RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 08, 2018

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

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-9109
RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

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

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)
(727) 567-1000
(Registrant’s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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 x

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

145,614,962 shares of common stock as of February 7, 2018

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

$ in thousands, except per share amounts	December 31, 2017	September 30, 2017
Assets:		
Cash and cash equivalents	$3,897,529	$3,669,672
Assets segregated pursuant to regulations and other segregated assets	3,569,414	3,476,085
Securities purchased under agreements to resell	307,742	404,462
Securities borrowed	184,971	138,319
Financial instruments, at fair value:		
Trading instruments (includes $302,713 and $357,099 pledged as collateral)	597,579	564,263
Available-for-sale securities	2,393,321	2,188,282
Derivative assets	292,140	318,775
Private equity investments	189,033	198,779
Other investments (includes $38,591 and $6,640 pledged as collateral)	265,170	220,980
Brokerage client receivables, net	2,666,268	2,766,771
Receivables from brokers, dealers and clearing organizations	219,036	268,021
Other receivables	642,542	652,769
Bank loans, net	17,697,298	17,006,795
Loans to financial advisors, net	890,072	873,272
Investments in real estate partnerships held by consolidated variable interest entities	110,662	111,743
Property and equipment, net	454,115	437,374
Deferred income taxes, net	199,507	313,486
Goodwill and identifiable intangible assets, net	651,339	493,183
Other assets	857,161	780,425
Total assets	$36,084,899	$34,883,456
Liabilities and equity:		
Bank deposits	$18,725,545	$17,732,362
Securities sold under agreements to repurchase	229,036	220,942
Securities loaned	290,307	383,953
Financial instruments sold but not yet purchased, at fair value:		
Trading instruments	213,024	221,449
Derivative liabilities	356,505	356,964
Brokerage client payables	5,820,347	5,411,829
Payables to brokers, dealers and clearing organizations	189,144	172,714
Accrued compensation, commissions and benefits	793,687	1,059,996
Other payables	582,548	567,045
Other borrowings	1,532,826	1,514,012
Senior notes payable	1,548,975	1,548,839
Total liabilities	30,281,944	29,190,105
Commitments and contingencies (see Note 14)		
Equity		
Preferred stock; $.10 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
	1,555	1,542

Common stock; $.01 par value; 350,000,000 shares authorized; 155,497,352 and 154,228,235 shares issued as of December 31, 2017 and September 30,2017, respectively, and 145,153,686 and 144,096,521 shares outstanding as of December 31, 2017 and September 30, 2017, respectively		
Additional paid-in capital	1,705,308	1,645,397
Retained earnings	4,420,368	4,340,054
Treasury stock, at cost; 10,311,191 and 10,084,038 common shares as of December 31, 2017 and September 30, 2017, respectively	(410,029)	(390,081)
Accumulated other comprehensive loss	(20,454)	(15,199)
Total equity attributable to Raymond James Financial, Inc.	5,696,748	5,581,713
Noncontrolling interests	106,207	111,638
Total equity	5,802,955	5,693,351
Total liabilities and equity	$36,084,899	$34,883,456

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

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

	Three months ended December 31,	
$ in thousands, except per share amounts	2017	2016
Revenues:		
Securities commissions and fees	$1,103,566	$984,385
Investment banking	64,902	61,425
Investment advisory and related administrative fees	142,023	108,243
Interest	231,729	182,782
Account and service fees	184,301	148,791
Net trading profit	19,870	20,555
Other	19,201	22,587
Total revenues	1,765,592	1,528,768
Interest expense	(39,431)	(35,966)
Net revenues	1,726,161	1,492,802
Non-interest expenses:		
Compensation, commissions and benefits	1,152,767	1,006,467
Communications and information processing	83,731	72,161
Occupancy and equipment costs	49,814	46,052
Business development	33,793	35,362
Investment sub-advisory fees	22,321	19,295
Bank loan loss provision/(benefit)	1,016	(1,040)
Acquisition-related expenses	3,927	12,666
Other	67,108	94,324
Total non-interest expenses	1,414,477	1,285,287
Income including noncontrolling interests and before provision for income taxes	311,684	207,515
Provision for income taxes	192,401	59,812
Net income including noncontrolling interests	119,283	147,703
Net income attributable to noncontrolling interests	441	1,136
Net income attributable to Raymond James Financial, Inc.	$118,842	$146,567
Earnings per common share – basic	$0.82	$1.03
Earnings per common share – diluted	$0.80	$1.00
Weighted-average common shares outstanding – basic	144,469	142,110
Weighted-average common and common equivalent shares outstanding – diluted	148,261	145,675
Net income attributable to Raymond James Financial, Inc.	$118,842	$146,567
Other comprehensive income/(loss), net of tax: [1]		
Unrealized loss on available-for-sale securities and non-credit portion of other-than-temporary impairment losses	(11,953)	(4,146)
Unrealized gain/(loss) on currency translations, net of the impact of net investment hedges	(187)	1,001
Unrealized gain on cash flow hedges	6,885	25,738
Total comprehensive income	$113,587	$169,160

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

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

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

	Three months ended December 31,	
$ in thousands, except per share amounts	2017	2016
Common stock, par value $.01 per share:		
Balance, beginning of year	$1,542	$1,513
Share issuances	13	17
Balance, end of period	1,555	1,530
Additional paid-in capital:		
Balance, beginning of year	1,645,397	1,498,921
Employee stock purchases	5,522	4,743
Exercise of stock options and vesting of restricted stock units, net of forfeitures	20,953	18,969
Restricted stock, stock option and restricted stock unit expense	33,373	30,971
Other	63	(322)
Balance, end of period	1,705,308	1,553,282
Retained earnings:		
Balance, beginning of year	4,340,054	3,834,781
Net income attributable to Raymond James Financial, Inc.	118,842	146,567
Cash dividends declared	(38,417)	(34,274)
Other	(111)	—
Balance, end of period	4,420,368	3,947,074
Treasury stock:		
Balance, beginning of year	(390,081)	(362,937)
Purchases/surrenders	(7,183)	(8,474)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(12,765)	(16,458)
Balance, end of period	(410,029)	(387,869)
Accumulated other comprehensive loss: [(1)]		
Balance, beginning of year	(15,199)	(55,733)
Net change in unrealized loss on available-for-sale securities and non-credit portion of other-than-temporary impairment losses, net of tax	(11,953)	(4,146)
Net change in currency translations and net investment hedges, net of tax	(187)	1,001
Net change in cash flow hedges, net of tax	6,885	25,738
Balance, end of period	(20,454)	(33,140)
Total equity attributable to Raymond James Financial, Inc.	$5,696,748	$5,080,877
Noncontrolling interests:		
Balance, beginning of year	$111,638	$146,431
Net income attributable to noncontrolling interests	441	1,136
Capital contributions	—	4,998
Distributions	(5,977)	(26,557)
Other	105	(2,284)
Balance, end of period	106,207	123,724
Total equity	$5,802,955	$5,204,601

