
	Liability Derivatives		
	Notional Value	Balance Sheet Location	Fair Value
Cash flow interest rate contracts	$121,442	Accounts payable and accrued expenses	$1,823

	December 31, 2015		
	Asset Derivatives		
	Notional Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Topic 815:			
Cash flow interest rate contracts	$—	Other assets	$ —

112

	December 31, 2015		
	Liability Derivatives		
	Notional Value	Balance Sheet Location	Fair Value
Cash flow interest rate contracts	$179,110	Accounts payable and accrued expenses	$3,591

Cash Flow Hedges

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting floating rate debt to a fixed rate debt. The swaps have an average remaining life of 3.4 years.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense in the consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense in the consolidated statements of operations. The loss recognized during the year ended December 31, 2016, related to ineffectiveness was insignificant.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that $2.1 million will be reclassified as an increase to interest expense.

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the years ended December 31, 2016, 2015, and 2014 (in thousands):

	Year Ended December 31, 2016				
	Gain/(Loss) Recognized in OCI (Effectiveness)	Location of Loss Reclassified From OCI Into Income	Loss Reclassified From OCI Into Income	Location of Loss Recognized in OCI (Ineffectiveness)	Loss Recognized Due to Ineffectiveness
Cash flow interest rate contracts	$6,383	Interest Expense	$ 5,444	Interest Expense	$ 30

	Year Ended December 31, 2015				
	Gain/(Loss) Recognized in	Location of Loss Reclassified	Loss Reclassified From OCI	Location of Loss Recognized in	Loss Recognized Due to

	OCI (Effectiveness)	From OCI Into Income	Into Income	OCI (Ineffectiveness)	Ineffectiveness
Cash flow interest rate contracts	$(2,137)	Interest expense	$ 3,824	N/A	$ —

	Year Ended December 31, 2014				
	Gain/(Loss) Recognized in OCI (Effectiveness)	Location of Loss Reclassified From OCI Into Income	Loss Reclassified From OCI Into Income	Location of Loss Recognized in OCI (Ineffectiveness)	Loss Recognized Due to Ineffectiveness
Cash flow interest rate contracts	$(2,576)	Interest expense	$ 6,068	N/A	$ —

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 6 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We

113

minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

We have agreements with our derivative counterparties containing provisions where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We have agreements with certain of our derivative counterparties that contain provisions where if our shareholders' equity declines below a specified threshold or if we fail to maintain a specified minimum shareholders' equity, then we could be declared in default on our derivative obligations.

Certain of our agreements with our derivative counterparties contain provisions where if a specified event or condition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

Regulatory Capital-Related Contingency Features

Certain of our derivative instruments contain provisions that require us to maintain our capital adequacy requirements. If we were to lose our status as "adequately capitalized," we would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of December 31, 2016, the fair value of derivatives in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $1.8 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of $12.0 million against our obligations under these agreements. If we had breached any of these provisions at December 31, 2016, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our counterparties for interest rate swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period.

NOTE 16 – Debentures to Stifel Financial Capital Trusts

The following table summarizes our debentures to Stifel Financial Capital Trusts as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015

Debenture to Stifel Financial Capital Trust II [(1)]	$20,000	$35,000
Debenture to Stifel Financial Capital Trust III [(2)]	35,000	35,000
Debenture to Stifel Financial Capital Trust IV [(3)]	12,500	12,500
	$67,500	$82,500

(1) On August 12, 2005, we completed a private placement of $35.0 million of 6.38% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust II (the “Trust II”), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 30, 2035, but may be redeemed by our company, and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions are payable at a floating interest rate equal to three-month LIBOR plus 1.70% per annum. During 2016, we extinguished $15.0 million of the Trust II debentures.

(2) On March 30, 2007, we completed a private placement of $35.0 million of 6.79% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust III (the “Trust III”), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on June 6, 2037, but may be redeemed by our company, and in turn, Trust III would call the debenture beginning June 6, 2012. Trust III requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions are payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

(3) On June 28, 2007, we completed a private placement of $35.0 million of 6.78% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust IV (the “Trust IV”), a non-consolidated wholly owned

subsidiary of our company. The trust preferred securities mature on September 6, 2037, but may be redeemed by our company, and in turn, Trust IV would call the debenture beginning September 6, 2012. Trust IV requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions are payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

NOTE 17 – Disclosures About Offsetting Assets and Liabilities

The following table provides information about financial assets and derivative assets that are subject to offset as of December 31, 2016 and 2015 (in thousands):

				Gross amounts not offset in the Statement of Financial Condition		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Amounts available for offset	Available collateral	Net Amount
As of December 31, 2016:						
Securities borrowing [1]	$ 382,691	$ —	$ 382,691	$ (291,793)	$ (68,776)	$ 22,122
Reverse repurchase agreements [2]	248,588	—	248,588	(216,542)	(32,046)	—
Cash flow interest rate contracts	10,390	—	10,390	—	—	10,390
	$ 641,669	$ —	$ 641,669	$ (508,335)	$ (100,822)	$ 32,512
As of December 31, 2015:						
Securities borrowing [1]	$ 318,105	$ —	$ 318,105	$ (182,399)	$ (123,309)	$ 12,397
Reverse repurchase agreements [2]	160,423	—	160,423	(160,423)	—	—
	$ 478,528	$ —	$ 478,528	$ (342,822)	$ (123,309)	$ 12,397

(1) Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 5 in the notes to consolidated financial statements for additional information on receivables from brokers, dealers, and clearing organizations.

(2) Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default. The fair value of securities pledged as collateral was $248.5 million and $160.3 million at December 31, 2016 and 2015, respectively.

