STIFEL FINANCIAL CORP
Form 10-K
February 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.15 par value per share | New York Stock Exchange |
| | Chicago Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |
| | Chicago Stock Exchange |
| 6.25% Non-Cumulative Preferred Stock, Series A | New York Stock Exchange |
| | Chicago Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock, $0.15 par value per share, held by non-affiliates of the registrant as of the close of business on June 30, 2017, was $3.3 billion.[1]

The number of shares outstanding of the registrant's common stock, $0.15 par value per share, as of the close of business on February 15, 2018 was 71,850,904.

[1] In determining this amount, the registrant assumed that the executive officers and directors of the registrant are affiliates of the registrant. Such assumptions shall not be deemed to be conclusive for any other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders, to be filed within 120 days of our fiscal year ended December 31, 2017, are incorporated by reference in Part III hereof.

STIFEL FINANCIAL CORP.

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# PART I

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic, political, regulatory, and market conditions, the investment banking and brokerage industries, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under “Risk Factors” in Item 1A as well as those discussed in “External Factors Impacting Our Business” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

## ITEM 1. BUSINESS

Stifel Financial Corp. is a Delaware corporation and a financial holding company headquartered in St. Louis. We were organized in 1983. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated (“Stifel”), a full-service retail and institutional wealth management and investment banking firm. Stifel is the successor to a partnership founded in 1890. Our other subsidiaries include Century Securities Associates, Inc. (“CSA”), an independent contractor broker-dealer firm; Keefe, Bruyette & Woods, Inc. (“KBW”), Miller Buckfire & Co. LLC (“Miller Buckfire”), and Eaton Partners, LLC (“Eaton Partners”), broker-dealer firms; Stifel Nicolaus Europe Limited (“SNEL”), our European subsidiary; Stifel Bank & Trust (“Stifel Bank”), a retail and commercial bank; Stifel Trust Company, N.A. and Stifel Trust Company Delaware, N.A. (collectively, “Stifel Trust”), our trust companies; and 1919 Investment Counsel, LLC (“1919”) and Ziegler Capital Management, LLC (“ZCM”), asset management firms. Unless the context requires otherwise, the terms “the Company,” “our company,” “we,” and “our,” as used herein, refer to Stifel Financial Corp. and its subsidiaries.

With a 127-year operating history, we have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are:

- Private client services, including securities transaction and financial planning services;
- Institutional equity and fixed income sales, trading and research, and municipal finance;
- Investment banking services, including mergers and acquisitions, public offerings, and private placements; and
- Retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional, and corporate clients quality, personalized service, with the theory that if we place clients’ needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the nation’s leading wealth management and investment banking firms.

We have grown our business both organically and through opportunistic acquisitions. Over the past several years, we have grown substantially, primarily by completing and successfully integrating a number of acquisitions, including our acquisition of the capital markets business of Legg Mason (“LM Capital Markets”) from Citigroup in December 2005 and the following acquisitions:

- Ryan Beck Holdings, Inc. (“Ryan Beck”) and its wholly owned broker-dealer subsidiary, Ryan Beck & Company, Inc. – On February 28, 2007, we closed on the acquisition of Ryan Beck, a full-service brokerage and investment banking firm with a strong private client focus, from BankAtlantic Bancorp, Inc.

- First Service Financial Company (“First Service”) and its wholly owned subsidiary, FirstService Bank – On April 2, 2007, we completed our acquisition of First Service, and its wholly owned subsidiary FirstService Bank, a St. Louis-based Missouri commercial bank. Upon consummation of the acquisition, we became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. First Service now operates as Stifel Bank & Trust.
- Butler, Wick & Co., Inc. (“Butler Wick”) – On December 31, 2008, we closed on the acquisition of Butler Wick, a privately held broker-dealer which specialized in providing financial advice to individuals, municipalities, and corporate clients.
- UBS Financial Services Inc. (“UBS”) – During the third and fourth quarters of 2009, we acquired 56 branches from the UBS Wealth Management Americas branch network.

- Thomas Weisel Partners Group, Inc. (“TWPG”) – On July 1, 2010, we acquired TWPG, an investment bank focused principally on the growth sectors of the economy, including technology and health care. This acquisition expanded our investment banking presence on the west coast of the United States.
- Stone & Youngberg LLC (“Stone & Youngberg”) – On October 1, 2011, we acquired Stone & Youngberg, a leading financial services firm specializing in municipal finance and fixed income securities. Stone & Youngberg’s comprehensive institutional group expanded our public finance, institutional sales and trading, and bond underwriting, particularly in the Arizona and California markets, and expanded our Private Client Group.
- Miller Buckfire – On December 20, 2012, we acquired Miller Buckfire, an investment banking firm. Miller Buckfire provides a full range of investment banking advisory services, including financial restructuring, mergers and acquisitions, and debt and equity placements.
- KBW, Inc. (“KBW”) – On February 15, 2013, we acquired KBW, an investment banking firm with a focus in the banking, insurance, brokerage, asset management, mortgage banking, real estate, and specialty finance sectors. KBW maintains industry-leading positions in research, corporate finance, mergers and acquisitions, as well as sales and trading in equities and debt securities of financial services companies.
- Fixed Income Sales and Trading Business From Knight Capital – On July 1, 2013, we completed the acquisition of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group, Inc. The combined teams of sales and trading professionals in the U.S. and Europe cover high-yield and investment-grade corporate bonds, asset-backed and mortgage-backed securities, loan trading, and emerging markets, as well as fixed income research in selected sectors and companies.
- Acacia Federal Savings Bank (“Acacia Federal”) – On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal Savings Bank, a federally chartered savings institution.
- ZCM – On November 30, 2013, we acquired ZCM, an asset management firm that provides investment solutions for institutions, mutual fund sub-advisory clients, municipalities, pension plans, Taft-Hartley plans, and individual investors.
- De La Rosa, & Co. (“De La Rosa”) – On April 3, 2014, we acquired De La Rosa, a California-based public finance investment banking boutique. The addition of the De La Rosa team strengthened our company’s position in a number of key underwriting markets in California.
- 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.
- 1919 Investment Counsel, formerly known as Legg Mason Investment Counsel & Trust Co., National Association – 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.
- Merchant Capital, LLC (“Merchant Capital”) – On December 31, 2014, we acquired Merchant Capital, a public finance investment banking firm headquartered in Montgomery, Alabama, which serves the Southeastern market. The strategic combination of Stifel and Merchant Capital strengthened our company’s position in several key underwriting markets in the Southeast.
- Sterne Agee Group, Inc. (“Sterne Agee”) – On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee, a financial service firm that offers comprehensive wealth management and investment service to a diverse client base including corporations, municipalities, and individual investors. On July 1, 2016, we completed the sale of Sterne Agee’s legacy independent brokerage and clearing businesses pursuant to two separate stock purchase agreements dated June 24, 2016.
- Barclays Wealth and Investment Management (“Barclays”) – On December 4, 2015, we completed the purchase of the Barclays Wealth and Investment Management, Americas franchise in the U.S.
- Eaton Partners, LLC (“Eaton Partners”) – On January 4, 2016, we completed the acquisition of Eaton Partners, a global fund placement and advisory firm.
- ISM Capital LLP (“ISM”) – On May 3, 2016, we completed the acquisition of ISM, an independent investment bank focused on international debt capital markets. The acquisition of ISM increased our company’s debt capital markets origination, sales, and research capabilities.

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• City Securities Corporation ("City Securities") – On January 3, 2017, we completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities, an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest.

Business Segments

We operate in the following segments: Global Wealth Management, Institutional Group, and Other. For a discussion of the financial results of our segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis."

Narrative Description of Business

As of December 31, 2017, we employed over 7,100 associates, including 2,244 financial advisors, of which 112 are independent contractors. Through our broker-dealer subsidiaries, we provide securities-related financial services to customers from the United States and Europe. Our customers include individuals, corporations, municipalities, and institutions. We have customers throughout the United States, with a growing presence in the United Kingdom and Europe. No single client accounts for a material percentage of any segment of our business. Our inventory, which we believe is of modest size and intended to turn over quickly, exists to facilitate order flow and support the investment strategies of our clients. The inventory of securities held to facilitate customer trades and our market-making activities is sensitive to market movements. Furthermore, our balance sheet is highly liquid, without material holdings of securities that are difficult to value or remarket. We believe that our broad platform, fee-based revenues, and strong distribution network position us well to take advantage of current trends within the financial services sector.

GLOBAL WEALTH MANAGEMENT

We provide securities transaction, brokerage, and investment services to our clients through the consolidated Stifel branch system. We have made significant investments in personnel and technology to grow the Private Client Group over the past ten years.

Consolidated Stifel Branch System

At December 31, 2017, the Private Client Group had a network of 2,132 financial advisors located in 355 branch offices in 45 states and the District of Columbia. In addition, we have 112 independent contractors.

Our financial advisors provide a broad range of investments and services to our clients, including financial planning services. We offer equity securities; taxable and tax-exempt fixed income securities, including municipal, corporate, and government agency securities; preferred stock; and unit investment trusts. We also offer a broad range of externally managed fee-based products. In addition, we offer insurance and annuity products and investment company shares through agreements with numerous third-party distributors. We encourage our financial advisors to pursue the products and services that best fit their clients' needs and that they feel most comfortable recommending. Our private clients may choose from a traditional, commission-based structure or fee-based money management programs. In most cases, commissions are charged for sales of investment products to clients based on an established commission schedule. In certain cases, varying discounts may be given based on relevant client or trade factors determined by the financial advisor.

Our independent contractors, who operate in our CSA business, provide the same types of financial products and services to its private clients as does Stifel. Under their contractual arrangements, these independent contractors may also provide accounting services, real estate brokerage, insurance, or other business activities for their own account. Independent contractors are responsible for all of their direct costs and are paid a larger percentage of commissions to compensate them for their added expenses. CSA is an introducing broker-dealer and, as such, clears its transactions through Stifel.

Customer Financing

Client securities transactions are effected on either a cash or margin basis. When securities are purchased on a margin basis, the customer deposits less than the full cost of the security in their account. We make a loan to the customer for the balance of the purchase price. Such loans are collateralized by the purchased securities. The amounts of the loans are subject to the margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Financial Industry Regulatory Authority, Inc. ("FINRA") margin requirements, and our internal policies, which usually are more restrictive than Regulation T or FINRA requirements. In permitting customers to purchase securities on margin, we are subject to the risk of a market decline, which could reduce the value of our collateral below the amount of the customers' indebtedness.

We offer securities-based lending through Stifel Bank, which allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying marketable securities or refinancing margin debt. The loan requirements are subject to Regulation U of the Board of Governors of the Federal Reserve System ("Regulation U") and our internal policies, which are typically more restrictive than Regulation U. We establish approved lines and advance rates against qualifying securities and monitor limits daily and, pursuant to such guidelines, require customers to deposit additional collateral or reduce debt positions, when necessary. Factors considered in the review of securities-based lending are the amount of the loan, the degree of concentrated or restricted positions, and the overall evaluation of the portfolio to ensure proper diversification, or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies. Underlying collateral for securities-based loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis, and an evaluation of industry concentrations.

Asset Management

Our asset management business offers specialized investment management solutions for institutions, private clients, and investment advisors. Revenues for this segment are primarily generated by the investment advisory fees related to asset management services provided for individual and institutional investment portfolios, along with mutual funds. Investment advisory fees are earned on assets held in managed or non-discretionary asset-based programs. These fees are computed based on balances either at the beginning of the quarter, the end of the quarter, or average daily assets. Fees from private client investment portfolios and institutional fees are typically based on asset values at the end of the period. Asset balances are impacted by both the performance of the market and sales and redemptions of client accounts/funds. Rising markets have historically had a positive impact on investment advisory fee revenues as existing accounts increase in value, and individuals and institutions may commit incremental funds in rising markets. No single client accounts for a material percentage of this segment's total business.

Stifel Bank

In April 2007, we completed the acquisition of First Service, a St. Louis-based full-service bank, which now operates as Stifel Bank & Trust and is reported in the Global Wealth Management segment. Since the closing of the bank acquisition, we have grown retail and commercial bank assets from $145.6 million on acquisition date to $15.0 billion at December 31, 2017. Through Stifel Bank, we offer retail and commercial banking services to private and corporate clients, including personal loan programs, such as fixed and variable mortgage loans, home equity lines of credit, personal loans, loans secured by CDs or savings, and securities-based loans, as well as commercial lending programs, such as small business loans, commercial real estate loans, lines of credit, credit cards, term loans, and inventory and receivables financing, in addition to other banking products. We believe Stifel Bank not only helps us serve our private clients more effectively by offering them a broader range of services, but also enables us to better utilize our private client cash balances held which are swept to Stifel Bank, which is its primary source of funding.

INSTITUTIONAL GROUP

The Institutional Group segment includes research, equity and fixed income institutional sales and trading, investment banking, public finance, and syndicate.

Research

Our research department publishes research across multiple industry groups and provides our clients with timely, insightful, and actionable research, aimed at improving investment performance.

Institutional Sales and Trading

Our equity sales and trading team distributes our proprietary equity research products and communicates our investment recommendations to our client base of institutional investors, executes equity trades, sells the securities of companies for which we act as an underwriter, and makes a market in securities. In our various sales and trading activities, we take a focused approach to serving our clients by maintaining inventory to facilitate order flow and support the investment strategies of our institutional fixed income clients, as opposed to seeking trading profits through proprietary trading. Our equity sales and trading teams are located in various cities in the United States, as well as Geneva, Zurich, London, and Madrid.

The fixed income institutional sales and trading group is comprised of taxable and tax-exempt sales departments. Our institutional sales and trading group executes trades with diversification across municipal, corporate, government agency, and mortgage-backed securities.

Investment Banking

Our investment banking activities include the provision of financial advisory services principally with respect to mergers and acquisitions and the execution of public offerings and private placements of debt and equity securities. The investment banking group focuses on middle-market companies as well as on larger companies in targeted industries where we have particular expertise, which include real estate, financial services, healthcare, aerospace/defense and government services, telecommunications, transportation, energy, business services, consumer services, industrial, technology, and education.

Our syndicate department coordinates marketing, distribution, pricing, and stabilization of our managed equity and debt offerings. In addition, the department coordinates our underwriting participations and selling group opportunities managed by other investment banking firms.

Public Finance

Our public finance group acts as an underwriter and dealer in bonds issued by states, cities, and other political subdivisions and acts as manager or participant in offerings managed by other firms.

OTHER SEGMENT

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 as a result of recent acquisitions and to actions taken by the Company in response to the Tax Regulation enacted in the fourth quarter of 2017, amortization of stock-based awards for certain administrative employees, and all unallocated overhead costs 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.

BUSINESS CONTINUITY

We have developed a business continuity plan which is designed to permit continued operation of business-critical functions in the event of disruptions to our St. Louis, Missouri, headquarters facility as well as other critical functional areas of the firm. Several critical business functions are supported by outside vendors who maintain backup and recovery in line with our internal needs and capabilities. We periodically participate in testing of these backup and recovery functions. Likewise, the business functions we support internally can be supported without the St. Louis headquarters through a combination of redundant computer facilities in other east and west coast data centers and from certain branch locations which can connect to our third-party securities processing vendor through its primary or redundant facilities. Systems have been designed so that we can route critical processing activity and functions to alternate locations, which can be staffed with relocated personnel as appropriate.