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

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

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

	Three months ended December 31,	
$ in thousands	2017	2016
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$118,842	$146,567
Net income attributable to noncontrolling interests	441	1,136
Net income including noncontrolling interests	119,283	147,703
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	23,289	19,941
Deferred income taxes	121,273	10,928
Premium and discount amortization on available-for-sale securities and unrealized gain on other investments	(496)	(10,185)
Provisions for loan losses, legal and regulatory proceedings and bad debts	9,265	33,017
Share-based compensation expense	34,417	32,572
Compensation expense payable in common stock of an acquiree	3,925	7,973
Unrealized gain on company owned life insurance, net of expenses	(16,859)	(5,088)
Other	5,693	(5,724)
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	(96,759)	1,006,933
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	104,290	120,393
Securities loaned, net of securities borrowed	(140,229)	(232,438)
Loans provided to financial advisors, net of repayments	(21,928)	(14,554)
Brokerage client receivables and other accounts receivable, net	123,512	83,887
Trading instruments, net	(46,547)	152,474
Derivative instruments, net	30,449	38,447
Other assets	(18,799)	84,289
Brokerage client payables and other accounts payable	466,763	(481,542)
Accrued compensation, commissions and benefits	(266,453)	(216,889)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	(108,470)	35,162
Net cash provided by operating activities	325,619	807,299
Cash flows from investing activities:		
Additions to property, buildings and equipment, including software	(35,949)	(78,371)
Increase in bank loans, net	(645,197)	(774,376)
Proceeds from sales of loans held for investment	21,580	54,163
Purchases of available-for-sale securities	(339,580)	(377,235)
Available-for-sale securities maturations, repayments and redemptions	114,139	56,647
Proceeds from sales of available-for-sale securities	—	7,308
Business acquisition, net of cash acquired	(159,200)	—
Other investing activities, net	(29,669)	17,124
Net cash used in investing activities	(1,073,876)	(1,094,740)

(continued on next page)

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

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

	Three months ended December 31,	
$ in thousands	2017	2016
Cash flows from financing activities:		
Proceeds from borrowings on the RJF Credit Facility	300,000	—
Proceeds from/(repayments of) short-term borrowings, net	(280,000)	208,400
Proceeds from Federal Home Loan Bank advances	—	100,000
Repayments of Federal Home Loan Bank advances and other borrowed funds	(1,186)	(1,138)
Exercise of stock options and employee stock purchases	25,954	24,143
Increase in bank deposits	993,183	927,243
Purchases of treasury stock	(20,243)	(26,058)
Dividends on common stock	(32,499)	(31,255)
Distributions to noncontrolling interests, net	(5,977)	(26,557)
Net cash provided by financing activities	979,232	1,174,778
Currency adjustment:		
Effect of exchange rate changes on cash	(3,118)	(9,514)
Net increase in cash and cash equivalents	227,857	877,823
Cash and cash equivalents at beginning of year	3,669,672	1,650,452
Cash and cash equivalents at end of period	$3,897,529	$2,528,275
Supplemental disclosures of cash flow information:		
Cash paid for interest	$28,026	$32,442
Cash paid for income taxes	$8,515	$13,710

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

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 2017

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

Raymond James Financial, Inc. (“RJF,” the “firm” or the “Company”) is a financial holding company whose broker-dealer subsidiaries are engaged in various financial services businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, other subsidiaries of RJF provide investment management services for retail and institutional clients, corporate and retail banking services, and trust services. For further information about our business segments, see Note 20. As used herein, the terms “we,” “our” or “us” refer to RJF and/or one or more of its subsidiaries.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 2 and Note 10 of our Annual Report on Form 10-K (the “2017 Form 10-K”) for the year ended September 30, 2017, as filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) and in Note 9 herein. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting estimates and assumptions

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

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2017 Form 10-K. To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Reclassifications

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

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 of our 2017 Form 10-K. There have been no significant changes in our significant accounting policies since September 30, 2017.

Loans to financial advisors, net

As more fully described in Note 2 of our 2017 Form 10-K, we offer loans to financial advisors and certain other key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. We present the outstanding balance of “Loans to financial advisors, net” on our Condensed Consolidated Statements of Financial Condition, net of the allowance for doubtful accounts. Of the gross balance outstanding, the portion associated with financial advisors who are no longer affiliated with us was approximately $26 million and $22 million at December 31, 2017 and September 30, 2017, respectively. Our allowance for doubtful accounts was approximately $9 million and $8 million at December 31, 2017 and September 30, 2017, respectively.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

Recent accounting developments

Accounting guidance not yet adopted

Revenue recognition - In May 2014, the FASB issued new guidance regarding revenue recognition (ASU 2014-09). The new guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also provides guidance on accounting for certain contract costs and requires additional disclosures. This new revenue recognition guidance, including subsequent amendments, is first effective for our fiscal year beginning on October 1, 2018 and allows for full retrospective adoption or modified retrospective adoption. Although, early adoption is permitted for fiscal years beginning after December 15, 2016, we do not plan to early adopt. Upon adoption, we plan to use a modified retrospective approach, with a cumulative effect adjustment to opening retained earnings. Our implementation efforts include identifying revenues and costs within the scope of the standard, analyzing contracts and reviewing potential changes to our existing revenue recognition accounting policies. Based on our implementation efforts to date, we expect that we will be required to change our current presentation of certain costs from a net presentation within revenues to a gross presentation, particularly with respect to merger & acquisitions advisory transactions and underwriting transactions. We are still evaluating the impact the adoption of this new guidance will have on our financial position and results of operations. We are also still evaluating the impact to our disclosures as a result of adopting this new guidance.

Financial instruments - In January 2016, the FASB issued new guidance related to the accounting for financial instruments (ASU 2016-01). Among its provisions, this new guidance:

- Requires equity investments (other than those accounted for under the equity method or those that result from the consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any.
- Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.
- Eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
- Requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
- Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets.

This new guidance is effective for our fiscal year beginning on October 1, 2018, generally under a modified retrospective approach, with the exception of the amendments related to equity investments without a readily determinable fair value and the use of an exit price notion to measure financial instruments for disclosure purposes, which will be applied prospectively as of the date of adoption. Early adoption is generally not permitted. We are evaluating the impact, if any, the adoption of this new guidance will have on our financial position and results of operations.