The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of December 31, 2016 and 2015 (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Gross amounts not offset in the Statement of Financial Condition		
				Amounts available for offset	Collateral Pledged	Net Amount
As of December 31, 2016:						
Securities lending [3]	$ (478,814)	$ —	$ (478,814)	$ 291,793	$ 175,849	$ (11,172)
Repurchase agreements [4]	(268,546)	—	(268,546)	216,542	52,004	—
Cash flow interest rate contracts	(1,823)	—	(1,823)	—	1,823	—
	$ (749,183)	$ —	$ (749,183)	$ 508,335	$ 229,676	$ (11,172)
As of December 31, 2015:						
Securities lending [3]	$ (329,670)	$ —	$ (329,670)	$ 182,399	$ 132,784	$ (14,487)
Repurchase agreements [4]	(278,674)	—	(278,674)	160,423	118,251	—
Cash flow interest rate contracts	(3,591)	—	(3,591)	—	3,591	—
	$ (611,935)	$ —	$ (611,935)	$ 342,822	$ 254,626	$ (14,487)

115

(3) Securities lending transactions are included in payables to brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 5 in the notes to consolidated financial statements for additional information on payables to brokers, dealers, and clearing organizations.

(4) Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included on the consolidated statements of financial condition unless we default. Collateral pledged by our company to the counter party includes U.S. government agency securities, U.S. government securities, and corporate fixed income securities with market values of $299.3 million and $285.7 million at December 31, 2016 and 2015, respectively.

NOTE 18 – Commitments, Guarantees, and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at December 31, 2016, had no material effect on the consolidated financial statements.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our liability under these agreements is not quantifiable and may exceed the cash and securities we have posted as collateral. However, the potential requirement for us to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 23 in the notes to consolidated financial statements for further details.

We have committed capital to certain entities, and these commitments generally have no specified call dates. We had $12.4 million of commitments outstanding at December 31, 2016, of which $8.5 million relate to commitments to certain strategic relationships with Business Development Corporations.

Concentration of Credit Risk

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of December 31, 2016 and 2015, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Operating Leases

Future minimum commitments under non-cancelable operating leases at December 31, 2016, are as follows (in thousands):

2017	$91,214
2018	83,599
2019	78,407
2020	64,331
2021	47,411
Thereafter	153,446
	$518,408

Certain leases contain provisions for renewal options and escalation clauses based on increases in certain costs incurred by the lessor. We amortize office lease incentives and rent escalation on a straight-line basis over the life of the lease. Rent expense for the years ended December 31, 2016, 2015, and 2014, was $108.7 million, $93.6 million, and $78.6 million, net of sublease income.

NOTE 19 – Legal Proceedings

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in

116

adverse judgments, settlements, fines, penalties, injunctions, and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations, and regulatory investigations. In view of the number and diversity of claims against our company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be.

We have established reserves for potential losses that are probable and reasonably estimable in connection with pending and potential legal actions, investigations, and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or reasonably possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss is reasonably estimable.

In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, including the matters described below, the ultimate resolution of these matters will not have a material adverse impact on our financial position and results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, based on currently available information, we believe that such losses will not have a material effect on our consolidated financial statements. Our results of operations and financial condition for the year ended December 31, 2016 reflect both: (1) a provision for income taxes of $8.9 million as a result of the non-deductibility of a portion of the previously disclosed settlement with the SEC; and (2) an increase in our legal reserves by $31.8 million for previously disclosed legal matters.

SEC/Wisconsin Lawsuit

A civil lawsuit was filed against our company by the SEC in connection with our role in the sale of collateralized debt obligations ("CDOs") investments to five Southeastern Wisconsin school districts (the "school districts") in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The SEC asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2), and 17a(3) of the Securities Act. The claims were based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs.

During the fourth quarter of 2016, a settlement among the parties was approved by the Commission that resulted in the court entering a final judgment on December 6, 2016, pursuant to which Stifel was enjoined from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and ordering civil penalties, disgorgement, and prejudgment interest of approximately $24.5 million.

EDC Bond Issuance Matter

We were named, along with other parties, in a lawsuit filed in Wisconsin state court asserting various claims by LDF Acquisition LLC ("LDF"), a special purpose vehicle created by Saybrook Tax Exempt Investors LLC (collectively "Saybrook") in which, among other things, Saybrook sought repayment from the Lac Du Flambeau Band of Lake Superior Chippewa Indians and its Lake of the Torches Economic Development Corporation (the "Tribal Parties"), two different law firms and Stifel and Stifel Financial Corp. (together with Stifel, the "Stifel Parties") for the proceeds from a $50.0 million 2008 bond offering ("the Bonds") in which the Tribal Parties issued the Bonds, the two law firms advised the Tribal Parties and Saybrook, respectively, and Stifel acted as the initial purchaser. The various parties to this lawsuit asserted numerous claims, cross claims, and counter claims against each other. In late December, 2016, the court ruled that Stifel had provided implied warranties to Saybrook in connection with the bond offering.

A jury trial commenced on January 30, 2017 and in early February 2017, Saybrook, the Tribal Parties and the Stifel Parties reached a settlement among themselves. Shortly thereafter, Saybrook, the Tribal Parties, and the Stifel Parties reached a settlement with the law firm parties, which resolved all outstanding litigation related to this matter.

Broyles, et al. v. Cantor Fitzgerald & Co. et al. Matter

In December 2013, Stone & Youngberg, LLC ("Stone & Youngberg") was named in an Amended Complaint filed in U.S. District Court for the Middle District of Louisiana alleging fraud on the part of Stone & Youngberg in connection with the 2007 formation of the Collybus CDO, which was manufactured by Cantor Fitzgerald & Co. ("Cantor") and purchased by Commonwealth Advisors ("CA") on behalf of several CA funds, as well as in connection with, among other things, Stone & Youngberg's facilitation of subsequent trades of Collybus CDO securities by CA on behalf of the CA funds during 2007 and 2008. In the Amended Complaint, plaintiffs allege that they lost over $200.0 million during the financial crisis through mismanagement of the CA funds.

In addition to the claims asserted against Stone & Youngberg, the Amended Complaint seeks to hold our company and Stifel liable for Stone & Youngberg's alleged wrongdoing under theories of successor and alter ego liability, arising out of our company's purchase of the membership interests of Stone & Youngberg in 2011 and the subsequent operation of that business.