GROWTH STRATEGY

We believe our strategy for growth will allow us to increase our revenues and to expand our role with clients as a valued partner. In executing our growth strategy, we take advantage of the consolidation among mid-tier firms, which we believe provides us opportunities in our global wealth and institutional group segments. We do not create specific growth or business plans for any particular type of acquisition, focus on specific firms, or geographic expansion, nor do we establish quantitative goals, such as intended numbers of new hires or new office openings; however, our corporate philosophy has always been to be in a position to take advantage of opportunities as they arise, while maintaining sufficient levels of capital. We intend to pursue the following strategies with discipline:

- Further expand our private client footprint in the U.S. We have expanded the number of our private client branches from 39 at December 31, 1997 to 355 at December 31, 2017, and our branch-based financial advisors from 262 to 2,132 over the same period. In addition, assets under management have grown from $11.7 billion at December 31, 1997 to $272.6 billion at December 31, 2017. Through organic growth and acquisitions, we have built a strong footprint nationally. Over time, we plan to further expand our domestic private client footprint. We plan on achieving this through recruiting experienced financial advisors with established client relationships and continuing to selectively consider acquisition opportunities as they may arise.
- Further expand our institutional business both domestically and internationally. Our institutional equity business is built upon the premise that high-quality fundamental research is not a commodity. The growth of our business has been fueled by the effective partnership of our highly rated research and institutional sales and trading teams. We have identified opportunities to expand our research capabilities by taking advantage of market disruptions. As of December 31, 2017, our research department was ranked the largest research department, as measured by domestic equities under coverage, by StarMine. Our goal is to further monetize our research platform by adding additional institutional sales and trading teams and by placing a greater emphasis on client management.
- Grow our investment banking business. By leveraging our industry expertise, our product knowledge, our research platform, our experienced associates, our capital markets strength, our middle-market focus, and our private client network, we intend to grow our investment banking business. The merger with TWPG in 2010, our acquisition of Miller Buckfire in 2012, the merger with KBW in 2013, the acquisitions of De La Rosa, Oriel, and Merchant Capital in 2014, and the acquisitions of Eaton and ISM in 2016 have accelerated the growth of our investment banking business through expanded industry, product, and geographic coverage, including capital-raising for start-up companies, particularly from the venture community. We believe our position as a middle-market-focused investment bank with broad-based and respected research will allow us to take advantage of opportunities in the middle market

and continue to align our investment banking coverage with our research footprint.

- Focus on asset generation within Stifel Bank by offering banking services to our clients. We believe the banking services provided through Stifel Bank strengthens our existing client relationships and helps us recruit financial advisors seeking to provide a full range of services to their private clients. We intend to continue focusing on the sale of banking products and services to our private and corporate clients.
- Approach acquisition opportunities with discipline. Over the course of our operating history, we have demonstrated our ability to identify, effect, and integrate attractive acquisition opportunities. We believe the current environment and market dislocation will continue to provide us with the ability to thoughtfully consider acquisitions on an opportunistic basis.

COMPETITION

We compete with other securities firms, some of which offer their customers a broader range of brokerage services, have substantially greater resources, and may have greater operating efficiencies. In addition, we face increasing competition from other financial institutions, such as commercial banks, online service providers, and other companies offering financial services. The Financial

Modernization Act, signed into law in late 1999, lifted restrictions on banks and insurance companies, permitting them to provide financial services once dominated by securities firms. In addition, consolidation in the financial services industry may lead to increased competition from larger, more diversified organizations.

As we enter our 128$^{th}$ year in business, we continue to rely on the expertise acquired in our market area, our personnel, and our equity capital to operate in the competitive environment.

## REGULATION

### Financial Holding Company Regulation

Under U.S. law, we are a bank holding company that has elected to be a financial holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"). Consequently, our company and its business activities are subject to the supervision, examination, and regulation of the Federal Reserve Board. The BHCA and other federal laws subject bank and financial holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Supervision and regulation of bank holding companies, financial holding companies, and their subsidiaries are intended primarily for the protection of depositors and other clients of banking subsidiaries, the deposit insurance fund of the Federal Deposit Insurance Corporation ("FDIC"), and the banking system as a whole, but not for the protection of stockholders or other creditors.

As a financial holding company, we are permitted: (1) to engage in other activities that the Federal Reserve Board, working with the Secretary of the Treasury, determines to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally, or (2) to acquire shares of companies engaged in such activities. We may not, however, directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares, or substantially all of the assets, of a bank holding company or a bank without the prior approval of the Federal Reserve Board.

In order to maintain our status as a financial holding company, we must remain "well capitalized" and "well managed" under applicable regulations. Failure to meet one or more of the requirements would mean, depending on the requirements not met, that we could not undertake new activities, make acquisitions other than those permitted generally for bank holding companies, or continue certain activities.

### Rules and Regulations Resulting From the Dodd-Frank Act

The financial services industry in the U.S. is subject to extensive regulation under federal and state laws. During our fiscal year 2010, the U.S. government enacted financial services reform legislation known as the Dodd-Frank Wall Street Reform & Consumer Protection Act ("Dodd-Frank Act"). Because of the nature of our business and our business practices, we presently do not expect the Dodd-Frank Act to have a significant direct impact on our operations as a whole. However, because some of the implementing regulations have yet to be adopted by various regulatory agencies, the specific impact on some of our businesses remains uncertain.

### CFPB Oversight

In July 2011, the Consumer Financial Protection Bureau ("CFPB") began operations and was given rulemaking authority for a wide range of consumer protection laws that apply to all banks and was provided broad powers to supervise and enforce federal consumer protection laws. The CFPB has supervisory and enforcement powers under several consumer protection laws, including the: (i) Equal Credit Opportunity Act; (ii) Truth in Lending Act; (iii) Real Estate Settlement Procedures Act; (iv) Fair Credit Reporting Act; (v) Fair Debt Collection Act; (vi) Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and unfair, deceptive, or abusive acts or practices under

Section 1031 of the Dodd-Frank Act. The CFPB has authority to promulgate regulations, issue orders, draft policy statements, conduct examinations, and bring enforcement actions. The creation of the CFPB has led to enhanced enforcement of consumer protection laws. To the extent that, as a result of such heightened scrutiny and oversight, we become the subject of any enforcement activity, we may be required to pay fines, incur penalties, or engage in certain remediation efforts.

Stress Tests

In October 2012, the Federal Reserve, FDIC, and OCC jointly issued final rules requiring certain bank holding companies, state member banks, and savings and loan companies with total assets between $10 billion and $50 billion to conduct annual company-prepared stress tests, report the results to their primary regulator and the Federal Reserve (who is our company's primary regulator), and publish a summary of the results. Stress tests must be conducted using certain scenarios (baseline, adverse, and severely adverse) prescribed by the Federal Reserve. We are subject to stress testing requirements as of December 31, 2017, and will be submitting our stress test in 2018.

The Volcker Rule

We are subject to the Volcker Rule, which generally prohibits, subject to exceptions, insured depository institutions, bank holding companies, and their affiliates (together, "Banking Entities") from engaging in "proprietary trading" or acquiring or retaining an ownership interest in a hedge fund or private equity fund ("covered funds"). Banking Entities engaged in proprietary trading and/or investments in covered funds must establish a Volcker Rule-specific compliance program. We are required to adopt a program, which is designed to be effective in ensuring compliance with the Volcker Rule, however, in connection with their examinations, regulators will assess the sufficiency and adequacy of our program. The Volcker Rule also limits investments in, and relationships with, covered funds. The conformance period for compliance with the rule with respect to investments in certain illiquid funds has been extended, and Banking Entities may still apply for an additional five-year extension with respect to investments in certain illiquid funds. We maintain a number of private equity investments, some of which meet the definition of covered funds under the Volcker Rule. The extension of the conformance deadline provides us with additional time (up to July 2022) to realize the value of these investments in due course and implement any additional actions necessary for conformance with the rule.

U.S. Capital Rules and Basel III

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Reserve and the Missouri Division of Finance. 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 statements.

The OCC, the Federal Reserve, and the FDIC released final U.S. rules implementing the Basel III capital framework developed by the Basel Committee on Banking Supervision and certain Dodd-Frank Act and other capital provisions and updated the prompt corrective action framework to reflect the new regulatory capital minimums (the "U.S. Basel III Rules"). The U.S. Basel III Rules: (i) increase the quantity and quality of regulatory capital; (ii) establish a capital conservation buffer; and (iii) make changes to the calculation of risk-weighted assets. The U.S. Basel III Rules became effective for our company and Stifel Bank on January 1, 2015, subject to applicable phase-in periods. Based on our current analyses, our company and Stifel Bank are well-capitalized. However, the increased capital requirements could restrict our ability to grow or require us to raise additional capital. As a result, our business, results of operations, financial condition, or prospects could be adversely affected. See Item 1A, "Risk Factors," within this Form 10-K for more information.

Money Market Reform

The Securities and Exchange Commission ("SEC") adopted amendments to the rules that govern money market mutual funds. The amendments make structural and operational reforms to address risks of excessive withdrawals over relatively short time frames by investors from money market funds, while preserving the benefits of the funds. We do not sponsor any money market funds. We utilize funds sponsored by third parties in limited circumstances for our own investment purposes as well as to offer our clients as one of several cash sweep alternatives.

Municipal Advisor Regulation

The SEC issued final rules regarding the mandatory registration of "municipal advisors" as required under the Dodd-Frank Act. These final rules for municipal advisors, which became effective in July 2014: (i) impose a fiduciary duty on municipal advisors when advising municipal entities; (ii) may result in the need for new written representations by issuers; and (iii) may limit the manner in which we, in our capacity as an underwriter or in our other professional roles, interact with municipal issuers. Our municipal finance business became subject to additional regulation and oversight by the SEC by virtue of our registration with the SEC as a municipal advisor in 2014.

Moreover, in December 2015, the Municipal Securities Rulemaking Board (the "MSRB") received approval from the SEC on new MSRB Rule G-42 (regarding duties of non-solicitor municipal advisors) and related amendments to MSRB Rule G-8 (regarding books and records to be made by municipal advisors, among others), all of which became effective in June 2016. Additional rulemaking by the MSRB may cause further changes to the manner in which state and local governments are able to interact with outside finance professionals. These rules may impact the nature of our interactions with public finance clients, as well as potentially have a negative short-term impact on the volume of public finance financing transactions while the industry attempts to adapt to the new regulatory landscape. However, we do not expect these rules to have a materially adverse impact on our public finance results of operations, which are included in our Institutional Group segment.

Fiduciary Duty Standard

Pursuant to the Dodd-Frank Act, the SEC was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to registered investment advisers. The SEC is currently considering whether to issue a proposed standard applicable to broker-dealers, but has not yet done so.

The U.S. Department of Labor (the “DOL”) regulation (the “DOL Rule”) expanding the definition of who is deemed an "investment advice fiduciary" to an employee benefit plan that is subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or an individual retirement account, or other account, (“IRA”) that is subject to section 4975 of the Internal Revenue Code (the “Code”) became effective on June 9, 2017. The DOL Rule significantly broadens the circumstances under which certain of our entities and their affiliates may be deemed to be “fiduciaries” when providing investment advice or recommendations with respect to the assets of an employee benefit plan or an IRA. When acting as a fiduciary to an ERISA plan, such persons are subject to a number of duties, including the duty to act solely in the interests of plan participants and beneficiaries, and are personally liable to the ERISA plan for breaches of these duties. When acting as a fiduciary to an ERISA plan or an IRA, such persons are also subject to certain "prohibited transaction rules" under ERISA and the Code, which significantly limit the types of transactions they can engage in, and the types of compensation they can receive, with respect to such ERISA plan or IRA.

Also effective June 9, 2017, the DOL issued two new prohibited transaction exemptions—the Best Interest Contract Exemption (the "BIC Exemption") and the Class Exemption for Principal Transactions in Certain Assets (the "Principal Transactions Exemption")—and amended and partially revoked certain pre-existing exemptions such persons previously relied on. The new exemptions permit them to receive compensation that would otherwise violate the prohibited transaction rules so long as they provide advice that meets the exemptions' currently applicable conditions. The DOL has delayed the applicability of certain additional conditions of these exemptions to July 1, 2019, and is currently studying the rule's impacts and considering whether any changes are needed.

We are continuing to evaluate the impact of the DOL Rule on these businesses, but because ERISA plans and IRAs comprise a significant portion of such businesses, we expect that compliance with the DOL Rule and reliance on the BIC Exemption and the Principal Transactions Exemption will continue to require us to incur increased legal, compliance, and information technology costs. Moreover, we may face enhanced legal risks, particularly if the delayed conditions of the new exemptions become applicable in their current form.

Finally, the state laws that apply to state registered broker-dealers may be changing. For example, in 2017, Nevada enacted a law that would require broker-dealers to adhere to certain fiduciary standards specified under Nevada law. We continue to monitor and evaluate the impact of these rules and potential rulemakings on our business and continue to expect increased legal, compliance, and information technology costs in response to developments in this area.

Subsidiary Regulation

The securities industry in the United States is subject to extensive regulation under federal and state laws. The SEC is the federal agency generally charged with the administration of the federal securities laws impacting the securities industry. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations ("SRO"), principally FINRA and the Municipal Securities Rulemaking Board, and securities exchanges. SROs adopt rules (which are subject to approval by the SEC) that govern the industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. A number of changes have been proposed to the rules and regulations that govern our securities business, and other rules and regulations have been adopted, which may result in changes in the way we conduct our business.

As a result of federal and state registration and SRO memberships, broker-dealers are subject to overlapping schemes of regulation that cover all aspects of their securities businesses. Such regulations cover matters including capital requirements; uses and safekeeping of clients' funds; conduct of directors, officers, and employees; recordkeeping and reporting requirements; supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information; employee-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; requirements for the registration, underwriting, sale, and distribution of securities; and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation, including, in some instances, "suitability" determinations as to certain customer transactions, limitations on the amounts that may be charged to customers, timing of proprietary trading in relation to customers' trades, and disclosures to customers.

Additional legislation, changes in rules promulgated by the SEC and by SROs, and changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC and the SROs conduct regular examinations of our broker-dealer subsidiaries and also initiate targeted and other specific inquiries from time to time, which generally include the investigation of issues involving substantial portions of the securities industry. The SEC and the SROs may conduct administrative proceedings, which can result in censures, fines, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than the protection of creditors and stockholders of broker-dealers.

Our U.S. broker-dealer subsidiaries are subject to the Securities Investor Protection Act and are members of Securities Investors Protection Corporation (“SIPC”), whose primary function is to provide financial protection for the customers of failing brokerage firms. SIPC provides protection for customers up to $500,000, of which a maximum of $250,000 may be in cash.

Stifel Bank is a Federal Reserve member Bank, its deposits are insured by the FDIC up to the maximum authorized limit. It is subject to regulation by the Federal Reserve Bank, as well as the Missouri Division of Finance.