Lease accounting - In February 2016, the FASB issued new guidance related to the accounting for leases (ASU 2016-02). The new guidance requires the recognition of assets and liabilities on the balance sheet related to the rights and obligations created by lease agreements with terms greater than twelve months, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend upon its classification as a finance or operating lease. The new guidance requires new disclosures to help financial statement users better understand the amount, timing and cash flows arising from leases. This new guidance, including subsequent amendments, is first effective for our fiscal year beginning on October 1, 2019. Although early adoption is permitted, we do not plan to early adopt. Upon adoption, we will use a modified retrospective approach, with a cumulative effect adjustment to opening retained earnings. Our implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. This new guidance will impact our financial position and results of operations. We are evaluating the magnitude of such impact.

Credit losses - In June 2016, the FASB issued new guidance related to the measurement of credit losses on financial instruments (ASU 2016-13). The amended guidance involves several aspects of the accounting for credit losses related to certain financial instruments including assets measured at amortized cost, available-for-sale debt securities and certain off-balance sheet commitments. The new guidance broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses ("CECL") model. The new guidance expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating credit losses and requires new disclosures of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. This new guidance is first effective for our fiscal year beginning October 1, 2020 and will be adopted under a modified retrospective approach. Early adoption is permitted although not prior to our fiscal year beginning October 1, 2019. We have begun our implementation and evaluation efforts by establishing a cross-functional team to assess the required changes to our credit loss estimation methodologies and systems, as well as determine additional data and resources required to comply with the new guidance. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations, which will depend on, among other things, the current and expected macroeconomic conditions and the nature and characteristics of financial assets held by us on the date of adoption.

Statement of Cash Flows (classification of certain cash receipts and cash payments) - In August 2016, the FASB issued amended guidance related to the Statement of Cash Flows (ASU 2016-15). The amended guidance involves several aspects of the classification of certain cash receipts and cash payments including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. This amended guidance is first effective for our fiscal year beginning October1, 2018 and will be adopted under a retrospective approach. Early adoption is permitted. The adoption of this new guidance will impact our Statement of Cash Flows and will not have an impact on our financial position and results of operations.

Income tax impact of intra-entity transfers of assets - In October 2016, the FASB issued new guidance related to the accounting for income tax consequences of intra-entity transfers of assets (ASU 2016-16). Current GAAP prohibits the recognition of current and deferred income taxes for intra-entity asset transfers until the asset has been sold to an outside party. Under this new guidance, an entity should recognize the income tax consequences of an inter-entity transfer of an asset when the transfer occurs. This guidance is first effective for our fiscal year beginning October 1, 2018 and will be adopted under a retrospective approach. Early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations.

Statement of Cash Flows (restricted cash) - In November 2016, the FASB issued new guidance related to the classification and presentation of changes in restricted cash on the Statement of Cash Flows (ASU 2016-18). Current GAAP does not provide guidance to address how to classify and present changes in restricted cash or restricted cash equivalents that occur when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents. Under the new guidance, an entity should present in their Statement of Cash Flows the changes during the period in the total of cash and cash equivalents and amounts described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and ending-of-period total amounts shown on the statement of cash flows. This guidance is first effective for our fiscal year beginning October 1, 2018 and will be adopted under a retrospective approach. Early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our Consolidated Statements of Cash Flows.

Definition of a business - In January 2017, the FASB issued amended guidance related to the definition of a business (ASU 2017-01). This amended guidance clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is first effective for our fiscal year beginning October 1, 2018 and will be adopted on a prospective basis. Early adoption is permitted. Given the adoption of this amended guidance is dependent upon the nature of future events and circumstances, we are unable to estimate the impact, if any, the adoption of this new guidance will have on our financial position and results of operations.

Goodwill - In January 2017, the FASB issued amended guidance to simplify the subsequent measurement of goodwill, eliminating “Step 2” from the goodwill impairment test (ASU 2017-04). In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this amended guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and subsequently recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is first effective for our fiscal year beginning October 1, 2019 and will be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We will adopt this simplification guidance in the earliest period it applies to our facts and circumstances.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

Callable debt securities - In March 2017, the FASB issued new guidance that requires certain premiums on callable debt securities to be amortized to the earliest call date instead of the contractual life of the security (ASU 2017-08). Discounts on callable debt securities will continue to be amortized to the contractual maturity date. This guidance is first effective for our fiscal year beginning on October 1, 2019 and will be adopted using a modified retrospective approach. Early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations.

Share-based payment awards - In May 2017, the FASB issued amended guidance that clarifies when changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting (ASU 2017-09). The amended guidance states an entity should account for the effects of a modification unless certain criteria are met which include that the modified award has the same fair value, vesting conditions and classification as the original award. This amended guidance is first effective for our fiscal year beginning October 1, 2018 and will be adopted on a prospective basis. Early adoption is permitted. Given that this guidance applies to specific transactions and would only become relevant in certain circumstances, we are unable to estimate the impact, if any, this amended guidance may have on our financial position and results of operations.

Derivatives and hedging (accounting for hedging activities) - In August 2017, the FASB issued new guidance amending its hedge accounting model (ASU 2017-12). Among other things, the new guidance:

- Expands the ability to hedge nonfinancial and financial risk components.
- Reduces complexity in fair value hedges of interest rate risk.
- Eliminates the requirement to separately measure and report hedge ineffectiveness.
- Generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item.
- Modifies accounting for components excluded from the assessment of hedge effectiveness.
- Eases certain documentation and hedge effectiveness assessment requirements.

The new guidance is first effective for our fiscal year beginning October 1, 2019 and the amendments are required to be applied to cash flow and net investment hedges that exist on the date of adoption on a modified retrospective basis. Changes to presentation and disclosure requirements are only required on a prospective basis. Early adoption is permitted. We are considering whether we will early adopt this new guidance and the timing thereof, as well as the impact it will have on our financial position and results of operations.

NOTE 3 – ACQUISITIONS

Acquisitions completed during fiscal year 2018

In November 2017, we completed our acquisition of 100% of the outstanding shares of Scout Investments, Inc. (the “Scout Group”), an asset management and distribution entity, from UMB Financial Corporation. The Scout Group includes Scout Investments (“Scout”) and its Reams Asset Management division (“Reams”), as well as Scout Distributors. The addition of Scout, an equity asset manager, and Reams, an institutional-focused fixed income specialist, broadened the investment solutions available to our clients and has been integrated into our Asset Management segment. For purposes of certain acquisition-related financial reporting requirements, the Scout Group acquisition was not considered a material acquisition. We accounted for this acquisition under the acquisition method of accounting with the assets and liabilities of the Scout Group recorded as of the acquisition date at their respective fair values in our condensed consolidated financial statements. The Scout Group's results of operations have been included in our results prospectively from November 17, 2017.

