

RAYMOND JAMES FINANCIAL INC

Form 10-K

November 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 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 (I.R.S. Employer

incorporation or organization) Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (727) 567-1000

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

Title of each class Name of each exchange on which registered

Common Stock, \$.01 par value New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant 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  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

As of March 29, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold was \$11,702,670,062.

The number of shares outstanding of the registrant's common stock as of November 19, 2018 was 143,284,861.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held February 28, 2019 are incorporated by reference into Part III.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

PART I

ITEM 1. BUSINESS

Raymond James Financial, Inc. (“RJF,” the “firm” or the “Company”) is a leading diversified financial services company providing private client group, capital markets, asset management, banking and other services to individuals, corporations and municipalities. The firm, together with its subsidiaries, is engaged in various financial services activities, including providing investment management services for retail and institutional clients, the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. The firm also provides corporate and retail banking services, and trust services.

Established in 1962 and public since 1983, RJF is listed on the New York Stock Exchange (the “NYSE”) under the symbol “RJF.” As a bank holding company and financial holding company, RJF is subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the “Fed”).

Among the keys to our historical and continued success, our emphasis on putting the client first is at the core of our corporate values. We also believe in maintaining a conservative, long-term focus in our decision making. We believe that this disciplined decision-making approach translates to a strong, stable financial services firm for clients, advisors, associates and shareholders.

REPORTABLE SEGMENTS

We currently operate through five segments. Our business segments are Private Client Group (“PCG”), Capital Markets, Asset Management and Raymond James Bank, N.A. (“RJ Bank”). Our Other segment captures private equity activities as well as certain corporate overhead costs of RJF that are not allocated to our business segments.

The following graph depicts the relative net revenue contribution of each of our business segments for the fiscal year ended September 30, 2018.

\*The preceding chart does not include intersegment eliminations or the Other segment.

PRIVATE CLIENT GROUP

We provide financial planning and securities transaction services through branch office systems. Financial advisors have multiple affiliation options, which we refer to as AdvisorChoice. Our two primary affiliation options for financial advisors are the employee option and the independent contractor option.

We recruit experienced financial advisors from a wide variety of competitors. As a part of their agreement to join us, we may make loans to financial advisors and to certain other key revenue producers primarily for recruiting, transitional cost assistance and retention purposes.

Total assets under administration in the PCG segment as of September 30, 2018 were to \$755.7 billion. We had 7,813 financial advisors affiliated with us as of September 30, 2018.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Employee financial advisors

Employee financial advisors work in a traditional branch setting supported by local management and administrative staff. They provide services predominately to individual clients. These financial advisors are our employees, and their compensation primarily includes commission payments and participation in the firm's benefit plans.

Independent contractor financial advisors

Our financial advisors who are independent contractors are responsible for all of their direct costs and, accordingly, receive a higher payout percentage than employee financial advisors. Our independent contractor financial advisor option is designed to help our advisors build their businesses with as much or as little of our support as they determine they need. With specific approval, they are permitted to conduct, on a limited basis, certain other approved business activities, such as offering insurance products, independent registered investment advisory services, and accounting and tax services.

Irrespective of the affiliation choice, our financial advisors offer a broad range of investments and services, including both third-party and proprietary products, and a variety of financial planning services. Revenues from this segment are typically driven by total client assets under administration, and are generally either recurring fee-based or transactional in nature. Recurring revenues include asset-based fees, trailing commissions from mutual funds and variable annuities/insurance products, mutual fund and annuity service fees, fees earned on our multi-bank sweep program and interest. The proportion of our securities commissions and fees revenues originating from the employee versus the independent contractor affiliation models is relatively balanced.

Securities commissions and fees revenues by affiliation, as well as the portion of segment net revenues that was recurring versus transactional in nature, for the fiscal year ended September 30, 2018, are presented in the following graphs.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

We provide the following services through this segment.

• We provide investment services for which we charge sales commissions or asset-based fees based on established schedules.

• We offer investment advisory services. Fee revenues for such services are computed as either a percentage of the assets in the client account or a flat periodic fee charged to the client for investment advice.

• We provide insurance and annuity products.

• We offer a number of professionally managed mutual funds.

We earn fees from banks to which we sweep client cash in our Raymond James Bank Deposit Program (“RJBDP”). Such fees are generally based on client cash balances in the program and short-term interest rates relative to the interest paid to clients on balances in the RJBDP.

• We provide margin loans to clients that are collateralized by the securities purchased or by other securities owned by the client. Interest is charged to clients on the amount borrowed based on current interest rates.

We provide custodial, trading, research and other support and services (including access to clients’ account information and the services of the Asset Management segment) to the independent registered investment advisors who are affiliated with us.

• We conduct securities borrowing and lending activities with other broker-dealers, financial institutions and other counterparties. The net revenues of this business consist of the interest spreads generated on these activities.

• We provide diversification strategies and alternative investment products to qualified clients of our affiliated financial advisors. We provide strategies and products for portfolio investment allocation opportunities.

## CAPITAL MARKETS

Our capital markets segment conducts institutional sales, securities trading, equity research, investment banking and the syndication and management of investments that qualify for tax credits (referred to as our “tax credit funds”). Within our management structure, we distinguish between activities that support equity and fixed income products and services. We primarily conduct these activities in the U.S., Canada, and Europe.

Investment banking revenues by revenue type as well as the portions of this segment’s revenues that were derived from equity securities and products, fixed income securities and products, and our tax credit funds activities for the fiscal year ended September 30, 2018 are presented in the following graphs.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

We provide the following services through this segment.

### Equity capital markets

We earn institutional sales commissions on the sale of equity products. Sales volume is influenced by a combination of general market activity and the Capital Markets group's ability to identify and promote attractive investment opportunities for our institutional clients. Commission amounts on equity transactions are based on trade size and the amount of business conducted annually with each institution.

We provide various investment banking services including public and private equity financing for corporate clients and merger & acquisition and advisory services. Our investment banking activities include a comprehensive range of strategic and financial advisory services tailored to our clients' business life cycles and backed by our strategic industry focus.

Our global research department supports our institutional and retail sales efforts and publishes research on a wide variety of companies. This research primarily focuses on U.S., European and Canadian companies in specific industries, including agricultural, consumer, energy, clean energy, energy services, financial services, healthcare, industrial, mining and natural resources, forest products, real estate, technology, and communication and transportation. Proprietary industry studies and company-specific research reports are made available to both institutional and individual clients.

### Fixed income

- We earn revenues from institutional clients who purchase and sell both taxable and tax-exempt fixed income products, primarily municipal, corporate, government agency and mortgage-backed bonds, and whole loans. We carry inventories of taxable and tax-exempt securities to facilitate client transactions.

