RAYMOND JAMES FINANCIAL INC
Form 10-Q
August 07, 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 June 30, 2018
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.

145,888,459 shares of common stock as of August 6, 2018

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

INDEX

2

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

$ in thousands, except share amounts	June 30, 2018	September 30, 2017
Assets:		
Cash and cash equivalents	$3,179,751	$3,669,672
Assets segregated pursuant to regulations and other segregated assets	2,687,365	3,476,085
Securities purchased under agreements to resell	343,052	404,462
Securities borrowed	164,256	138,319
Financial instruments owned, at fair value:		
Trading instruments (includes $537,169 and $357,099 pledged as collateral)	670,350	564,263
Available-for-sale securities (includes $21,305 and $- pledged as collateral)	2,668,211	2,188,282
Derivative assets	217,522	318,775
Private equity investments	164,457	198,779
Other investments (includes $26,487 and $6,640 pledged as collateral)	214,882	220,980
Brokerage client receivables, net	2,899,385	2,766,771
Receivables from brokers, dealers and clearing organizations	237,301	268,021
Other receivables	671,621	652,769
Bank loans, net	18,987,806	17,006,795
Loans to financial advisors, net	928,488	873,272
Investments in real estate partnerships held by consolidated variable interest entities	99,091	111,743
Property and equipment, net	471,603	437,374
Deferred income taxes, net	231,816	313,486
Goodwill and identifiable intangible assets, net	641,787	493,183
Other assets	885,365	780,425
Total assets	$36,364,109	$34,883,456
Liabilities and equity:		
Bank deposits	$19,478,561	$17,732,362
Securities sold under agreements to repurchase	115,464	220,942
Securities loaned	386,651	383,953
Financial instruments sold but not yet purchased, at fair value:		
Trading instruments	258,881	221,449
Derivative liabilities	292,225	356,964
Brokerage client payables	5,066,586	5,411,829
Payables to brokers, dealers and clearing organizations	195,560	172,714
Accrued compensation, commissions and benefits	1,005,598	1,059,996
Other payables	864,713	567,045
Other borrowings	900,326	1,514,012
Senior notes payable	1,549,493	1,548,839
Total liabilities	30,114,058	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	—	—
	1,561	1,542

Common stock; $.01 par value; 350,000,000 shares authorized; 156,126,130 and 154,228,235 shares issued as of June 30, 2018 and September 30, 2017, respectively, and 145,754,690 and 144,096,521 shares outstanding as of June 30, 2018 and September 30, 2017, respectively		
Additional paid-in capital	1,780,994	1,645,397
Retained earnings	4,814,603	4,340,054
Treasury stock, at cost; 10,343,288 and 10,084,038 common shares as of June 30, 2018 and September 30, 2017, respectively	(413,202)	(390,081)
Accumulated other comprehensive loss	(26,593)	(15,199)
Total equity attributable to Raymond James Financial, Inc.	6,157,363	5,581,713
Noncontrolling interests	92,688	111,638
Total equity	6,250,051	5,693,351
Total liabilities and equity	$36,364,109	$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 June 30,		Nine months ended June 30,	
in thousands, except per share amounts	2018	2017	2018	2017
Revenues:				
Securities commissions and fees	$1,115,465	$1,017,908	$3,336,311	$2,994,405
Investment banking	115,069	104,191	285,786	267,993
Investment advisory and related administrative fees	153,627	117,378	447,083	335,901
Interest income	271,342	204,224	751,917	579,550
Account and service fees	201,264	174,084	577,056	485,856
Net trading profit	11,371	23,404	45,278	59,770
Other	22,764	21,918	70,297	68,714
Total revenues	1,890,902	1,663,107	5,513,728	4,792,189
Interest expense	(54,307)	(38,560)	(138,340)	(111,203)
Net revenues	1,836,595	1,624,547	5,375,388	4,680,986
Non-interest expenses:				
Compensation, commissions and benefits	1,207,512	1,082,382	3,556,927	3,124,563
Communications and information processing	91,651	77,819	272,067	226,047
Occupancy and equipment costs	49,503	46,507	149,018	140,057
Business development	56,944	39,305	133,543	116,186
Investment sub-advisory fees	23,028	20,133	68,470	57,206
Bank loan loss provision	5,226	6,209	13,791	13,097
Acquisition-related expenses	—	3,366	3,927	17,118
Losses on extinguishment of debt	—	—	—	8,282
Other	84,689	71,885	216,830	332,671
Total non-interest expenses	1,518,553	1,347,606	4,414,573	4,035,227
Income including noncontrolling interests and before provision for income taxes	318,042	276,941	960,815	645,759
Provision for income taxes	85,800	91,590	366,725	204,160
Net income including noncontrolling interests	232,242	185,351	594,090	441,599
Net income/(loss) attributable to noncontrolling interests	(16)	1,927	143	(1,147)
Net income attributable to Raymond James Financial, Inc.	$232,258	$183,424	$593,947	$442,746
Earnings per common share – basic	$1.59	$1.27	$4.08	$3.09
Earnings per common share – diluted	$1.55	$1.24	$3.99	$3.02
Weighted-average common shares outstanding – basic	145,634	143,712	145,156	143,059
Weighted-average common and common equivalent shares outstanding – diluted	149,447	147,103	148,787	146,347
Net income attributable to Raymond James Financial, Inc.	$232,258	$183,424	$593,947	$442,746
Other comprehensive income/(loss), net of tax:				
Net change in unrealized gain/(loss) on available-for-sale securities and non-credit portion of other-than-temporary impairment losses	(3,848)	1,776	(32,428)	(418)
Net change in unrealized gain/(loss) on currency translations, net of the impact of net investment hedges	(6,290)	7,423	(8,512)	10,647
Net change in unrealized gain/(loss) on cash flow hedges	6,068	(3,775)	29,546	23,494
Total comprehensive income	$228,188	$188,848	$582,553	$476,469