Stifel Trust is subject to regulation by the OCC. This regulation focuses on, among other things, ensuring the safety and soundness of Stifel Trust’s fiduciary services.

Several of our wholly owned subsidiaries, including Choice Financial Partners, Inc., Thomas Weisel Global Growth Partners LLC, ZCM, 1919 Investment Counsel, Stifel, and CSA are registered as investment advisers with the SEC and, therefore, are subject to its regulation and oversight.

Non-U.S. Regulation

Our non-U.S. subsidiaries are subject to applicable laws and regulations of the jurisdictions in which they operate.

Our European subsidiary, SNEL, is subject to the regulatory supervision and requirements of the Financial Conduct Authority ("FCA") in the United Kingdom and is a member of the London Stock Exchange. The FCA exercises broad supervisory and disciplinary powers that include the power to temporarily or permanently revoke authorization to conduct a regulated business upon breach of the relevant regulations, suspend approved persons, and impose fines (where applicable) on both regulated businesses and their approved persons. SNEL operates representative offices in Geneva and Zurich, Switzerland and has a branch office in Madrid, Spain. In addition to the FCA, these offices are subject to the local regulations of their respective jurisdictions. SNEL holds a number of FCA-passporting rights to engage in Markets in Financial Instruments Directive-related business in Europe.

The FCA will be enforcing additional European Union issued regulations such as the Markets in Financial Instruments Directive II ("MIFID II") and the Markets in Financial Instruments Regulation ("MIFIR"), for which implementation is scheduled for 2018. Principal areas of impact related to these regulatory texts will involve emergence and oversight of organized trade facilities ("OTF's") for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and execution policies, transparency obligations and extended transaction reporting requirements. We will continue to monitor all applicable developments in the ongoing implementation of MIFID II.

Capital Requirements

Our broker-dealer subsidiaries are subject to the Uniform Net Capital Rule (Rule 15c3-1) promulgated by the SEC. The Uniform Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer and the minimum net capital deemed necessary to meet the broker-dealer's continuing commitments to its customers and other broker-dealers. Broker-dealers may be prohibited from expanding their business and declaring cash dividends. A broker-dealer that fails to comply with the Uniform Net Capital Rule may be subject to disciplinary actions by the SEC and SROs, such as FINRA, including censures, fines, suspension, or expulsion. For further discussion of our net capital requirements, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Public Company Regulation

As a public company whose common stock is listed on the New York Stock Exchange ("NYSE") and the Chicago Stock Exchange ("CHX"), we are subject to corporate governance requirements established by the SEC, NYSE, and CHX, as well as federal and state law. Under the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to meet certain requirements regarding business dealings with members of the Board of Directors, the structure of our Audit and Compensation Committees, ethical standards for our senior financial officers, implementation of an internal control structure and procedures for financial reporting, and additional responsibilities regarding financial statements for our Chief Executive Officer and Chief Financial Officer and their assessment of our internal controls over financial reporting. Compliance with all aspects of the Act, particularly the provisions related to management's assessment of internal controls, has imposed additional costs on our company, reflecting internal staff and management time, as well as additional audit fees since the Act went into effect.

Executive Officers

Information regarding our executive officers and their ages as of February 15, 2018, is as follows:

| Name | Age | Position(s) |
|---|---|---|
| Ronald J. Kruszewski | 59 | Co-Chairman of the Board of Directors and Chief Executive Officer |
| Thomas W. Weisel | 76 | Co-Chairman of the Board of Directors |
| James M. Zemlyak | 58 | President and Chief Financial Officer |
| Richard J. Himelfarb | 76 | Vice Chairman and Senior Vice President |
| Thomas B. Michaud | 53 | Senior Vice President |
| Victor J. Nesi | 57 | President and Director of Institutional Group |
| Ben A. Plotkin | 62 | Vice Chairman and Senior Vice President |
| Mark P. Fisher | 48 | Senior Vice President and General Counsel |
| James M. Marischen | 38 | Senior Vice President, Chief Risk Officer, and Chief Accounting Officer |
| David D. Sliney | 48 | Senior Vice President |

Ronald J. Kruszewski has been Chief Executive Officer and Director of our company and Stifel since September 1997 and Chairman of the Board of Directors of our company and Stifel since April 2001. Prior thereto, Mr. Kruszewski served as Managing Director and Chief Financial Officer of Baird Financial Corporation and Managing Director of Robert W. Baird & Co. Incorporated, a securities broker-dealer firm, from 1993 to September 1997.

Thomas W. Weisel was elected Co-Chairman of the Board of Directors of our company in August 2010 after the completion of the merger between our company and Thomas Weisel Partners Group, Inc. Prior thereto, Mr. Weisel served as Chairman and CEO of Thomas Weisel Partners Group, Inc., a firm he founded, from 1998 to June 2010. Prior to founding Thomas Weisel Partners, Mr. Weisel was a founder, in 1971, of Robertson, Coleman, Siebel & Weisel that became Montgomery Securities in 1978, where he was Chairman and CEO until September 1998. Mr. Weisel served as a director on the NASDAQ Stock Market board of directors from 2002 to 2006.

James M. Zemlyak was named to the Office of the President in June 2014. Mr. Zemlyak has been Chief Financial Officer of our company and Stifel since February 1999. Mr. Zemlyak served as Director of our company from February 1999 to June 2017. Mr. Zemlyak served as our company’s Treasurer from February 1999 to January 2012. Mr. Zemlyak has been Chief Operating Officer of Stifel since August 2002 and Executive Vice President of Stifel since December 1, 2005. Mr. Zemlyak also served as Chief Financial Officer of Stifel from February 1999 to October 2006. Prior to joining our company, Mr. Zemlyak served as Managing Director and Chief Financial Officer of Baird Financial Corporation from 1997 to 1999 and Senior Vice President and Chief Financial Officer of Robert W. Baird & Co. Incorporated from 1994 to 1999.

Richard J. Himelfarb has served as Senior Vice President of our company and Executive Vice President and Director of Stifel since December 2005. Mr. Himelfarb served as Director of our company from December 2005 to June 2017. Mr. Himelfarb was designated Chairman of Investment Banking in July 2009. Prior to that, Mr. Himelfarb served as Executive Vice President and Director of Investment Banking from December 2005 through July 2009. Prior to joining our company, Mr. Himelfarb served as a director of Legg Mason, Inc. from November 1983 and Legg Mason Wood Walker, Inc. from January 2005. Mr. Himelfarb was elected Executive Vice President of Legg Mason and Legg Mason Wood Walker, Inc. in July 1995, having previously served as Senior Vice President from November 1983.

Thomas B. Michaud has served as Senior Vice President of our company and Chairman, Chief Executive Officer, and President of Keefe, Bruyette & Woods, Inc., one of our broker-dealer subsidiaries, since February 15, 2013, the completion of the merger between our company and KBW, Inc. Mr. Michaud served as Director of our company from February 2013 to June 2017. Prior thereto, Mr. Michaud served as the Chief Executive Officer and President of KBW, Inc. since October 2011 and as Vice Chairman and director since its formation in August 2005. He previously served as Chief Operating Officer from August 2005 until October 2011.

Victor J. Nesi was named to the Office of the President in June 2014. Mr. Nesi has served as Director of Investment Banking and Director of our Institutional Group since July 2009. Mr. Nesi served as Director of our company from August 2009 to June 2017. Mr. Nesi has more than 20 years of banking and private equity experience, most recently with Merrill Lynch, where he headed the global private equity business for the telecommunications and media industry. From 2005 to 2007, he directed Merrill Lynch’s investment banking group for the Americas region. Prior to joining Merrill Lynch in 1996, Mr. Nesi spent seven years as an investment banker at Salomon Brothers and Goldman Sachs.

Ben A. Plotkin has been Vice Chairman and Senior Vice President of our company since August 2007 and Executive Vice President of Stifel since February 2007. Mr. Plotkin has served as Executive Vice President of Keefe, Bruyette & Woods, Inc., one of our broker-dealer subsidiaries, since February 15, 2013, the completion of the merger between our company and KBW, Inc. Mr. Plotkin served as Director of our company from August 2007 to June 2017. Mr. Plotkin also served as Chairman and Chief Executive Officer of Ryan Beck & Company, Inc. from 1997 until its acquisition by our company in 2007. Mr. Plotkin was elected Executive Vice

President of Ryan Beck in 1990. Mr. Plotkin became a Senior Vice President of Ryan Beck in 1989 and was appointed First Vice President of Ryan Beck in December of 1987. Mr. Plotkin joined Ryan Beck in May of 1987 as a Director and Vice President in the Investment Banking Division.

Mark P. Fisher has served as Senior Vice President since July 2010 and General Counsel since May 2014. Mr. Fisher served as General Counsel of Thomas Weisel Partners Group, Inc. from May 2005 until the merger between our company and Thomas Weisel Partners Group, Inc. in July 2010. From January 1998 until May 2005, Mr. Fisher practiced corporate and securities law at Sullivan & Cromwell LLP.

James M. Marischen has served as Senior Vice President and Chief Risk Officer of our company since January 2014. During 2015, Mr. Marischen was named our Chief Accounting Officer. Mr. Marischen served as Executive Vice President and Chief Financial Officer of Stifel Bank & Trust from February 2008 to January 2014. Prior to joining our company in 2008, Mr. Marischen worked in public accounting at KPMG LLP.

David D. Sliney has been a Senior Vice President of our company since May 2003. In 1997, Mr. Sliney began a Strategic Planning and Finance role with Stifel and has served as a Director of Stifel since May 2003. Mr. Sliney is also responsible for our company’s Operations and Technology departments. Mr. Sliney joined Stifel in 1992, and between 1992 and 1995, Mr. Sliney worked as a fixed income trader and later assumed responsibility for the firm’s Equity Syndicate Department.

## AVAILABLE INFORMATION

Our internet address is www.stifel.com. We make available, free of charge, through a link to the SEC web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Additionally, we make available on our web site under “Investor Relations – Corporate Governance,” and in print upon request of any shareholder, a number of our corporate governance documents. These include: Audit Committee charter, Compensation Committee charter, Risk Management/Corporate Governance Committee charter, Corporate Governance Guidelines, Complaint Reporting Process, and the Code of Ethics for Employees. Within the time period required by the SEC and the NYSE, we will post on our web site any modifications to any of the available documents. The information on our web site is not incorporated by reference into this report.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, or future results of operations. Although the risks described below are those that management believes are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition, or future results of operations. We may amend or supplement these risk factors from time to time in other reports we file with the SEC.

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Damage to our reputation could damage our businesses.

Maintaining our reputation is critical to our attracting and maintaining customers, investors, and employees. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues include, but are not limited to, any of the risks discussed in this Item 1A, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, cybersecurity and privacy, record keeping, sales and trading practices, failure to sell securities we have underwritten at the anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. A failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs, and reputational harm. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects.

We are affected by domestic and international macroeconomic conditions that impact the global financial markets.

We are engaged in various financial services businesses. As such, we are generally affected by domestic and international macroeconomic and political conditions, including levels of economic output, interest and inflation rates, employment levels, consumer confidence levels, and fiscal and monetary policy. These conditions may directly and indirectly impact a number of factors in the global financial markets that may be detrimental to our operating results, including the levels of trading, investing, and origination activity in the securities markets, security valuations, the absolute and relative level and volatility of interest and currency rates, real estate values, the actual and perceived quality of issuers and borrowers, and the supply of and demand for loans and deposits.

At times over the last several years, we have experienced operating cycles during weak and uncertain U.S. and global economic conditions, including low levels of economic output, artificially maintained levels of historically low interest rates, relatively high rates of unemployment, and significant uncertainty with regards to fiscal and monetary policy both domestically and abroad. These conditions led to several factors in the global financial markets that from time to time negatively impacted our net revenue and profitability. While global financial markets have shown signs of improvement, uncertainty remains. A period of sustained downturns and/or volatility in the securities markets, prolonged continuation of the artificially low level of short-term interest rates, a return to increased dislocations in the credit markets, reductions in the value of real estate, and other negative market factors could significantly impair our revenues and profitability. We could experience a decline in commission revenue from a lower volume of trades we execute for our clients, a decline in fees from reduced portfolio values of securities managed on behalf of our clients, a reduction in revenue from capital markets and advisory transactions due to lower activity, increased credit provisions and charge-offs, losses sustained from our customers' and market participants' failure to fulfill their settlement obligations, reduced net interest earnings, and other losses. These periods of reduced revenue and other losses could be accompanied by periods of reduced profitability, because certain of our expenses, including but not limited to our interest expense on debt, rent, facilities, and salary expenses, are fixed, and our ability to reduce them over short periods of time is limited.

Concerns about the European Union ("EU"), including Britain's June 2016 referendum to exit the EU, and the stability of the EU's sovereign debt, has caused uncertainty and disruption for financial markets globally. Continued uncertainties loom over the outcome the EU's financial support programs, and the possibility exists that other EU member states may experience similar financial troubles in the future or may choose to follow Britain's lead and leave the EU. Any negative impact on economic conditions and global markets from further EU sovereign debt matters could adversely affect our business, financial condition, and liquidity.

Our businesses and earnings are affected by the fiscal and other policies adopted by various regulatory authorities of the United States, non-U.S. governments, and international agencies. The Federal Reserve regulates the supply of money and credit in the United States. Federal Reserve policies determine, in large part, the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies can also materially decrease the value of certain of our financial assets, most notably debt securities. Changes in Federal Reserve policies are beyond our control, and consequently, the impact of these changes on our activities and results of our operations are difficult to predict.

U.S. state and local governments also continue to struggle with budget pressures caused by the ongoing less than optimal economic environment and ongoing concerns regarding municipal issuer credit quality. If these trends continue or worsen, investor concerns could potentially reduce the number and size of transactions in which we participate and, in turn, reduce investment banking revenues. In addition, such factors could adversely affect the value of the municipal securities we hold in our trading securities portfolio.

Lack of liquidity or access to capital could impair our business and financial condition.

Maintaining an appropriate level of liquidity, or the amount of capital that is readily available for investment, spending, or to meet our contractual obligations is essential to our business. Our inability to maintain adequate levels of capital in the form of cash and readily available access to the credit and capital markets could have a significant negative effect on our financial condition. If liquidity from our brokerage or banking operations is inadequate or unavailable, we may be required to scale back or curtail our operations, including limiting our efforts to recruit additional financial advisors or selling assets at prices that may be less favorable to us. Some potential conditions that could negatively affect our liquidity include the inability of our subsidiaries to generate cash in the form of dividends from earnings, changes imposed by regulators to our liquidity or capital requirements in our subsidiaries that may prevent the upstream of dividends in the form of cash to the parent company, limited or no accessibility to credit markets for secured and unsecured borrowings by our primary broker-dealer subsidiary and diminished access to the capital markets for our company, and other commitments or restrictions on capital as a result of adverse legal settlements, judgments, or regulatory sanctions.