Our fixed income investment banking services include public finance and debt underwriting activities where we serve as a financial advisor, placement agent or underwriter to various issuers, including state and local government agencies (and their political subdivisions), housing agencies, and non-profit entities including healthcare and higher education institutions. When underwriting new issue securities, we may agree to purchase the issue through a negotiated sale or submission of a competitive bid.

We enter into interest rate swaps and futures contracts either to facilitate client transactions or to actively manage risk exposures that arise from our client activity, including a portion of our trading inventory. In addition, we conduct a "matched book" derivatives business where we may enter into interest rate derivative transactions with clients. In this matched book business, for every derivative transaction we enter into with a client, we enter into an offsetting derivative transaction with a credit support provider that is a third-party financial institution.

Through our fixed income public finance operations, we enter into forward commitments to purchase agency mortgage-backed securities ("MBS"). Such MBS are issued on behalf of various state and local housing finance agencies ("HFA") and consist of the mortgages originated through their lending programs.

### Tax credit funds

In our syndication of tax credit investments, one of our subsidiaries acts as the general partner or managing member in partnerships and limited liability companies that invest in real estate project entities which qualify for tax credits under Section 42 of the Internal Revenue Code. We earn fees for the origination and sale of these investment products as well as for the oversight and management of the investments over the statutory tax credit compliance period.

## ASSET MANAGEMENT

Our Asset Management segment provides investment advisory and related administrative services to our PCG clients through our asset management services division (“AMS”) and through Raymond James Trust, N.A. (“RJ Trust”). The segment also provides investment advisory and asset management services to individual and institutional investors, including through third-party broker-dealers, through Carillon Tower Advisers and its affiliates (collectively, “Carillon Tower”), which also sponsors a family of mutual funds.

We earn investment advisory fees and related administrative fees based on assets under management in both AMS and Carillon Tower, where decisions are made by in-house or third-party portfolio managers or investment committees on how to invest client assets.

The Asset Management segment also earns administrative fees on certain asset-based programs offered to PCG clients which are not



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

managed by our Asset Management segment, but for which the segment provides administrative support, including trade execution, record-keeping and periodic investor reporting.

Financial assets under management in managed programs and our financial assets under management in our managed programs by objective as of September 30, 2018 are presented in the following graphs.

RJ BANK

RJ Bank provides corporate (commercial and industrial (“C&I”), commercial real estate (“CRE”) and CRE construction), securities-based (“SBL”), tax-exempt and residential loans. RJ Bank is active in corporate loan syndications and participations. RJ Bank also provides Federal Deposit Insurance Corporation (“FDIC”)-insured deposit accounts, including to clients of our broker-dealer subsidiaries. RJ Bank generates net interest revenue principally through the interest income earned on loans and an investment portfolio of securities, which is offset by the interest expense it pays on client deposits and on its borrowings.

As of September 30, 2018, corporate and tax-exempt loans represented approximately 65% of RJ Bank’s loan portfolio, of which 89% were U.S. and Canadian syndicated loans. Residential mortgage loans are originated or purchased and held for investment or sold in the secondary market. RJ Bank’s investment portfolio is comprised primarily of agency MBS and collateralized mortgage obligations (“CMOs”) and is classified as available-for-sale. RJ Bank’s liabilities primarily consist of deposits that are cash balances swept from the investment accounts of PCG clients.

RJ Bank had total assets of \$22.92 billion at September 30, 2018, which are detailed in the following graph.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

### OTHER

Our Other segment includes our private equity activities as well as certain corporate overhead costs of RJF, such as the interest cost on our public debt and the acquisition and integration costs associated with certain acquisitions (See Note 3 of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K (“Form 10-K”) for additional information on our acquisitions).

Our private equity activities include various direct and third-party private equity investments and various private equity funds which we sponsor.

### EMPLOYEES AND INDEPENDENT CONTRACTORS

Our employees and independent contractors (collectively “associates”) are vital to our success in the financial services industry. As of September 30, 2018, we had approximately 13,900 employees and approximately 4,650 affiliated independent contractor financial advisors.

### OPERATIONS AND INFORMATION PROCESSING

We have operations personnel at various locations who are responsible for processing securities transactions, custody of client securities, support of client accounts, the receipt, identification and delivery of funds and securities, and compliance with regulatory and legal requirements for most of our securities brokerage operations.

The information technology department develops and supports the integrated solutions that provide a differentiated platform for our businesses. This platform is designed to allow our financial advisors to spend more time with their clients and enhance and grow their businesses.

In the area of information security, we have developed and implemented a framework of principles, policies and technology to protect both our own information as well as that of our clients. We apply numerous safeguards to maintain the confidentiality, integrity and availability of both client and Company information.

Our business continuity program has been developed to provide reasonable assurance that we will continue to operate in the event of disruptions at our critical facilities. Our business departments have developed operational plans for such disruptions, and we have a full time staff devoted to maintaining those plans. Our business continuity plan continues to be enhanced and tested to allow for continuous operations in the event of weather-related or other interruptions at our corporate headquarters in Florida, one of our operations processing or data center sites (located in Florida, Colorado, Tennessee or Michigan) as well as our branch and office locations throughout the U.S., Canada and Europe.

### COMPETITION

The financial services industry is intensely competitive. We compete with many other financial services firms, including a number of larger securities firms, most of which are affiliated with major financial services companies, insurance companies, banking institutions and other organizations. We also compete with companies that offer web-based financial services and discount brokerage services, usually with lower levels of service, to individual clients. We compete principally on the basis of the quality of our associates, services, product selection, location and reputation in local markets.

Our ability to compete effectively is substantially dependent on our continuing ability to attract, retain and motivate qualified associates, including successful financial advisors, investment bankers, trading professionals, portfolio

managers and other revenue producing or specialized personnel.