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

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

	Nine months ended June 30,	
$ in thousands, except per share amounts	2018	2017
Common stock, par value $.01 per share:		
Balance beginning of year	$1,542	$1,513
Share issuances	19	27
Balance end of period	1,561	1,540
Additional paid-in capital:		
Balance beginning of year	1,645,397	1,498,921
Employee stock purchases	23,923	20,229
Exercise of stock options and vesting of restricted stock units, net of forfeitures	33,677	31,556
Restricted stock, stock option and restricted stock unit expense	76,825	72,036
Other	1,172	826
Balance end of period	1,780,994	1,623,568
Retained earnings:		
Balance beginning of year	4,340,054	3,834,781
Net income attributable to Raymond James Financial, Inc.	593,947	442,746
Cash dividends declared	(119,288)	(98,644)
Other	(110)	—
Balance end of period	4,814,603	4,178,883
Treasury stock:		
Balance beginning of year	(390,081)	(362,937)
Purchases/surrenders	(8,706)	(9,265)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(14,415)	(20,507)
Balance end of period	(413,202)	(392,709)
Accumulated other comprehensive loss:		
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	(32,428)	(418)
Net change in unrealized gain/(loss) on currency translations, net of the impact of net investment hedges, net of tax	(8,512)	10,647
Net change in unrealized gain on cash flow hedges, net of tax	29,546	23,494
Balance end of period	(26,593)	(22,010)
Total equity attributable to Raymond James Financial, Inc.	$6,157,363	$5,389,272
Noncontrolling interests:		
Balance beginning of year	$111,638	$146,431
Net income attributable to noncontrolling interests	143	(1,147)
Capital contributions	—	9,776
Distributions	(18,841)	(39,968)
Derecognition resulting from sales	—	(4,628)
Other	(252)	1,014

Balance end of period	92,688	111,478
Total equity	$6,250,051	$5,500,750

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

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

	Nine months ended June 30,	
$ in thousands	2018	2017
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$593,947	$442,746
Net income/(loss) attributable to noncontrolling interests	143	(1,147)
Net income including noncontrolling interests	594,090	441,599
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	71,930	62,149
Deferred income taxes	98,846	(56,948)
Premium and discount amortization on available-for-sale securities and loss/(gain) on other investments	2,855	(23,468)
Provisions for loan losses, legal and regulatory proceedings and bad debts	33,679	159,131
Share-based compensation expense	80,724	76,419
Compensation expense/(benefit) payable in common stock of an acquiree	(5,850)	12,810
Unrealized gain on company owned life insurance, net of expenses	(19,657)	(30,076)
Losses on extinguishment of debt	—	8,282
Other	21,659	18,129
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	765,346	1,497,360
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	(47,701)	21,010
Securities loaned, net of securities borrowed	(23,567)	(229,170)
Loans provided to financial advisors, net of repayments	(72,877)	(41,779)
Brokerage client receivables and other accounts receivable, net	(149,237)	(68,688)
Trading instruments, net	(88,299)	10
Derivative instruments, net	76,850	78,879
Other assets	(48,812)	54,043
Brokerage client payables and other accounts payable	(183,746)	(678,686)
Accrued compensation, commissions and benefits	(51,965)	(17,288)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	(65,119)	44,369
Net cash provided by operating activities	989,149	1,328,087
Cash flows from investing activities:		
Additions to property, buildings and equipment, including software	(96,114)	(152,715)
Increase in bank loans, net	(1,875,301)	(1,731,114)
Proceeds from sales of loans held for investment	140,478	287,669
Purchases of available-for-sale securities	(899,243)	(1,424,706)
Available-for-sale securities maturations, repayments and redemptions	359,537	198,654
Proceeds from sales of available-for-sale securities	—	65,656
Business acquisition, net of cash acquired	(159,200)	—
Other investing activities, net	32,215	84,701
Net cash used in investing activities	(2,497,628)	(2,671,855)

(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)

	Nine months ended June 30,	
$ in thousands	2018	2017
Cash flows from financing activities:		
Proceeds from borrowings on the RJF Credit Facility	300,000	—
Repayment of borrowings on the RJF Credit Facility	(300,000)	—
Repayments of short-term borrowings, net	(610,000)	—
Proceeds from Federal Home Loan Bank advances	850,000	850,000
Repayments of Federal Home Loan Bank advances and other borrowed funds	(853,686)	(653,461)
Proceeds from senior note issuances, net of debt issuance costs paid	—	508,489
Extinguishment of senior notes payable	—	(350,000)
Acquisition-related contingent consideration received, net of payments	—	2,992
Exercise of stock options and employee stock purchases	54,695	51,183
Increase in bank deposits	1,746,199	2,048,334
Purchases of treasury stock	(23,788)	(32,179)
Dividends on common stock	(107,215)	(95,322)
Distributions to noncontrolling interests, net	(14,101)	(27,782)
Net cash provided by financing activities	1,042,104	2,302,254
Currency adjustment:		
Effect of exchange rate changes on cash	(23,546)	6,541
Net increase/(decrease) in cash and cash equivalents	(489,921)	965,027
Cash and cash equivalents at beginning of year	3,669,672	1,650,452
Cash and cash equivalents at end of period	$3,179,751	$2,615,479
Supplemental disclosures of cash flow information:		
Cash paid for interest	$127,069	$92,930
Cash paid for income taxes	$191,760	$243,585

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

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2018

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 of this Form 10-Q. 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 of this Form 10-Q. 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 to 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 $21 million and $22 million at June 30, 2018 and September 30, 2017, respectively. Our allowance for doubtful accounts was approximately $9 million and $8 million at June 30, 2018 and September 30, 2017, respectively.

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

Recent accounting developments

Accounting guidance recently adopted

Income Taxes - In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, which amended income tax accounting guidance to include guidance issued by the SEC related to the implementation of the Tax Cuts and Jobs Act (the "Tax Act"), which we applied during our first fiscal quarter of 2018 when it was issued by the SEC. See Note 13 for more information.

Reclassification of certain tax effects from accumulated other comprehensive income ("AOCI") - In February 2018, the FASB issued guidance (ASU 2018-02) allowing companies to reclassify to retained earnings the tax effects related to items within AOCI that the FASB refers to as having been stranded as a result of the Tax Act. We early adopted this amended guidance on January 1, 2018 on a modified retrospective approach. The amount reclassified from AOCI to retained earnings related to the Tax Act was insignificant. See Note 15 for more information.

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 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. We early-adopted this new guidance on April 1, 2018 and the adoption had no effect on our financial position and results of operations.

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 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 analyzing contracts related to revenues within the scope of the new guidance and reviewing potential changes to our existing revenue recognition accounting policies. We are also evaluating the impact to our disclosures as a result of adopting this new guidance. 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.

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

This new guidance, including subsequent amendments, 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. Upon adoption, our investments in equity securities classified as available-for-sale prior to the adoption date will be accounted for at fair value with unrealized gains/(losses) reflected in earnings. Previously, such unrealized gains/(losses) were reflected in other comprehensive income. The adoption of this new guidance is not expected to have a material impact 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 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. We are in the process of identifying changes to our business processes, systems and controls to support adoption of the new guidance. 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 October 1, 2018 and will be adopted under a retrospective approach. Although permitted, we do not plan to early adopt. The adoption of this new guidance will impact our Consolidated Statement of Cash Flows and will not have an impact 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. Although permitted, we do not plan to early adopt. The adoption of this new guidance will impact our Consolidated Statement of Cash Flows and will not have an impact on our financial position and results of operations.

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.

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 (modifications) - 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.