Acquisition-related expenses

The "Acquisition-related expenses" presented in our Condensed Consolidated Statements of Income and Comprehensive Income for
the three months ended December 31, 2017 pertain to certain incremental expenses incurred in connection with the Scout Group acquisition. Acquisition-related expenses for the three months ended December 31, 2016 primarily related to our fiscal year 2016 acquisitions of the U.S. Private Client Services unit of Deutsche Bank Wealth Management ("Alex. Brown") and MacDougall, MacDougall & MacTier Inc. ("3Macs"), which are described further in Note 3 of our 2017 Form 10-K.

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The table below presents a summary of acquisition-related expenses incurred in each respective period.

	Three months ended December 31,	
$ in thousands	2017	2016
Legal and regulatory	$2,281	$553
Severance	990	4,803
Information systems integration costs	162	1,205
Acquisition and integration-related incentive compensation costs	—	5,474
Early termination costs of assumed contracts	—	1,324
Post-closing purchase price contingency	—	(2,251)
All other	494	1,558
Total acquisition-related expenses	$3,927	$12,666

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NOTE 4 – FAIR VALUE

Our "Financial instruments owned" and "Financial instruments sold, but not yet purchased" on our Condensed Consolidated Statements of Financial Condition are recorded at fair value under GAAP. For further information about such instruments and our significant accounting policies related to fair value see Note 2 and Note 4 of our 2017 Form 10-K. There have been no material changes to our valuation methodologies or our fair value accounting policies since our year ended September 30, 2017.

The tables below presents assets and liabilities measured at fair value on a recurring and nonrecurring basis. Netting adjustments represent the impact of counterparty and collateral netting on our derivative balances included in our Condensed Consolidated Statements of Financial Condition. See Note 6 for additional information.

$ in thousands	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting adjustments	Balance as of December 31, 2017
Assets at fair value on a recurring basis					
Trading instruments					
Municipal and provincial obligations	$ 122	$ 197,580	$ —	$ —	$ 197,702
Corporate obligations	11,069	33,723	—	—	44,792
Government and agency obligations	6,376	17,929	—	—	24,305
Agency mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs")	2,128	214,680	—	—	216,808
Non-agency CMOs and asset-backed securities ("ABS")	—	52,244	5	—	52,249
Total debt securities	19,695	516,156	5	—	535,856
Equity securities	18,497	803	—	—	19,300
Brokered certificates of deposit	—	32,173	—	—	32,173
Other	27	7,511	2,712	—	10,250
Total trading instruments	38,219	556,643	2,717	—	597,579
Available-for-sale securities					
Agency MBS and CMOs	—	2,285,051	—	—	2,285,051
Other securities	787	—	—	—	787
Auction rate securities ("ARS") preferred securities	—	—	107,483	—	107,483
Total available-for-sale securities	787	2,285,051	107,483	—	2,393,321
Derivative assets					
Interest rate contracts					
Matched book	—	263,851	—	—	263,851
Other	—	58,660	—	(30,375)	28,285
Foreign exchange contracts	—	4	—	—	4
Total derivative assets	—	322,515	—	(30,375)	292,140
Private equity investments [1]					

Not measured at NAV	—	—	88,810	—	88,810
Measured at NAV					100,223
Total private equity investments	—	—	88,810	—	189,033
Other investments [(2)]	263,978	859	333	—	265,170
Total assets at fair value on a recurring basis	$ 302,984	$ 3,165,068	$ 199,343	$ (30,375)	$ 3,737,243
Assets at fair value on a nonrecurring basis					
Bank loans, net					
Impaired loans	$ —	$ 16,347	$ 23,418	$ —	$ 39,765
Loans held for sale [(3)]	—	69,057	—	—	69,057
Total assets at fair value on a nonrecurring basis	$ —	$ 85,404	$ 23,418	$ —	$ 108,822

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$ in thousands	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting adjustments	Balance as of December 31, 2017
Liabilities at fair value on a recurring basis					
Trading instruments sold but not yet purchased					
Municipal and provincial obligations	$ 742	$ 3,082	$ —	$ —	$ 3,824
Corporate obligations	608	7,394	—	—	8,002
Government obligations	183,510	—	—	—	183,510
Agency MBS and CMOs	328	—	—	—	328
Non-agency MBS and CMOs	—	—	—	—	—
Total debt securities	185,188	10,476	—	—	195,664
Equity securities	16,294	4	—	—	16,298
Other	4	—	1,058	—	1,062
Total trading instruments sold but not yet purchased	201,486	10,480	1,058	—	213,024
Derivative liabilities					
Interest rate contracts					
Matched book	—	263,851	—	—	263,851
Other	—	86,815	—	(42,284)	44,531
Foreign exchange contracts	—	19,710	—	—	19,710
Deutsche Bank restricted stock unit (“DBRSU”) obligation (equity)	—	28,413	—	—	28,413
Total derivative liabilities	—	398,789	—	(42,284)	356,505
Total liabilities at fair value on a recurring basis	$ 201,486	$ 409,269	$ 1,058	$ (42,284)	$ 569,529

(1) Of the total private equity investments, the portion we owned was $138 million as of December 31, 2017. The portion of the private equity investments we did not own was $51 million as of December 31, 2017 and was included as a component of noncontrolling interests in our Condensed Consolidated Statements of Financial Condition.

(2) Includes $45 million of financial instruments that are related to obligations to perform under certain deferred compensation plans and Deutsche Bank AG (“DB”) shares with a fair value of $21 million as of December 31, 2017 which we hold as an economic hedge against the DBRSU obligation. See Notes 2 and 20 in our 2017 Form 10-K for additional information.

(3) Loans classified as held for sale recorded at a fair value lower than cost.