## REGULATION

RJF is a bank holding company (“BHC”) under the Bank Holding Company Act of 1956, as amended (the “BHC Act”) that has made an election to be a financial holding company (“FHC”). Under the BHC Act, the activities of BHCs and FHCs are limited generally to those activities closely related to banking and with respect to FHCs, activities financial in nature as outlined in the BHC Act and related regulations. For RJF to remain a FHC, it and its depository institution subsidiaries must remain “well capitalized” and “well managed” in accordance with the standards of the Fed and, with respect to its depository institution subsidiaries, the Office of the Comptroller of the Currency (“OCC”). As a FHC, RJF is subject to regulation, oversight, and consolidated supervision, including periodic examination, by the Fed. Under existing regulation, the Fed has authority to examine and take action with respect to all of our subsidiaries. RJ Bank is a national bank and insured depository regulated, supervised and examined by the OCC and the Consumer

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Financial Protection Bureau (“CFPB”). Our trust company subsidiary also is regulated, supervised and examined by the OCC. The Fed and the FDIC also regulate and may examine RJ Bank and RJ Trust. Collectively, the rules and regulations of the Fed, the OCC, the FDIC and the CFPB cover all aspects of the banking business, including, for example, lending practices, the receipt of deposits, capital structure, transactions with affiliates, conduct and qualifications of personnel and, as discussed further below, capital requirements. This regulatory, supervisory and oversight framework is subject to significant changes that can affect the operating costs and permissible businesses of RJF, RJ Bank and RJ Trust. As a part of their supervisory functions, the Fed, the OCC, the FDIC, and the CFPB also have the power to bring enforcement actions for violations of law and, in the case of the Fed, the OCC and the FDIC, for unsafe or unsound practices. Our broker-dealer subsidiaries, which are also registered investment advisors, are subject to regulation and oversight by various regulatory and self-regulatory authorities discussed under “Other regulations applicable to our operations” below.

The following discussion summarizes the principal elements of the regulatory and supervisory framework applicable to RJF. The framework is intended to protect our clients, the integrity of the financial markets, our depositors and the Federal Deposit Insurance Fund and is not intended to protect our creditors or shareholders. These rules and regulations limit our ability to engage in certain activities, as well as our ability to submit funds to RJF from our regulated subsidiaries, which include RJ Bank and our broker-dealer subsidiaries. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions that are referenced. A change in applicable statutes or regulations or in regulatory or supervisory policy may have a material effect on our business.

### Rules and regulations resulting from the Dodd-Frank Act

Since 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) has imposed significant new regulatory and compliance requirements, although some provisions of the Dodd-Frank Act remain subject to further rulemaking proceedings and studies and will take effect over the next several years.

As a result of the Dodd-Frank Act and its implementing regulations, we continue to experience a period of notable change in financial regulation and supervision. These changes could have a significant impact on how we conduct our business. Many regulatory or supervisory policies remain in a state of flux and may be subject to amendment in the near future, particularly due to the President’s executive order issued in February 2017 to evaluate the current regulatory framework, particularly as it relates to the financial services industry. As a result, we cannot specifically quantify the impact that such regulatory or supervisory requirements will have on our business and operations (see Item 1A “Risk Factors” within this report for further discussion of the potential future impact on our operations). In the following sections, we highlight certain of the more significant changes brought about as a result of the Dodd-Frank Act and related measures.

### FDIC assessment rates

Since RJ Bank provides deposits covered by FDIC insurance, generally up to \$250,000 per account ownership type, RJ Bank is subject to the Federal Deposit Insurance Act. For banks with greater than \$10 billion in assets, the FDIC’s current assessment rate calculation relies on a scorecard designed to measure financial performance and ability to withstand stress, in addition to measuring the FDIC’s exposure should the bank fail.

### CFPB oversight

The CFPB has supervisory and enforcement powers under several consumer protection laws, including the: (i) Equal Credit Opportunity Act; (ii) Truth in Lending Act; (iii) Real Estate Settlement Procedures Act; (iv) Fair Credit Reporting Act; (v) Fair Debt Collection Act; (vi) Consumer Financial Privacy provisions of the Gramm-Leach-Bliley

Act and (vii) unfair, deceptive or abusive acts or practices under section 1031 of the Dodd-Frank Act. Since the beginning of fiscal year 2014, the CFPB has had supervisory authority over RJ Bank for its compliance with the various federal consumer protection laws. The CFPB also has authority to promulgate regulations, issue orders, draft policy statements, conduct examinations, and bring enforcement actions. The creation of the CFPB has led to enhanced enforcement of consumer protection laws. To the extent that, as a result of such heightened scrutiny and oversight, we become the subject of any enforcement activity, we may be required to pay fines, incur penalties, or engage in certain remediation efforts.

#### Stress tests

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “EGRRCPA”) was signed into law, making certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulations. Among other things, the law raises the asset thresholds for Dodd-Frank Act company-run stress testing, liquidity coverage and living will requirements for bank holding companies to \$250 billion, subject to the ability of the Fed to apply such requirements

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

to institutions with assets of \$100 billion or more to address financial stability risks or safety and soundness concerns. On July 6, 2018, the Fed, the OCC and the FDIC issued a joint interagency statement regarding the impact of the EGRRCPA. As a result of this statement and the EGRRCPA, RJF and RJ Bank are no longer subject to Dodd-Frank Act stress testing requirements.

### The Volcker Rule

RJF is subject to the Volcker Rule, a provision of the Dodd-Frank Act, which generally prohibits, subject to exceptions, insured depository institutions, bank holding companies and their affiliates (together, “banking entities”) from engaging in proprietary trading and limits investments in and relationships with hedge funds and private equity funds (“covered funds”). Banking entities must establish a Volcker Rule-specific compliance program. We have adopted a program, which is designed to be effective in ensuring compliance with the Volcker Rule; however, in connection with their examinations, regulators will assess the sufficiency and adequacy of our program.

We maintain a number of private equity investments, some of which meet the definition of covered funds under the Volcker Rule. The conformance period for compliance with the rule with respect to investments in covered funds was July 2017; however, banking entities were able to apply for an extension to provide up to an additional five years to conform investments in certain illiquid funds. The majority of our covered fund investments meet the criteria to be considered an illiquid fund under the Volcker Rule and we received approval from the Fed to continue to hold such investments until July 2022. The extension of the conformance deadline provides us with additional time to realize the value of these investments in due course and to execute appropriate strategies to comply with the Volcker Rule at such time. However, our current focus is on the divestiture of our existing portfolio.

On June 5, 2018, the five federal regulatory agencies having oversight over the Volcker Rule announced publication of proposed amendments to the rule. The notice of proposed rulemaking contains certain revisions to the Volcker Rule’s covered fund restrictions. RJF is evaluating the proposal to determine the impact such proposal will have, if any, if it becomes effective.

### Basel III and U.S. Capital Rules

Both RJF and RJ Bank are subject to capital requirements that have increased due to regulatory actions in recent years. In July 2013, the OCC, the Fed and the FDIC released final U.S. rules implementing the Basel III capital framework developed by the Basel Committee on Banking Supervision and certain Dodd-Frank Act and other capital provisions and updated the prompt corrective action framework to reflect the new regulatory capital minimums (the “U.S. Basel III Rules”). The U.S. Basel III Rules: (i) increase the quantity and quality of regulatory capital; (ii) establish a capital conservation buffer; and (iii) make changes to the calculation of risk-weighted assets. The U.S. Basel III Rules became effective for RJF on January 1, 2015, subject to applicable phase-in periods. The rules governing the capital conservation buffer became effective for both RJF and RJ Bank as of January 1, 2016, subject to applicable phase-in periods. See Note 21 of the Notes to the Consolidated Financial Statements of this Form 10-K for information regarding RJF and RJ Bank regulatory capital levels and ratios, including information regarding the capital conservation buffer. The increased capital requirements could restrict our abilities to grow during favorable market conditions and to return capital to shareholders, or require us to raise additional capital. As a result, our business, results of operations, financial condition and prospects could be adversely affected. See Item 1A “Risk Factors” within this report for more information.