Share-based payment awards (nonemployee) - In June 2018, the FASB issued amended guidance that aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions (ASU 2018-07). The amended guidance states an entity should measure the fair value of the award by estimating the fair value of the equity instruments to be issued and, for equity-classified awards, the fair value should be measured on the grant date. The amended guidance also clarifies that nonemployee awards that contain a performance condition are to be measured based on the outcome that is probable and that entities may elect, on an award-by-award basis, to use the expected term or the contractual term to measure the award. This amended guidance is first effective for our fiscal year beginning October 1, 2019 and will be adopted using a modified retrospective approach with a cumulative adjustment to retained earnings. Early adoption is permitted, but not before an entity has adopted the amended revenue recognition guidance. 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 nine months ended June 30, 2018 pertain to certain incremental expenses incurred in connection with the Scout Group acquisition. Acquisition-related expenses for the three and nine months ended June 30, 2017 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.

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

	Three months ended June 30,		Nine months ended June 30,	
$ in thousands	2018	2017	2018	2017
Legal and regulatory	$—	$1,509	$2,281	$2,336
Severance	—	177	990	5,734
Information systems integration costs	—	29	162	1,651
Acquisition and integration-related incentive compensation costs	—	—	—	5,474
Early termination costs of assumed contracts	—	—	—	1,329
Post-closing purchase price contingency	—	—	—	(3,499)
Deutsche Bank restricted stock unit ("DBRSU") obligation and related hedge	—	(28)	—	770
All other	—	1,679	494	3,323
Total acquisition-related expenses	$—	$3,366	$3,927	$17,118

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

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 present 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. Bank loans held for sale measured at fair value on a nonrecurring basis are recorded at a fair value lower than cost.

$ 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 June 30, 2018
Assets at fair value on a recurring basis					
Trading instruments					
Municipal and provincial obligations	$ 106	$228,326	$ —	$ —	$228,432
Corporate obligations	17,029	118,103	—	—	135,132
Government and agency obligations	11,381	49,673	—	—	61,054
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	286	77,377	—	—	77,663
Non-agency CMOs and asset-backed securities (“ABS”)	—	95,849	4	—	95,853
Total debt securities	28,802	569,328	4	—	598,134
Equity securities	14,557	279	—	—	14,836
Brokered certificates of deposit	—	33,404	—	—	33,404
Other	36	20,000	3,940	—	23,976
Total trading instruments	43,395	623,011	3,944	—	670,350
Available-for-sale securities					
Agency MBS and CMOs	—	2,556,072	—	—	2,556,072
Other securities	897	—	—	—	897
Auction rate securities (“ARS”) preferred securities	—	—	111,242	—	111,242
Total available-for-sale securities	897	2,556,072	111,242	—	2,668,211
Derivative assets					
Interest rate contracts					
Matched book	—	195,956	—	—	195,956
Other	—	68,750	—	(47,207)	21,543
Foreign exchange contracts	—	23	—	—	23
Total derivative assets	—	264,729	—	(47,207)	217,522

Private equity investments					
Not measured at net asset value (“NAV”)	—	—	71,991	—	71,991
Measured at NAV					92,466
Total private equity investments	—	—	71,991	—	164,457
Other investments	213,505	613	764	—	214,882
Total assets at fair value on a recurring basis	$ 257,797	$ 3,444,425	$ 187,941	$ (47,207)	$ 3,935,422
Assets at fair value on a nonrecurring basis					
Bank loans, net					
Impaired loans	$ —	$ 13,261	$ 22,062	$ —	$ 35,323
Loans held for sale	—	51,751	—	—	51,751
Total bank loans, net	—	65,012	22,062	—	87,074
Other assets: Other real estate owned	—	210	—	—	210
Total assets at fair value on a nonrecurring basis	$ —	$ 65,222	$ 22,062	$ —	$ 87,284

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

(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 June 30, 2018
Liabilities at fair value on a recurring basis					
Trading instruments sold but not yet purchased					
Municipal and provincial obligations	$ 15	$ 1,468	$ —	$ —	$ 1,483
Corporate obligations	2,488	16,870	—	—	19,358
Government obligations	224,499	—	—	—	224,499
Agency MBS and CMOs	1,256	—	—	—	1,256
Non-agency MBS and CMOs	—	4,175	—	—	4,175
Total debt securities	228,258	22,513	—	—	250,771
Equity securities	5,721	185	—	—	5,906
Other	5	—	2,199	—	2,204
Total trading instruments sold but not yet purchased	233,984	22,698	2,199	—	258,881
Derivative liabilities					
Interest rate contracts					
Matched book	—	195,956	—	—	195,956
Other	—	102,813	—	(43,759)	59,054
Foreign exchange contracts	—	22,556	—	—	22,556
DBRSU obligation (equity)	—	14,659	—	—	14,659
Total derivative liabilities	—	335,984	—	(43,759)	292,225
Total liabilities at fair value on a recurring basis	$ 233,984	$ 358,682	$ 2,199	$ (43,759)	$ 551,106

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

$ 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					
Not measured at NAV	—	—	88,885	—	88,885
Measured at NAV					109,894
Total private equity investments	—	—	88,885	—	198,779
Other investments	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	—	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
Notes to Condensed Consolidated Financial Statements (Unaudited)

(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

Transfers between levels

Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period. Our transfers of financial instruments between Levels 1 and 2 were insignificant for the three and nine months ended June 30, 2018 and 2017.

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

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 June 30, 2018
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	$704	$ 108,495	$95,862	$ 548	$ (853)
Total gains/(losses) for the period:						
Included in earnings	—	(88)	—	4,167	(2)	335
Included in other comprehensive income	—	—	2,747	—	—	—
Purchases and contributions	—	17,943	—	—	218	—
Sales	—	(14,619)	—	(28,038)	—	(1,681)
Distributions	(1)	—	—	—	—	—
Transfers:						
Into Level 3	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—
Fair value end of period	$4	$3,940	$ 111,242	$71,991	$ 764	$ (2,199)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$1,220	$ 2,747	$—	$ (2)	$ —

Nine months ended June 30, 2018
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	—	(591)	—	11,221	(8)	—

Included in other comprehensive income	—	—	5,071	—	—	—
Purchases and contributions	—	61,785	—	—	436	—
Sales	—	(62,848)	—	(28,115)	—	(2,199)
Distributions	(1)	—	—	—	—	—
Transfers:						
Into Level 3	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—
Fair value end of period	$4	$3,940	$ 111,242	$71,991	$ 764	$ (2,199)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$1,193	$ 5,071	$—	$ (8)	$ —