The availability of outside financing, including access to the credit and capital markets, depends on a variety of factors, such as conditions in the debt and equity markets, the general availability of credit, the volume of securities trading activity, the overall availability of credit to the financial services sector, and our credit ratings. Our cost and availability of funding may be adversely affected by illiquid credit markets and wider credit spreads. Additionally, lenders may from time to time curtail, or even cease to provide, funding to borrowers as a result of any future concerns about the stability of the markets generally and the strength of counterparties specifically.

Furthermore, as a bank holding company, we may become subject to a prohibition or to limitations on our ability to repurchase our stock. The Federal Reserve and the SEC (via FINRA) have the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the subsidiaries to us for the subsidiaries they supervise.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," in this Form 10-K for additional information on liquidity and how we manage our liquidity risk.

A downgrade in our credit ratings could have a material adverse effect on our operations, earnings, and financial condition.

If our credit rating was downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected, perceptions of our financial strength could be damaged, and as a result, adversely affect our relationships with clients. Such a reduction in our credit rating could also adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets, trigger obligations under certain financial agreements, or decrease the number of investors, clients, and counterparties willing or permitted to do business with or lend to us, thereby curtailing our business operations and reducing profitability.

We may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all. The impact of a credit rating downgrade to a level below investment grade would result in our breaching provisions in our credit agreements, and may result in decreased levels of available credit or a request for immediate payment.

Our ability to attract and retain qualified financial advisors and other associates is critical to the continued success of our business.

Our ability to develop and retain our client base depends on the reputation, judgment, business generation capabilities, and skills of our senior professionals, particularly our executive team, as well as employees and financial advisors. To compete effectively, we must attract, retain, and motivate qualified associates, including successful financial advisors, investment bankers, trading professionals, portfolio managers, and other revenue-producing or specialized personnel. Competitive pressures we experience could have an adverse effect on our business, results of operations, financial condition, and liquidity.

The cost of retaining skilled professionals in the financial services industry has escalated considerably. Employers in the industry are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee’s decision to leave us as well as a prospective employee’s decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. In particular, our financial results may be adversely affected by the costs we incur in connection with any upfront loans or other incentives we may offer to newly recruited financial advisors and other key personnel.

To the extent we have compensation targets, we may not be able to retain our employees, which could result in increased recruiting expense or result in our recruiting additional employees at compensation levels that are not within our target range. In particular, our financial results may be adversely affected by the costs we incur in connection with any upfront loans or other incentives we may offer to newly recruited financial advisors and other key personnel. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading professionals, asset managers, or executive officers to a competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations, and financial condition will be adversely affected. Further, new business initiatives and efforts to expand existing businesses generally require that we incur compensation and benefits expense before generating additional revenues.

Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We have been subject to several such claims in the past and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may currently be working for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits. Such claims could also discourage potential employees who currently work for our competitors from joining us.

We are exposed to market risk.

We are, directly and indirectly, affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates could adversely affect our net interest spread, the difference between the yield we earn on our assets and the interest rate we pay for deposits and other sources of funding, which, in turn, impacts our net interest income and earnings. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. In our brokerage operations, a rising interest rate environment generally results in our earning a larger net interest spread. Conversely, in those operations, a falling interest rate environment generally results in our earning a smaller net interest spread. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

Market risk is inherent in the financial instruments associated with our operations and activities, including trading account assets and liabilities, loans, deposits, securities, short-term borrowings, corporate debt, and derivatives. Market conditions that change from time to time, thereby exposing us to market risk, include fluctuations in interest rates, equity prices, relative exchange rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of an issuer.

In addition, disruptions in the liquidity or transparency of the financial markets may result in our inability to sell, syndicate, or realize the value of security positions, thereby leading to increased concentrations. The inability to reduce our positions in specific securities may not only increase the market and credit risks associated with such positions, but also increase the level of risk-weighted assets on our balance sheet, thereby increasing capital requirements, which could have an adverse effect on our business, results of operations, financial condition, and liquidity.

See Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K for additional information regarding our exposure to and approaches to managing market risk.

We are exposed to credit risk.

We are generally exposed to the risk that third parties that owe us money, securities, or other assets do not meet their performance obligations due to bankruptcy, lack of liquidity, operational failure, or other reasons.

We actively buy and sell securities from and to clients and counterparties in the normal course of our broker-dealer businesses, exposing us to credit risk. Although generally collateralized by the underlying security to the transaction, we still face the risk associated with changes in the market value of collateral through settlement date. We also hold certain securities and derivatives in our trading accounts. Deterioration in the actual or perceived credit quality of the underlying issuers of securities, or the non-performance of issuers and counterparties to certain derivative contracts, could result in trading losses.

We borrow securities from, and lend securities to, other broker-dealers, and may also enter into agreements to repurchase and agreements to resell securities as part of investing and financing activities. A sharp change in the security market values utilized in these transactions may result in losses if counterparties to these transactions fail to honor their commitments.

We manage the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. A significant deterioration in the credit quality of one of our counterparties could lead to concerns in the market about the credit quality of other counterparties in the same industry, thereby exacerbating our credit risk exposure. We may require counterparties to deposit additional collateral or substitute collateral pledged. In the case of aged securities failed to receive, we may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty.

Also, we permit our clients to purchase securities on margin. During periods of steep declines in securities prices, the value of the collateral securing client margin loans may fall below the amount of the purchaser’s indebtedness. If the clients are unable to provide additional collateral for these margin loans, we may incur losses on those margin transactions. This may cause us to incur additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

We deposit our cash in depository institutions as a means of maintaining the liquidity necessary to meet our operating needs, and we also facilitate the deposit of cash awaiting investment in depository institutions on behalf of our clients. A failure of a depository institution to return these deposits could severely impact our operating liquidity, could result in significant reputational damage, and adversely impact our financial performance.

We also incur credit risk by lending to businesses and individuals, including but not limited to, commercial and industrial loans, commercial and residential mortgage loans, home equity lines of credit, and margin and non-purpose loans collateralized by securities. We incur credit risk through our investments.

Our credit risk and credit losses can increase if our loans or investments are concentrated among borrowers or issuers engaged in the same or similar activities, industries, geographies, or to borrowers or issuers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. The deterioration of an individually large exposure, for example due to a natural disaster, act of terrorism, severe weather event, or economic event, could lead to additional loan loss provisions and/or charge-offs, or credit impairment of our investments, and subsequently have a material impact on our net income and regulatory capital.

Declines in the real estate market or sustained economic downturns may cause us to write down the value of some of the loans in Stifel Bank's portfolio, foreclose on certain real estate properties, or write down the value of some of our securities portfolio. Credit quality generally may also be affected by adverse changes in the financial performance or condition of our debtors or deterioration in the strength of the U.S. economy.

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for additional information regarding our exposure to and approaches to managing credit risk.

Our business depends on fees earned from the management of client accounts by our primary broker-dealer and asset management subsidiaries.

We have grown our asset management business in recent years, including with the acquisitions of ZCM in 2013, 1919 Investment Counsel in 2014, and Barclays in 2015, which has increased the risks associated with this business relative to our overall operations. Asset management fees often are primarily comprised of base management and incentive fees. Management fees are primarily based on assets under management ("AUM"). AUM balances are impacted by net inflow/outflow of client assets and changes in market values. Below-market investment performance by the funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impact our business and financial condition. If we were to experience the loss of managed accounts, our fee revenue would decline. In addition, in periods of declining market values, our asset values under management may resultantly decline, which would negatively impact our fee revenues.

Our underwriting, market-making, trading, and other business activities place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities that we have underwritten at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings in which we are involved. As a market-maker, we may own positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified. In addition, despite risk mitigation policies, we may incur losses as a result of positions we hold in connection with our market-making or underwriting activities. While it is not typical, from time to time and as part of our underwriting processes, we may carry significant positions in securities of a single issuer or issuers engaged in a specific industry. Sudden changes in the value of these positions could impact our financial results.

We have made, and to the limited extent permitted by applicable regulations, may continue to make principal investments in private equity funds and other illiquid investments. There is risk that we may be unable to realize our investment objectives by sale or other disposition at attractive prices or that we may otherwise be unable to complete a desirable exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the portfolio companies in which investments are made, changes in economic conditions, or changes in laws, regulations, fiscal policies, or political conditions. It could take a substantial period of time to identify attractive investment opportunities and then to realize the cash value of such investments through resale. Even if a private equity investment proves to be profitable, it may be several years or longer before any profits can be realized in cash.

The soundness of other financial institutions and intermediaries affects us.

We face the risk of operational failure, termination, or capacity constraints of any of the clearing agents, exchanges, clearing houses, or other financial intermediaries that we use to facilitate our securities transactions. As a result of the consolidation over the years among clearing agents, exchanges, and clearing houses, our exposure to certain financial intermediaries has increased and could affect our ability to find adequate and cost-effective alternatives should the need arise. Any failure, termination, or constraint of these intermediaries could adversely affect our ability to execute transactions, serve our clients, and manage our exposure to risk.

Our ability to engage in routine trading and funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, funding, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by, or even rumors or questions about the financial condition of, one or more financial services institutions, or the financial services industry generally, have historically led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Losses arising in connection with counterparty defaults may have a material adverse effect on our results of operations.

We have experienced increased pricing pressures in areas of our business, which may impair our future revenue and profitability.

Our business continues to experience increased pricing pressures on trading margins and commissions in fixed income and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional competitive downward pressure on trading margins. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions, or margins.

Growth of our business could increase costs and regulatory risks.

Integrating acquired businesses, providing a platform for new businesses, and partnering with other firms involve a number of risks and present financial, managerial, and operational challenges. We may incur significant expenses in connection with further expansion of our existing businesses, or recruitment of financial advisors, or in connection with strategic acquisitions or investments, if and to the extent they arise from time to time. Our overall profitability would be negatively affected if investments and expenses associated with such growth are not matched or exceeded by the revenues that are derived from such investment or growth.



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Expansion may also create a need for additional compliance, documentation, risk management, and internal control procedures, and often involves the hiring of additional personnel to monitor such procedures. To the extent such procedures are not adequate to appropriately monitor any new or expanded business, we could be exposed to a material loss or regulatory sanction.

Moreover, to the extent we pursue strategic acquisitions, we may be unable to complete such acquisitions on acceptable terms, or be unable to successfully integrate the operations of any acquired business into our existing business. Such acquisitions could be of significant size and/or complexity. This effort, together with difficulties we may encounter in integrating an acquired business, could have an adverse effect on our business, financial condition, and results of operations. In addition, we may need to raise equity capital or borrow to finance such acquisitions, which could dilute our shareholders or increase our leverage. Any such borrowings might not be available on terms as favorable to us as our current borrowings, or perhaps at all.

The growth of Stifel Bank may expose us to increased credit risk, operational risk, regulatory risk, and sensitivity to market interest rates along with increased regulation, examinations, and supervision by regulators.

We have experienced growth in the investment portfolio, which includes available-for-sale and held-to-maturity securities, and the loan portfolio of Stifel Bank, which is funded by affiliated customer deposits. Although our stock-secured loans are collateralized by assets held in our clients' brokerage accounts, we are exposed to some credit and operational risk associated with these loans. With the increase in deposits and resulting liquidity, we have been able to expand our investment portfolio. In addition, Stifel Bank has significantly grown its mortgage and commercial lending businesses. Although we believe we have conservative underwriting policies in place, there are inherent risks associated with the mortgage banking business. For further discussion of our segments, including our Stifel Bank reporting unit, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis."

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, we are more sensitive to changes in interest rates, in the shape of the yield curve, or in relative spreads between market interest rates.

The monetary, tax, and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. An important function of the Federal Reserve is to regulate the national supply of bank credit and market interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits, which may also affect the value of our on-balance sheet and off-balance sheet financial instruments. We cannot predict the nature or timing of future changes in monetary, tax, and other policies or the effect that they may have on our activities and results of operations.

In addition, Stifel Bank is heavily regulated at the state and federal level. This regulation is to protect depositors, federal deposit insurance funds, consumers, and the banking system as a whole, but not our shareholders. Federal and state regulations can significantly restrict our businesses, and we are subject to various regulatory actions, which could include fines, penalties, or other sanctions for violations of laws and regulatory rules if we are ultimately found to be out of compliance.

We face intense competition.

We are engaged in intensely competitive businesses. We compete on the basis of a number of factors, including the quality of our financial advisors and associates, our products and services, pricing (such as execution pricing and fee levels), location, and reputation in relevant markets. Over time, there has been substantial consolidation and convergence among companies in the financial services industry, which has significantly increased the capital base and geographic reach of our competitors. See the section entitled "Competition" of Item 1 of this Form 10-K for additional information about our competitors.

We compete directly with national full-service broker-dealers, investment banking firms, and commercial banks, and to a lesser extent, with discount brokers and dealers and investment advisors. In addition, we face competition from more recent entrants into the market and increased use of alternative sales channels by other firms. We also compete indirectly for investment assets with insurance companies, real estate firms, hedge funds, and others. This competition could cause our business to suffer.

To remain competitive, our future success also depends, in part, on our ability to develop and enhance our products and services. An inability to develop new products and services, or enhance existing offerings, could have a material adverse effect on our profitability. In addition, the continued development of internet, networking, or telecommunication technologies or other technological changes could require us to incur substantial expenditures to enhance or adapt our services or infrastructure.

We are exposed to operational risk.

Our diverse operations expose us to risk of loss resulting from inadequate or failed internal processes, people, and systems external events, including technological or connectivity failures either at the exchanges in which we do business or between our data centers, operations processing sites, or our branches. Our businesses depend on our ability to process and monitor, on a daily basis, a large number of complex transactions across numerous and diverse markets. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions or provide these services. Operational risk exists in every activity, function, or unit of our business, and can take the form of internal or external fraud, employment and hiring practices, an error in meeting a professional obligation, or failure to meet corporate fiduciary standards. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If our employees engage in misconduct, our businesses would be adversely affected. Operational risk also exists in the event of business disruption, system failures, or failed transaction processing. Third parties with which we do business could also be a source of operational risk, including with respect to breakdowns or failures of the systems or misconduct by the employees of such parties. In addition, as we change processes or introduce new products and services, we may not fully appreciate or identify new operational risks that may arise from such changes. Increasing use of automated technology has the potential to amplify risks from manual or system processing errors, including outsourced operations.

Our business contingency plan in place is intended to ensure we have the ability to recover our critical business functions and supporting assets, including staff and technology, in the event of a business interruption. Despite the diligence we have applied to the development and testing of our plans, due to unforeseen factors, our ability to conduct business may, in any case, be adversely affected by a disruption involving physical site access, catastrophic events, including weather-related events, events involving electrical, environmental, or communications malfunctions, as well as events impacting services provided by others that we rely upon which could impact our employees or third parties with whom we conduct business.

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for additional information regarding our exposure to and approaches to managing operational risk.

Our businesses depend on technology.

Our businesses rely extensively on electronic data processing and communications systems. In addition to better serving clients, the effective use of technology increases efficiency and enables us to reduce costs. Adapting or developing our technology systems to meet new regulatory requirements, client needs, and competitive demands is critical for our business. Introduction of new technology presents challenges on a regular basis. There are significant technical and financial costs and risks in the development of new or enhanced applications, including the risk that we might be unable to effectively use new technologies or adapt our applications to emerging industry standards.

