STIFEL
NICOLAUS

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

As of December 31, 2019

(With Report of Independent Registered Public Accounting Firm)

STIFEL, NICOLAUS & COMPANY, INCORPORATED
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STIFEL, NICOLAUS & COMPANY, INCORPORATED

Consolidated Statement of Financial Condition
As of December 31, 2019

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Building a better working world

Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Directors of Stifel, Nicolaus & Company, Incorporated

Opinion on the Financial Statement

We have audited the accompanying consolidated statement of financial condition of Stifel, Nicolaus & Company, Incorporated (the "Company") as of December 31, 2019 and the related notes (the "consolidated financial statement"). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company at December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the Company's auditor since 2008.

February 28, 2020

STIFEL, NICOLAUS & COMPANY, INCORPORATED

Consolidated Statement of Financial Condition
December 31, 2019

($ in thousands, except share and per share amounts)

Assets		
Cash and cash equivalents	$	196,803
Cash segregated for regulatory purposes		131,374
Receivables:		
Brokerage clients, net		1,323,685
Brokers, dealers and clearing organizations		510,898
Securities purchased under agreements to resell		385,008
Financial instruments owned, at fair value		904,513
Investments, at fair value		26,080
Operating lease right-of-use assets, net		619,960
Deferred tax assets, net		62,244
Loans and advances to financial advisors and other employees, net		86,920
Goodwill and intangible assets, net		375,531
Due from Parent and affiliates, net		16,582
Other assets		345,913
Total assets	**$**	**4,985,511**
Liabilities and stockholder's equity		
Payables:		
Brokerage clients	$	676,662
Brokers, dealers and clearing organizations		691,335
Drafts		116,663
Securities sold under agreements to repurchase		391,634
Financial instruments sold, but not yet purchased, at fair value		633,714
Accrued compensation		293,545
Accounts payable and accrued expenses		776,252
Due to Parent and affiliates, net		157,840
		3,737,645
Liabilities subordinated to claims of general creditors		35,000
Stockholder's equity		
Common stock – par value $1; authorized 30,000 shares; outstanding 1,000 shares		1
Additional paid-in-capital		1,074,591
Retained earnings		138,274
		1,212,866
Total liabilities and stockholder's equity	**$**	**4,985,511**

See accompanying Notes to Consolidated Statement of Financial Condition.

Notes to Consolidated Statement of Financial Condition
December 31, 2019

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

Stifel, Nicolaus & Company, Incorporated ("Stifel"), is principally engaged in brokerage, securities trading, investment banking, investment advisory, and related financial services. We provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, insurance, and banking products to our clients. We are a wholly-owned subsidiary of Stifel Financial Corp. (the "Parent"). We are a registered broker-dealer and investment advisor under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), a member of the New York Stock Exchange, Inc. and the Financial Industry Regulatory Authority, Inc. ("FINRA"), and National Futures Association ("NFA"). Through our membership in the NFA, we are regulated by the Commodity Futures Trading Commission.

On September 27, 2019, we completed the acquisition of certain assets of George K. Baum & Company ("GKB"), a privately held investment-banking firm focused on public finance and taxable fixed income sales and trading. The acquisition was funded with cash from operations. The public finance and fixed income brokerage businesses of GKB were integrated with Stifel immediately after the merger.

Basis of Presentation

The consolidated statement of financial condition includes Stifel and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated. Unless otherwise indicated, the terms "we," "us," "our," or "our company" in this report refer to Stifel, Nicolaus & Company, Incorporated and its wholly-owned subsidiaries.

The accompanying consolidated statement of financial condition has been prepared in conformity with U.S. generally accepted accounting principles, ("U.S. GAAP"), which require management to make certain estimates and assumptions that affect the reported amounts. Management believes that the estimates used in preparing our company's consolidated statement of financial condition is reasonable. Actual results could differ from those estimates.

Consolidation Policies

The consolidated statement of financial condition includes the accounts of Stifel and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities, we evaluate whether the entity is a voting interest entity or a variable interest entity ("VIE"). When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting.