17

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

Three months ended June 30, 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 – municipal obligations	ARS - preferred securities	Private equity investments	Other investments	Other
Fair value beginning of period	$7	$15,289	$25,728	$105,418	$88,623	$ 374	$ —
Total gains/(losses) for the period:							
Included in earnings	—	(2,527)	—	—	3,995	(26)	(1,138)
Included in other comprehensive income	—	—	347	696	—	—	—
Purchases and contributions	—	14,449	—	—	—	—	—
Sales	—	(22,616)	—	—	(168)	(230)	—
Distributions	(1)	—	—	—	(7,407)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—
Fair value end of period	$6	$4,595	$26,075	$106,114	$85,043	$ 118	$ (1,138)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$(284)	$347	$696	$3,983	$ 3	$ (1,138)

Nine months ended June 30, 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 - 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	—	(3,351)	—	1	4,285	117	(1,138)
Included in other comprehensive income	—	—	928	6,118	—	—	—
Purchases and contributions	—	55,550	—	—	5,168	—	—
Sales	—	(53,624)	—	(23)	(168)	(245)	—
Distributions	(1)	—	—	—	(7,407)	—	—
Transfers:							
Into Level 3	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	(195)	—

Fair value end of period	$6	$4,595	$26,075	$106,114	$85,043	$ 118	$ (1,138)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$(510)	$928	$6,117	$4,284	$ 3	$ (1,138)

As of June 30, 2018, 11% 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 June 30, 2018 represented 5% of our assets measured at fair value. In comparison as of September 30, 2017, 10% of our assets and 2% of our liabilities represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of September 30, 2017 represented 6% of our assets measured at fair value. Level 3 instruments as a percentage of total financial instruments decreased as compared to September 30, 2017 due to the increase in total assets measured at fair value since September 30, 2017, as well as the sale of Level 3 private equity investments during the nine months ended June 30, 2018.

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

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
Three months ended June 30, 2018			
Total gains/(losses) included in earnings	$247	$4,165	$ 2,747
Unrealized gains/(losses) for assets held at the end of the reporting period	$1,220	$(2)	$ 2,747
Nine months ended June 30, 2018			
Total gains/(losses) included in earnings	$(591)	$11,213	$ 5,071
Unrealized gains/(losses) for assets held at the end of the reporting period	$1,193	$(8)	$ 5,071
Three months ended June 30, 2017			
Total gains/(losses) included in earnings	$(3,665)	$3,969	$ 1,043
Unrealized gains/(losses) for assets held at the end of the reporting period	$(1,422)	$3,986	$ 1,043
Nine months ended June 30, 2017			
Total gains/(losses) included in earnings	$(4,489)	$4,403	$ 7,046
Unrealized gains/(losses) for assets held at the end of the reporting period	$(1,648)	$4,287	$ 7,045

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 June 30, 2018	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements				
ARS preferred securities	$65,793	Discounted cash flow	Average discount rate	6.29% - 7.74% (6.95%)
			Average interest rates applicable to future interest income on the securities (1)	3.73% - 4.98% (4.04%)
			Prepayment year (2)	2018 - 2021 (2021)
	$45,449	Other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)
Private equity investments (not measured at NAV)	$51,635	Income or market approach		
			Discount rate	13% - 25% (24.8%)

		Scenario 1 - income approach - discounted cash flow		
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2020 - 2042 (2022)
		Scenario 2 - market approach - market multiple method	EBITDA Multiple	6.00 - 7.0 (6.5)
			Weighting assigned to outcome of scenario 1/scenario 2	99%/1%
	$20,356	Transaction price or other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)
Nonrecurring measurements				
Bank loans: impaired loans - residential	$18,328	Discounted cash flow	Prepayment rate	7 yrs - 12 yrs (10.43 yrs)
Bank loans: impaired loans - corporate	$3,734	Appraisal or discounted cash flow value (4)	Not meaningful (4)	Not meaningful (4)

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

(continued from previous page)

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 (5)

(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 investments are valued initially at transaction price and updated as other investment-specific events take place which indicate that a change in the carrying values of these investments is appropriate. Other investment-specific events include such events as our periodic review, significant transactions occur, new developments become known, or we receive information from a fund manager which allows us to update our proportionate share of net assets.

(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. The 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

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

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 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 June 30, 2018 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 approximately 90% of these underlying assets will be liquidated over a period of four years or less, with the remainder 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
June 30, 2018				
Private equity investments measured at NAV	$92,466	$18,718	$ 1,496	$20,214
Private equity investments not measured at NAV	71,991			
Total private equity investments	$164,457			
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 $116 million and $145 million as of June 30, 2018 and September 30, 2017, respectively. The portions of the private equity investments we did not own were $49 million and $54 million as of June 30, 2018 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 enacted pursuant to 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 until July 2022. However, our current focus is on the divestiture of this portfolio.

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

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
June 30, 2018					
Financial assets:					
Bank loans, net	$ —	$82,829	$18,599,211	$18,682,040	$18,900,732
Loans to financial advisors, net	$ —	$—	$719,589	$719,589	$928,488
Financial liabilities:					
Bank deposits	$ —	$19,063,650	$408,449	$19,472,099	$19,478,561
Other borrowings	$ —	$25,273	$—	$25,273	$25,204
Senior notes payable	$ —	$1,563,808	$—	$1,563,808	$1,549,493
September 30, 2017					
Financial assets:					
Bank loans, net	$ —	$23,001	$16,836,745	$16,859,746	$16,954,042
Loans to financial advisors, net	$ —	$—	$708,487	$708,487	$873,272
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

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

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
June 30, 2018				
Agency MBS and CMOs	$2,614,199	$ 491	$(58,618)	$2,556,072
Other securities	1,575	—	(678)	897
Total RJ Bank available-for-sale securities	2,615,774	491	(59,296)	2,556,969
ARS preferred securities	101,674	9,568	—	111,242
Total available-for-sale securities	$2,717,448	$ 10,059	$(59,296)	$2,668,211
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 were as presented below. Since RJ Bank's MBS and CMO available-for-sale securities 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.