The original Complaint named Cantor, CA, and CA's CEO, Walter Morales. The CA funds filed a Chapter 11 bankruptcy petition which stayed the original lawsuit until the reorganization plan was entered by the court in the fall of 2013. Shortly thereafter, the CA funds filed their first Amended Complaint, which is the first complaint that asserted claims against Stone & Youngberg, our company or Stifel. The action is now proceeding under a Fourth Amended Complaint. On September 29, 2016, the court postponed the trial for an extended, but undefined, period to consider various motions and other matters that will impact, among other things, the ultimate trial date and the issues to be tried. While there can be no assurance of success, Stone & Youngberg intends to vigorously defend the claims against it, and our company and Stifel intend to vigorously defend the claims seeking to hold us responsible for Stone & Youngberg's alleged liability.

NOTE 20 – Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of $1.0 million or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). Our other broker-dealer subsidiaries calculate their net capital under the aggregate indebtedness method, whereby their aggregate indebtedness may not be greater than fifteen times their net capital (as defined).

At December 31, 2016, Stifel had net capital of $228.8 million, which was 15.3% of aggregate debit items and $198.8 million in excess of its minimum required net capital. At December 31, 2016, all of our other broker-dealer subsidiaries' net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries are subject to the regulatory supervision and requirements of the Financial Conduct Authority ("FCA") in the United Kingdom. At December 31, 2016, our international subsidiaries' capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Effective January 1, 2015, our company and Stifel Bank became subject to Basel III. Under the Basel III rules, the quantity and quality of regulatory capital increases, a capital conservation buffer was established, selected changes were made to the calculation of risk-weighted assets, and a new ratio, common equity Tier 1 was introduced, all of which are applicable to both our company and Stifel Bank. Various aspects of Basel III will be subject to multi-year transition periods through December 31, 2018.

Our company and Stifel Bank are required to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Tier 1 capital to average assets (as defined), and under

rules defined in Basel III, Common equity Tier 1 capital to risk-weighted assets. Our company and Stifel Bank each calculate these ratios in order to assess compliance with both regulatory requirements and their internal capital policies. At current capital levels, our company and Stifel Bank are each categorized as "well capitalized" under the regulatory framework for prompt corrective action.

To be categorized as "well capitalized," our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the tables below (in thousands, except ratios).

Stifel Financial Corp. – Federal Reserve Capital Amounts

December 31, 2016

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Common equity tier 1 capital	$1,610,744	18.0 %	$402,644	4.5 %	$581,597	6.5 %
Tier 1 capital	1,813,556	20.3	536,859	6.0	715,812	8.0
Total capital	1,858,737	20.8	715,812	8.0	894,765	10.0
Tier 1 leverage	1,813,556	10.2	710,464	4.0	888,080	5.0

118

Stifel Bank – Federal Reserve Capital Amounts

December 31, 2016

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Common equity tier 1 capital	$945,748	16.0 %	$265,306	4.5 %	$383,220	6.5 %
Tier 1 capital	945,748	16.0	353,742	6.0	471,656	8.0
Total capital	991,668	16.8	471,656	8.0	589,570	10.0
Tier 1 leverage	945,748	7.1	534,215	4.0	667,768	5.0

NOTE 21 – Interest Income and Interest Expense

The components of interest income and interest expense are as follows (in thousands):

	Year Ended December 31, 2016	2015	2014
Interest income:			
Bank loans, net of unearned income	$131,808	$79,816	$71,167
Investment securities	108,992	53,787	71,526
Margin balances	32,147	22,421	19,095
Other	21,385	23,077	24,181
	$294,332	$179,101	$185,969
Interest expense:			
Senior notes	$36,845	$25,695	$26,617
Bank deposits	7,331	7,262	7,845
Federal Home Loan Bank advances	6,777	551	81
Other	15,921	11,891	6,718
	$66,874	$45,399	$41,261

NOTE 22 – Employee Incentive, Deferred Compensation, and Retirement Plans

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance award, stock units, and debentures to our employees. We are permitted to issue new shares under all stock award plans approved by shareholders or to reissue our treasury shares. Awards under our company’s incentive stock award plans are granted at market value at the date of grant. The awards generally vest

ratably over a one- to eight-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 6.0 million shares at December 31, 2016.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was $190.1 million, $142.1 million, and $111.6 million for the years ended December 31, 2016, 2015, and 2014, respectively. The tax provision related to stock-based compensation recognized in shareholders' equity was $4.9 million for the year ended December 31, 2016, and a benefit of $14.7 million and $19.9 million for the years ended December 31, 2015 and 2014, respectively.

During 2016, the Company's Board of Directors removed the continuing service requirements associated with restricted stock units that were granted to certain employees of Barclays in December 2015. As a result of the modification, the awards were expensed at date of modification, resulting in a charge of $58.6 million during 2016. The fair value of the awards is based upon the closing price of our company's common stock on the date of the grant of the awards. These charges are included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2016.

On June 5, 2015, certain employees were granted restricted stock units of our company as retention. The fair value of the awards issued as retention was $23.8 million. The fair value of the awards is based upon the closing price of our company's common stock on the date of grant. There are no continuing service requirements associated with these restricted stock units, and accordingly, they were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statements of operations for the year ended December 31, 2015.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the year ended December 31, 2016, no options were granted.