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently, and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

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

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. With the exception of entities eligible for the deferral codified in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10") (generally asset managers and investment companies), Accounting Standards Codification ("ASC") Topic 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity.

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

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's control structure, expected benefits and losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb benefits or losses, variability, related party relationships, and the design of the VIE. Where a qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events. See Note 17 for additional information on VIEs.

NOTE 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents included money market mutual funds and highly liquid investments, other than those used for trading purposes, with original maturities of 90 days or less. Due to the short-term nature of these instruments, carrying value approximates their fair value.

Cash Segregated for Regulatory Purposes

We are subject to Rule 15c3-3 under the Exchange Act, which requires our company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In accordance with Rule 15c3-3, our company has portions of its cash segregated for the exclusive benefit of clients at December 31, 2019.

Brokerage Client Receivables, Net

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

Securities Borrowed and Securities Loaned

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

Substantially all of these transactions are executed under master netting agreements, which gives us right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set-off in the consolidated statement of financial condition. See Note 9 for additional information on financial assets and liabilities that are subject to offset.

Securities Purchased Under Agreements to Resell and Repurchase Agreements

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

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

Financial Instruments

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

Fair Value Hierarchy

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

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

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

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

Valuation of Financial Instruments

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

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value. See Note 4 for additional information on how we value our financial instruments.

Investments

The fair value of marketable investments is generally based on either quoted market or dealer prices. The fair value of non-marketable securities is based on management’s estimate using the best information available, which generally consists of quoted market prices for similar securities and internally developed discounted cash flow models.

Investments in the consolidated statement of financial condition contain investments in securities that are marketable and securities that are not readily marketable. These investments are not included in our inventory and represent the acquiring and disposing of debt or equity instruments for our benefit and not for resale to our customers.

Goodwill and Intangible Assets, Net

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of our company is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of our company is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of our company with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair value of our company is derived based on valuation techniques we believe market participants would use. We have performed impairment testing on December 31, 2019 with no impairment charges resulting from the annual impairment test.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable. See Note 6 for further discussion.

Loans and Advances to Financial Advisors and Other Employees, Net

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

Legal Loss Allowances

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 even 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. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses to the extent we believe certain claims are probable of loss and the amount of the loss can be reasonably estimated. These reserves are included in accounts payable and accrued expenses in the consolidated statement of financial condition.

This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. Factors considered by management in estimating our liability is the loss and damages sought by the claimant/plaintiff, the merits of the claim, the amount of loss in the client's account, the possibility of wrongdoing on the part of the associate of our company, the total cost of defending the litigation, the likelihood of a successful defense against the claim, and the potential for fines and penalties from regulatory agencies. Results of litigation and arbitration are inherently uncertain, and management's assessment of risk associated therewith is subject to change as the proceedings evolve.

Operating Leases

Our company enters into operating leases for real estate, office equipment and other assets, substantially all of which are used in connection with its operations. We adopted ASU 2016-02 “Leases” on January 1, 2019, which required our company to recognize, for leases longer than one year, a right-of-use asset representing the right to use the underlying asset for the lease term, and a lease liability representing the obligation to make payments. The lease term is generally determined based on the contractual maturity of the lease. For leases where our company has the option to terminate or extend the lease, an assessment of the likelihood of exercising the option is incorporated into the determination of the lease term. Such assessment is initially performed at the inception of the lease and is updated if events occur that impact the original assessment.

An operating lease right-of-use asset is initially determined based on the operating lease liability, adjusted for initial direct costs, lease incentives and amounts paid at or prior to lease commencement. This amount is then amortized over the lease term. At December 31, 2019, the right-of-use assets are included in operating lease right-of-use assets, net with the corresponding lease liabilities included in accounts payable and accrued expenses in the consolidated statement of financial condition. See Note 10 for information about operating leases.

Stock-Based Compensation

We participate in an incentive stock award plan sponsored by the Parent that provides for the granting of stock options, stock appreciation rights, restricted stock, performance awards, stock units, and debentures to our associates. See Note 13 for a further discussion of stock-based compensation plans.