	June 30, 2018				
$ 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	$2,672	$242,182	$805,255	$1,564,090	$2,614,199
Carrying value	2,654	237,187	787,433	1,528,798	2,556,072
Weighted-average yield	1.69 %	2.26 %	2.11 %	2.28 %	2.22 %
Other securities:					
Amortized cost	$—	$—	$—	$1,575	$1,575
Carrying value	—	—	—	897	897
Weighted-average yield	—	—	—	—	—

Subtotal agency MBS and CMOs and other securities:					
Amortized cost	$2,672	$242,182	$805,255	$1,565,665	$2,615,774
Carrying value	2,654	237,187	787,433	1,529,695	2,556,969
Weighted-average yield	1.69 %	2.26 %	2.11 %	2.28 %	2.22 %
ARS preferred securities:					
Amortized cost	$—	$—	$—	$101,674	$101,674
Carrying value	—	—	—	111,242	111,242
Weighted-average yield	—	—	—	3.23 %	3.23 %
Total available-for-sale securities:					
Amortized cost	$2,672	$242,182	$805,255	$1,667,339	$2,717,448
Carrying value	2,654	237,187	787,433	1,640,937	2,668,211
Weighted-average yield	1.69 %	2.26 %	2.11 %	2.34 %	2.26 %

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

$ in thousands	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
June 30, 2018						
Agency MBS and CMOs	$1,776,093	$(36,473)	$662,690	$(22,145)	$2,438,783	$(58,618)
Other securities	—	—	897	(678)	897	(678)
Total	$1,776,093	$(36,473)	$663,587	$(22,823)	$2,439,680	$(59,296)
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)

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 June 30, 2018, of the 232 U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, 153 were in a continuous unrealized loss position for less than 12 months and 79 were for 12 months or more. We do not consider these securities to be other-than-temporarily impaired ("OTTI") 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 June 30, 2018, debt securities we held from FNMA and FHLMC had an amortized cost of $1.79 billion and $665 million, respectively, and a fair value of $1.75 billion and $648 million, respectively.

During the three and nine months ended June 30, 2018, there were no sales of agency MBS and CMO available-for-sale securities. There were $33 million and $66 million of proceeds from the sale of available-for-sale securities during the three and nine months ended June 30, 2017, respectively. These sales resulted in a gain of $1 million, 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 June 30, 2018 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 June 30, 2018, there were no ARS preferred securities with a fair value less than cost basis.

During the three and nine months ended June 30, 2018, there were no sales of ARS. During the three and nine months ended June 30, 2017, sales of ARS were insignificant.

Other-than-temporarily impaired securities

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 June 30,		Nine months ended June 30,	
$ in thousands	2018	2017	2018	2017
Amount related to credit losses on securities we held at the beginning of the period	$ —	$ 5,754	$ —	$ 8,107
Decreases to the amount related to credit losses for securities sold during the period	—	(5,754)	—	(8,107)
Amount related to credit losses on securities we held at the end of the period	$ —	$ —	$ —	$ —

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 $4 million and $5 million at June 30, 2018 and September 30, 2017, respectively, and was 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 our 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 our 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 Deutsche Bank AG (“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. Cash initial margin is included as a component of "Receivables from brokers, dealers and clearing organizations" and marketable securities initial margin is included as a component of "Other investments" or "Available-for-sale securities" 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 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.

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.

	June 30, 2018			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	$195,956	$195,956	$2,509,245	$288,035	$288,035	$2,766,488
Other	67,696	102,813	5,949,524	86,436	100,503	4,931,809
Foreign exchange contracts	23	8,597	563,982	3	530	437,783
DBRSU obligation (equity) [(1)]	—	14,659	14,659	—	25,800	25,800
Subtotal	263,675	322,025	9,037,410	374,474	414,868	8,161,880
Derivatives designated as hedging instruments						
Interest rate contracts	1,054	—	850,000	—	1,390	850,000
Foreign exchange contracts	—	13,959	857,534	29	116	1,048,646
Subtotal	1,054	13,959	1,707,534	29	1,506	1,898,646
Total gross fair value/notional amount	264,729	335,984	$10,744,944	374,503	416,374	$10,060,526
Offset in the Statements of Financial Condition						

Counterparty netting	(24,659)	(24,659)	(6,045)	(6,045)
Cash collateral netting	(22,548)	(19,100)	(49,683)	(53,365)
Total amounts offset	(47,207)	(43,759)	(55,728)	(59,410)
Net amounts presented in the Statements of Financial Condition	217,522	292,225	318,775	356,964
Gross amounts not offset in the Statements of Financial Condition				
Financial instruments (2)	(198,433)	(195,956)	(293,340)	(288,035)
Total	$19,089	$96,269	$25,435	$68,929

(1) The DBRSU obligation is not subject to an enforceable master netting arrangement or other similar arrangement. However, we held shares of DB as an economic hedge against this obligation with a fair value of $11 million and $19 million as of June 30, 2018 and September 30, 2017, respectively, which are a component of “Other investments” on our Condensed Consolidated Statements of Financial Condition. See additional discussion of the DBRSUs in Note 17.

(2) Although the matched book derivative arrangements do not meet the definition of a master netting arrangement as specified by GAAP, the agreement with the third-party intermediary includes terms that are similar to a master netting agreement. As a result, we present the matched book amounts net in the table above.

26

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

Gains/(losses) recognized in AOCI, net of income taxes, on derivatives designated as hedging instruments were as follows (see Note 15 for additional information):

$ in thousands	Three months ended June 30, 2018	Three months ended June 30, 2017	Nine months ended June 30, 2018	Nine months ended June 30, 2017
Interest rate contracts (cash flow hedges)	$6,068	$(3,775)	$29,546	$23,494
Foreign exchange contracts (net investment hedges)	13,418	(12,939)	37,955	(6,152)
Total gains/(losses) recognized in AOCI, net of taxes	$19,486	$(16,714)	$67,501	$17,342

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness for each of the three and nine months ended June 30, 2018 and 2017. We expect to reclassify an estimated $5 million of interest income out of AOCI and into earnings within the next 12 months. The maximum length of time over which forecasted transactions are or will be hedged is 9 years.

Gains/(losses) on derivatives not designated as hedging instruments recognized on the Condensed Consolidated Statements of Income and Comprehensive Income were as follows:

$ in thousands	Location of gain/(loss) included in the Condensed Consolidated Statements of Income and Comprehensive Income	Gain/(loss) recognized during the period — Three months ended June 30, 2018	Three months ended June 30, 2017	Nine months ended June 30, 2018	Nine months ended June 30, 2017
Interest rate contracts:					
Matched book	Other revenues	$26	$21	$84	$16
Other	Net trading profit/other revenues	$3,323	$2,247	$4,703	$6,441
Foreign exchange contracts	Other revenues	$14,749	$(11,473)	$24,016	$(5,837)
DBRSU obligation (equity)	Compensation, commissions and benefits expense	$4,691	$(940)	$9,356	$(6,409)
DBRSU obligation (equity)	Acquisition-related expenses	$—	$—	$—	$(2,383)

Risks associated with, and our risk mitigation related to, our derivative contracts

Credit risk

We are exposed to credit losses in the event of nonperformance by the counterparties to forward foreign exchange derivative agreements and interest rate contracts that are not cleared through a clearing organization. Where we are subject to credit exposure, we perform a credit evaluation of counterparties prior to entering into derivative transactions and we monitor their credit standings. Currently, we anticipate that all of the counterparties will be able to fully satisfy their obligations under those agreements. We may require initial margin or collateral from counterparties in the form of cash deposits or other marketable securities to support certain of these obligations as established by the credit threshold specified by the agreement and/or as a result of monitoring the credit standing of the counterparties.