Our continued success depends, in part, upon our ability to: (1) successfully maintain and upgrade the capability of our technology systems; (2) address the needs of our clients by using technology to provide products and services that satisfy their demands; and (3) retain skilled information technology employees. Failure of our technology systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients, violations of applicable privacy and other applicable laws, and regulatory sanctions.

Any cyber-attack or other security breach of our technology systems, or those of our clients or other third-party vendors we rely on, could subject us to significant liability and harm our reputation.

Our operations rely heavily on the secure processing, storage and transmission of sensitive and confidential financial, personal and other information in our computer systems and networks. There have been several highly publicized cases involving financial services companies reporting the unauthorized disclosure of client or other confidential information in recent years, as well as cyber-attacks involving the theft, dissemination and destruction of corporate information or other assets, in some cases as a result of failure to follow procedures by employees or contractors or as a result of actions by third parties. Like other financial services firms, we are regularly the target of attempted cyber-attacks, including unauthorized access, mishandling or misuse of information, computer viruses or malware, denial-of-service attacks, phishing or other forms of social engineering, and other events, and we seek to continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption. Cyber-attacks can originate from a variety of sources, including third parties affiliated with foreign governments, organized crime or terrorist organizations. Third parties may also attempt to place individuals within our company or induce employees, clients or other users of our systems to disclose sensitive information or provide access to our data, and these types of risks may be difficult to detect or prevent. Although cyber security incidents among financial services firms are on the rise, we have not experienced any material losses relating to cyber-attacks or other information security breaches. However, the techniques used in these attacks are increasingly sophisticated, change frequently and are often not recognized until launched. Although we seek to maintain a robust suite of authentication and layered information security controls, including our cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and vulnerability management program, any one or combination of these controls could fail to detect, mitigate or remediate these risks in a timely manner. Despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code, and other events that could result in significant liability and damage to our reputation, and have an ongoing impact on the security and stability of our operations.

We also rely on numerous third party service providers to conduct other aspects of our business operations, and we face similar risks relating to them. While we regularly conduct security assessments on these third party vendors, we cannot be certain that their information security protocols are sufficient to withstand a cyber-attack or other security breach. In addition, in order to access our products and services, our customers may use computers and other devices that are beyond our security control systems.

Notwithstanding the precautions we take, if a cyber-attack or other information security breach were to occur, this could jeopardize the information we confidentially maintain, or otherwise cause interruptions in our operations or those of our clients and counterparties, exposing us to liability. As attempted attacks continue to evolve in scope and sophistication, we may be required to expend substantial additional resources to modify or enhance our protective measures, to investigate and remediate vulnerabilities or other exposures or to communicate about cyber-attacks to our customers. Though we have insurance against some cyber-risks and attacks, we may be subject to litigation and financial losses that exceed our policy limits or are not covered under any of our current insurance policies. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators. Further, successful cyber-attacks at other large financial institutions or other market participants, whether or not we are affected, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general, which could result in reduced use of our financial products and services.

Further, in light of the high volume of transactions we process, the large number of our clients, partners and counterparties, and the increasing sophistication of malicious actors, a cyber-attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber-attack would take substantial amounts of time, and that there may be extensive delays before we obtain full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all of which would further increase the costs and consequences of such an attack.

We may also be subject to liability under various data protection laws. In providing services to clients, we manage, utilize and store sensitive or confidential client or employee data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal, state and international laws governing the protection of personally identifiable information. These laws and regulations are increasing in complexity and number. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to client or employee data, or otherwise mismanages or misappropriates such data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients and related revenue. Potential liability in the event of a security breach of client data could be significant. Depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit or an exclusion of consequential or indirect damages.

See Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in this Form 10-K for additional information regarding our exposure to and approaches to managing these types of operational risk.

We are exposed to risks of legal proceedings, which may result in significant losses to us that we cannot recover. Claimants in these proceedings may be customers, employees, or regulatory agencies, among others, seeking damages for mistakes, errors, negligence, or acts of fraud by our employees.

Many aspects of our business involve substantial risks of liability, arising in the normal course of business. Participants in the financial services industry face an increasing amount of litigation and arbitration proceedings. Dissatisfied clients regularly make claims against broker-dealers and their employees for, among others, negligence, fraud, unauthorized trading, suitability, churning, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions by financial advisors or traders, improper recruiting activity, and failures in the processing of securities transactions. The risks associated with potential litigation often may be difficult to assess or quantify, and the existence and magnitude of potential claims often remain unknown for substantial periods of time.

These types of claims expose us to the risk of significant loss. Acts of fraud are difficult to detect and deter, and while we believe our supervisory procedures are reasonably designed to detect and prevent violations of applicable laws, rules, and regulations, we cannot assure investors that our risk management procedures and controls will prevent losses from fraudulent activity. In our role as underwriter and selling agent, we may be liable if there are material misstatements or omissions of material information in prospectuses and other communications regarding underwritten offerings of securities. At any point in time, the aggregate amount of existing claims against us could be material. While we do not expect the outcome of any existing claims against us to have a material adverse impact on our business, financial condition, or results of operations, we cannot assure you that these types of proceedings will not materially and adversely affect our company. We do not carry insurance that would cover payments regarding these liabilities, except for insurance against certain fraudulent acts of our employees. In addition, our bylaws provide for the indemnification of our officers, directors, and employees to the maximum extent permitted under Delaware law. In the future, we may be the subject of indemnification assertions under these documents by our officers, directors, or employees who have or may become defendants in litigation. These claims for indemnification may subject us to substantial risks of potential liability.

In highly volatile markets, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions has historically increased. These risks include potential liability under securities or other laws for alleged materially false or misleading statements made in connection with securities offerings and other transactions, issues related to the suitability of our investment advice based on our clients' investment objectives (including auction rate securities), the inability to sell or redeem securities in a timely manner during adverse market conditions, contractual issues, employment claims, and potential liability for other advice we provide to participants in strategic transactions. Substantial legal liability could have a material adverse financial effect or cause us significant reputational harm, which, in turn, could seriously harm our business and our prospects.

In addition to the foregoing financial costs and risks associated with potential liability, the costs of defending individual litigation and claims continue to increase over time. The amount of outside attorneys' fees incurred in connection with the defense of litigation and claims could be substantial and might materially and adversely affect our results of operations.

See Item 3, "Legal Proceedings," in this Form 10-K for a discussion of our legal matters and Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K for a discussion regarding our approach to managing legal risk.

The preparation of the consolidated financial statements requires the use of estimates that may vary from actual results, and new accounting standards could adversely affect future reported results.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions may require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain.

Our financial instruments, including certain trading assets and liabilities, available-for-sale securities, investments, including certain loans, intangible assets, and private equity investments, among other items, require management to make a determination of their fair value in order to prepare our consolidated financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means, which ultimately rely to some degree on our judgment. Some of these instruments and other assets and liabilities may have no direct observable inputs, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain securities may make it more difficult to value certain items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in our earnings in subsequent periods.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. For a further discussion of some of our significant accounting policies and standards, see the "Critical Accounting Estimates" discussion within Item 7, and Note 2 of the Notes to Consolidated Financial Statements, in this Form 10-K.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date.

The Company has calculated an estimate of the impact of the Tax Legislation in its year end income tax provision in accordance with its understanding of the Tax Legislation and guidance available as of the date of this filing and as a result has recorded $42.4 million as an additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the re-measurement of certain deferred tax assets and liabilities is based on the rates at which they are expected to reverse in the future. In addition, the Tax Legislation includes a one-time mandatory repatriation transition tax on the net accumulated earnings and profits of a U.S. taxpayer's foreign subsidiaries. We have performed an initial earnings and profits analysis and have determined that there was no income tax effect in the current period, which we consider to be a provisional analysis. In accordance with SAB 118, any subsequent adjustments to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk.

We seek to manage, monitor, and control our operational, legal, and regulatory risk through operational and compliance reporting systems, internal controls, management review processes, and other mechanisms; however, there can be no assurance that our procedures will be effective. Our banking and trading processes seek to balance our ability to profit from banking and trading positions with our exposure to potential losses. While we use limits and other risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate unforeseen economic and financial outcomes or the specifics and timing of such outcomes. Our risk management methods may not predict future risk exposures. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients, and other matters that are based on assumptions that may no longer be accurate. A failure to adequately manage our growth, or to effectively manage our risk, could materially and adversely affect our business and financial condition.

Financial services firms are subject to numerous actual or perceived conflicts of interest, which are under growing scrutiny by U.S. federal and state regulators. Our risk management processes include addressing potential conflicts of interest that arise in our business. Management of potential conflicts of interest has become increasingly complex as we expand our business activities. A perceived or actual failure to address conflicts of interest could affect our reputation, the willingness of clients to transact business with us, or give rise to litigation or regulatory actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could result in material harm to our business and financial condition.

For more information on how we monitor and manage market and certain other risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in this Form 10-K.

We are exposed to risk from international markets.

We do business in other parts of the world and, as a result, are exposed to a number of risks, including economic, market, litigation, and regulatory risks, in non-U.S. markets. Our businesses and revenues derived from non-U.S. operations are subject to risk of loss from currency fluctuations, social or political instability, changes in governmental policies or policies of central banks, downgrades in the credit ratings of sovereign countries, expropriation, nationalization, confiscation of assets, and unfavorable legislative and political developments. Action or inaction in any of these operations, including failure to follow proper practices with respect to regulatory compliance and/or corporate governance, could harm our operations and/or our reputation. We also invest or trade in the securities of corporations located in non-U.S. jurisdictions. Revenues from the trading of non-U.S. securities also may be subject to negative fluctuations as a result of the above factors. The impact of these fluctuations could be magnified, because generally non-U.S. trading markets are smaller, less liquid, and more volatile than U.S. trading markets.

RISKS RELATED TO OUR REGULATORY ENVIRONMENT

Financial services firms have been subject to regulatory changes resulting from the Dodd-Frank Act and increased regulatory scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.

Financial services firms over the last several years have been operating in an onerous regulatory environment, which could become more stringent in light of recent well-publicized failures of regulators to detect and prevent fraud. The industry has experienced increased scrutiny from various regulators, including the SEC, the Fed, the OCC and the CFPB, in addition to stock exchanges, FINRA and state attorneys general. Penalties and fines imposed by regulatory authorities have increased substantially in recent years. We may be adversely affected by changes in the interpretation or enforcement of existing laws, rules and regulations.

As a result of the demand by the public for changes in the way the financial services industry is regulated, including a call for more stringent legislation and regulation in the United States and abroad. The Dodd-Frank Act enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see Item 1, "Regulation," in this report for a discussion of such changes). The ultimate impact that the Dodd-Frank Act and implementing regulations will have on us, the financial industry and the economy at large cannot be quantified until all of the implementing regulations called for under the legislation have been finalized and fully implemented. Nevertheless, it is apparent that these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of our assets, require us to alter at least some of our business practices, impose additional compliance costs, and otherwise adversely affect our businesses.

The Dodd-Frank Act impacts the manner in which we market our products and services, manage our business and operations, and interact with regulators, all of which could materially impact our results of operations, financial condition and liquidity. Certain provisions of the Dodd-Frank Act that have or may impact our businesses include: the establishment of a fiduciary standard for broker-dealers; regulatory oversight of incentive compensation; the imposition of capital requirements on financial holding companies; prohibition of proprietary trading; restrictions on investments in covered funds; and, to a lesser extent, greater oversight over derivatives trading. There is also increased regulatory scrutiny (and related compliance costs) as we continue to grow and surpass certain consolidated asset thresholds established under the Dodd-Frank Act, which have the effect of imposing enhanced standards and requirements on larger institutions. These include, but are not limited to, Stifel Bank’s oversight by the CFPB. The CFPB has had an active enforcement agenda and any action taken by the CFPB could result in requirements to alter or cease offering affected products and services, make such products and services less attractive, impose additional compliance measures, or result in fines, penalties or required remediation. To the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. We are also required to comply with the Volcker Rule’s provisions. Although we have not historically engaged in significant levels of proprietary trading, due to our underwriting and market-making activities and our investments in covered funds, we have experienced and expect to continue to experience increased operational and compliance costs and changes to our private equity investments. Any changes to regulations or changes to the supervisory approach may also result in increased compliance costs to the extent we are required to modify our existing compliance policies, procedures and practices.

Broker-dealers and investment advisors are subject to regulations covering all aspects of the securities business, including, but not limited to: sales and trading methods; trade practices among broker-dealers; use and safekeeping of clients’ funds and securities; capital structure of securities firms; anti-money laundering efforts; recordkeeping; and the conduct of directors, officers and employees. Any violation of these laws or regulations could subject us to the following events, any of which could have a material adverse effect on our business, financial condition and prospects: civil and criminal liability; sanctions, which could include the revocation of our subsidiaries’ registrations as investment advisors or broker-dealers; the revocation of the licenses of our financial advisors; censures; fines; or a temporary suspension or permanent bar from conducting business.

Regulatory actions brought against us may result in judgments, settlements, fines, penalties or other results, any of which could have a material adverse effect on our business, financial condition or results of operations. There is no assurance that regulators will be satisfied with the policies and procedures implemented by our company and its subsidiaries. In addition, from time to time, the Company and its affiliates may become subject to additional findings with respect to supervisory, compliance or other regulatory deficiencies, which could subject us to additional liability, including penalties, and restrictions on our business activities. Among other things, these restrictions could limit our ability to make investments, complete acquisitions, expand into new business lines, pay dividends and/or engage in share repurchases. See Item 1, “Regulation,” in this report for additional information regarding our regulatory environment and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk Management,” in this report regarding our approaches to managing regulatory risk.

Changes in regulations resulting from the DOL Rule, including the DOL fiduciary standard, may adversely affect our businesses.

The DOL Rule became effective on June 9, 2017, with the BIC Exemption and the Principal Transactions Exemption subject to a transition period through January 2018. The DOL has delayed the applicability of certain additional conditions of these exemptions to July 1, 2019, and is currently studying the rule’s impacts and considering whether any changes are needed.

Although we have undertaken a comprehensive plan to comply with the DOL Rule given that qualified accounts, particularly IRA accounts, comprise a significant portion of our business, we expect that compliance with the DOL Rule and reliance on the BIC Exemption and the Principal Transactions Exemption will require us to continue to incur increased legal, compliance and information technology costs. We anticipate that if the DOL Rule is amended, a rule imposing heightened standards on broker-dealers is adopted by the SEC, or fiduciary rules are adopted at the state level, we will be required to incur additional costs in order to review and possibly modify our compliance plan and approach. Implementation of the DOL Rule, any amendments to the rule, and any rules addressing similar matters will negatively impact our results including the impact of increased costs related to compliance, legal and information technology. In addition, we expect that our legal risks will increase, in part, as a result of the new contractual rights required to be given to IRA and non-ERISA plan clients under the BIC Exemption and Principal Transactions Exemption.

The Basel III regulatory capital standards imposed additional capital and other requirements on us that could decrease our competitiveness and profitability.