Income Taxes

We are included in the consolidated federal and certain state income tax returns filed by the Parent. Our portion of the consolidated current income tax liability, computed on a separate return basis pursuant to a tax sharing agreement and our stand-alone tax liability or receivable are included in the consolidated statement of financial condition.

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

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated statement of financial condition from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. See Note 16 for further information regarding income taxes.

Recently Adopted Accounting Guidance

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement". The objective of this guidance is to improve the effectiveness of disclosure requirements on fair value measurement by eliminating certain disclosure requirements for fair value measurements for all entities, requiring public entities to disclose certain new information and modifying some disclosure requirements. The accounting update is effective for the fiscal year beginning after December 15, 2019 (January 1, 2020 for our company) and early adoption is permitted. We early adopted the guidance in the update on January 1, 2019. The adoption of the accounting update did not have a material impact on our consolidated statement of financial condition.

Leases

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)" that requires for leases longer than one year, a lessee recognize in the statements of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. In addition, this accounting update requires expanded disclosures about the nature and terms of lease agreements.

We adopted the accounting standard update on January 1, 2019. Upon adoption, in accordance with the accounting standard update, we elected to not reassess the lease classification of existing leases, and to not reassess whether existing contracts contain a lease. In addition, we have elected to account for each contract's lease and non-lease components as a single lease component. The adoption of the accounting standard update resulted in a reduction of beginning retained earnings of $3.7 million after-tax as a cumulative effect of adoption of an accounting change. Upon adoption, the company recorded a gross up of approximately $579.3 million on its consolidated statement of financial condition to recognize the right-of-use assets, included in operating lease right-of-use assets, net and lease liabilities, included in accounts payable and accrued expenses.

Recently Issued Accounting Guidance

Goodwill Impairment Testing

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under the accounting update, the annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge should be recognized 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.

The accounting update is effective for annual or any interim impairment tests in fiscal years beginning after December 15, 2019 (January 1, 2020 for our company) and early adoption is permitted. The adoption of the accounting update is not expected to have a material impact on our consolidated statement of financial condition.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments − Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)." This accounting update impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss ("CECL") methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. CECL will replace the loss model currently applicable to bank loans, held-to-maturity securities, and other receivables carried at amortized cost.

The accounting update also eliminates the concept of other-than-temporary impairment for available-for-sale securities. Impairments on available-for-sale securities will be required to be recognized in earnings through an allowance, when the fair value is less than amortized cost and a credit loss exists or the securities are expected to be sold before recovery of amortized cost. Under the accounting update, there may be an ability to determine there are no expected credit losses in certain circumstances, e.g., based on collateral arrangements for lending and financing transactions or based on the credit quality of the borrower or issuer. Expected credit losses, including losses on off-balance sheet exposures, such as lending commitments, will be measured based on historical experience, current conditions, and forecasts that affect the collectability of the reported amount. Overall, the amendments in this accounting update are expected to accelerate the recognition of credit losses for portfolios where CECL models will be applied. The accounting update is effective for fiscal years beginning after December 15, 2019 (January 1, 2020, for our company) and early adoption is permitted. The adoption of the accounting update is not expected to have a material impact on our consolidated statement of financial condition.

NOTE 3 – Receivables From and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations at December 31, 2019, included *(in thousands)*:

Receivable from clearing organizations	$	380,774
Deposits paid for securities borrowed		108,830
Securities failed to deliver		21,294
	$	**510,898**

Amounts payable to brokers, dealers and clearing organizations at December 31, 2019, included *(in thousands)*:

Deposits received from securities loaned	$	608,333
Payable to affiliated broker-dealers		55,934
Securities failed to receive		25,255
Payable to clearing organizations		1,813
	$	**691,335**

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

NOTE 4 – Financial Instruments

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

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

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

Financial Instruments Owned

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

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

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain asset-backed and non-agency mortgage-backed securities. Level 3 financial instruments have little to no pricing observability as of the report date. We value these financial instruments, where there was less frequent or nominal market activity or when we were able to obtain only a single broker quote, using prices from comparable securities.