Our only exposure to credit risk in the matched book derivatives operations is related to our uncollected derivative transaction fee revenues. We are not exposed to market risk as it relates to these derivative contracts due to the pass-through transaction structure previously described.

Interest rate and foreign exchange risk

We are exposed to interest rate risk related to certain of our interest rate derivative agreements. We are also exposed to foreign exchange risk related to our forward foreign exchange derivative agreements. On a daily basis, we monitor our risk exposure in our derivative agreements based on established limits with respect to a number of factors, including interest rate, foreign exchange spot and forward rates, spread, ratio, basis and volatility risks. These exposures are monitored both on a total portfolio basis and separately for each agreement for selected maturity periods.

Derivatives with credit-risk-related contingent features

Certain of the derivative instruments arising from our interest rate contracts and forward foreign exchange contracts contain provisions that require our debt to maintain an investment-grade rating from one or more of the major credit rating agencies. If our debt were to fall below investment-grade, the counterparties to the derivative instruments could terminate and request immediate payment or demand immediate and ongoing overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position was $11 million at June 30, 2018, for which we had not posted any collateral. Such amounts were not material at September 30, 2017.

NOTE 7 – COLLATERALIZED AGREEMENTS AND FINANCINGS

Collateralized agreements are securities purchased under agreements to resell ("reverse repurchase agreements") and securities borrowed. Collateralized financings are securities sold under agreements to repurchase ("repurchase agreements") and securities loaned. We enter into these transactions in order to facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. The significant accounting policies governing our collateralized agreements and financings are described in Note 2 of our 2017 Form 10-K.

For financial statement purposes, we do not offset our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions because the conditions for netting as specified by GAAP are not met. Our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions are governed by 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 parties to the transaction. Although not offset on the Condensed Consolidated Statements of Financial Condition, these transactions are included in the following table.

	Assets		Liabilities	
$ in thousands	Reverse repurchase agreements	Securities borrowed	Repurchase agreements	Securities loaned
June 30, 2018				
Gross amounts of recognized assets/liabilities	$343,052	$164,256	$115,464	$386,651
Gross amounts offset in the Condensed Consolidated Statements of Financial Condition	—	—	—	—
Net amounts presented in the Condensed Consolidated Statements of Financial Condition	343,052	164,256	115,464	386,651
Gross amounts not offset in the Condensed Consolidated Statements of Financial Condition	(343,052)	(160,484)	(115,464)	(371,379)
Net amount	$—	$3,772	$—	$15,272
September 30, 2017				
Gross amounts of recognized assets/liabilities	$404,462	$138,319	$220,942	$383,953
Gross amounts offset in the Condensed Consolidated Statements of Financial Condition	—	—	—	—
Net amounts presented in the Condensed Consolidated Statements of Financial Condition	404,462	138,319	220,942	383,953
Gross amounts not offset in the Condensed Consolidated Statements of Financial Condition	(404,462)	(134,304)	(220,942)	(373,132)
Net amount	$—	$4,015	$—	$10,821

The required market value of the collateral associated with collateralized agreements and financings generally exceeds the amount financed. Accordingly, the total collateral received under reverse repurchase agreements and the total amount of collateral posted under repurchase agreements exceeds the carrying value of these agreements in our Condensed Consolidated Statements of Financial Condition. In the event the market value of the securities we pledge as collateral in these activities declines, we may have to post additional collateral or reduce the borrowing amounts. We monitor such levels daily.

Collateral received and pledged

We receive cash and securities as collateral, primarily in connection with reverse repurchase agreements, securities borrowed, derivative transactions not transacted through a clearing organization, and client margin loans. The collateral we receive reduces our credit exposure to individual counterparties.

In many cases, we are permitted to deliver or repledge financial instruments we have received as collateral, for our own use in our repurchase agreements, securities lending agreements, other secured borrowings, satisfaction of deposit requirements with clearing organizations, or otherwise meeting either our or our clients' settlement requirements.

The table below presents financial instruments at fair value that we received as collateral, were not included on our Condensed Consolidated Statements of Financial Condition, and that were available to be delivered or repledged, along with the balances of such instruments that were delivered or repledged, to satisfy one of our purposes described above.

$ in thousands	June 30, 2018	September 30, 2017
Collateral we received that was available to be delivered or repledged	$3,073,459	$ 3,030,736
Collateral that we delivered or repledged	$1,134,744	$ 1,068,912

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

Encumbered assets

We pledge certain of our financial instruments to collateralize either repurchase agreements or other secured borrowings, maintain lines of credit, or to satisfy our collateral or settlement requirements with counterparties or clearing organizations who may or may not have the right to deliver or repledge such instruments. The table below presents information about the fair value of our assets that have been pledged for one of the purposes described above.

$ in thousands	June 30, 2018	September 30, 2017
Financial instruments owned, at fair value, pledged to counterparties that:		
Had the right to deliver or repledge	$584,961	$ 363,739
Did not have the right to deliver or repledge	$64,439	$ 44,930
Bank loans, net pledged at FHLB and the Federal Reserve	$3,972,416	$ 3,197,185

Repurchase agreements, repurchase-to-maturity transactions and securities loaned accounted for as secured borrowings

The following table presents the remaining contractual maturity of repurchase agreements and securities lending transactions accounted for as secured borrowings:

$ in thousands	Overnight and continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
June 30, 2018					
Repurchase agreements:					
Government and agency obligations	$ 55,592	$ —	$ —	$ —	$55,592
Agency MBS and CMOs	59,872	—	—	—	59,872
Total repurchase agreements	115,464	—	—	—	115,464
Securities loaned:					
Equity securities	386,651	—	—	—	386,651
Total	$ 502,115	$ —	$ —	$ —	$502,115
Gross amounts of recognized liabilities for repurchase agreements and securities loaned included in the table within this footnote					$502,115
Amounts related to repurchase agreements and securities loaned not included in the table within this footnote					$—
September 30, 2017					
Repurchase agreements:					
Government and agency obligations	$ 107,284	$ —	$ —	$ —	$107,284
Agency MBS and CMOs	113,658	—	—	—	113,658
Total repurchase agreements	220,942	—	—	—	220,942
Securities loaned:					
Equity securities	383,953	—	—	—	383,953
Total	$ 604,895	$ —	$ —	$ —	$604,895
Gross amounts of recognized liabilities for repurchase agreements and securities loaned included in the table within this footnote					$604,895
					$—

Amounts related to repurchase agreements and securities loaned not included in the table within this footnote

As of both June 30, 2018 and September 30, 2017, we did not have any "repurchase-to-maturity" agreements, which are repurchase agreements where a security is transferred under an agreement to repurchase and the maturity date of the repurchase agreement matches the maturity date of the underlying security.