A summary of option activity under the plans as of December 31, 2016, and changes during the year then ended is presented below (in thousands, except exercise price and contractual terms):

	Options	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding December 31, 2015	86	$ 38.69		
Granted	—	—		
Exercised	31	17.37		
Forfeited	—	—		
Expired	41	54.54		
Outstanding December 31, 2016	14	$ 39.15	1.22	$ 246

At December 31, 2016, all outstanding options were exercisable. The total intrinsic value of options exercised during the years ended December 31, 2016 and 2015 were not material. The total intrinsic value of options exercised during the year ended December 31, 2014, was $1.6 million. Cash proceeds from the exercise of stock options were not material for the year ended December 31, 2016 and 2015. Cash proceeds were $0.3 million for the year ended December 31, 2014. Tax benefits realized from the exercise of stock options for the years ended December 31, 2016, 2015, and 2014, were $0.1 million, $0.6 million, and $0.5 million, respectively.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next one to eight years and are distributable, if vested, at future specified dates. Our company began granting Performance-based Restricted Stock Units (“PRSUs”) to its executive officers in 2016. Under the terms of the grants, the number of PRSUs that will vest and convert to shares will be based on our company's achievement of the pre-determined performance objectives during the performance period. The PRSUs will be measured over a four-year performance period and vested over a five-year period. The number of shares converted has the potential to range from 0% to 200% based on how our company performs during the performance period. Compensation expense is amortized on a straight-line basis over the service period based on the fair value of the award on the grant date. The Company’s pre-determined performance objectives must be met for the awards to vest. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense. At December 31, 2016, the total number of stock units outstanding was 21.8 million, of which 16.3 million were unvested. At December 31, 2016, the total number of PRSU’s was 0.5 million, of which all were unvested.

A summary of unvested stock unit activity under the plans as of December 31, 2015, and changes during the year then ended is presented below (in thousands, except weighted-average fair value):

	Stock Units	Weighted-average grant date fair value
Unvested December 31, 2015	12,274	$ 41.78
Granted	7,947	35.97
Vested	(3,368)	39.83
Cancelled	(577)	38.00
Unvested December 31, 2016	16,276	$ 39.40

At December 31, 2016, there was unrecognized compensation cost for stock units of approximately $379.1 million, which is expected to be recognized over a weighted-average period of 3.2 years. The fair value of stock units that vested during the year ended December 31, 2016, was $134.1 million.

Deferred Compensation Plans

The Wealth Accumulation Plan (the “Plan”) is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units and debentures. Participants may elect to defer a portion of their incentive compensation. Deferred awards generally vest over a one- to eight-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested.

Additionally, the Plan allows Stifel financial advisors who achieve certain levels of production the option to defer a certain percentage of their gross commissions. As stipulated by the Plan, the financial advisors will defer 4% of their gross commissions. They have the option to: 1) defer 5% of their gross commissions into company stock units and may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution, or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of $11.3 million and $15.5 million at December 31, 2016 and 2015, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At December 31, 2016 and 2015, the deferred compensation liability related to the mutual fund option of $8.6 million and $12.4 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

Employee Profit Sharing Plan

Eligible employees of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the “Plan”). Employees are permitted within limitations imposed by tax law to make pre-tax contributions to the Plan. We may match certain employee contributions or make additional contributions to the Plan at our discretion. Our contributions to the Profit Sharing Plan were $6.5 million, $7.7 million, and $4.9 million for the years ended December 31, 2016, 2015, and 2014, respectively.

NOTE 23 – Off-Balance Sheet Credit Risk

In the normal course of business, we execute, settle, and finance customer and proprietary securities transactions. These activities expose our company to off-balance sheet risk in the event that customers or other parties fail to satisfy their obligations.

In accordance with industry practice, securities transactions generally settle within three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, we may be required to purchase or sell securities at unfavorable market prices.

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis, utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties’ positions, and where deemed necessary, we may require a deposit of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

We manage our risks associated with the aforementioned transactions through position and credit limits and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2016 and 2015, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $2.5 billion and $2.4 billion, respectively, and the fair value of the collateral that had been sold or repledged was $268.5 million and $278.7 million, respectively.

We enter into interest rate derivative contracts to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are principally used to manage differences in the amount, timing, and duration of our known or expected cash payments related to certain variable-rate affiliated deposits. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments. Our interest rate hedging strategies may not work in all market environments and, as a result, may not be effective in mitigating interest rate risk.

Derivatives’ notional contract amounts are not reflected as assets or liabilities in the consolidated statements of financial condition. Rather, the market or fair value of the derivative transactions are reported in the consolidated statements of financial condition as other assets or accounts payable and accrued expenses, as applicable.

For a complete discussion of our activities related to derivative instruments, see Note 15 in the notes to consolidated financial statements.

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit, and lines of credit. Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established by the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At December 31, 2016 and 2015, Stifel Bank had outstanding commitments to originate loans aggregating $205.8 million and $130.5 million, respectively. The commitments extended over varying periods of time, with all commitments at December 31, 2016, scheduled to be disbursed in the following three months.

Through Stifel Bank, in the normal course of business, we originate residential mortgage loans and sell them to investors. We may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that were sold to investors in the event that there was inadequate underwriting or fraud, or in the event that the loans become delinquent shortly after they are originated. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At December 31, 2016 and 2015, Stifel Bank had outstanding letters of credit totaling $88.9 million and $38.7 million, respectively. A majority of the standby letters of credit commitments at December 31, 2016, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2016 and 2015, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating $492.5 million and $403.2 million, respectively.

NOTE 24 – Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014

Current taxes:			
Federal	$7,927	$43,962	$100,262
State	5,818	9,672	21,835
Foreign	1,255	1,329	(1,831)
	15,000	54,963	120,266
Deferred taxes:			
Federal	39,127	(9,396)	(275)
State	6,261	3,056	(8,064)
Foreign	674	608	(263)
	46,062	(5,732)	(8,602)
Provision for income taxes	$61,062	$49,231	$111,664

122

Reconciliation of the statutory federal income tax rate with our company's effective income tax rate is as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Statutory rate	$49,904	$49,548	$101,778
State income taxes, net of federal income tax	7,688	7,908	14,860
Change in valuation allowance	(229)	535	(2,433)
Provision to return	(204)	904	(2,956)
Investment in subsidiary	—	(4,800)	—
Change in uncertain tax position	41	(3,903)	276
Non-deductible litigation expense	7,700	—	—
Foreign tax rate difference	(1,810)	(106)	90
Other, net	(2,028)	(855)	49
	$61,062	$49,231	$111,664

Tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities (in thousands):

	December 31,	
	2016	2015
Deferred tax assets:		
Deferred compensation	$181,575	$173,759
Net operating loss carryforwards	40,266	48,831
Accrued expenses	35,443	65,451
Unrealized loss on investments	—	27,769
Depreciation	12,550	10,055
Receivable reserves	22,870	16,343
Total deferred tax assets	292,704	342,208
Valuation allowance	(8,768)	(12,738)
	283,936	329,470
Deferred tax liabilities:		
Goodwill and other intangibles	(49,481)	(33,437)
Change in accounting method	—	(625)
Prepaid expenses	(4,557)	(4,211)
Unrealized gain on investments	(1,459)	—
Other	(2,986)	(6,070)
	(58,483)	(44,343)
Net deferred tax asset	$225,453	$285,127

Our net deferred tax asset at December 31, 2016, includes net operating loss carryforwards of $312.2 million that expire between 2020 and 2035. Certain of our net operating loss carryforwards do not expire. A valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The valuation allowance was decreased by $4.0 million as an inactive foreign entity was formally dissolved. We believe the realization of the remaining net deferred tax asset of $225.5 million is more likely than not based on the ability to carry back losses against prior year taxable income and expectations of future taxable income.

The current tax payable, included in accounts payable and accrued expenses, is a payable of $16.0 million and a receivable of $1.0 million as of December 31, 2016 and 2015, respectively.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of our foreign subsidiaries that are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible. If management’s intentions or U.S. tax laws change in the future, there may be a significant impact on the provision for income taxes to record a change in the tax liability in the period the change occurs.

Uncertain Tax Positions

As of December 31, 2016 and 2015, we had $1.8 million and $2.7 million, respectively, of gross unrecognized tax benefits, all of which, if recognized, would impact the effective tax rate. We recognize interest and penalties related to uncertain tax positions in provision for income taxes in the consolidated statements of operations. As of December 31, 2016 and 2015, we had accrued interest and penalties of $0.7 million and $0.8 million, respectively, before benefit of federal tax deduction, included in accounts payable and

accrued expenses on our consolidated statements of financial condition. The amount of interest and penalties recognized on our consolidated statements of operations for the years ended December 31, 2016, 2015, and 2014, was not significant.

The following table summarizes the activity related to our company's unrecognized tax benefits from January 1, 2014 to December 31, 2016 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	$2,717	$5,510	$5,158
Increase related to prior year tax positions	5	1,206	627
Decrease related to prior year tax positions	(31)	(33)	(443)
Increase related to current year tax positions	—	—	294
Decrease related to settlements with taxing authorities	(42)	(4,815)	(126)
Decrease related to lapsing of statute of limitations	—	—	—
Increase/(decrease) related to business acquisitions	(849)	849	—
Ending balance	$1,800	$2,717	$5,510

We file income tax returns with the U.S. federal jurisdiction, various states, and certain foreign jurisdictions. We are not subject to U.S. federal examination for taxable years before 2012. We are not subject to certain state and local, or non-U.S. income tax examinations for taxable years before 2008.

There is a reasonable possibility that the unrecognized tax benefits will change within the next 12 months as a result of the expiration of various statutes of limitations or for the resolution of U.S. federal and state examinations, but we do not expect this change to be material to the consolidated financial statements.

NOTE 25 – Segment Reporting

We currently operate through the following three reporting segments: Global Wealth Management, Institutional Group, and various corporate activities combined in the Other segment.

Our Global Wealth Management segment consists of two operating segments, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their clients through Stifel Bank. Stifel Bank segment provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our private client group and to the general public.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions, with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, compensation expense associated with the expensing of restricted

stock awards with no continuing service requirements in conjunction with recent acquisitions, amortization of stock-based awards for certain administrative employees, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration and acquisition charges.

124

Information concerning operations in these segments of business for the years ended December 31, 2016, 2015, and 2014, is as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Net revenues: [1]			
Global Wealth Management	$1,563,410	$1,377,313	$1,232,651
Institutional Group	1,014,164	975,594	997,071
Other	(2,078)	(21,313)	(21,298)
	$2,575,496	$2,331,594	$2,208,424
Income/(loss) before income taxes:			
Global Wealth Management	$430,318	$382,126	$346,978
Institutional Group	164,143	141,042	165,546
Other	(451,879)	(381,601)	(221,730)
	$142,582	$141,567	$290,794

[1] No individual client accounted for more than 10 percent of total net revenues for the years ended December 31, 2016, 2015, and 2014.

The following table presents our company's total assets on a segment basis at December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
Global Wealth Management	$16,065,503	$10,519,575
Institutional Group	2,657,183	2,193,781
Other	406,670	612,695
	$19,129,356	$13,326,051

We have operations in the United States, United Kingdom, and Europe. Our company's foreign operations are conducted through its wholly owned subsidiary, SNEL. Substantially all long-lived assets are located in the United States.

Revenues, classified by the major geographic areas in which they were earned for the years ended December 31, 2016, 2015, and 2014, were as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
United States	$2,433,674	$2,195,538	$2,082,876
United Kingdom	132,622	125,552	113,943
Other European	9,200	10,504	11,605
	$2,575,496	$2,331,594	$2,208,424

NOTE 26 – Earnings Per Share ("EPS")

Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted earnings per share include dilutive stock options and stock units

under the treasury stock method.