Failure to meet minimum capital requirements can trigger discretionary, and in certain cases, mandatory actions by regulators that could have a direct material effect on the financial results of RJF and RJ Bank. Under capital adequacy guidelines, RJF and RJ Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts

and classification for RJF and RJ Bank are also subject to the qualitative judgments of U.S. regulators based on components of capital, risk-weightings of assets, off-balance sheet transactions, and other factors. Quantitative measures established by federal banking regulations to ensure capital adequacy require that RJF and RJ Bank maintain minimum amounts and ratios of: (i) Common Equity Tier 1 (or “CET1”), Tier 1 and Total capital to risk-weighted assets; (ii) Tier 1 capital to average assets; and (iii) capital conservation buffers. See Note 21 of the Notes to the Consolidated Financial Statements of this Form 10-K for further information.

#### Fiduciary duty standard

In April 2016, the U.S. Department of Labor (the “DOL”) issued a final regulation (the “DOL Rule”) expanding the definition of who is deemed an “investment advice fiduciary” under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as a result of giving investment advice to a “plan,” “plan participant” or “beneficiary,” as well as under the Internal Revenue Code for individual retirement arrangements (“IRAs”) and non-ERISA plans (collectively, “qualified plans”). However, in June 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the DOL Rule, and thus it is no longer in effect.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Separately, pursuant to the Dodd-Frank Act, the Securities and Exchange Commission (“SEC”) was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to registered investment advisors. In April 2018, the SEC proposed Regulation Best Interest. The proposed Regulation Best Interest would, among other things, require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities to such customer. We anticipate the adoption of any new rule by the SEC will require us to review and possibly modify our compliance activities, which may lead to additional costs. In addition, state laws that impose a fiduciary duty also may require monitoring, as well as require that we undertake additional compliance measures.

### Holding company support

Under the Dodd-Frank Act, the Fed must require that bank holding companies, such as RJF, serve as a source of financial strength for any subsidiary depository institution. The term “source of financial strength” is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. Under this requirement, RJF in the future could be required to provide financial assistance to RJ Bank should it experience financial distress.

### Incentive-based compensation arrangements

Pursuant to the Dodd-Frank Act, six federal agencies are charged with jointly prescribing regulations or guidelines related to the prohibition of incentive-based compensation arrangements that encourage inappropriate risks at certain financial institutions. The agencies released a proposed rule in 2016 that, if implemented, would prohibit certain forms of incentive-based compensation arrangements for financial institutions with greater than \$1 billion in total assets (the “Incentive-Based Compensation Proposal”). No final rule has been issued to date.

### Other regulations applicable to our operations

The SEC is the federal agency charged with administration of the federal securities laws in the U.S. Our broker-dealer subsidiaries are subject to SEC regulations relating to their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping, privacy requirements, and the conduct of directors, officers and employees. Financial services firms are also subject to regulation by state securities commissions in those states in which they conduct business. RJ&A and Raymond James Financial Services, Inc. (“RJFS”) are currently registered as broker-dealers in all 50 states.

Broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and are required to keep their assets in relatively liquid form. These rules also limit the ability of broker-dealers to transfer capital to parent companies and other affiliates. The SEC has adopted amendments to its financial stability rules, many of which became effective as of October 2013 and are applicable to our broker-dealer subsidiaries, including changes to the: (i) net capital rule; (ii) customer protection rule; (iii) record-keeping rules; and (iv) notification rules.

Financial services firms are subject to regulation by various foreign governments, securities exchanges, central banks and regulatory bodies, particularly in those countries where they have established offices. Outside of the U.S., we have additional offices primarily in Canada and Europe and are subject to regulations in those areas. Much of the regulation of broker-dealers in the U.S. and Canada, however, has been delegated to self-regulatory organizations (“SROs”) (i.e., the Financial Industry Regulatory Authority (“FINRA”), the Investment Industry Regulatory Organization of Canada (“IIROC”) and securities exchanges). These SROs adopt and amend rules for regulating the industry, subject to the approval of government agencies. These SROs also conduct periodic examinations of member broker-dealers.



The SEC, SROs and state securities regulators may conduct administrative proceedings that can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees. Such administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures and may adversely impact the reputation of a broker-dealer.

Our U.S. broker-dealer subsidiaries are subject to the Securities Investor Protection Act (“SIPA”) and are required by federal law to be members of the Securities Investors Protection Corporation (“SIPC”). The SIPC was established under SIPA, and oversees the liquidation of broker-dealers during liquidation or financial distress. The SIPC fund provides protection for cash and securities held in client accounts up to \$500,000 per client, with a limitation of \$250,000 on claims for cash balances.

Our investment advisory operations, including the mutual funds that we sponsor, are also subject to extensive regulation in the U.S. Our U.S. asset managers are registered as investment advisers with the SEC under the Investment Advisers Act of 1940 as amended (the “Investment Advisers Act”), and are also required to make notice filings in certain states. Virtually all aspects of our asset

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management business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to benefit the asset management clients.

RJ Bank is also subject to the Community Reinvestment Act (the “CRA”). The CRA is intended to encourage banks to help meet the credit needs of their communities, including low and moderate income neighborhoods, consistent with safe and sound bank operations. Under the CRA, the Fed, the FDIC and the OCC are required to periodically examine and assign to each bank a public CRA rating. Members of the public may submit comments on a bank’s performance under the CRA and such comments will form part of the bank’s performance evaluation. The results of the evaluation, together with the bank’s CRA rating, are also taken into consideration when evaluating mergers, acquisitions, and applications to open a branch or facility. RJ Bank could face additional requirements and limitations should it fail to adequately meet the criteria stipulated under the CRA. In August 2018, the OCC requested comment on ways to modernize its regulations that implement the CRA, which could affect how the CRA is applied to RJ Bank, but no proposed regulations have been issued at this time.