Investments

Investments carried at fair value primarily include auction-rate securities ("ARS") and corporate equity securities. Corporate equity securities that are valued based on quoted prices in active markets are reported in Level 1. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs. ARS are reported as Level 3 assets.

Investments at fair value include investments in funds that are measured at net asset value ("NAV"). We use NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value.

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

The table below presents the fair value of our investments in, and unfunded commitments to, funds that are measured at NAV at December 31, 2019 *(in thousands)*:

	Fair value of investments	Unfunded commitments
Mutual funds	$ 7,875	$ —
Partnership interests	623	87
Total	**$ 8,498**	**$ 87**

Financial Instruments Sold, But Not Yet Purchased

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

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

The following table summarizes the valuation of our financial instruments by pricing observability levels as of December 31, 2019 *(in thousands)*:

	Total	Level 1	Level 2	Level 3
Assets:				
Financial instruments owned:				
U.S. government securities	**$ 9,266**	$ 9,266	$ —	$ —
U.S. government agency securities	**66,881**	—	66,881	—
Mortgage-backed securities:				
Agency	**388,856**	—	388,856	—
Non-agency	**5,155**	—	5,155	—
Asset-backed securities	**28,385**	—	28,210	175
Corporate securities:				
Fixed income securities	**244,147**	872	243,275	—
Equity securities	**12,209**	11,993	216	—
Sovereign debt	**12,403**	—	12,403	—
State and municipal securities	**137,211**	—	137,211	—
Total financial instruments owned	**904,513**	22,131	882,207	175
Investments:				
Corporate equity securities	**2,585**	2,585	—	—
Auction rate securities:				
Equity securities	**14,243**	—	—	14,243
Municipal securities	**654**	—	470	184
Other	**100**	—	100	—
Investments measured at NAV	**8,498**			
Total investments	**26,080**	2,585	570	14,427
	$ 930,593	$ 24,716	$ 882,777	$ 14,602
Liabilities:				
Financial instruments sold, but not yet purchased:				
U.S. government securities	**$ 243,570**	$ 243,570	$ —	$ —
U.S. government agency securities	**1,000**	—	1,000	—
Agency mortgage-backed securities	**231,909**	—	231,909	—
Corporate securities:				
Fixed income securities	**138,929**	633	138,296	—
Equity securities	**5,035**	5,035	—	—
Sovereign debt	**13,271**	—	13,271	—
Total financial instruments sold, but not yet purchased	**$ 633,714**	$ 249,238	$ 384,476	$ —

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the year ended December 31, 2019 *(in thousands)*:

	Financial Instruments Owned		Investments	
	Mortgage-backed securities – Non-agency	Asset-Backed Securities	Auction-Rate Securities – Equity	Auction-Rate Securities – Municipal
Balance at January 1, 2019	**$ 1**	**$ 175**	**$ 16,632**	**$ 704**
Unrealized gains	—	2	261	—
Realized losses	(1)	—	—	—
Redemptions	—	(2)	(2,650)	(50)
Transfers out of Level 3	—	—	—	(470)
Net change	**(1)**	**—**	**(2,389)**	**(520)**
Balance at December 31, 2019	**$ —**	**$ 175**	**$ 14,243**	**$ 184**

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities.

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

The fair value for our auction-rate securities was determined using an income approach based on an internally developed discounted cash flow model. The discounted cash flow model utilizes two significant unobservable inputs: discount rate and workout period. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. On an on-going basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

Financial Instruments Not Measured at Fair Value

There are certain financial instruments included in our consolidated statement of financial condition that are not measured at fair value on a recurring basis, but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. These financial assets and liabilities include: cash and cash equivalents, cash segregated for regulatory purposes, receivables from brokerage clients, receivables from brokers, dealers and clearing organizations, payables from brokerage clients, payables from brokers, and dealers and clearing organizations, which are classified as Level 1, and securities purchased under agreements to resell and securities sold under agreements to repurchase, which are classified as Level 1 and Level 2.

Short-term borrowings

The carrying amount of short-term borrowings approximates fair value due to the relative short-term nature of such borrowings, some of which are day-to-day. Short-term borrowings are classified as a Level 1 financial instrument.