In July 2013, the OCC, the FRB, and the FDIC released final U.S. Basel III Rules, which implemented the global regulatory capital reforms of Basel III and certain changes required by the Dodd-Frank Act. The U.S. Basel III rules increase the quantity and quality of regulatory capital, establish a capital conservation buffer, and make selected changes to the calculation of risk-weighted assets. The rule became effective for us January 1, 2015, subject to a transition period for several aspects of the rule, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. The increased capital requirements stipulated under the U.S. Basel III Rules could restrict our ability to grow during favorable market conditions or require us to raise additional capital. As a result, our business, results of operations, financial condition, or prospects could be adversely affected.

Failure to comply with regulatory capital requirements primarily applicable to our company, Stifel Bank, or our broker-dealer subsidiaries would significantly harm our business.

Our company and Stifel Bank are subject to various regulatory and capital requirements administered by the federal banking regulators. 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 company and Stifel Bank's 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 of our capital, risk weightings of assets, off-balance sheet transactions, and other factors. Quantitative measures established by regulation to ensure capital adequacy require our company and Stifel Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1, Tier 1 leverage, Total capital to risk-weighted assets, Tier 1 capital to average assets, and capital conservation buffers (as defined in the regulations). Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could harm either our company or Stifel Bank's operations and our financial condition.

As a financial holding company, we depend on dividends, distributions, and other payments from our subsidiaries to fund payments of our obligations, including, among others, debt service. We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiaries. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Regulatory capital requirements applicable to some of our significant subsidiaries may impede access to funds our company needs to make payments on any such obligations.

See Note 19 of the Notes to Consolidated Financial Statements in this Form 10-K for further information on regulations and capital requirements.

We operate in a highly regulated industry in which future developments could adversely affect our business and financial condition.

The securities industry is subject to extensive regulation, and broker-dealers and investment advisors are subject to regulations covering all aspects of the securities business, including but not limited to, sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, anti-money laundering efforts, record keeping, and the conduct of directors, officers, and employees. If laws or regulations are violated, we could be subject to one or more of the following: civil liability, criminal liability, sanctions which could include the revocation of our subsidiaries' registrations as investment advisors or broker-dealers, the revocation of the licenses of our financial advisors, censures, fines, or a temporary suspension or permanent bar from conducting business. Any of those events could have a material adverse effect on our business, financial condition, and prospects.

We are subject to financial holding company regulatory reporting requirements, including the maintenance of certain risk-based regulatory capital levels that could impact various capital allocation decisions of one or more of our businesses. However, due to our strong current capital position, we do not anticipate that these capital level requirements will have any negative impact on our future business activities. See the section entitled "Business – Regulation" of Item 1 of this Form 10-K for additional information.

As a financial holding company, we are regulated by the Federal Reserve. Stifel Bank is regulated by the Federal Reserve and the Missouri Division of Finance. This oversight includes, but is not limited to, scrutiny with respect to affiliate transactions and compliance with consumer regulations. The economic and political environment over the past several years has caused increased focus on the regulation of the financial services industry, including many proposals for new rules. Any new rules issued by our regulators could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition, and results of operations. We also may be adversely affected as a result of changes in federal, state, or foreign tax laws, or by changes in the interpretation or enforcement of existing laws and regulations.

The SEC has proposed certain measures that would establish a new framework to replace the requirements of Rule 12b-1 under the Investment Company Act of 1940 with respect to how mutual funds collect and pay fees to cover the costs of selling and marketing their shares. Any adoption of such measures would be phased in over a number of years. These measures are neither final nor undergoing implementation throughout the financial services industry. The impact of changes such as those currently proposed cannot be predicted at this time. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

Asset management businesses have experienced a number of highly publicized regulatory inquiries, which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors, and broker-dealers. As some of our wholly owned subsidiaries are registered as investment advisors with the SEC, increased regulatory scrutiny and rulemaking initiatives may result in augmented operational and compliance costs, or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. It is not possible to determine the extent of the impact of any new laws, regulations, or initiatives that may be proposed, or whether any of the proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. For example, pursuant to the Dodd-Frank Act, the SEC was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to registered investment advisors. It is not clear whether the SEC will determine that a heightened standard of conduct is appropriate for broker-dealers; however, any such standard, if mandated, would likely require us to review our product and service offerings and implement certain changes, as well as require that we incur additional regulatory costs in order to ensure compliance.

In addition, the U.S. and foreign governments have recently taken regulatory actions impacting the investment management industry, and may continue to take further actions, including expanding current or enacting new standards, requirements, and rules that may be applicable to us and our subsidiaries. For example, several states and municipalities in the United States have recently adopted “pay-to-play” rules, which could limit our ability to charge advisory fees. Such “pay-to-play” rules could affect the profitability of that portion of our business. Additionally, the use of “soft dollars,” where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, is periodically reexamined and may in the future be limited or modified. A substantial portion of the research relied on by our investment management business in the investment decision-making process is generated internally by our investment analysts and external research, including external research paid for with soft dollars. This external research generally is used for information-gathering or verification purposes, and includes broker-provided research, as well as third-party-provided databases and research services. If the use of soft dollars is limited, we may have to bear some of these additional costs. Furthermore, new regulations regarding the management of hedge funds and the use of certain investment products may impact our investment management business and result in increased costs. For example, many regulators around the world adopted disclosure and reporting requirements relating to the hedge fund businesses or other businesses, and changes to the laws, rules, and regulations in the United States related to the over-the-counter swaps and derivatives markets require additional registration, recordkeeping, and reporting obligations.

RISKS RELATED TO OUR COMMON STOCK

The market price of our common stock may continue to be volatile.

The market price of our common stock has been, and is likely to continue to be, volatile and subject to fluctuations. Stocks of financial institutions have, from time to time, experienced significant downward pressure in connection with economic conditions or events and may again experience such pressures in the future. Changes in the stock market generally or as it concerns our industry, as well as geopolitical, economic, and business factors unrelated to us, may also affect our stock price. Significant declines in the market price of our common stock or failure of the market price to increase could harm our ability to recruit and retain key employees, including those who have joined us from companies we have acquired, reduce our access to debt or equity capital, and otherwise harm our business or financial condition. In addition, we may not be able to use our common stock effectively as consideration in connection with future acquisitions.

Our current shareholders may experience dilution in their holdings if we issue additional shares of common stock as a result of future offerings or acquisitions where we use our common stock.

As part of our business strategy, we may seek opportunities for growth through strategic acquisitions in which we may consider issuing equity securities as part of the consideration. Additionally, we may obtain additional capital through the public sale of debt or equity securities. If we sell equity securities, the value of our common stock could experience dilution. Furthermore, these securities could have rights, preferences, and privileges more favorable than those of the common stock. Moreover, if we issue additional shares of common stock in connection with equity compensation, future acquisitions, or as a result of financing, an investor’s ownership interest in our company will be diluted.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to holders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series, and therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales or issuance of shares of our common stock or securities convertible into or exchangeable for common stock.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our articles of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to prospective acquirers and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the location, approximate square footage, and use of each of the principal properties used by our company during the year ended December 31, 2017. We own our executive offices in St. Louis, Missouri. We lease or sublease a majority of these properties under operating leases. Such leases expire at various times through 2028.

| Location | Approximate Square Footage | Use |
|---|---|---|
| St. Louis, Missouri | 434,000 | Headquarters and administrative offices of Stifel, Global Wealth Management operations (including CSA), and Institutional Group operations |
| New York, New York | 423,500 | Global Wealth Management and Institutional Group operations |
| Baltimore, Maryland | 97,500 | Institutional Group operations and Administrative offices |
| San Francisco, California | 88,500 | Global Wealth Management and Institutional Group operations |
| Chicago, Illinois | 75,000 | Global Wealth Management and Institutional Group operations |
| Florham Park, New Jersey | 74,000 | Global Wealth Management and Institutional Group operations |
| Birmingham, Alabama | 62,500 | Global Wealth Management and Institutional Group operations |

We also maintain operations in 391 leased offices in various locations throughout the United States and in certain foreign countries, primarily for our broker-dealer business. We lease 355 private client offices. In addition, Stifel Bank leases one location for its administrative offices and operations. Our Institutional Group segment leases 36 offices in the United States and certain foreign locations. We believe that, at the present time, the space available to us in the facilities under our current leases and co-location arrangements are suitable and adequate to meet our needs and that such facilities have sufficient productive capacity and are appropriately utilized.

Leases for the branch offices of our independent contractor firms are the responsibility of the respective independent financial advisors.

See Note 17 of the Notes to Consolidated Financial Statements for further information regarding our lease obligations.

ITEM 3. 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 adverse judgments, settlements, fines, penalties, injunctions, and other relief. We are contesting 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 that may result from 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 can reasonably be estimated.

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 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.

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, (the "fund plaintiffs"), 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, the fund 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.

In a related action, approximately one dozen individual investors (the "individual plaintiffs") brought a direct action against the Company and other defendants, seeking recessionary damages of approximately $90 million. The court ruled that the individual plaintiffs had no standing to pursue these claims because the CA funds are separately pursuing claims. The individual plaintiffs appealed that decision to the Fifth Circuit.

During December 2017, the fund plaintiffs, the individual plaintiffs, our company and our subsidiaries, including Stone & Youngberg, entered into a settlement agreement that resolved all outstanding litigation related to this matter.

ITEM 4. MINE SAFTEY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange and Chicago Stock Exchange under the symbol "SF." The closing sale price of our common stock as reported on the New York Stock Exchange on February 15, 2018, was $62.83. As of that date, our common stock was held by approximately 33,100 shareholders. The following table sets forth for the periods indicated the high and low trades for our common stock:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | $56.62 | $46.14 | $41.67 | $25.00 |
| Second quarter | $51.07 | $41.93 | $38.52 | $27.33 |
| Third quarter | $54.07 | $44.44 | $39.96 | $28.49 |
| Fourth quarter | $61.47 | $50.94 | $52.88 | $36.71 |

During the third quarter of 2017, we announced that our board of directors has authorized a dividend program under which the Company intends to pay a regular quarterly cash dividend to shareholders of its common stock. The Company did not pay cash dividends during 2016.

Cash dividends per share of common stock paid during the year are reflected below. The dividends were declared during the quarter of payment.

| | Fiscal Year 2017 |
|---|---|
| First quarter | $— |
| Second quarter | $— |
| Third quarter | $0.10 |
| Fourth quarter | $0.10 |

We recently announced our intention to increase our quarterly cash dividend to $0.12 per share starting in the first quarter of 2018.

The payment of dividends on our common stock is subject to several factors, including operating results, financial requirements of our company, and the availability of funds from our subsidiaries. See Note 19 of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on our broker-dealer subsidiaries and Stifel Bank.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plans is contained in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Issuer Purchases of Equity Securities

There were no unregistered sales of equity securities during the quarter ended December 31, 2017. There were also no purchases made by or on behalf of Stifel Financial Corp. or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended December 31, 2017.

We have on ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At December 31, 2017, the maximum number of shares that may yet be purchased under this plan was 7.1 million.

Stock Performance Graph

Five-Year Shareholder Return Comparison

The graph below compares the cumulative stockholder return on our common stock with the cumulative total return of a Peer Group Index, the Standard & Poor’s 500 Index (“S&P 500”), and the NYSE ARCA Securities Broker Dealer Index for the five-year period ended December 31, 2017. The NYSE ARCA Securities Broker Dealer Index consists of eighteen firms in the brokerage sector. The Broker-Dealer Index includes our company. The stock price information shown on the graph below is not necessarily indicative of future price performance.

The material in this report is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

The following table and graph assume that $100.00 was invested on December 31, 2012, in our common stock, the Peer Group Index, the S&P 500 Index, and the NYSE ARCA Securities Broker Dealer Index, with reinvestment of dividends.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Stifel Financial Corp. | $150 | $160 | $132 | $156 | $187 |
| Peer Group | $147 | $168 | $148 | $188 | $211 |
| S&P 500 Index | $132 | $150 | $153 | $171 | $208 |
| NYSE ARCA Securities Broker Dealer Index | $170 | $196 | $189 | $218 | $281 |

*Compound Annual Growth Rate

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The Peer Group Index consists of the following companies that serve the same markets as us and which compete with us in one or more markets:

| | |
|---|---|
| FBR & Co. | Raymond James Financial, Inc. |
| Oppenheimer Holdings, Inc. | Goldman Sachs Group, Inc. |
| JMP Group, Inc. | Morgan Stanley |
| Piper Jaffray Companies | Stifel Financial Corp. |

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data (presented in thousands, except per share amounts) is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenues: | | | | | |
| Commissions | $678,904 | $729,989 | $749,536 | $674,418 | $640,287 |
| Principal transactions | 396,826 | 475,428 | 389,319 | 409,823 | 408,954 |
| Investment banking | 726,763 | 513,034 | 503,052 | 578,689 | 457,736 |
| Asset management and service fees | 702,064 | 582,789 | 493,761 | 386,001 | 305,639 |
| Interest | 454,381 | 294,332 | 179,101 | 185,969 | 142,539 |
| Other income | 37,524 | 46,798 | 62,224 | 14,785 | 64,659 |
| Total revenues | 2,996,462 | 2,642,370 | 2,376,993 | 2,249,685 | 2,019,814 |
| Interest expense | 70,030 | 66,874 | 45,399 | 41,261 | 46,368 |
| Net revenues | 2,926,432 | 2,575,496 | 2,331,594 | 2,208,424 | 1,973,446 |
| Non-interest expenses: | | | | | |
| Compensation and benefits | 1,958,929 | 1,726,016 | 1,568,862 | 1,403,932 | 1,311,386 |
| Occupancy and equipment rental | 222,708 | 231,324 | 207,465 | 169,040 | 158,268 |
| Communications and office supplies | 133,493 | 139,644 | 130,678 | 106,926 | 99,726 |
| Commissions and floor brokerage | 44,132 | 44,315 | 42,518 | 36,555 | 37,225 |
| Other operating expenses | 297,634 | 291,615 | 240,504 | 201,177 | 181,612 |
| Total non-interest expenses | 2,656,896 | 2,432,914 | 2,190,027 | 1,917,630 | 1,788,217 |
| Income from continuing operations before income tax expense | 269,536 | 142,582 | 141,567 | 290,794 | 185,229 |
| Provision for income taxes | 86,665 | 61,062 | 49,231 | 111,664 | 12,322 |
| Income from continuing operations | 182,871 | 81,520 | 92,336 | 179,130 | 172,907 |
| Discontinued operations: | | | | | |
| Loss from discontinued operations, net of tax | — | — | — | (3,063) | (10,894) |
| Net income | 182,871 | $81,520 | $92,336 | $176,067 | $162,013 |
| Preferred dividends | 9,375 | 3,906 | — | — | — |
| Net Income available to common shareholders | $173,496 | $77,614 | $92,336 | $176,067 | $162,013 |
| Earnings per basic common share: | | | | | |
| Income from continuing operations | $2.53 | $1.16 | $1.35 | $2.69 | $2.72 |
| Loss from discontinued operations | — | — | — | (0.04) | (0.17) |
| Earnings per basic common share | $2.53 | $1.16 | $1.35 | $2.65 | $2.55 |
| Earnings per diluted common share: | | | | | |
| Income from continuing operations | $2.14 | $1.00 | $1.18 | $2.35 | $2.35 |
| Loss from discontinued operations | — | — | — | (0.04) | (0.15) |
| Earnings per diluted common share | $2.14 | $1.00 | $1.18 | $2.31 | $2.20 |
| Weighted-average number of common shares outstanding: | | | | | |
| Basic | 68,562 | 66,871 | 68,543 | 66,472 | 63,568 |
| Diluted | 81,035 | 77,563 | 78,554 | 76,376 | 73,504 |
| Cash dividends declared per common share | $0.20 | $— | $— | $— | $— |

Financial Condition

| | | | | | |
|---|---|---|---|---|---|
| Total assets | $21,383,953 | $19,129,356 | $13,326,051 | $9,518,151 | $9,008,870 |
| Long-term obligations [1] | $1,092,500 | $867,500 | $832,500 | $707,500 | $410,631 |
| Shareholders' equity | $2,861,576 | $2,738,408 | $2,492,416 | $2,322,038 | $2,058,849 |
| Book value per common share [2] | $38.26 | $38.84 | $37.19 | $35.00 | $32.30 |

[1] Includes senior notes excluding debt issuance costs (presented net on the consolidated statements of financial condition).