U.S. federal law establishes minimum federal standards for financial privacy by, among other provisions, requiring financial institutions to adopt and disclose privacy policies with respect to consumer information and setting forth certain limitations on disclosure to third parties of consumer information. U.S. state law and regulations adopted under U.S. federal law impose obligations on RJF and its subsidiaries for protecting the security, confidentiality and integrity of client information, and require notice of data breaches to certain U.S. regulators, and in some cases, to clients. The General Data Protection Regulation (“GDPR”) imposes additional requirements for companies that collect or store personal data of European Union residents. GDPR expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime, and includes new rights. RJF has adopted and disseminated privacy policies, and communicates required information relating to financial privacy and data security, in accordance with applicable law.

Raymond James Limited (“RJ Ltd.”) is currently registered in all provinces and territories in Canada. The financial services industry in Canada is subject to comprehensive regulation under both federal and provincial laws. Securities commissions have been established in all provinces and territorial jurisdictions, which are charged with the administration of securities laws. Investment dealers in Canada are also subject to regulation by SROs, including the Montreal Exchange and IIROC, which are responsible for the enforcement of, and conformity with, securities legislation for their members and have been granted the powers to prescribe their own rules of conduct and financial requirements of members. RJ Ltd. is regulated by each of the securities commissions in the jurisdictions of registration, as well as by the SROs including IIROC. IIROC requires that RJ Ltd. be a member of the Canadian Investors Protection Fund (the “CIPF”), whose primary role is investor protection. The CIPF provides protection for securities and cash held in client accounts up to 1 million Canadian dollars (“CAD”) per client, with separate coverage of CAD 1 million for certain types of accounts. See Note 21 of the Notes to Consolidated Financial Statements of this Form 10-K for further information on SEC, FINRA and IIROC regulations pertaining to broker-dealer regulatory minimum net capital requirements.

In Europe, the Markets in Financial Instruments Regulation and a revision of the Markets in Financial Instruments Directive (together, “MiFID II”), generally took effect on January 3, 2018, and introduced comprehensive, new trading and market infrastructure reforms in the European Union, including new trading venues, enhancements to pre- and post-trading transparency, and additional investor protection requirements, among others. We have made changes to our European operations, including systems and controls, in order to be in compliance with MiFID II.

Central banks around the world, including the Fed, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for the London Interbank Offered Rate (“LIBOR”) based on observable market transactions. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next few years. Although the full impact of a transition,

including the potential or actual discontinuance of LIBOR publication, remains unclear, this change may have an adverse impact on the value of, return on and trading markets for a broad array of financial products, including any LIBOR-based securities, loans and derivatives that are included in our financial assets and liabilities. A transition away from LIBOR may also require extensive changes to the contracts that govern these LIBOR-based products, as well as our systems and processes.

#### Bank Secrecy Act and USA PATRIOT Act of 2001

The Bank Secrecy Act and the USA PATRIOT Act of 2001 (“Patriot Act”) and requirements administered by the Financial Crimes Enforcement Network (“FinCEN”) require financial institutions, among other things, to implement a risk-based program reasonably designed to prevent money laundering and to combat the financing of terrorism, including through suspicious activity and currency transaction reporting, compliance, record-keeping and initial and on-going due diligence on customers. The Patriot Act also contains financial transparency laws and enhanced information collection tools and enforcement mechanisms for the U.S. government, including: due diligence and record-keeping requirements for private banking and correspondent accounts; standards for obtaining and verifying

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customer identification at account opening; and rules to produce certain records upon request of a regulator or law enforcement and to promote cooperation among financial institutions, regulators, and law enforcement in identifying parties that may be involved in terrorism, money laundering and other crimes. In May 2016, FinCEN issued a new rule that, since May 2018, has required certain financial institutions, including our U.S. bank and broker-dealer subsidiaries, to obtain certain beneficial ownership information from legal entity clients. Failure to meet the requirements of the Bank Secrecy Act, the Patriot Act or FinCEN can lead to supervisory actions including fines.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Executive officers of the registrant (which includes officers of certain significant subsidiaries) are as follows:

- Jennifer C. Ackart 54 Senior Vice President since August 2009 and Controller since February 1995
- Bella Loykhter Allaire 65 Executive Vice President - Technology and Operations - Raymond James & Associates, Inc. since June 2011; Managing Director and Chief Information Officer - UBS Wealth Management Americas, November 2006 - January 2011
- Paul D. Allison 62 Chairman, President and CEO - Raymond James Ltd. since January 2009; Co-President and Co-CEO - Raymond James Ltd., August 2008 - January 2009
- James E. Bunn 45 Co-President - Global Equities and Investment Banking - Raymond James & Associates, Inc. since October 2017; Head of Investment Banking - Raymond James & Associates, Inc. since January 2014; Co-Head of Technology Services Investment Banking - Raymond James & Associates, Inc., May 2009 - December 2013
- John C. Carson, Jr. 62 President since April 2012; President - Morgan Keegan & Company, LLC, formerly known as Morgan Keegan & Company, Inc., since July 2013; Chief Executive Officer and Executive Managing Director - Morgan Keegan & Company, Inc., March 2008 - July 2013
- George Catanese 59 Chief Risk Officer since February 2006
- Scott A. Curtis 56 President - Private Client Group since June 2018; President - Raymond James Financial Services, Inc. since January 2012; Senior Vice President - Private Client Group - Raymond James & Associates, Inc., July 2005 - December 2011
- Jeffrey A. Dowdle 54 Chief Administrative Officer since August 2018 and President - Asset Management Group since May 2016; Executive Vice President - Asset Management Group, February 2014 - May 2016; President - Asset Management Services - Raymond James & Associates, Inc., January 2005 - February 2014; Senior Vice President - Raymond James & Associates, Inc., January 2005 - February 2014
- Tashtego S. Elwyn 47 Chief Executive Officer and President - Raymond James & Associates, Inc. since June 2018; President - Private Client Group - Raymond James & Associates, Inc., January 2012 - June 2018; Regional Director - Raymond James & Associates, Inc., October 2006 - December 2011
- Thomas A. James 76 Chairman Emeritus since February 2017; Executive Chairman, May 2010 - February 2017
- Jeffrey P. Julien 62 Executive Vice President - Finance since August 2009 and Chief Financial Officer since April 1987; Treasurer, February 2011 - February 2018
- Jodi L. Perry 47 President - Independent Contractor Division - Raymond James Financial Services, Inc. since June 2018; Senior Vice President, National Director - ICD - Raymond James Financial Services, Inc., May 2018 - June 2018; Senior Vice President, ICD Regional Director - Raymond James Financial Services, Inc., June 2012 - May 2018

- Steven M. Raney 53 President and CEO - Raymond James Bank, N.A. since January 2006
- Paul C. Reilly 64 Chairman since February 2017 and Chief Executive Officer since May 2010; Director since January 2006; President, May 2009 - April 2010
- Jonathan N. Santelli 47 Executive Vice President, General Counsel and Secretary since May 2016; Senior Vice President and Deputy General Counsel - First Republic Bank, October 2013 to April 2016; Managing Director and Associate General Counsel - Preferred and Small Business Banking - Bank of America, December 2011 - August 2013; Managing Director and Associate General Counsel - Private Wealth Management - Bank of America, October 2009 - November 2011
- Jeffrey E. Trocin 59 Co-President - Global Equities and Investment Banking - Raymond James & Associates, Inc. since October 2017; President - Global Equities and Investment Banking - Raymond James & Associates, Inc., July 2013 - October 2017; Executive Vice President - Equity Capital Markets - Raymond James & Associates, Inc., February 2001 - July 2013

Except where otherwise indicated, the executive officer has held his or her current position for more than five years.