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$ in thousands	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting adjustments	Balance as of September 30, 2017
Assets at fair value on a recurring basis					
Trading instruments					
Municipal and provincial obligations	$ 83	$221,884	$ —	$ —	$221,967
Corporate obligations	9,361	81,577	—	—	90,938
Government and agency obligations	6,354	28,977	—	—	35,331
Agency MBS and CMOs	913	133,070	—	—	133,983
Non-agency CMOs and ABS	—	28,442	5	—	28,447
Total debt securities	16,711	493,950	5	—	510,666
Equity securities	16,090	389	—	—	16,479
Brokered certificates of deposit	—	31,492	—	—	31,492
Other	32	—	5,594	—	5,626
Total trading instruments	32,833	525,831	5,599	—	564,263
Available-for-sale securities					
Agency MBS and CMOs	—	2,081,079	—	—	2,081,079
Other securities	1,032	—	—	—	1,032
ARS preferred securities	—	—	106,171	—	106,171
Total available-for-sale securities	1,032	2,081,079	106,171	—	2,188,282
Derivative assets					
Interest rate contracts					
Matched book	—	288,035	—	—	288,035
Other	—	86,436	—	(55,728)	30,708
Foreign exchange contracts	—	32	—	—	32
Total derivative assets	—	374,503	—	(55,728)	318,775
Private equity investments [1]					
Not measured at NAV	—	—	88,885	—	88,885
Measured at NAV					109,894
Total private equity investments	—	—	88,885	—	198,779
Other investments [2]	220,312	332	336	—	220,980
Total assets at fair value on a recurring basis	$ 254,177	$2,981,745	$ 200,991	$ (55,728)	$3,491,079
Assets at fair value on a nonrecurring basis					
Bank loans, net					
Impaired loans	$ —	$17,474	$ 23,994	$ —	$41,468
Loans held for sale [3]	—	11,285	—	—	11,285
Total bank loans, net	—	28,759	23,994	—	52,753
Other assets: other real estate owned	—	880	—	—	880

Total assets at fair value on a nonrecurring basis	$ —	$ 29,639	$ 23,994	$ —	$ 53,633

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
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(continued from previous page)

$ in thousands	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting adjustments	Balance as of September 30, 2017
Liabilities at fair value on a recurring basis					
Trading instruments sold but not yet purchased					
Municipal and provincial obligations	$ 304	$ —	$ —	$ —	$ 304
Corporate obligations	1,286	35,272	—	—	36,558
Government obligations	167,622	—	—	—	167,622
Agency MBS and CMOs	2,477	—	—	—	2,477
Non-agency MBS and CMOs	—	5,028	—	—	5,028
Total debt securities	171,689	40,300	—	—	211,989
Equity securities	8,118	1,342	—	—	9,460
Total trading instruments sold but not yet purchased	179,807	41,642	—	—	221,449
Derivative liabilities					
Interest rate contracts					
Matched book	—	288,035	—	—	288,035
Other	—	101,893	—	(59,410)	42,483
Foreign exchange contracts	—	646	—	—	646
DBRSU obligation (equity)	—	25,800	—	—	25,800
Total derivative liabilities	—	416,374	—	(59,410)	356,964
Total liabilities at fair value on a recurring basis	$ 179,807	$ 458,016	$ —	$ (59,410)	$ 578,413

(1) Of the total private equity investments, the portion we owned was $145 million as of September 30, 2017. The portion of the private equity investments we did not own was $54 million as of September 30, 2017, and was included as a component of noncontrolling interests in our Condensed Consolidated Statements of Financial Condition.

(2) Includes $44 million of financial instruments that are related to obligations to perform under certain deferred compensation plans and DB shares with a fair value of $19 million as of September 30, 2017, which we hold as an economic hedge against the DBRSU obligation. See Notes 2 and 20 in our 2017 Form 10-K for additional information.

(3) Loans classified as held for sale recorded at a fair value lower than cost.

Transfers between levels

We had $1 million in transfers of financial instruments from Level 1 to Level 2 during both the three months ended December 31, 2017 and 2016. These transfers were a result of decreased market activity in these instruments. There were no transfers from Level 2 to Level 1 during the three months ended December 31, 2017 and $1 million in transfers of financial instruments from Level 2 to Level 1 during the three months ended December 31, 2016. These transfers were a result of increased market activity in these instruments. Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
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Changes in Level 3 recurring fair value measurements

The tables below present the changes in fair value for Level 3 assets and liabilities measured at fair value on a recurring basis. The realized and unrealized gains and losses in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs. Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period.

Three months ended December 31, 2017
Level 3 instruments at fair value

	Financial assets					Financial liabilities
	Trading instruments		Available-for-sale securities	Private equity and other investments		Trading instruments
$ in thousands	Non-agency CMOs & ABS	Other	ARS - preferred securities	Private equity investments	Other investments	Other
Fair value beginning of period	$5	$5,594	$ 106,171	$88,885	$ 336	$ —
Total gains/(losses) for the period						
Included in earnings	—	(1,207)	—	2	(3)	(1,058)
Included in other comprehensive income	—	—	1,312	—	—	—
Purchases and contributions	—	20,279	—	—	—	—
Sales	—	(21,954)	—	(77)	—	—
Distributions	—	—	—	—	—	—
Transfers						
Into Level 3	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—
Fair value end of period	$5	$2,712	$ 107,483	$88,810	$ 333	$ (1,058)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$(243)	$ 1,312	$—	$ (3)	$ (1,058)

Three months ended December 31, 2016 Level 3 instruments at fair value

	Financial assets						Financial liabilities
	Trading instruments		Available-for-sale securities		Private equity and other investments		Trading instruments
$ in thousands	Non-agency CMOs & ABS	Other	ARS – municipal obligations	ARS - preferred securities	Private equity investments	Other investments	Other
Fair value beginning of period	$7	$6,020	$25,147	$100,018	$83,165	$ 441	$ —
Total gains/(losses) for the period							
Included in earnings	—	(2,589)	—	1	301	(8)	(1,792)
Included in other comprehensive income	—	—	217	3,857	—	—	—
Purchases and contributions	—	18,683	—	—	—	—	—

Sales	—	(11,062)	—	(23)	—	(15)	—
Distributions	—	—	—	—	—	—	—
Transfers							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	(195)	—
Fair value end of period	$7	$11,052	$25,364	$103,853	$83,466	$ 223	$ (1,792)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$(124)	$217	$3,856	$301	$ —	$ (1,792)

As of both December 31, 2017 and September 30, 2017, 10% of our assets and 2% of our liabilities were instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of December 31, 2017 and September 30, 2017 represented 5% and 6%, respectively, of our assets measured at fair value. Level 3 instruments as a percentage of total financial instruments decreased as compared to September 30, 2017, primarily as a result of the increase in total assets measured at fair value since September 30, 2017.

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The following table presents the gains/(losses) related to Level 3 recurring fair value measurements included in our Condensed Consolidated Statements of Income and Comprehensive Income.