[2] Excludes preferred stock.

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Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. (“SN Canada”) ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented.

The following items should be considered when comparing the data from year to year: 1) the merger with KBW on February 15, 2013; 2) the acquisitions of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group in July 2013; 3) the expensing of stock awards issued as retention as part of the acquisitions of the KBW and Knight Capital Fixed Income business during 2013; 4) the recognition of a U.S. tax benefit in connection with discontinuing the business operations of SN Canada in 2013; 5) the acquisitions of De La Rosa, Oriel, and 1919 Investment Counsel and the expensing of stock awards issued as retention as part of the Oriel and 1919 Investment Counsel acquisitions during 2014; 6) the acquisitions of Sterne and Barclays during 2015; 7) the acquisitions of Eaton Partners and ISM and the expensing of stock awards issued as retention as part of the Barclays acquisition during 2016; and 8) the acquisition of City Securities; the actions taken by the Company in response to the Tax Cuts and Jobs Act (“Tax Legislation”) to maximize tax savings; merger-related charges; litigation-related expenses associated with previously disclosed legal matters; the revaluation of the Company’s deferred tax assets as a result of the enacted Tax Legislation; and the favorable impact of the adoption of new accounting guidance associated with stock-based compensation during 2017. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” made part hereof, for a discussion of these items and other items that may affect the comparability of data from year to year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2017.

Unless otherwise indicated, the terms "we," "us," "our," or "our company" in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

Executive Summary

We operate as a financial services and bank holding company. We have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are: (i) private client services, including securities transaction and financial planning services; (ii) institutional equity and fixed income sales, trading, and research, and municipal finance; (iii) investment banking services, including mergers and acquisitions, public offerings, and private placements; and (iv) retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional, and corporate clients quality, personalized service, with the theory that if we place clients' needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the nation's leading wealth management and investment banking firms. We have grown our business both organically and through opportunistic acquisitions.

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our private client and institutional group businesses.

Stifel Financial Corp., 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. Our major geographic area of concentration is throughout the United States, with a growing presence in the United Kingdom and Europe. Our principal customers are individual investors, corporations, municipalities, and institutions.

Our ability to attract and retain highly skilled and productive employees is critical to the success of our business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop, and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

On January 3, 2017, we completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities Corporation, ("City Securities"), an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest. Purchase consideration consisted of cash and common stock.

On October 30, 2017, our company entered into a definitive agreement with B.C. Ziegler & Company to acquire its wealth management business, Ziegler Wealth Management, which has 57 private client advisors in 12 branches across five states that manage approximately $4.8 billion in client assets. The transaction is expected to close in the first quarter of 2018.

During the third quarter of 2017, we announced that our board of directors has authorized a dividend program under which the Company intends to pay a regular quarterly cash dividend to shareholders of its common stock. In connection with the dividend program, the board declared quarterly cash dividends on the Company’s common stock of $0.10 per share, payable September 15, 2017 and December 15, 2017, to shareholders of record at the close of business on September 1, 2017 and December 1, 2017, respectively. We recently announced our intention to increase our quarterly cash dividend to $0.12 per share starting in the first quarter of 2018.

Results for the year ended December 31, 2017

For the year ended December 31, 2017, net revenues increased 13.6% to a record $2.9 billion compared to $2.6 billion during the comparable period in 2016. This represents our 22$^{nd}$ consecutive year of record net revenues. Net income available to common shareholders for the year ended December 31, 2017 increased 123.5% to $173.5 million, or $2.14 per diluted common share, compared to $77.6 million, or $1.00 per diluted common share, in 2016. For the year ended December 31, 2017, our Global Wealth Management and Institutional Group segments posted record net revenues and pre-tax income.

Net income for the year ended December 31, 2017 was impacted by 1) actions taken by the Company in response to the Tax Cuts and Jobs Act ("Tax Legislation") that was enacted in the fourth quarter of 2017 to maximize tax savings; 2) merger-related charges; 3) litigation-related expenses associated with previously disclosed legal matters; 4) the revaluation of the Company's deferred tax assets as a result of the enacted Tax Legislation; and 5) the favorable impact of the adoption of new accounting guidance during 2017 associated with stock-based compensation.

Our revenue growth for the year ended December 31, 2017 was primarily attributable to an increase in net interest income; higher asset management and service fees as a result of increased assets under management; and an increase in investment banking revenues. The increase in revenue growth over the comparable period in 2016 was offset by a decrease in brokerage revenues and other income. In addition, our revenue growth was positively impacted by the acquisitions of Eaton Partners and ISM during 2016 and City Securities in 2017.

External Factors Impacting Our Business

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management. The municipal underwriting market is challenging as state and local governments reduce their debt levels. Investors are showing a lack of demand for longer-dated municipals and are reluctant to take on credit or liquidity risks. Investor confidence has been dampened by continued uncertainty surrounding the U.S. fiscal and debt ceiling, debt concerns in Europe, and sluggish employment growth.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At December 31, 2017, the key indicators of the markets' performance, the NASDAQ, the S&P 500, and Dow Jones Industrial Average closed 28.2%, 19.4%, and 25.1% higher than their December 31, 2016, closing prices, respectively.

As a participant in the financial services industry, we are subject to complicated and extensive regulation of our business. The recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially intensify the regulation of the financial services industry and may significantly impact us.

RESULTS OF OPERATIONS

The following table presents consolidated financial information for the periods indicated (in thousands, except percentages):

| | For the Year Ended December 31, | | | Percentage Change | | As a Percentage of Net Revenues for the Year Ended December 31, | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 vs. 2016 | 2016 vs. 2015 | 2017 | 2016 | 2015 |
| Revenues: | | | | | | | | |
| Commissions | $678,904 | $729,989 | $749,536 | (7.0 )% | (2.6 )% | 23.2 % | 28.3 % | 32.1 % |
| Principal transactions | 396,826 | 475,428 | 389,319 | (16.5 ) | 22.1 | 13.6 | 18.5 | 16.7 |
| Investment banking | 726,763 | 513,034 | 503,052 | 41.7 | 2.0 | 24.8 | 19.9 | 21.6 |
| Asset management and service fees | 702,064 | 582,789 | 493,761 | 20.5 | 18.0 | 24.0 | 22.7 | 21.2 |
| Interest | 454,381 | 294,332 | 179,101 | 54.4 | 64.3 | 15.5 | 11.4 | 7.7 |
| Other income | 37,524 | 46,798 | 62,224 | (19.8 ) | (24.8) | 1.3 | 1.8 | 2.6 |
| Total revenues | 2,996,462 | 2,642,370 | 2,376,993 | 13.4 | 11.2 | 102.4 | 102.6 | 101.9 |
| Interest expense | 70,030 | 66,874 | 45,399 | 4.7 | 47.3 | 2.4 | 2.6 | 1.9 |
| Net revenues | 2,926,432 | 2,575,496 | 2,331,594 | 13.6 | 10.5 | 100.0 | 100.0 | 100.0 |
| Non-interest expenses: | | | | | | | | |
| Compensation and benefits | 1,958,929 | 1,726,016 | 1,568,862 | 13.5 | 10.0 | 66.9 | 67.0 | 67.3 |
| Occupancy and equipment rental | 222,708 | 231,324 | 207,465 | (3.7 ) | 11.5 | 7.6 | 9.0 | 8.9 |
| Communication and office supplies | 133,493 | 139,644 | 130,678 | (4.4 ) | 6.9 | 4.6 | 5.4 | 5.6 |
| Commissions and floor brokerage | 44,132 | 44,315 | 42,518 | (0.4 ) | 4.2 | 1.5 | 1.7 | 1.8 |
| Other operating expenses | 297,634 | 291,615 | 240,504 | 2.1 | 21.3 | 10.2 | 11.4 | 10.3 |
| Total non-interest expenses | 2,656,896 | 2,432,914 | 2,190,027 | 9.2 | 11.1 | 90.8 | 94.5 | 93.9 |
| Income before income taxes | 269,536 | 142,582 | 141,567 | 89.0 | 0.7 | 9.2 | 5.5 | 6.1 |
| Provision for income taxes | 86,665 | 61,062 | 49,231 | 41.9 | 24.0 | 3.0 | 2.3 | 2.1 |
| Net income | 182,871 | 81,520 | 92,336 | 124.3 | (11.7) | 6.2 | 3.2 | 4.0 |
| Preferred dividends | 9,375 | 3,906 | — | 140.0 | nm | 0.3 | 0.2 | — |
| Net Income available to common shareholders | $173,496 | $77,614 | $92,336 | 123.5% | (15.9%) | 5.9 % | 3.0 % | 4.0 % |

NET REVENUES

The following table presents consolidated net revenues for the periods indicated (in thousands, except percentages):

| | For the Year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 vs. 2016 | 2016 vs. 2015 |
| Revenues: | | | | | |
| Commissions | $678,904 | $729,989 | $749,536 | (7.0 )% | (2.6 )% |
| Principal transactions | 396,826 | 475,428 | 389,319 | (16.5) | 22.1 |
| Brokerage revenues | 1,075,730 | 1,205,417 | 1,138,855 | (10.8) | 5.8 |
| Investment banking: | | | | | |
| Capital-raising | 366,147 | 256,397 | 307,571 | 42.8 | (16.6) |
| Advisory | 360,616 | 256,637 | 195,481 | 40.5 | 31.3 |
| | 726,763 | 513,034 | 503,052 | 41.7 | 2.0 |
| Asset management and service fees | 702,064 | 582,789 | 493,761 | 20.5 | 18.0 |
| Net interest | 384,351 | 227,458 | 133,702 | 69.0 | 70.1 |
| Other income | 37,524 | 46,798 | 62,224 | (19.8) | (24.8) |
| Total net revenues | $2,926,432 | $2,575,496 | $2,331,594 | 13.6 % | 10.5 % |

Year Ended December 31, 2017, Compared With Year Ended December 31, 2016

For the year ended December 31, 2017, net revenues increased 13.6% to a record $2.9 billion from $2.6 billion in 2016. This represents our 22nd consecutive year of record net revenues. The primary factors impacting the growth in revenues were the strength of the investment banking franchise, the growth of our balance sheet that contributed to higher net interest income, and the increase in our fee-based accounts. The growth in our revenue was negatively impacted by the challenging environment for our brokerage business.

Commissions – Commission revenues are primarily generated from agency transactions in OTC and listed equity securities, insurance products, and options. In addition, commission revenues also include distribution fees for promoting and distributing mutual funds.

For the year ended December 31, 2017, commission revenues decreased 7.0% to $678.9 million from $730.0 million in 2016. The decrease is primarily attributable to lower volumes caused by the shift to fee-based accounts as a result of the Department of Labor’s fiduciary rule, lower volumes, and lower volatility experienced by our Institutional Group.

Principal transactions – For the year ended December 31, 2017, principal transactions revenues decreased 16.5% to $396.8 million from $475.4 million in 2016. The decrease is primarily attributable to a decline in trading volumes, low interest rates, a flattening yield curve, and low volatility.

Investment banking – Investment banking revenues include: (i) capital-raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements, and other investment banking advisory fees.

For the year ended December 31, 2017, investment banking revenues increased 41.7%, to $726.8 million from $513.0 million in 2016. The increase is primarily attributable to an increase in capital raising revenues and advisory fees.

Capital-raising revenues increased 42.8% to $366.1 million for the year ended December 31, 2017, from $256.4 million in 2016. For the year ended December 31, 2017, equity capital-raising revenues increased 41.2% to $203.4

million from $144.1 million in 2016. For the year ended December 31, 2017, fixed income capital-raising revenues increased 44.9% to $162.7 million from $112.3 million in 2016.

Advisory fees increased 40.5% to $360.6 million for the year ended December 31, 2017, from $256.6 million in 2016. The increase is primarily attributable to an increase in the number of completed advisory transactions during 2017, as well as contributions made from Eaton fund placement franchise.

Asset management and service fees – Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the year ended December 31, 2017, asset management and service fee revenues increased 20.5% to $702.1 million from $582.8 million in 2016. The increase is primarily a result of an increase in the number and value of fee-based accounts and an increase of interest rates on fees earned on client cash. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the year ended December 31, 2017, other income decreased 19.8% to $37.5 million from $46.8 million during 2016. The decrease is primarily a result of a decrease in loan origination fees from Stifel Bank, and lower investment gains.

Year Ended December 31, 2016, Compared With Year Ended December 31, 2015

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increase in asset management business and the growth of Stifel Bank in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment. The increase in revenues over 2015 is also attributed to the acquisitions of Barclays on December 4, 2015, Eaton Partners on January 4, 2016, and ISM on May 3, 2016, as well as the retained businesses from the Sterne Agee acquisition in 2015 (certain businesses were disposed of in July 2016). The results of operations of the acquired companies are included in our results prospectively from the date of their respective acquisition.

Commissions – For the year ended December 31, 2016, commission revenues decreased 2.6% to $730.0 million from $749.5 million in 2015. The decrease is primarily attributable to a decrease in mutual fund and equity transactions.

Principal transactions – For the year ended December 31, 2016, principal transactions revenues increased 22.1% to $475.4 million from $389.3 million in 2015. The increase from 2015 is primarily attributable to higher institutional fixed income brokerage revenues as a result of increased volumes.

Investment banking – For the year ended December 31, 2016, investment banking revenues increased 2.0%, to $513.0 million from $503.1 million in 2015. The increase is primarily attributable to an increase in advisory fees, which was positively impacted by the Eaton Partners acquisition, partially offset by a decrease in capital-raising revenues.

Capital-raising revenues decreased 16.6% to $256.4 million for the year ended December 31, 2016, from $307.6 million in 2015. For the year ended December 31, 2016, equity capital-raising revenues decreased 18.8% to $144.1 million from $177.5 million in 2015. For the year ended December 31, 2016, fixed income capital-raising revenues decreased 13.7% to $112.3 million from $130.1 million in 2015.