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ADDITIONAL INFORMATION

Our Internet address is [www.raymondjames.com](http://www.raymondjames.com). We make available on our website, free of charge and in printer-friendly format including “.pdf” file extensions, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Factors affecting “forward-looking statements”

Certain statements made in this Annual Report on Form 10-K may constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning future strategic objectives, business prospects, anticipated savings, financial results (including expenses, earnings, liquidity, cash flow and capital expenditures), industry or market conditions, demand for and pricing of our products, acquisitions and divestitures, anticipated results of litigation, changes in tax rules and our effective tax rate, regulatory developments, effects of accounting pronouncements, and general economic conditions. In addition, words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “projects,” “forecasts,” and future or conditional verbs such as “will,” “may,” “could,” “should,” and “would,” as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements. Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from those expressed in the forward-looking statements. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in Item 1A “Risk Factors” in this report. We expressly disclaim any obligation to update any forward-looking statement in the event it later turns out to be inaccurate, whether as a result of new information, future events or otherwise.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, liquidity and the trading price of our common stock. The list of risk factors provided in the following sections is not exhaustive; there may be factors not discussed in the following sections or in this Form 10-K that adversely impact our results of operations, harm our reputation or inhibit our ability to generate new business prospects.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Damage to our reputation could damage our businesses.

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

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

We are engaged in various financial services businesses. As such, we are affected by domestic and international macroeconomic and political conditions, including economic output levels, interest and inflation rates, employment levels, prices of commodities, consumer confidence levels, and fiscal and monetary policy. For example, Fed policies determine, in large part, the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies also can decrease materially the value of certain of our financial assets, most notably debt securities. Changes in Fed policies are beyond our control and, consequently, the impact of these changes on our activities and results of our operations are difficult to predict. Macroeconomic conditions also may directly and indirectly impact a number of factors in the global financial markets that may be detrimental to our operating results, including trading levels, investing, and origination activity in the securities markets, security valuations, the absolute and relative level and volatility of interest and currency rates, real estate values, the actual and perceived quality of issuers and borrowers, and the supply of and demand for loans and deposits.



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While we have recently experienced an operating environment that has been favorable for many of our businesses, at times over the last several years we have experienced operating cycles during weak and uncertain U.S. and global economic conditions. If we were to experience a period of sustained downturns in the securities markets, a return to very low levels of short-term interest rates, credit market dislocations, reductions in the value of real estate, an increase in mortgage and other loan delinquencies, and other negative market factors, our revenues could be significantly impaired. Periods of reduced revenue and other losses could lead to reduced profitability because certain of our expenses, including, but not limited to, our interest expense on debt, rent, facilities and salary expenses are fixed and our ability to reduce them over short time periods is limited.

U.S. markets may also be impacted by political and civil unrest occurring in other parts of the world. Concerns about the European Union (“EU”), including Britain’s notice to the European Council of its decision to exit the EU (“Brexit”) and the stability of the EU’s sovereign debt, have caused uncertainty and disruption for financial markets globally. Continued uncertainties loom over the outcome of the EU’s financial support programs. It is possible that other EU member states may experience financial troubles in the future, or may choose to follow Britain’s lead and leave the EU. Any negative impact on economic conditions and global markets from these developments could adversely affect our business, financial condition and liquidity.

We may be impacted by budget pressures affecting U.S. state and local governments, as well as negative trends in the housing and labor markets. Investor concerns regarding these trends could potentially reduce the number and size of transactions in which we participate and, in turn, reduce our fixed income investment banking revenues. In addition, such factors could potentially have an adverse effect on the value of the municipal securities we hold in our trading securities portfolio.

RJ Bank is affected primarily by economic conditions in North America. Market conditions in the U.S. and Canada can be assessed through the following metrics: the level and volatility of interest rates; unemployment and under-employment rates; real estate prices; consumer confidence levels and changes in consumer spending; and the number of personal bankruptcies, among others. Deterioration of market conditions can diminish loan demand, lead to an increase in mortgage and other loan delinquencies, affect loan repayment performance and result in higher reserves and net charge-offs, which can adversely affect our earnings.

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

We must maintain appropriate liquidity levels. Our inability to maintain adequate liquidity and readily available access to the credit and capital markets could have a significant negative effect on our financial condition. If liquidity from our brokerage or banking operations is inadequate or unavailable, we may be required to scale back or curtail our operations, including limiting our efforts to recruit additional financial advisors, selling assets at unfavorable prices, and cutting or eliminating dividend payments. Our liquidity could be negatively affected by the inability of our subsidiaries to generate cash in the form of dividends from earnings, regulatory changes to the liquidity or capital requirements applicable to our subsidiaries that may prevent us from upstreaming cash to the parent company, limited or no accessibility to credit markets for secured and unsecured borrowings by our subsidiaries, diminished access to the capital markets for RJF, and other commitments or restrictions on capital as a result of adverse legal settlements, judgments, or regulatory sanctions. Furthermore, as a bank holding company, we may become subject to prohibitions or limitations on our ability to pay dividends and/or repurchase our stock. Certain of our regulators have the authority, and under certain circumstances, the duty, to prohibit or to limit dividend payments by regulated subsidiaries to their parent.

The availability of financing, including access to the credit and capital markets, depends on various factors, such as conditions in the debt and equity markets, the general availability of credit, the volume of securities trading activity, the overall availability of credit to the financial services sector and our credit ratings. Our cost of capital and the

availability of funding may be adversely affected by illiquid credit markets and wider credit spreads. Additionally, lenders may from time to time curtail, or even cease to provide, funding to borrowers as a result of future concerns over the strength of specific counterparties, as well as the stability of markets generally. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and capital resources” in this report for additional information on liquidity and how we manage our liquidity risk.

We are exposed to credit risk.