$ in thousands	Net trading profit	Other revenues	Other comprehensive income
For the three months ended December 31, 2017			
Total gains/(losses) included in earnings	$(2,265)	$ (1)	$ 1,312
Unrealized gains/(losses) for assets held at the end of the reporting period	$(1,301)	$ (3)	$ 1,312
For the three months ended December 31, 2016			
Total gains/(losses) included in earnings	$(4,381)	$ 294	$ 4,074
Unrealized gains/(losses) for assets held at the end of the reporting period	$(1,916)	$ 301	$ 4,073

Quantitative information about level 3 fair value measurements

The tables below present the valuation techniques and significant unobservable inputs used in the valuation of a significant majority of our financial instruments classified as level 3. These inputs represent those that a market participant would take into account when pricing these instruments.

Level 3 financial instrument $ in thousands	Fair value at December 31, 2017	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements				
ARS preferred securities	$ 107,483	Discounted cash flow	Average discount rate	5.76% - 7.03% (6.32%)
			Average interest rates applicable to future interest income on the securities [1]	2.97% - 3.96% (3.12%)
			Prepayment year [2]	2018 - 2021 (2021)
Private equity investments (not measured at NAV)	$ 68,454	Income or market approach		
		Scenario 1 - income approach - discounted cash flow	Discount rate	13% - 25% (22.4%)
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2020 - 2042 (2021)
		Scenario 2 - market approach - market multiple method	EBITDA Multiple	5.25 - 7.0 (5.8)
			Weighting assigned to outcome of scenario	87%/13%

			1/scenario 2	
	$ 20,356	Transaction price or other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)
Nonrecurring measurements				
Bank loans: impaired loans - residential	$ 20,421	Discounted cash flow	Prepayment rate	7 yrs - 12 yrs (10.3 yrs)
Bank loans: impaired loans - corporate	$ 2,997	Appraisal or discounted cash flow value (4)	Not meaningful (4)	Not meaningful (4)

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Level 3 financial instrument $ in thousands	Fair value at September 30, 2017	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements				
ARS preferred securities	$ 106,171	Discounted cash flow	Average discount rate	5.46% - 6.81% (6.03%)
			Average interest rates applicable to future interest income on the securities (1)	2.58% - 3.44% (2.72%)
			Prepayment year (2)	2017 - 2021 (2021)
Private equity investments (not measured at NAV)	$ 68,454	Income or market approach:		
		Scenario 1 - income approach - discounted cash flow	Discount rate	13% - 25% (22.4%)
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2020 - 2042 (2021)
		Scenario 2 - market approach - market multiple method	EBITDA Multiple	5.25 - 7.0 (5.8)
			Weighting assigned to outcome of scenario 1/scenario 2	87%/13%
	$ 20,431	Transaction price or other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)
Nonrecurring measurements				
Bank loans: impaired loans - residential	$ 20,736	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.4 yrs.)
Bank loans: impaired loans - corporate	$ 3,258	Appraisal or discounted cash flow value (4)	Not meaningful (4)	Not meaningful (4)

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

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

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

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

Qualitative disclosure about unobservable inputs

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

Auction rate securities:

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

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

Private equity investments:

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

Investments in private equity measured at net asset value per share

As more fully described in Note 2 of our 2017 Form 10-K, as a practical expedient, we utilize net asset value ("NAV") or its equivalent to determine the recorded value of a portion of our private equity portfolio. We utilize NAV when the fund investment does not have a readily determinable fair value and the NAV of the fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the investments at fair value.

Our private equity portfolio as of December 31, 2017 included various direct and third party private equity investments and various private equity funds which we sponsor. The portfolio is primarily invested in a broad range of industries including leveraged buyouts, growth capital, distressed capital, venture capital and mezzanine capital.

Due to the closed-end nature of certain of our fund investments, such investments cannot be redeemed directly with the funds. Our investment is monetized through distributions received through the liquidation of the underlying assets of those funds. We anticipate 90% of these underlying assets will be liquidated over a period of five years or less, with the remaining 10% to be liquidated over a period of nine years.

The table below presents the recorded value and unfunded commitments related to our private equity portfolio.

		Unfunded commitment		
$ in thousands	Recorded value	RJF	Noncontrolling interests	Total
December 31, 2017				
Private equity investments measured at NAV	$100,223	$20,739	$ 2,256	$22,995
Private equity investments not measured at NAV	88,810			
Total private equity investments	$189,033			

September 30, 2017				
Private equity investments measured at NAV	$109,894	$20,973	$ 2,273	$23,246
Private equity investments not measured at NAV	88,885			
Total private equity investments	$198,779			

Of the total private equity investments, the portions we owned were $138 million and $145 million as of December 31, 2017 and September 30, 2017, respectively. The portions of the private equity investments we did not own were $51 million and $54 million as of December 31, 2017 and September 30, 2017, respectively, and were included as a component of noncontrolling interests in our Condensed Consolidated Statements of Financial Condition.

Many of these fund investments meet the definition of prohibited “covered funds” as defined by the Volcker Rule of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). We have received approval from the Board of Governors of the Federal Reserve System (the “Fed”) to continue to hold the majority of our “covered fund” investments for up to an additional five-year conformance period, thereby extending our applicable holding period until July 2022 for such investments. However our current focus is on the divestiture of this portfolio.

Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. As of December 31, 2017, the amount of financial instruments for which we had elected the fair value option was not material.

Other fair value disclosures

Many, but not all, of the financial instruments we hold are recorded at fair value in the Condensed Consolidated Statements of Financial Condition. Refer to Note 4 of our 2017 Form 10-K for discussion of the methods and assumptions we apply to the determination of fair value of our financial instruments that are not recorded at fair value.

The table below presents the estimated fair values by level within the fair value hierarchy and the carrying amounts of certain of our financial instruments not carried at fair value. The carrying amounts below exclude financial instruments which have been recorded at fair value and those recorded at amounts which approximate fair value in the Condensed Consolidated Statements of Financial Condition.