Advisory fees increased 31.3% to $256.6 million for the year ended December 31, 2016, from $195.5 million in 2015. The increase is primarily attributable to an increase in the number of completed advisory transactions during 2016.

Asset management and service fees – For the year ended December 31, 2016, asset management and service fee revenues increased 18.0% to $582.8 million from $493.8 million in 2015. The increase is primarily a result of an increase in the number and value of fee-based accounts. The growth of asset management and service fee revenues from the prior year were also attributable to the acquisition of Barclays in December 2015. See “Asset management and service fees” in the Global Wealth Management segment discussion for information on the changes in asset management and service fees revenues.

Other income – For the year ended December 31, 2016, other income decreased 24.8% to $46.8 million from $62.2 million in 2015. Other income primarily includes investment gains and losses and mortgage loan originations fees from Stifel Bank. The decrease in other income from 2015 is attributable to a gain recognized on the sale on a portion of an investment in 2015 that was not recurring. This was offset by a gain recognized on the extinguishment of $15.0 million of debentures during the third quarter of 2016.

NET INTEREST INCOME

The following tables present average balance data and operating interest revenue and expense data, as well as related interest yields for the periods indicated (in thousands, except rates):

| | For the Year Ended December 31, 2017 | | | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate | Average Balance | Interest Income/ Expense | Average Interest Rate |
| Interest-earning assets: | | | | | | | | | |
| Margin balances (Stifel) | $1,251,324 | $37,218 | 2.97% | $1,280,791 | $32,147 | 2.51% | $540,889 | $22,421 | 4.15% |
| Interest-earning assets (Stifel Bank) * | 13,568,892 | 397,784 | 2.93% | 9,602,976 | 239,936 | 2.50% | 5,053,377 | 134,457 | 2.66% |
| Financial instruments owned | 1,060,272 | 17,563 | 1.66% | 1,047,264 | 18,965 | 1.81% | 829,866 | 17,757 | 2.14% |
| Other (Stifel) | | 1,816 | | | 3,284 | | | 4,466 | |
| Total interest revenue | $15,880,488 | $454,381 | 2.86% | $11,931,031 | $294,332 | 2.47% | $6,424,132 | $179,101 | 2.79% |
| Interest-bearing liabilities: | | | | | | | | | |
| Short-term borrowings (Stifel) | $135,120 | $2,407 | 1.78% | $178,294 | $2,122 | 1.19% | $45,492 | $569 | 1.25% |
| Interest-bearing liabilities (Stifel Bank) * | 12,903,487 | 21,685 | 0.17% | 9,220,639 | 14,822 | 0.16% | 4,811,277 | 8,533 | 0.18% |
| Stock loan (Stifel) | 314,720 | 3,367 | 1.07% | 313,413 | 4,843 | 1.55% | 62,771 | 125 | 0.20% |
| Senior notes (Stifel Financial Corp.) | 850,759 | 35,338 | 4.15% | 775,000 | 36,217 | 4.67% | 482,671 | 25,695 | 5.32% |
| Interest-bearing liabilities (Capital Trusts) | 67,500 | 2,040 | 3.02% | 71,250 | 1,783 | 2.50% | 82,500 | 1,729 | 2.10% |
| Other (Stifel) | | 5,193 | | | 7,087 | | | 8,748 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total interest expense | $14,271,586 | 70,030 | 0.49% | $10,558,596 | 66,874 | 0.63% | $5,484,711 | 45,399 | 0.83% |
| Net interest income/margin | | $384,351 | 2.42% | | $227,458 | 1.91% | | $133,702 | 2.08% |

* See Distribution of Assets, Liabilities, and Shareholders' Equity; Interest Rates and Interest Rate Differential table included in "Results of Operations – Global Wealth Management" for additional information on Stifel Bank's average balances and interest income and expense.

Year Ended December 31, 2017, Compared With Year Ended December 31, 2016

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the year ended December 31, 2017, net interest income increased 69.0% to $384.4 million from $227.5 million in 2016.

For the year ended December 31, 2017, interest revenue increased 54.4% to $454.4 million from $294.3 million in 2016, principally as a result of a $157.8 million increase in interest revenue generated from the growth in interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to $13.6 billion during the year ended December 31, 2017, compared to $9.6 billion during 2016 at average interest rates of 2.93% and 2.50%, respectively.

For the year ended December 31, 2017, interest expense increased 4.7% to $70.0 million from $66.9 million in 2016. The increase in interest expense is primarily attributable to an increase in interest expense paid on the interest-bearing liabilities of Stifel Bank.

Year Ended December 31, 2016, Compared With Year Ended December 31, 2015

Net interest income – For the year ended December 31, 2016, net interest income increased 70.1% to $227.5 million from $133.7 million in 2015.

For the year ended December 31, 2016, interest revenue increased 64.3% to $294.3 million from $179.1 million in 2015, principally as a result of a $105.5 million increase in interest revenue generated from the growth in interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to $9.6 billion during the year ended December 31, 2016, compared to $5.1 billion in 2015 at average interest rates of 2.50% and 2.66%, respectively.

For the year ended December 31, 2016, interest expense increased 47.3% to $66.9 million from $45.4 million in 2015. The increase is primarily attributable to our July 2016 issuance of $200.0 million senior notes, the write-off of debt issuance costs as a result of the redemption of our company's $150.0 million 5.375% senior notes in July 2016, and the December 2015 issuance of $300.0 million of 3.50% senior notes. The increase in interest expense is also attributable to an increase in interest expense paid on the interest-bearing liabilities of Stifel Bank.

NON-INTEREST EXPENSES

The following table presents consolidated non-interest expenses for the periods indicated (in thousands, except percentages):

| | For the Year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 vs. 2016 | 2016 vs. 2015 |
| Non-interest expenses: | | | | | |
| Compensation and benefits | $1,958,929 | $1,726,016 | $1,568,862 | 13.5% | 10.0% |
| Occupancy and equipment rental | 222,708 | 231,324 | 207,465 | (3.7) | 11.5 |
| Communications and office supplies | 133,493 | 139,644 | 130,678 | (4.4) | 6.9 |
| Commissions and floor brokerage | 44,132 | 44,315 | 42,518 | (0.4) | 4.2 |
| Other operating expenses | 297,634 | 291,615 | 240,504 | 2.1 | 21.3 |
| Total non-interest expenses | $2,656,896 | $2,432,914 | $2,190,027 | 9.2% | 11.1% |

Year Ended December 31, 2017, Compared With Year Ended December 31, 2016

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, both organically and through our acquisitions, and increased administrative overhead to support the growth in our segments.

Compensation and benefits – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, transition pay, benefits, amortization of stock-based compensation, employment taxes, and other employee-related costs. A significant portion of compensation expense is comprised of production-based variable compensation, including discretionary bonuses, which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, including base salaries, stock-based compensation amortization, and benefits, are more fixed in nature.

For the year ended December 31, 2017, compensation and benefits expense increased 13.5% to $2.0 billion from $1.7 billion in 2016. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production, 2) an increase in fixed compensation for additional administrative support staff, and 3) an increase in deferred compensation expense as a result of the acceleration of the vesting of certain outstanding debenture awards and the modification of certain outstanding restricted stock units. These, and other actions described below, were taken by the Company in response to the Tax Cuts and Jobs Act ("Tax Legislation") that was enacted in the fourth quarter of 2017 to maximize tax savings.

Compensation and benefits expense as a percentage of net revenues was 66.9% for the year ended December 31, 2017, compared to 67.0% for the year ended December 31, 2016.

Occupancy and equipment rental – For the year ended December 31, 2017, occupancy and equipment rental expense decreased 3.7% to $222.7 million from $231.3 million in 2016. The decrease is primarily due to lower equipment costs and rent expense.

Communications and office supplies – Communications expense includes costs for telecommunication and data transmission, primarily for obtaining third-party market data information. For the year ended December 31, 2017, communications and office supplies expense decreased 4.4% to $133.5 million from $139.6 million in 2016. The decrease is primarily attributable to a decrease in quote equipment, telecommunication costs, and office supplies as a result of cost saving initiatives.

Commissions and floor brokerage – For the year ended December 31, 2017, commissions and floor brokerage expense decreased 0.4% to $44.1 million from $44.3 million in 2016. The decrease is primarily attributable to a decrease in trading volumes.

Other operating expenses – Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of amounts we reserve and/or payout for legal and regulatory matters, travel and entertainment, promotional, and professional service expenses.

For the year ended December 31, 2017, other operating expenses increased 2.1% to $297.6 million from $291.6 million in 2016. The increase is primarily attributable to an increase in the provision for loan losses, FDIC insurance expense, and license expense, offset partially by a decrease in legal, travel, and professional service expense.

Provision for income taxes – For the year ended December 31, 2017, our provision for income taxes was $86.7 million, representing an effective tax rate of 32.2%, compared to $61.1 million in 2016, representing an effective tax rate of 42.8%.

The provision for income taxes for the year ended December 31, 2017 was primarily impacted by 1) actions taken by the Company in response to the Tax Legislation that was enacted in the fourth quarter of 2017 to maximize tax savings; 2) the favorable impact of the adoption of new accounting guidance during 2017 associated with stock-based compensation; and 3) the revaluation of the Company's deferred tax assets as a result of the enacted Tax Legislation.

Year Ended December 31, 2016, Compared With Year Ended December 31, 2015

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, both organically and through our acquisitions, and increased administrative overhead to support the growth in our segments.

Compensation and benefits – For the year ended December 31, 2016, compensation and benefits expense increased 10.0% to $1.7 billion from $1.6 billion in 2015. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production, and 2) an increase in fixed compensation for additional administrative support staff.

Compensation and benefits expense for the year ended December 31, 2016, includes a non-cash charge of $58.6 million (pre-tax) related to the expensing of certain restricted stock awards granted to employees of Barclays. 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. 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.

Compensation and benefits expense as a percentage of net revenues was 67.0% for the year ended December 31, 2016, compared to 67.3% for the year ended December 31, 2015.

Occupancy and equipment rental – For the year ended December 31, 2016, occupancy and equipment rental expense increased 11.5% to $231.3 million from $207.5 million in 2015. The increase is primarily due to the increase in rent and depreciation expense.

Communications and office supplies – For the year ended December 31, 2016, communications and office supplies expense increased 6.9% to $139.6 million from $130.7 million in 2015. The increase is primarily attributable to an increase in quote and communication equipment expense.

Commissions and floor brokerage – For the year ended December 31, 2016, commissions and floor brokerage expense increased 4.2% to $44.3 million from $42.5 million in 2015. The increase is primarily attributable to an increase in trade execution costs.

Other operating expenses – For the year ended December 31, 2016, other operating expenses increased 21.3% to $291.6 million from $240.5 million in 2015. The increase is primarily attributable to an increase in legal and FDIC insurance expense, as well as the provision for loan losses at Stifel Bank. During the year ended December 31, 2016, we increased our legal reserves for previously disclosed legal matters. See Item 3, “Legal Proceedings,” in this Form 10-K for a discussion of our legal matters.

Provision for income taxes – For the year ended December 31, 2016, our provision for income taxes was $61.1 million, representing an effective tax rate of 42.8%, compared to $49.2 million in 2015, representing an effective tax rate of 34.8%.

Certain settlements or judgments associated with the Company’s disclosed matters are not deductible for tax purposes to the extent they constitute penalties. The previously disclosed settlement was not deductible and negatively impacted the Company’s provision for income taxes during 2016.

SEGMENT PERFORMANCE FROM CONTINUING OPERATIONS

Our reportable segments include Global Wealth Management, Institutional Group, and Other.

Our Global Wealth Management segment consists of two businesses, 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 private clients through Stifel Bank, which provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The success of our Global Wealth Management segment is dependent upon the quality of our products, services, financial advisors, and support personnel, including our ability to attract, retain, and motivate a sufficient number of these associates. We face competition for qualified associates from major financial services companies, including other brokerage firms, insurance companies, banking institutions, and discount brokerage firms. Segment revenue growth, operating income, and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance.

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 success of our Institutional Group segment is dependent upon the quality of our personnel, the quality and selection of our investment products and services, pricing (such as execution pricing and fee levels), and reputation. Segment operating income and segment pre-tax operating margin are used to evaluate and measure segment performance by our management team in deciding how to allocate resources and in assessing performance.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, amortization of stock-based awards, compensation expense associated with the expensing of restricted stock awards with no continuing service requirements in conjunction with recent acquisitions and the actions taken by the Company in response to the Tax Regulation enacted in the fourth quarter of 2017, 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.

Results of Operations – Global Wealth Management

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (in thousands, except percentages):

| | For the Year Ended December 31, | | | Percentage Change | | As a Percentage of Net Revenues for the Year Ended December 31, | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 vs. 2016 | 2016 vs. 2015 | 2017 | 2016 | 2015 |
| Revenues: | | | | | | | | |
| Commissions | $474,623 | $491,214 | $504,206 | (3.4 )% | (2.6 )% | 26.0 % | 31.4 % | 36.6 % |
| Principal transactions | 186,711 | 179,421 | 148,475 | 4.1 | 20.8 | 10.2 | 11.5 | 10.8 |
| Asset management and service fees | 701,756 | 581,862 | 492,814 | 20.6 | 18.1 | 38.5 | 37.2 | 35.8 |
| Interest | 444,507 | 279,631 | 164,793 | 59.0 | 69.7 | 24.4 | 17.9 | 12.0 |
| Investment banking | 40,466 | 42,187 | 43,687 | (4.1 ) | (3.4 ) | 2.2 | 2.7 | 3.2 |
| Other income | 18,248 | 19,942 | 33,742 | (8.5 ) | (40.9 ) | 1.1 | 1.3 | 2.4 |
| Total revenues | 1,866,311 | 1,594,257 | 1,387,717 | 17.1 | 14.9 | 102.4 | 102.0 | 100.8 |
| Interest expense | 44,093 | 30,847 | 10,404 | 42.9 | 196.5 | 2.4 | 2.0 | 0.8 |
| Net revenues | 1,822,218 | 1,563,410 | 1,377,313 | 16.6 | 13.5 | 100.0 | 100.0 | 100.0 |
| Non-interest expenses: | | | | | | | | |
| Compensation and benefits | 911,986 | 870,577 | 781,573 | 4.8 | 11.4 | 50.0 | 55.7 | 56.7 |
| Occupancy and equipment rental | 101,889 | 97,603 | 82,015 | 4.4 | 19.0 | 5.6 | 6.2 | 6.0 |
| Communication and office supplies | 58,650 | 55,344 | 46,825 | 6.0 | 18.2 | 3.2 | 3.5 | 3.4 |
| Commissions and floor brokerage | 20,153 | 19,347 | 17,431 | 4.2 | 11.0 | 1.1 | 1.2 | 1.3 |
| Other operating expenses | 102,634 | 90,221 | 67,343 | 13.8 | 34.0 | 5.7 | 5.9 | 4.9 |
| Total non-interest expenses | 1,195,312 | 1,133,092 | 995,187 | | | | | |