We are generally exposed to the risk that third parties that owe us money, securities or other assets will fail to meet their performance obligations due to numerous causes, including bankruptcy, lack of liquidity, or operational failure, among others. We actively buy and sell securities from and to clients and counterparties in the normal course of our broker-dealers’ market-making and underwriting businesses, which exposes us to credit risk. Although generally collateralized by the underlying security to the transaction, we still face risk associated with changes in the market value of collateral through settlement date. We also hold certain securities, loans and derivatives as part of our trading inventory. Deterioration in the actual or perceived credit quality of the underlying issuers of securities or loans, or the non-performance of issuers and counterparties to certain derivative contracts could result in trading losses.

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

We manage the risk associated with these transactions by establishing and monitoring credit limits, as well as by monitoring collateral and transaction levels daily. Significant deterioration in the credit quality of one of our counterparties could lead to widespread concerns about the credit quality of other counterparties in the same industry, thereby exacerbating our credit risk exposure.

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

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

We also incur credit risk by lending to businesses and individuals through the offering of loans, including C&I loans, commercial and residential mortgage loans, tax-exempt loans, home equity lines of credit, and margin and other loans collateralized by securities. We also incur credit risk through our investments. Our credit risk and credit losses can increase if our loans or investments are concentrated among borrowers or issuers engaged in the same or similar activities, industries, or geographies, or to borrowers or issuers who as a group may be uniquely or disproportionately affected by economic or market conditions. The deterioration of an individually large exposure, for example due to natural disasters, health emergencies or pandemics, acts of terrorism, severe weather events or other adverse economic events, could lead to additional loan loss provisions and/or charges-offs, or credit impairment of our investments, and subsequently have a material impact on our net income and regulatory capital.

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

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk management," in this report for additional information regarding our exposure to and approaches to managing credit risk.

We are exposed to market risk.

We are, directly and indirectly, affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, interest rate changes could adversely affect our net interest spread, the difference between the yield we earn on our assets and the interest rate we pay for deposits and other sources of funding, which in turn impacts our net interest income and earnings. Interest rate changes could affect the interest earned on assets differently than interest paid on liabilities. In our brokerage operations, a rising interest rate environment generally results in our earning a larger net interest spread and an increase in fees received on our multi-bank deposit sweep program. Conversely, in those

operations, a falling interest rate environment generally results in our earning a smaller net interest spread. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

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

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

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Our private equity investments are carried at fair value with unrealized gains and losses reflected in earnings. The value of our private equity portfolios can fluctuate and earnings from our investments can be volatile and difficult to predict. When, and if, we recognize gains can depend on a number of factors, including general economic conditions, the prospects of the companies in which we invest, when these companies go public, the size of our position relative to the public float and whether we are subject to any resale restrictions.

See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management,” in this report for additional information regarding our exposure to and approaches to managing market risk.

Our business depends on fees generated from the distribution of financial products, fees earned from the management of client accounts, and advisory fees.

A large portion of our revenues are derived from fees generated from the distribution of financial products, such as mutual funds and variable annuities. Changes in the structure or amount of the fees paid by the sponsors of these products could directly affect our revenues, business and financial condition. In addition, if these products experience losses or increased investor redemptions, we may receive lower fee revenue from the investment management and distribution services we provide on behalf of the mutual funds and annuities. The investment management fees we are paid may also decline over time due to factors such as increased competition and the renegotiation of contracts. In addition, the market environment in recent years has resulted in a shift to passive investment products, which generate lower fees than actively managed products. A continued trend toward passive investments or changes in market values or in the fee structure of asset management accounts would affect our revenues, business and financial condition. Asset management fees often are primarily comprised of base management and incentive fees. Management fees are primarily based on assets under management (“AUM”). AUM balances are impacted by net inflows/outflows of client assets and market values. Below-market investment performance by our funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impact our business and financial condition. If we were to experience the loss of managed accounts, our fee revenue would decline. In addition, in periods of declining market values, our values of AUM may resultantly decline, which would negatively impact our fee revenues.

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

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we have underwritten at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings in which we are involved. As a market maker, we may own positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified. In addition, despite risk mitigation policies, we may incur losses as a result of positions we hold in connection with our market-making or underwriting activities.

From time to time and as part of our underwriting processes, we may carry significant positions in securities of a single issuer or issuers engaged in a specific industry. Sudden changes in the value of these positions could impact our financial results.

We have made and, to the limited extent permitted by applicable regulations, may continue to make principal investments in private equity funds and other illiquid investments; however, our current focus is on the divestiture of our existing portfolio. We may be unable to realize our investment objectives if we cannot sell or otherwise dispose of our interests at attractive prices or complete a desirable exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the portfolio companies in which investments are made, changes in

economic conditions or changes in laws, regulations, fiscal policies or political conditions. It could take a substantial period of time to identify attractive investment opportunities and then to realize the cash value of such investments. Even if a private equity investment proves to be profitable, it may be several years or longer before any profits can be realized in cash.

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

Our operations rely heavily on the secure processing, storage and transmission of sensitive and confidential financial, personal and other information in our computer systems and networks. There have been several highly publicized cases involving financial services companies reporting the unauthorized disclosure of client or other confidential information in recent years, as well as cyber-attacks involving the theft, dissemination and destruction of corporate information or other assets, in some cases as a result of failure to follow procedures by employees or contractors or as a result of actions by third parties. Like other financial services firms, we are regularly the target of attempted cyber-attacks, including unauthorized access, mishandling or misuse of information, computer viruses or malware, denial-of-service attacks, phishing or other forms of social engineering, and other events, and we seek to continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption. Cyber-attacks can

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originate from a variety of sources, including third parties affiliated with foreign governments, organized crime or terrorist organizations. Third parties may also attempt to place individuals within our firm or induce employees, clients or other users of our systems to disclose sensitive information or provide access to our data, and these types of risks may be difficult to detect or prevent. Although cybersecurity incidents among financial services firms are on the rise, we have not experienced any material losses relating to cyber-attacks or other information security breaches. However, the techniques used in these attacks are increasingly sophisticated, change frequently and are often not recognized until launched. Although we seek to maintain a robust suite of authentication and layered information security controls, including our cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and vulnerability management program, any one or combination of these controls could fail to detect, mitigate or remediate these risks in a timely manner. Despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code, and other events that could result in significant liability and damage to our reputation, and have an ongoing impact on the security and stability of our operations.