NOTE 8 – BANK LOANS, NET

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

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

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

See Note 2 of our 2017 Form 10-K for a discussion of our accounting policies related to bank loans and allowances for losses, including the policies regarding loans held for investment, loans held for sale, off-balance sheet loan commitments, nonperforming assets, troubled debt restructurings ("TDRs"), impaired loans, the allowance for loan losses and reserve for unfunded lending commitments, and loan charge-off policies.

The following table presents the balances for both the held for sale and held for investment loan portfolios, as well as the associated percentage of each portfolio segment in RJ Bank's total loan portfolio. "Loans held for sale, net" and "Total loans held for investment, net" in the table below are presented net of unearned income and deferred expenses, which include purchase premiums, purchase discounts and net deferred origination fees and costs.

	June 30, 2018		September 30, 2017	
$ in thousands	Balance	%	Balance	%
Loans held for investment:				
C&I loans	$7,838,246	41 %	$7,385,910	43 %
CRE construction loans	145,361	1 %	112,681	1 %
CRE loans	3,443,167	18 %	3,106,290	18 %
Tax-exempt loans	1,193,117	6 %	1,017,791	6 %
Residential mortgage loans	3,580,869	18 %	3,148,730	18 %
SBL	2,870,426	15 %	2,386,697	14 %
Total loans held for investment	19,071,186		17,158,099	
Net unearned income and deferred expenses	(21,803)		(31,178)	
Total loans held for investment, net	19,049,383		17,126,921	
Loans held for sale, net	134,580	1 %	70,316	—
Total loans held for sale and investment	19,183,963	100%	17,197,237	100%
Allowance for loan losses	(196,157)		(190,442)	
Bank loans, net	$18,987,806		$17,006,795	

At June 30, 2018, the FHLB had a blanket lien on RJ Bank's residential mortgage loan portfolio as security for the repayment of certain borrowings. See Note 12 for more information regarding borrowings from the FHLB.

Loans held for sale

RJ Bank originated or purchased $444 million and $1.13 billion of loans held for sale during the three and nine months ended June 30, 2018, respectively, and $449 million and $1.28 billion during the three and nine months ended June 30, 2017, respectively. Proceeds from the sale of these held for sale loans amounted to $166 million and $394 million during the three and nine months ended June 30, 2018, respectively, and $114 million and $349 million during the three and nine months ended June 30, 2017, respectively. Net gains resulting from such sales and unrealized losses recorded in the Condensed Consolidated Statements of Income and Comprehensive Income to reflect the loans held for sale at the lower of cost or market value were insignificant in all periods during the three and nine months ended June 30, 2018 and 2017.

Purchases and sales of loans held for investment

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

$ in thousands	Total

	C&I loans	CRE loans	Residential mortgage loans	
Three months ended June 30, 2018				
Purchases	$195,486	$82,060	$122,869	$400,415
Sales	$38,577	$—	$—	$38,577
Nine months ended June 30, 2018				
Purchases	$467,544	$144,818	$216,942	$829,304
Sales	$146,089	$—	$—	$146,089
Three months ended June 30, 2017				
Purchases	$103,013	$—	$100,104	$203,117
Sales	$123,225	$—	$—	$123,225
Nine months ended June 30, 2017				
Purchases	$300,665	$38,980	$190,523	$530,168
Sales	$295,754	$—	$—	$295,754

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

Sales in the preceding table represent the recorded investment of loans held for investment that were transferred to loans held for sale and subsequently sold to a third party during the respective period. As more fully described in Note 2 of our 2017 Form 10-K, corporate loan (C&I, CRE and CRE construction) sales generally occur as part of a loan workout situation.

Aging analysis of loans held for investment

The following table presents an analysis of the payment status of loans held for investment. Amounts in the table exclude any net unearned income and deferred expenses.

$ in thousands	30-89 days and accruing	90 days or more and accruing	Total past due and accruing	Nonaccrual	Current and accruing	Total loans held for investment
June 30, 2018						
C&I loans	$ 99	$ —	$ 99	$ 5,273	$7,832,874	$7,838,246
CRE construction loans	—	—	—	—	145,361	145,361
CRE loans	—	—	—	—	3,443,167	3,443,167
Tax-exempt loans	—	—	—	—	1,193,117	1,193,117
Residential mortgage loans:						
First mortgage loans	223	245	468	28,888	3,525,603	3,554,959
Home equity loans/lines	3	—	3	147	25,760	25,910
SBL	421	—	421	—	2,870,005	2,870,426
Total loans held for investment, net	$ 746	$ 245	$ 991	$ 34,308	$19,035,887	$19,071,186
September 30, 2017						
C&I loans	$ —	$ —	$ —	$ 5,221	$7,380,689	$7,385,910
CRE construction loans	—	—	—	—	112,681	112,681
CRE loans	—	—	—	—	3,106,290	3,106,290
Tax-exempt loans	—	—	—	—	1,017,791	1,017,791
Residential mortgage loans:						
First mortgage loans	1,853	—	1,853	33,718	3,086,701	3,122,272
Home equity loans/lines	248	—	248	31	26,179	26,458
SBL	—	—	—	—	2,386,697	2,386,697
Total loans held for investment, net	$ 2,101	$ —	$ 2,101	$ 38,970	$17,117,028	$17,158,099

The table above includes $16 million and $18 million at June 30, 2018 and September 30, 2017, respectively, of nonaccrual loans which were performing pursuant to their contractual terms.

Other real estate owned, included in “Other assets” on our Condensed Consolidated Statements of Financial Condition, was $3 million and $5 million at June 30, 2018 and September 30, 2017, respectively. The recorded investment in mortgage loans secured by one-to-four family residential properties for which formal foreclosure proceedings were in process was $16 million and $18 million at June 30, 2018 and September 30, 2017, respectively.

Impaired loans and troubled debt restructurings

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

	June 30, 2018			September 30, 2017		
$ in thousands	Gross recorded investment	Unpaid principal balance	Allowance for losses	Gross recorded investment	Unpaid principal balance	Allowance for losses
Impaired loans with allowance for loan losses:						
C&I loans	$3,890	$5,195	$ 1,539	$5,221	$6,160	$ 1,963
Residential - first mortgage loans	19,682	25,562	2,116	23,977	31,100	2,504
Total	23,572	30,757	3,655	29,198	37,260	4,467
Impaired loans without allowance for loan losses:						
C&I loans	1,383	1,500	—	—	—	—
Residential - first mortgage loans	14,023	21,211	—	16,737	24,899	—
Total	15,406	22,711	—	16,737	24,899	—
Total impaired loans	$38,978	$53,468	$ 3,655	$45,935	$62,159	$ 4,467

Impaired loan balances with allowances for loan losses have had reserves established based upon management's analysis. There is no allowance required when the discounted cash flow, collateral value or market value of a loan equals or exceeds the carrying value. These are generally loans in process of foreclosure that have already been adjusted to fair value.