$ in thousands	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total estimated fair value	Carrying amount
December 31, 2017					
Financial assets:					
Bank loans, net	$ —	$104,044	$17,353,626	$17,457,670	$17,588,476
Loans to financial advisors, net	$ —	$—	$704,853	$704,853	$879,929
Financial liabilities:					
Bank deposits	$ —	$18,392,535	$329,977	$18,722,512	$18,725,545
Other borrowings	$ —	$28,030	$—	$28,030	$27,627
Senior notes payable	$ —	$1,693,153	$—	$1,693,153	$1,548,975
September 30, 2017					
Financial assets:					
Bank loans, net	$ —	$23,001	$16,836,745	$16,859,746	$16,954,042
Loans to financial advisors, net	$ —	$—	$698,862	$698,862	$863,647
Financial liabilities:					
Bank deposits	$ —	$17,417,678	$313,359	$17,731,037	$17,732,362
Other borrowings	$ —	$29,278	$—	$29,278	$28,813
Senior notes payable	$ —	$1,647,696	$—	$1,647,696	$1,548,839

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NOTE 5 – AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities are comprised of agency MBS and CMOs owned by Raymond James Bank, N.A. ("RJ Bank") and ARS owned by one of our non-broker-dealer subsidiaries. Refer to the discussion of our available-for-sale securities accounting policies, including the fair value determination process, in Note 2 of our 2017 Form 10-K.

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

$ in thousands	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2017				
Agency MBS and CMOs	$2,309,741	$ 180	$(24,870)	$2,285,051
Other securities	1,575	—	(788)	787
Total RJ Bank available-for-sale securities	2,311,316	180	(25,658)	2,285,838
ARS preferred securities	101,674	5,809	—	107,483
Total available-for-sale securities	$2,412,990	$ 5,989	$(25,658)	$2,393,321
September 30, 2017				
Agency MBS and CMOs	$2,089,153	$ 1,925	$(9,999)	$2,081,079
Other securities	1,575	—	(543)	1,032
Total RJ Bank available-for-sale securities	2,090,728	1,925	(10,542)	2,082,111
ARS preferred securities	101,674	4,497	—	106,171
Total available-for-sale securities	$2,192,402	$ 6,422	$(10,542)	$2,188,282

See Note 4 for additional information regarding the fair value of available-for-sale securities.

The contractual maturities, amortized cost, carrying values and current yields for our available-for-sale securities are as presented below. Since RJ Bank's available-for-sale securities (MBS and CMOs) are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. Expected maturities of ARS may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2017				
$ in thousands	Within one year	After one but within five years	After five but within ten years	After ten years	Total
Agency MBS and CMOs:					
Amortized cost	$—	$143,299	$745,234	$1,421,208	$2,309,741
Carrying value	—	142,159	737,410	1,405,482	2,285,051
Weighted-average yield	—	2.09 %	1.94 %	2.01 %	1.99 %
Other securities:					
Amortized cost	$—	$—	$—	$1,575	$1,575
Carrying value	—	—	—	787	787
Weighted-average yield	—	—	—	—	—
Sub-total agency MBS and CMOs and other securities:					

Amortized cost	$—	$143,299	$745,234	$1,422,783	$2,311,316
Carrying value	—	142,159	737,410	1,406,269	2,285,838
Weighted-average yield	—	2.09 %	1.94 %	2.01 %	1.99 %
ARS Preferred securities:					
Amortized cost	$—	$—	$—	$101,674	$101,674
Carrying value	—	—	—	107,483	107,483
Weighted-average yield	—	—	—	2.52 %	2.52 %
Total available-for-sale securities:					
Amortized cost	$—	$143,299	$745,234	$1,524,457	$2,412,990
Carrying value	—	142,159	737,410	1,513,752	2,393,321
Weighted-average yield	—	2.09 %	1.94 %	2.05 %	2.01 %

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

	Less than 12 months		12 months or more		Total	
$ in thousands	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
December 31, 2017						
Agency MBS and CMOs	$1,691,798	$(14,157)	$535,183	$(10,713)	$2,226,981	$(24,870)
Other securities	—	—	787	(788)	787	(788)
Total	$1,691,798	$(14,157)	$535,970	$(11,501)	$2,227,768	$(25,658)

	Less than 12 months		12 months or more		Total	
$ in thousands	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
September 30, 2017						
Agency MBS and CMOs	$1,119,715	$(5,621)	$295,528	$(4,378)	$1,415,243	$(9,999)
Other securities	—	—	1,032	(543)	1,032	(543)
Total	$1,119,715	$(5,621)	$296,560	$(4,921)	$1,416,275	$(10,542)

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

Agency MBS and CMOs and Non-agency CMOs

The Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”) and Government National Mortgage Associations (“GNMA”) guarantee the contractual cash flows of the agency MBS and CMOs. At December 31, 2017, of the 195 U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, 133 were in a continuous unrealized loss position for less than 12 months and 62 were for 12 months or more. We do not consider these securities to be other-than-temporarily impaired due to the guarantee provided by FNMA, FHLMC, and GNMA of the full payment of principal and interest, and the fact that we have the ability and intent to hold these securities. At December 31, 2017, debt securities we held from FNMA and FHLMC had an amortized cost of $1.56 billion and $626 million, respectively, and a fair value of $1.54 billion and $617 million, respectively.

During the three months ended December 31, 2017, there were no sales of agency MBS and CMO available-for-sale securities. During the three months ended December 31, 2016, there were $7 million in proceeds from the sale of non-agency CMO available-for-sale securities. These sales resulted in an insignificant loss, which was included in “Other revenues” on our Condensed Consolidated Statements of Income and Comprehensive Income.

ARS

Our cost basis in the ARS we hold is the fair value of the securities in the period in which we acquired them. The par value of the ARS we held as of December 31, 2017 was $120 million. Only those ARS whose amortized cost basis we do not expect to recover in full are considered to be other-than-temporarily impaired, as we have the ability and intent to hold these securities. All of our ARS securities are evaluated for OTTI on a quarterly basis. As of December 31, 2017, there were no ARS preferred securities with a fair value less than cost basis.

During the three months ended December 31, 2017, there were no sales of ARS. During the three months ended December 31, 2016, sales of ARS were insignificant.

Other-than-temporarily impaired securities

There is no intent to sell our ARS and it was not more likely than not that we would be required to sell these securities as of December 31, 2017.

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Changes in the amount of OTTI related to credit losses recognized in “Other revenues” on available-for-sale securities were as follows:

	Three months ended December 31,	
$ in thousands	2017	2016
Amount related to credit losses on securities we held at the beginning of the period	$ —	$ 8,107
Decreases to the amount related to credit losses for securities sold during the period	—	(2,353)
Amount related to credit losses on securities we held at the end of the period	$ —	$ 5,754

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative assets and derivative liabilities are recorded at fair value and are included in “Derivative assets” and “Derivative liabilities” in our Condensed Consolidated Statements of Financial Condition. Cash flows related to our derivative contracts are included within operating activities in the Condensed Consolidated Statements of Cash Flows. The significant accounting policies governing our derivative financial instruments, including our methodologies for determining fair value, are described in Note 2 of our 2017 Form 10-K.