Liabilities Subordinated to Claims of General Creditors

The fair value of subordinated debt was measured using the interest rates commensurate with borrowings of similar terms. At December 31, 2019, the carrying value and fair value of the subordinated debt is $35.0 million and $16.7 million, respectively. The subordinated debt is classified as a Level 3 financial instrument. See Note 8 to the consolidated statement of financial condition for further discussion of the subordinated debt.

NOTE 5 – Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

The components of financial instruments owned and financial instruments sold, but not yet purchased at December 31, 2019 are as follows *(in thousands)*:

Financial instruments owned:		
U.S. government securities	$	9,266
U.S. government agency securities		66,881
Mortgage-backed securities:		
Agency		388,856
Non-agency		5,155
Asset-backed securities		28,385
Corporate securities:		
Fixed income securities		244,147
Equity securities		12,209
Sovereign debt		12,403
State and municipal securities		137,211
	$	**904,513**
Financial instruments sold, but not yet purchased:		
U.S. government securities	$	243,570
U.S. government agency securities		1,000
Agency mortgage-backed securities		231,909
Corporate securities:		
Fixed income securities		138,929
Equity securities		5,035
Sovereign debt		13,271
	$	**633,714**

At December 31, 2019, financial instruments owned in the amount of $511.2 million were pledged as collateral (on a settlement-date basis) for our repurchase agreements and short-term borrowings. Our financial instruments owned are presented on a trade-date basis in the consolidated statement of financial condition.

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

NOTE 6 – Goodwill and Intangible Assets

The carrying amount of goodwill is presented in the following table *(in thousands)*:

Balance at January 1, 2019	**$**	**311,585**
Additions		33,311
Balance at December 31, 2019	**$**	**344,896**

The carrying amount of intangible assets is presented in the following table *(in thousands)*:

Balance at January 1, 2019	**$**	**18,439**
Additions		15,200
Amortization of intangible assets		(3,004)
Balance at December 31, 2019	**$**	**30,635**

On September 27, 2019, we completed the acquisition of certain assets of GKB. The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $33.3 million of goodwill in the consolidated statement of financial condition. Identifiable intangible assets purchased by our company consisted of non-compete agreements and customer relationships with an acquisition-date fair value of $15.2 million. The allocation of the purchase price for this acquisition is preliminary and will be finalized upon completion of the analysis of the fair value of the net assets as of the acquisition date and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. See Note 1 in the notes to our consolidated statement of financial condition for additional information regarding the acquisition of GKB.

The goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of the GKB business and its expertise in the investment banking business. Goodwill is expected to be deductible for federal income tax purposes.

Amortizable intangible assets consist of acquired customer relationships, trade name, and non-compete agreements that are amortized to expense over their contractual or determined useful lives. Intangible assets subject to amortization as of December 31, 2019 were as follows *(in thousands)*:

	Gross carrying value		Accumulated Amortization		Net	
Customer relationships	$	53,593	$	27,628	$	25,965
Trade name		8,780		5,535		3,245
Non-compete agreements		1,500		75		1,425
	$	**63,873**	**$**	**33,238**	**$**	**30,635**

The weighted-average remaining lives of the following intangible assets at December 31, 2019 are: customer relationships, 9.4 years; trade name, 5.3 years; and non-compete agreements, 4.8 years.

NOTE 7 – Short-Term Borrowings

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, securities lending arrangements and repurchase agreements. We borrow from various banks on a demand basis with company-owned and, to a lesser extent, customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statement of financial condition.

Our uncommitted secured lines of credit at December 31, 2019, totaled $835.0 million with four unaffiliated banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing on our uncommitted secured lines was $276.0 million during the year ended December 31, 2019. There are no compensating balance requirements under these arrangements. Any borrowings on secured lines of credit are generally utilized to finance certain fixed income securities. At December 31, 2019, we had no outstanding balances on our uncommitted secured lines of credit.