125

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2016, 2015, and 2014 (in thousands, except per share data):

	Year Ended December 31,		
	2016	2015	2014
Income from continuing operations	$81,520	$92,336	$179,130
Loss from discontinued operations, net of tax	—	—	(3,063)
Net income	81,520	92,336	176,067
Preferred dividends	3,906	—	—
Net income available to common shareholders	$77,614	$92,336	$176,067
Shares for basic and diluted calculation:			
Average shares used in basic computation	66,871	68,543	66,472
Dilutive effect of stock options and units [(1)]	10,692	10,011	9,904
Average shares used in diluted computation	77,563	78,554	76,376
Earnings per basic common share:			
Income from continuing operations	$1.16	$1.35	$2.69
Loss from discontinued operations	—	—	(0.04)
Earnings per basic common share	$1.16	$1.35	$2.65
Earnings per diluted common share:			
Income from continuing operations	$1.00	$1.18	$2.35
Loss from discontinued operations	—	—	(0.04)
Earnings per basic common share	$1.00	$1.18	$2.31

(1) Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

For the years ended December 31, 2016, 2015, and 2014, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 27 – Shareholders' Equity

Share Repurchase Program

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At December 31, 2016, the maximum number of shares that may yet be purchased under this plan was 7.4 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the year ended December 31, 2016, we repurchased $113.5 million or 3.4 million shares using existing Board authorization at an average price of $33.22 per share to meet obligations under our company's employee benefit plans and for general corporate purposes. During the year ended December 31, 2015, we repurchased $117.7 million or 2.7 million shares using existing Board authorization at an average price of $43.91 per share to meet obligations under our company's employee benefit plans and for general corporate purposes.

Issuance of Common Stock from Treasury

During the year ended December 31, 2016, we issued 0.3 million shares of common stock from treasury, in aggregate, as part of the purchase consideration for our acquisitions of Eaton Partners, which closed on January 4, 2016, and ISM, which closed on May 3, 2016.

Share issuances out of treasury during the year ended December 31, 2016, was primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration for various acquisitions.

Issuance of Common Stock

On June 5, 2015, we issued 1.4 million shares related to the purchase of Sterne Agee Group, Inc. See Note 3 in the notes to consolidated financial statements for additional information regarding the acquisition.

Share issuances during the years ended December 31, 2015 and 2014, were primarily a result of the vesting and exercise transactions under our incentive stock award plans and shares issued as part of the purchase consideration for various acquisitions.

Issuance of Preferred Stock

On July, 11, 2016, our company issued $150.0 million of perpetual 6.25% Non-Cumulative Perpetual Preferred Stock, Series A, $1.00 par value, with a liquidation preference of $25,000 per share (equivalent to $25 liquidation preference per depositary share).

When, as, and if declared by the board of directors of the company, dividends will be payable at an annual rate of 6.25%, payable quarterly, in arrears. We may redeem the Series A preferred stock at our option, subject to regulatory approval, on or after July 15, 2021, or following a regulatory capital treatment event, as defined.

NOTE 28 – Variable Interest Entities

Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts, and our issuance of a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of $167.1 million at December 31, 2016. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the years ended December 31, 2016, 2015, and 2014. In addition, our direct investment interest in these entities is insignificant at December 31, 2016 and 2015.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of $316.1 million at December 31, 2016. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is insignificant at December 31, 2016. Management fee revenue earned by our company was insignificant during the years ended December 31, 2016, 2015, and 2014.

For the entities noted above that were determined to be VIEs, we have concluded that we are not the primary beneficiary, and therefore, we are not required to consolidate these entities. Additionally, for certain other entities, we reviewed other relevant accounting guidance, which states the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either: (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause, or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria are not met, the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation.

Debenture to Stifel Financial Capital Trusts

We have completed private placements of cumulative trust preferred securities through Stifel Financial Capital Trust II, Stifel Financial Capital Trust III, and Stifel Financial Capital Trust IV (collectively, the "Trusts"). The Trusts are non-consolidated wholly owned business trust subsidiaries of our company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to our company.

The trust preferred securities represent an indirect interest in junior subordinated debentures purchased from our company by the Trusts, and we effectively provide for the full and unconditional guarantee of the securities issued by the Trusts. We make timely payments of interest to the Trusts as required by contractual obligations, which are sufficient to cover payments due on the securities issued by the Trusts, and believe that it is unlikely that any circumstances would occur that would make it necessary for our company to make payments related to these Trusts other than those required under the terms of the debenture agreements and the trust preferred securities agreements. The Trusts were determined to be VIEs because the holders of the equity investment at risk do not have adequate decision-making ability over the Trust's activities. Our investment in the Trusts is not a variable interest, because equity interests are variable interests only to the extent that the investment is considered to be at risk. Because our investment was funded by the Trusts, it is not considered to be at risk.

Interest in FSI Group, LLC ("FSI")

We have provided financing of $18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. In February 2013, the convertible promissory note was amended and restated. The convertible promissory note matures in April 2018; however, FSI has three five-year

extension options. The note is convertible at our election into a 49.9% interest in FSI only after the last extension option. The convertible promissory note has a minimum coupon rate equal to 8% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not required to consolidate this entity.

Our company’s exposure to loss is limited to the carrying value of the note with FSI at December 31, 2016, of $18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at December 31, 2016. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of December 31, 2016. Our company’s involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 29 – Subsequent Events

We evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

NOTE 30 – Quarterly Financial Information (Unaudited)

	Year Ended December 31, 2016			
(in thousands, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating revenues	$571,299	$603,627	$586,488	$586,665
Interest income	62,786	65,780	74,881	90,844
Total revenues	634,085	669,407	661,369	677,509
Interest expense	14,111	17,262	19,383	16,118
Net revenues	619,974	652,145	641,986	661,391
Total non-interest expenses	576,061	636,352	614,004	606,497
Income before income tax expense	43,913	15,793	27,982	54,894
Provision for income taxes	16,858	6,022	10,168	28,014
Net income	27,055	9,771	17,814	26,880
Preferred dividends	—	—	1,563	2,343
Net income available to common shareholders	$27,055	$9,771	$16,251	$24,537
Earnings per common share				
Basic	$0.40	$0.15	$0.24	$0.37
Diluted	$0.36	$0.13	$0.21	$0.31
Weighted-average number of common shares outstanding:				
Basic	67,579	66,792	66,482	66,636