Derivatives arising from our fixed income business operations

We enter into interest rate contracts as part of our fixed income business to facilitate client transactions or to actively manage risk exposures that arise from our client activity, including a portion of our trading inventory. The majority of these derivatives are traded in the over-the-counter market and are executed directly with another counterparty or are cleared and settled through a clearing organization.

We also facilitate matched book derivative transactions in which Raymond James Financial Products, Inc. (“RJFP”), a wholly owned subsidiary, enters into interest rate derivative transactions with clients. For every derivative transaction RJFP enters into with a client, it also enters into an offsetting derivative on terms that mirror the client transaction with a credit support provider, which is a third-party financial institution. Any collateral required to be exchanged under these derivative contracts is administered directly between the client and the third-party financial institution. Due to this pass-through transaction structure, RJFP has completely mitigated the market and credit risk on these derivative contracts. As a result, derivatives for which the fair value is in an asset position have an equal and offsetting derivative liability. RJFP only has credit risk on its uncollected derivative transaction fee revenues. The receivable for uncollected derivative transaction fee revenues of RJFP was $5 million at both December 31, 2017 and September 30, 2017, and is included in “Other receivables” on our Condensed Consolidated Statements of Financial Condition.

Derivatives arising from RJ Bank’s business operations

We enter into forward foreign exchange contracts and interest rate swaps to hedge certain exposures arising out of RJ Bank’s business operations (see Note 2 of the 2017 Form 10-K for the accounting policies associated with these transactions). Each of these activities is described further below.

We enter into three-month forward foreign exchange contracts primarily to hedge the risks related to RJ Bank's investment in their Canadian subsidiary as well as their risk resulting from transactions denominated in currencies other than the U.S. dollar. The majority of these derivatives are designated as net investment hedges.

The cash flows associated with certain assets held by RJ Bank provide interest income at fixed interest rates. Therefore, the value of these assets, absent any risk mitigation, is subject to fluctuation based upon changes in market rates of interest over time. RJ Bank enters into floating-rate advances from the Federal Home Loan Bank of Atlanta ("FHLB") to, in part, fund these assets and then enters into interest rate swaps which swap variable interest payments on this debt for fixed interest payments. These interest rate swaps are designated as cash flow hedges and effectively fix RJ Bank's cost of funds associated with these assets to mitigate a portion of the market risk.

Derivative arising from our acquisition of Alex. Brown

As part of our acquisition of Alex. Brown (see Note 3 of the 2017 Form 10-K for additional information regarding the acquisition), we assumed certain DBRSU awards, including the associated plan terms and conditions. The DBRSU awards contain performance conditions based on Deutsche Bank and subsidiaries attaining certain financial results and will ultimately be settled in DB common shares, provided the performance metrics are achieved. The DBRSU obligation results in a derivative, the fair value and notional of which is measured by multiplying the number of outstanding DBRSU awards to be settled in DB common shares as of the end of the reporting period by the end of reporting period DB share price, as traded on the New York Stock Exchange.

Counterparty netting and collateral related to derivative contracts

To reduce credit exposure on certain of our derivative transactions, we may enter into a master netting arrangement that allows for net settlement of all derivative transactions with each counterparty. In addition, the credit support annex allows parties to the master netting agreement to mitigate their credit risk by requiring the party which is out of the money to post collateral. We accept collateral in the form of cash or other marketable securities. Where permitted, we elect to net-by-counterparty certain derivative contracts entered into under a legally enforceable master netting agreement and, therefore, the fair value of those derivative contracts are netted by counterparty in the Condensed Consolidated Statements of Financial Condition. As we elect to net-by-counterparty the fair value of such derivative contracts, we also net-by-counterparty cash collateral exchanged as part of those derivative agreements. We may also require certain counterparties to make a deposit at the inception of a derivative agreement, referred to as “initial margin.” This initial margin is included in “Other payables” on our Condensed Consolidated Statements of Financial Condition.

We are also required to maintain cash or marketable security deposits with the clearing organizations we utilize to clear certain of our interest rate derivative transactions. This initial margin is included as a component of “Receivables from brokers, dealers and clearing organizations” for cash initial margin or “Other investments” for marketable securities initial margin in our Condensed Consolidated Statements of Financial Condition. On a daily basis we also pay cash to or receive cash from these clearing organizations due to changes in the fair value of the derivatives which they clear. Such payments are referred to as “variation margin” and are considered to be settlement of the related derivatives.

RJ Bank provides to counterparties for the benefit of its U.S. subsidiaries, a guarantee of payment in the event of the subsidiary’s default under forward foreign exchange contracts. Due to this RJ Bank guarantee and the short-term nature of these derivatives, RJ Bank’s U.S. subsidiaries are generally not required to post collateral with and do not generally receive collateral from the respective counterparties.

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Derivative balances included in our financial statements

The table below presents the gross fair value and notional amount of derivative contracts by product type, the amounts of counterparty and cash collateral netting in our Condensed Consolidated Statements of Financial Condition, as well as collateral posted and received under credit support agreements that do not meet the criteria for netting under GAAP.

	December 31, 2017			September 30, 2017		
$ in thousands	Derivative assets	Derivative liabilities	Notional amount	Derivative assets	Derivative liabilities	Notional amount
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Matched book	$263,851	$263,851	$2,687,828	$288,035	$288,035	$2,766,488
Other	58,660	85,579	5,093,255	86,436	100,503	4,931,809
Foreign exchange contracts	4	7,032	529,000	3	530	437,783
DBRSU obligation (equity) (1)	—	28,413	28,413	—	25,800	25,800
Subtotal	322,515	384,875	8,338,496	374,474	414,868	8,161,880
Derivatives designated as hedging instruments						
Interest rate contracts	—	1,236	850,000	—	1,390	850,000
Foreign exchange contracts	—	12,678	893,317	29	116	1,048,646
Subtotal	—	13,914	1,743,317	29	1,506	1,898,646
Total gross fair value/notional amount	322,515	398,789	$10,081,813	374,503	416,374	$10,060,526
Offset in the Statements of Financial Condition						
Counterparty netting	(6,471)	(6,471)		(6,045)	(6,045)	
Cash collateral netting	(23,904)	(35,813)		(49,683)	(53,365)	
Total amounts offset	(30,375)	(42,284)		(55,728)	(59,410)	
Net amounts presented in the Statements of Financial Condition	292,140	356,505		318,775	356,964	

Gross amounts not offset in the Statements of Financial Condition
Financial instruments (2)