The preceding table includes residential first mortgage TDR's of $23 million and $27 million at June 30, 2018 and September 30, 2017, respectively.

The average balance of the total impaired loans in the Condensed Consolidated Statements of Income and Comprehensive Income were as follows:

	Three months ended June 30,		Nine months ended June 30,	
$ in thousands	2018	2017	2018	2017
Average impaired loan balance:				
C&I loans	$4,392	$8,606	$4,489	$21,491
CRE loans	—	—	—	925
Residential - first mortgage loans	33,938	42,356	33,640	44,813
Total	$38,330	$50,962	$38,129	$67,229

Interest income recognized on impaired loans was insignificant in all periods during the three and nine months ended June 30, 2018 and 2017.

Credit quality indicators

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

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

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

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

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

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

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

The credit quality of RJ Bank’s held for investment loan portfolio was as follows:

$ in thousands	Pass	Special mention	Substandard	Doubtful	Total
June 30, 2018					
C&I loans	$7,710,838	$90,139	$ 37,269	$ —	$7,838,246
CRE construction loans	137,671	7,690	—	—	145,361
CRE loans	3,384,361	38,680	20,126	—	3,443,167
Tax-exempt loans	1,193,117	—	—	—	1,193,117
Residential mortgage loans:					
First mortgage loans	3,510,893	6,317	37,749	—	3,554,959
Home equity loans/lines	25,760	3	147	—	25,910
SBL	2,870,426	—	—	—	2,870,426
Total	$18,833,066	$142,829	$ 95,291	$ —	$19,071,186
September 30, 2017					
C&I loans	$7,232,777	$63,964	$ 89,169	$ —	$7,385,910
CRE construction loans	112,681	—	—	—	112,681
CRE loans	3,048,847	57,315	128	—	3,106,290
Tax-exempt loans	1,017,791	—	—	—	1,017,791
Residential mortgage loans:					
First mortgage loans	3,068,290	8,467	45,515	—	3,122,272
Home equity loans/lines	26,352	75	31	—	26,458
SBL	2,386,697	—	—	—	2,386,697
Total	$16,893,435	$129,821	$ 134,843	$ —	$17,158,099

Loans classified as special mention, substandard or doubtful are all considered to be “criticized” loans.

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

Allowance for loan losses and reserve for unfunded lending commitments

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

	Loans held for investment						
$ in thousands	C&I loans	CRE construction loans	CRE loans	Tax-exempt loans	Residential mortgage loans	SBL	Total
Three months ended June 30, 2018							
Balance at beginning of period	$124,978	$ 2,218	$42,662	$ 7,773	$ 12,491	$4,730	$194,852
Provision/(benefit) for loan losses	1,734	410	2,290	(162)	1,950	(996)	5,226
Net (charge-offs)/recoveries:							
Charge-offs	(4,324)	—	—	—	(84)	—	(4,408)
Recoveries	—	—	—	—	762	—	762
Net (charge-offs)/recoveries	(4,324)	—	—	—	678	—	(3,646)
Foreign exchange translation adjustment	(195)	—	(80)	—	—	—	(275)
Balance at end of period	$122,193	$ 2,628	$44,872	$ 7,611	$ 15,119	$3,734	$196,157
Nine months ended June 30, 2018							
Balance at beginning of period	$119,901	$ 1,421	$41,749	$ 6,381	$ 16,691	$4,299	$190,442
Provision/(benefit) for loan losses	11,291	1,207	3,339	1,230	(2,711)	(565)	13,791
Net (charge-offs)/recoveries:							
Charge-offs	(8,500)	—	—	—	(383)	—	(8,883)
Recoveries	—	—	—	—	1,522	—	1,522
Net (charge-offs)/recoveries	(8,500)	—	—	—	1,139	—	(7,361)
Foreign exchange translation adjustment	(499)	—	(216)	—	—	—	(715)
Balance at end of period	$122,193	$ 2,628	$44,872	$ 7,611	$ 15,119	$3,734	$196,157
Three months ended June 30, 2017							
Balance at beginning of period	$118,660	$ 1,527	$44,159	$ 4,353	$ 12,378	$5,157	$186,234
Provision/(benefit) for loan losses	1,719	171	3,712	696	(634)	545	6,209
Net (charge-offs)/recoveries:							
Charge-offs	(1,605)	—	—	—	(177)	—	(1,782)
Recoveries	—	—	—	—	621	—	621
Net (charge-offs)/recoveries	(1,605)	—	—	—	444	—	(1,161)
Foreign exchange translation adjustment	201	—	120	—	—	—	321
Balance at end of period	$118,975	$ 1,698	$47,991	$ 5,049	$ 12,188	$5,702	$191,603
Nine months ended June 30, 2017							
Balance at beginning of period	$137,701	$ 1,614	$36,533	$ 4,100	$ 12,664	$4,766	$197,378
Provision/(benefit) for loan losses	5,460	176	6,291	949	(715)	936	13,097
Net (charge-offs)/recoveries:							

Charge-offs	(24,298)	—	—	—	(742)	—	(25,040)
Recoveries	—	—	5,013	—	981	—	5,994
Net (charge-offs)/recoveries	(24,298)	—	5,013	—	239	—	(19,046)
Foreign exchange translation adjustment	112	(92)	154	—	—	—	174
Balance at end of period	$118,975	$ 1,698	$47,991	$ 5,049	$ 12,188	$5,702	$191,603

34

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

The following table presents, by loan portfolio segment, RJ Bank's recorded investment (excluding any net unearned income and deferred expenses) and the related allowance for loan losses.

$ in thousands	Loans held for investment: Allowance for loan losses: Individually evaluated for impairment	Collectively evaluated for impairment	Total	Recorded investment: Individually evaluated for impairment	Collectively evaluated for impairment	Total
June 30, 2018						
C&I loans	$1,539	$ 120,654	$122,193	$5,273	$7,832,973	$7,838,246
CRE construction loans	—	2,628	2,628	—	145,361	145,361
CRE loans	—	44,872	44,872	—	3,443,167	3,443,167
Tax-exempt loans	—	7,611	7,611	—	1,193,117	1,193,117
Residential mortgage loans	2,127	12,992	15,119	40,574	3,540,295	3,580,869
SBL	—	3,734	3,734	—	2,870,426	2,870,426
Total	$3,666	$ 192,491	$196,157	$45,847	$19,025,339	$19,071,186
September 30, 2017						
C&I loans	$1,963	$ 117,938	$119,901	$		