Diluted	76,086	75,982	77,544	79,539

	Year Ended December 31, 2015			
(in thousands, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating revenues	$531,265	$563,998	$557,995	$545,132
Interest income	42,736	43,851	43,376	48,639
Total revenues	574,001	607,849	601,371	593,771
Interest expense	13,019	10,098	9,796	12,485
Net revenues	560,982	597,751	591,575	581,286
Total non-interest expenses	490,916	559,680	569,227	570,204
Income before income tax expense	70,066	38,071	22,348	11,082
Provision for income taxes	26,969	17,183	5,169	(90)
Net income	$43,097	$20,888	$17,179	$11,172
Earnings per common share				
Basic	$0.62	$0.31	$0.25	$0.16
Diluted	$0.56	$0.27	$0.22	$0.14
Weighted-average number of common shares outstanding:				
Basic	68,006	68,370	69,633	68,150
Diluted	77,359	77,856	79,759	79,355

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by the management of Stifel Financial Corp., with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Stifel Financial Corp., together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. Our company's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has assessed the effectiveness of our company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013).

Based on management's assessment and those criteria, we conclude that, as of December 31, 2016, our company's internal control over financial reporting is effective.

Our internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of our company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our company's assets that could have a material effect on our consolidated financial statements.

Our company's internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on the following page, which expresses an unqualified opinion on the effectiveness of our company's internal control over financial reporting as of December 31, 2016.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Stifel Financial Corp.

We have audited Stifel Financial Corp.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Stifel Financial Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stifel Financial Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Stifel Financial Corp. as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and our report dated February 23, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 23, 2017

131

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information regarding our Board of Directors and committees, our Corporate Governance, compliance with Section 16(a) of the Securities Exchange Act of 1934, and procedures by which shareholders may recommend nominees to our Board of Directors is contained in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

Information regarding the executive officers is contained in Part 1, Item 1, “Executive Officers of the Registrant,” hereof. There is no family relationship between any of the directors or named executive officers.

Under Section 303A.12 (a) NYSE Listed Company Manual, the CEO certification was submitted to the NYSE after the 2016 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of certain executive officers and directors (“Executive Compensation”), as well as “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” is contained in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities authorized for issuance under equity compensation plans

The following table provides information as of December 31, 2016, with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options and units	Weighted-average exercise price of outstanding options and units	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by the shareholders	21,766,757	$ 39.14	5,998,308
Equity compensation plans not approved by the shareholders	—	—	—
	21,766,757	$ 39.14	5,998,308

As of December 31, 2016, the total number of securities to be issued upon exercise of options and units consisted of 14,315 options and 21,752,442 units, for a total of 21,766,757 shares. Those shares are issuable pursuant to the Stifel

Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), the 2007 Incentive Stock Plan, and the Equity Incentive Plan for Non-Employee Directors.

As of December 31, 2016, the remaining shares available for future grants or awards under equity compensation plans approved by the shareholders consist of 5,864,513 shares under the 2001 Incentive Stock Plan (2011 Restatement) and 133,795 shares under the Equity Incentive Plan for Non-Employee Directors, for a total of 5,998,308 shares.

The number of securities remaining available for future issuance under equity compensation plans reflects an adjustment to outstanding awards granted under the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement) to net shares withheld in payment of tax withholding obligations, due to a recent determination by the Compensation Committee to satisfy tax withholding obligations through the cancellation of shares subject to an award.

If an outstanding award granted under the 2001 Incentive Stock Plan (2011 Restatement) expires or is canceled or forfeited without having been exercised in full, the number of shares underlying such unexercised award will again become available for issuance.

Additional information with respect to this Item, including information regarding security ownership of certain beneficial owners and management, is contained in “Ownership of Certain Beneficial Owners” and “Ownership of Directors, Nominees, and Executive Officers,” included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

Security ownership of certain beneficial owners

Information regarding security ownership of certain beneficial owners is contained in “Ownership of Certain Beneficial Owners,” included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

133

Security ownership of management

Information regarding security ownership of certain beneficial owners and management is contained in “Ownership of Directors, Nominees, and Executive Officers,” included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is contained in “Certain Relationships and Related Transactions,” and “Director Independence” included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is contained in “Ratification of Appointment of Independent Registered Public Accounting Firm,” included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after our fiscal year-end, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements are included in Item 8, "Financial Statements and Supplementary Data," and incorporated by reference hereto:

	Page
Report of Independent Registered Public Accounting Firm	70
Consolidated Financial Statements:	
Statements of Financial Condition as of December 31, 2016 and 2015	71
Statements of Operations for the years ended December 31, 2016, 2015, and 2014	73
Statements of Comprehensive Income for the years ended December 31, 2016, 2015, and 2014	74
Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015, and 2014	75
Statements of Cash Flows for the years ended December 31, 2016, 2015, and 2014	77
Notes to the Consolidated Financial Statements	80

2. Financial Statement Schedules

All schedules are omitted, since the required information is either not applicable, not deemed material, or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits

A list of the exhibits to this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