We have a committed, secured Credit Agreement, as amended, (the "Agreement") with Stifel Bank and Trust ("SB&T"), a wholly-owned subsidiary of the Parent. Under the terms of the Agreement, SB&T provides our company with a $130.0 million revolving credit facility, which is supported by two letters of credit. The credit facility expires in July 2020. The borrowings are collateralized by company-owned securities and receivables. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the Eurocurrency Rate plus 1.50%. See Note 15 for further discussion of our related party transactions. At December 31, 2019, we had $1.5 million outstanding on the letters of credit with no other advances on our revolving credit facility and were in compliance with all covenants.

We have a 364-day Credit Agreement with a maturity date of June 2020 in which the lenders are number of financial institutions. The committed unsecured borrowing facility provides for maximum borrowings of up to $250.0 million at variable rates of interest. At December 31, 2019, we had no advances on our credit facility and were in compliance with all covenants.

NOTE 8 – Liabilities Subordinated to Claims of General Creditors

In September 2010, FINRA approved our amended $35.0 million subordinated loan agreement with the Parent and its inclusion in our net capital computation. The loan is callable on September 30, 2035 and bears interest at a floating rate equal to three-month LIBOR plus 1.70% per annum. At December 31, 2019, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was $16.7 million.

NOTE 9 – Disclosures About Offsetting Assets and Liabilities

The following table provides information about financial assets that are subject to offset as of December 31, 2019 *(in thousands)*:

				Gross amounts not offset in the Statement of Financial Condition		
	Gross amounts of recognized assets	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Amounts available for offset	Available collateral	Net amount
Securities borrowing [1]	$ 108,830	$ —	$ 108,830	$ (52,319)	$ (52,890)	$ 3,621
Resale agreements [2]	385,008	—	385,008	(59,892)	(325,096)	20
	$ 493,838	**$ —**	**$ 493,838**	**$ (112,211)**	**$ (377,986)**	**$ 3,641**

(1) Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations in the consolidated statement of financial condition. See Note 3 in the notes to our consolidated statement of financial condition for additional information on receivables from brokers, dealers, and clearing organizations.

(2) Collateral received includes securities received by our company from the counterparty. These securities are not included in the consolidated statement of financial condition unless there is an event of default. The fair value of securities pledged as collateral was $385.3 million at December 31, 2019.

The following table provides information about financial liabilities that are subject to offset as of December 31, 2019 *(in thousands)*:

				Gross amounts not offset in the Statement of Financial Condition		
	Gross amounts of recognized assets	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Amounts available for offset	Available collateral	Net amount
Securities lending [3]	$ (608,333)	$ —	$ (608,333)	$ 52,319	$ 555,782	$ (232)
Repurchase agreements [4]	(391,634)	—	(391,634)	59,892	331,742	—
	$ (999,967)	**$ —**	**$ (999,967)**	**$ 112,211**	**$ 887,524**	**$ (232)**

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

(4) Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included in the consolidated statements of financial condition unless we default. Collateral pledged by our company to the counter party includes U.S. government agency securities, U.S. government securities, and corporate fixed income securities with market values of $407.3 million.

For financial statement purposes, we do not offset our repurchase agreements or securities borrowing or securities lending transactions because the conditions for netting as specified by U.S. GAAP are not met. Our repurchase agreements, securities borrowing and securities lending transactions are transacted under master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. Although not offset in the consolidated statement of financial condition, these transactions are included in the preceding table.

NOTE 10 – Commitments, Guarantees and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at December 31, 2019, had no material effect on the consolidated statement of financial condition.

We provide guarantees to securities clearinghouses and exchanges under the standard membership agreements, such that members are required to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouses, other members would be required to meet shortfalls. Our company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for our company to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

As a part of our fixed income public finance operations, we enter into forward commitments to purchase agency mortgage-backed securities. In order to hedge the market interest rate risk to which we would otherwise be exposed between the date of the commitment and date of sale of the mortgage-backed securities, we enter into to be announced ("TBA") security contracts with investors for generic mortgage-backed securities at specific rates and prices to be delivered on settlement dates in the future. We may be subject to loss if the timing of, or the actual amount of, the mortgage-backed security differs significantly from the term and notional amount of the TBA security contract to which we entered. These TBA securities and related purchase commitments are accounted for at fair value and included in agency mortgage-backed securities in the financial instruments valuation table included in Note 4 to the consolidated statement of financial condition. The fair value of the TBA securities sold, not yet purchased at December 31, 2019 was $231.9 million.