EXHIBIT INDEX

STIFEL FINANCIAL CORP.
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2016

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended, filed with the Secretary of State of Delaware on June 3, 2009, incorporated herein by reference to Exhibit 4.1 to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-160523) filed on July 10, 2009.
3.2	Amended and Restated By-Laws of Stifel Financial Corp., effective August 7, 2012, incorporated by reference so Exhibit 3.2 to Stifel Financial Corp.'s Current Report on Form 8-K filed August 10, 2012.
3.3	Certificate of Designations, Preferences, and Rights of the Special Voting Preferred Stock, incorporated herein by reference to Exhibit 3.1 to Stifel Financial Corp.'s Current Report on Form 8-K filed on July 1, 2010.
10.1	Form of Indemnification Agreement with directors dated as of June 30, 1987, incorporated herein by reference to Exhibit 10.2 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported – June 22, 1987) filed July 14, 1987.
10.2	Stifel Financial Corp. Dividend Reinvestment and Stock Purchase Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-3 (Registration File No. 33-53699) filed May 18, 1994.
3(a)	Employment Letter with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(l) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1997.*
3(b)	Employment Agreement with Richard Himelfarb dated September 6, 2005, incorporated herein by reference to Exhibit 10.(p) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *
3(c)	Employment Agreement with Thomas Mulroy dated September 7, 2005, incorporated herein by reference to Exhibit 10.(q) to Stifel Financial Corp.'s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, filed on January 26, 2007. *
3(d)	Employment Agreement with Victor Nesi dated June 25, 2009, incorporated herein by reference to Exhibit 10.(EE) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 26, 2010.*
4(a)	Stock Unit Agreement with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(j)(2) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 1998. *
4(b)	Stock Unit Agreement with James M. Zemlyak dated January 11, 2000, incorporated herein by reference to Exhibit 10.(s) to Stifel Financial Corp.'s Annual Report on Form 10-K / A Amendment No. 1 for the year ended December 31, 2001, filed on April 9, 2002. *

	Stifel Financial Corp. 1999 Executive Incentive Performance Plan, incorporated herein by reference to Annex B of Stifel Financial Corp.'s Proxy Statement for the 1999 Annual Meeting of Shareholders filed March 26, 1999. *
6	Stifel Financial Corp. Equity Incentive Plan for Non-Employee Directors, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-52694) filed December 22, 2000. *
7	Stifel Financial Corp. Equity Incentive Plan for Non-Employee Directors, as restated and amended, incorporated by reference to Annex A of Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008. *
8	Stifel Profit Sharing 401(k) Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60516) filed May 9, 2001. *
9(a)	Stifel Financial Corp. 2001 Incentive Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-82328) filed February 7, 2002. *
9(b)	Stifel Financial Corp. 2001 Incentive Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105756) filed June 2, 2003. *
9(c)	Stifel Financial Corp. 2001 Incentive Plan Amendment No. 2, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-140662) filed February 13, 2007. *

Exhibit No.	Description
9(d)	Stifel Financial Corp. 2001 Incentive Stock Plan, as restated and amended, incorporated herein by reference to Annex B to the Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008. *
9(e)	Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), as amended, incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported June 21, 2011) filed on June 22, 2011. *
9(f)	Form of Deferred Award Agreement for Restricted Stock Units pursuant to the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), incorporated herein by reference to Exhibit 9(f) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 1, 2016. *
9(g)	Form of Award Agreement for Restricted Stock Units and/or Debentures pursuant to the Stifel Financial Corp. 2001 Incentive Stock Plan (2011 Restatement), incorporated herein by reference to Exhibit 9(g) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 1, 2016. *
10	Stifel Financial Corp. 2003 Employee Stock Purchase Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-100414) filed October 8, 2002. *
11	Stifel Financial Corp. 2010 Executive Incentive Plan, incorporated herein by reference to Appendix A to Stifel Financial Corp.'s Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders filed on February 26, 2010. *
12(a)	Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-60506) filed May 9, 2001. *
12(b)	Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan Amendment No. 1, incorporated herein by reference to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-105759) filed June 2, 2003. *
12(c)	First Amendment to Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan 2010 Restated, incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K filed on August 9, 2010. *
12(d)	Stifel Financial Corp., Wealth Accumulation Plan 2015 Restatement, incorporated by reference to Exhibit 10 to Stifel Financial Corp.'s Current Report on Form 8-K filed on September 4, 2015.*
12(e)	First Amendment to Stifel Financial Corp. Wealth Accumulation Plan 2015 Restatement, incorporated by reference to Exhibit 10 to Stifel Financial Corp.'s Current Report on Form 8-K filed on November 20, 2015.*
12(f)	Second Amendment to Stifel Financial Corp. Wealth Accumulation Plan 2015 Restatement, incorporated herein by reference to Exhibit 12(f) to Stifel Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 1, 2016. *

Computation of Per Share Earnings is set forth in Note 26 of Notes to Consolidated Financial Statements included in this Form 10-K.

21	List of Subsidiaries of Stifel Financial Corp., filed herewith.
23	Consent of Independent Registered Public Accounting Firm, filed herewith.
31.1	Certification of Ronald J. Kruszewski pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of James M. Zemlyak pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Ronald J. Kruszewski pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of James M. Zemlyak pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

137

Exhibit No.	Description
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of December 31, 2016 and 2015; (ii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015, and 2014; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015, and 2014; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015, and 2014; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015, and 2014; and (vi) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 23, 2017.

STIFEL FINANCIAL CORP.

By: /s/ Ronald J. Kruszewski
Ronald J. Kruszewski
Chairman of the Board, Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 23, 2017.

/s/ Ronald J. Kruszewski Ronald J. Kruszewski	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ James M. Zemlyak James M. Zemlyak	President, Chief Financial Officer, and Director (Principal Financial and Accounting Officer)
/s/ Bruce A. Beda Bruce A. Beda	Director
/s/ Kathleen Brown Kathleen Brown	Director
/s/ Michael W. Brown Michael W. Brown	Director
/s/ John P. Dubinsky John P. Dubinsky	Director
/s/ Robert E. Grady Robert E. Grady	Director
/s/ Frederick O. Hanser Frederick O. Hanser	Director
/s/ Richard J. Himelfarb Richard J. Himelfarb	Director
/s/ Maura A. Markus Maura A. Markus	Director
/s/ Thomas B. Michaud Thomas B. Michaud	Director
/s/ Thomas P. Mulroy Thomas P. Mulroy	Director
/s/ Victor J. Nesi Victor J. Nesi	Director

/s/ James M. Oates James M. Oates	Director
/s/ Ben A. Plotkin Ben A. Plotkin	Director
/s/ Thomas W. Weisel Thomas W. Weisel	Chairman of the Board and Director
/s/ Kelvin R. Westbrook Kelvin R. Westbrook	Director
/s/ Michael J. Zimmerman Michael J. Zimmerman	Director

139