Concentration of Credit Risk

We provide investment, capital-raising and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of December 31, 2019, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

At December 31, 2019, two customers accounted for approximately 37% of the balance in receivables from brokerage clients, net in the consolidated statement of financial condition.

Operating leases

Our operating leases primarily relate to office space and office equipment with remaining lease terms of 1 to 11 years. At December 31, 2019, operating lease right-of-use assets were $620.0 million and lease liabilities were $604.4 million and included in accounts payable and accrued expenses in the consolidated statement of financial condition. See Note 15 for a discussion of leases with related parties.

The table below summarizes other information related to our operating leases as of and for the year ended December 31, 2019 *(in thousands, except percentages)*:

Operating lease cash flows	$ 76,343
Weighted-average remaining lease term	12.2 years
Weighted-average discount rate	4.62%

In the table above, the weighted average discount rate represents our company's incremental borrowing rate as of January 2019 for leases existing on the date of adoption of the lease accounting standard and at the lease inception date for leases entered into subsequent to the adoption of the lease accounting standard.

The table below presents information about operating lease liabilities as of December 31, 2019 *(in thousands)*:

2020	$ 77,344
2021	74,153
2022	73,389
2023	72,575
2024	70,737
Thereafter	441,574
Total undiscounted lease payments	809,772
Imputed interest	(205,407)
Total operating lease liabilities	**$ 604,365**

NOTE 11 – Legal Proceedings

Our company is 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 is 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 statement of financial condition with respect to these matters the ultimate resolution of these matters will not have a material adverse impact on our financial position. However, resolution of one or more of these matters may have a material effect on our financial position in any future period, depending upon the ultimate resolution of those matters. 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 statement of financial condition.

NOTE 12 – Regulatory and Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our Parent. Distributions are subject to net capital rules. A broker-dealer that fails to comply with the Security and Exchange Commission's ("SEC") Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. We have chosen to calculate our net capital under the alternative method, which prescribes that our net capital shall not be less than the greater of $1.0 million, or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). At December 31, 2019, we had net capital of $369.6 million, which was 21.2% of aggregate debit items and $334.7 million in excess of our minimum required net capital.

NOTE 13 – Employee Incentive, Deferred Compensation and Retirement Plans

Our associates participate in the Stifel Financial Corp. Wealth Accumulation Plan, as restated, (the "Wealth Accumulation Plan"). The Wealth Accumulation Plan provides for the granting of stock options, stock appreciation rights, restricted stock, performance awards, stock units, and debentures. Awards are granted at market value at the date of grant. The awards generally vest ratably over a three- to ten-year vesting period. In addition, our associates participate in a defined contribution plan sponsored by the Parent.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Parent, which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award.

Deferred Compensation Plans

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

Additionally, the Wealth Accumulation Plan allows our financial advisors, who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the Wealth Accumulation Plan, the financial advisors will defer 5% of their gross commissions. The mandatory deferral will be split evenly between company restricted stock units and a company fixed-rate cash debenture. They have the option to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution.

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

Profit Sharing Plan

Eligible associates of our company who have met certain service requirements may participate in the Stifel Financial Corp. Profit Sharing 401(k) Plan (the "Profit Sharing Plan"). Associates are permitted within limitations imposed by tax law to make pre-tax contributions to the Profit Sharing Plan. We may match certain associate contributions or make additional contributions to the Profit Sharing Plan at the discretion of the Parent.

NOTE 14 – Off-Balance Sheet Credit Risk

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

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

We enter into securities transactions that involve forward settlement. Gains or losses on these transactions are recognized on a trade date basis. Securities transactions involving longer settlements give rise to market risk. Our exposure to market risk is influenced by many factors, including market volatility, changes in interest rates, and type and size of the individual security.

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At December 31, 2019, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $2.3 billion and the fair value of the collateral that had been sold or repledged was $391.6 million.

NOTE 15 – Related Party Transactions

We have a sweep arrangement with SB&T and Stifel Bank, (collectively, "bank subsidiaries"), wholly-owned subsidiaries of the Parent, whereby a portion of available funds in customer brokerage accounts are automatically transferred by our company into money market deposit accounts, of which the bank subsidiaries retain a portion as deposits. The bank subsidiaries held $13.9 billion of our brokerage clients' deposits at December 31, 2019.

We serve as a carrying broker-dealer and clear security transactions on a fully disclosed basis for several of our affiliates. These affiliates include Keefe, Bruyette & Woods, Inc., Stifel Nicolaus Europe Limited, and Century Securities Associates, Inc. At December 31, 2019 amounts due to affiliates for these services was $55.9 million and is included in payables to brokers, dealers and clearing organizations in the statement of financial condition.

At December 31, 2019, the amount due from the Parent of $4.3 million primarily related to income taxes. At December 31, 2019, the amount due from affiliates was $12.3 million. Amounts owed our company primarily consist of operating expenses that were paid on behalf of affiliates and are included in due from Parent and affiliates, net in the statement of financial condition.

At December 31, 2019, amounts due to Parent primarily consist of stock-based compensation that is paid upon conversion of stock units. The amount due to Parent at December 31, 2019 was $147.4 million. Due to affiliates of $10.5 million at December 31, 2019 consists primarily of operating expenses that were paid on our company's behalf by certain affiliates. These payables are included in due to Parent and affiliates, net in the statement of financial condition.

We have a committed, secured Credit Agreement with SB&T. At December 31, 2019, we had no advances on our revolving credit facility and were in compliance with all covenants. See Note 7 for further discussion of our short-term borrowings.

We have an intercompany loan with the Parent, at a rate equal to the Prime Rate plus 0.25%. Our peak borrowing on the intercompany loan was $142.0 million during the year ended December 31, 2019. There was no outstanding balance on the loan at December 31, 2019.

During the year ended December 31, 2019, we purchased inventory of approximately $20.1 million from an affiliate.

During the year ended December 31, 2019, our Board of Directors authorized and we paid dividends of $155.0 million to the Parent.

NOTE 16 – Income Taxes

The tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets as of December 31, 2019 *(in thousands)*:

Deferred tax assets:		
Lease obligations	$	162,399
Deferred compensation		70,483
Accrued expenses		11,112
Receivable reserves		4,019
Net operating loss carryforwards		233
Unrealized loss on investments		39
Other		129
	$	248,414
Deferred tax liabilities:		
Operating lease right-of-use asset		(160,173)
Goodwill and other intangibles		(24,008)
Prepaid expenses		(1,989)
		(186,170)
Net deferred tax asset	**$**	**62,244**

We believe the realization of the net deferred tax asset is more likely than not based upon anticipated future taxable income. Our net deferred tax asset at December 31, 2019 includes net operating loss carryforwards of $3.6 million, which expire between 2026 and 2037.

The current state income tax receivable, included in other assets, is $0.8 million as of December 31, 2019. Federal income tax payments are made on our behalf by the Parent. See Note 15 for further discussion of related party transactions.

We are included in the consolidated federal and certain state income tax returns filed by the Parent. We file separate income tax returns in certain local jurisdictions. Certain consolidated state returns are not subject to examination by tax authorities for taxable years before 2010.

NOTE 17 – Variable Interest Entities

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have net assets of $258.2 million at December 31, 2019. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Our direct investment interest in these entities is insignificant at December 31, 2019.

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

NOTE 18 – Subsequent Events

We evaluate subsequent events that have occurred after the statement of financial condition date but before the financial statements were available to be issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date. We have evaluated subsequent events through February 28, 2020, the date the accompanying consolidated statement of financial condition was issued. Based on the evaluation, we did not identify any recognized subsequent events that would have required adjustment to the consolidated statement of financial condition; however, we identified the following non-recognized event:

Dividends to Stifel Financial Corp.

During 2020, our Board of Directors authorized and we paid dividends of $20.0 million to the Parent.

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A current copy of our consolidated statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the Chicago regional office of the Securities and Exchange Commission or at our principal office at One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.