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

Notwithstanding the precautions we take, if a cyber-attack or other information security breach were to occur, this could jeopardize the information we confidentially maintain, or otherwise cause interruptions in our operations or those of our clients and counterparties, exposing us to liability. As attempted attacks continue to evolve in scope and sophistication, we may be required to expend substantial additional resources to modify or enhance our protective measures, to investigate and remediate vulnerabilities or other exposures or to communicate about cyber-attacks to our customers. Though we have insurance against some cyber-risks and attacks, we may be subject to litigation and financial losses that exceed our policy limits or are not covered under any of our current insurance policies. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators. Additionally, the SEC issued guidance in February 2018 stating that, as a public company, we are expected to have controls and procedures that relate to cybersecurity disclosure, and are required to disclose information relating to certain cyber-attacks or other information security breaches in disclosures required to be made under the federal securities laws. Further, successful cyber-attacks at other large financial institutions or other market participants, whether or not we are affected, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general, which could result in reduced use of our financial products and services.

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

We may also be subject to liability under various data protection laws. In providing services to clients, we manage, utilize and store sensitive or confidential client or employee data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal, state and international

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

See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management” in this report for additional information regarding our exposure to and approaches for managing these types of operational risks.



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A continued interruption to our telecommunications or data processing systems, or the failure to effectively update the technology we utilize, could be materially adverse to our business.

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

Our continued success depends, in part, upon our ability to: (i) successfully maintain and upgrade the capability of our technology systems; (ii) address the needs of our clients by using technology to provide products and services that satisfy their demands; and (iii) retain skilled information technology employees. Failure of our technology systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients, violations of applicable privacy and other applicable laws and regulatory sanctions. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk Management” of this report for additional information regarding our exposure to and approaches for managing these types of operational risks.

The soundness of other financial institutions and intermediaries affects us.

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

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

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

We seek to manage, monitor and control our market, credit, operational, legal and regulatory risk through operational and compliance reporting systems, internal controls, management review processes and other mechanisms; however, there can be no assurance that our procedures will be effective. While we use limits and other risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate unforeseen economic and financial outcomes or the specifics and timing of such outcomes. Our risk management methods may

not predict future risk exposures effectively. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients and other matters that are based on assumptions that may no longer be accurate or may have limited predictive value. A failure to manage our growth adequately, including growth in the products or services we offer, or to manage our risk effectively, could materially and adversely affect our business and financial condition.

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

For more information on how we monitor and manage market and certain other risks, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management” in this report.

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We continue to experience pricing pressures in areas of our business which may impair our future revenue and profitability.

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

We face intense competition.

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

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

To remain competitive, our future success also depends in part on our ability to develop and enhance our products and services. The inability to develop new products and services, or enhance existing offerings, could have a material adverse effect on our profitability. In addition, we may incur substantial expenditures to keep pace with the constant changes and enhancements being made in technology.

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

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

Turnover in the financial services industry is high. The cost of recruiting and retaining skilled professionals in the financial services industry has escalated considerably. Financial industry employers are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as in a prospective employee's decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. To the extent we have compensation targets, we may not be able to retain our employees, which could result in increased recruiting expense or result in our recruiting additional employees at compensation levels that are not within our target range. In particular, our financial results may be adversely affected by the costs we incur

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

Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We have been subject to several such claims and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may work for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending against these claims, regardless of their merits. Such claims could also discourage potential employees who work for our competitors from joining us. Certain large broker-dealer competitors have withdrawn from the Protocol for Broker Recruiting (“Protocol”), a voluntary agreement among over 1,700 firms that governs, among other things, the client information that financial advisors may take with them when they affiliate with a new firm. The ability to bring such customer

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data to a new broker-dealer generally means that the financial advisor is better able to move client account balances to his or her new firm. It is possible that other competitors will similarly withdraw from the Protocol. If the broker-dealers from whom we recruit new financial advisors prevent, or significantly limit, the transfer of client data, our recruiting efforts may be adversely affected and we could experience a higher number of claims against us relating to our recruiting efforts.

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

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

We may not be able to obtain additional outside financing to fund our operations on favorable terms, or at all. The impact of a credit rating downgrade to a level below investment grade would result in our breaching provisions in certain of our derivative instruments, and may result in a request for immediate payment and/or ongoing overnight collateralization on our derivative instruments in liability positions. A credit rating downgrade would also result in RJF incurring a higher commitment fee on any unused balance on its \$300 million revolving credit facility (the "RJF Credit Facility"), in addition to triggering a higher interest rate applicable to any borrowings outstanding on the line as of and subsequent to such downgrade (see Note 14 of the Notes to Consolidated Financial Statements of this Form 10-K for information on the RJF Credit Facility).

Business growth could increase costs and regulatory and integration risks.

We continue to grow, including through acquisitions and through our recruiting efforts. Integrating acquired businesses, providing a platform for new businesses and partnering with other firms involve risks and present financial, managerial and operational challenges. We may incur significant expense in connection with expanding our existing businesses, recruiting financial advisors, or making strategic acquisitions or investments. Our overall profitability would be negatively affected if investments and expenses associated with such growth are not matched or exceeded by the revenues derived from such investments or growth.

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

Moreover, to the extent we pursue acquisitions we may be unable to complete such acquisitions on acceptable terms. We may be unable to integrate any acquired business into our existing business successfully. Difficulties we may encounter in integrating an acquired business could have an adverse effect on our business, financial condition, and results of operations. In addition, we may need to raise capital or borrow funds in order to finance an acquisition, which could result in dilution or increased leverage. We may not be able to obtain financing on favorable terms or perhaps at all.

Associate misconduct, which is difficult to detect and deter, could harm us by impairing our ability to attract and retain clients and subject us to significant legal liability and reputational harm.

There is a risk that our associates could engage in misconduct that adversely affects our business. For example, our banking business often requires that we deal with confidential matters of great significance to our clients. If our associates were to improperly use or disclose confidential information provided by our clients, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, current client relationships and ability to attract future clients. We are also subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. In addition, our financial advisors may act in a fiduciary capacity, providing financial planning, investment advice and discretionary asset management. The violation of these obligations and standards by any of our associates would adversely affect our clients and us. It is not always possible to deter associate misconduct, and the precautions we take to detect and prevent this activity may not be effective. If our associates engage in misconduct, our business would be adversely affected.

We are exposed to litigation risks, which could materially and adversely impact our business operations and prospects.

Many aspects of our business involve substantial risks of liability. We have been named as a defendant or co-defendant in lawsuits and arbitrations involving primarily claims for damages. The risks associated with potential litigation often may be difficult to assess or quantify and the existence and magnitude of potential claims often remain unknown for substantial periods of time. Unauthorized

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or illegal acts of our associates could result in substantial liability. Our PCG business segment has historically been more susceptible to litigation than our institutional businesses.

In challenging market conditions, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions has historically increased. Litigation risks include potential liability under securities laws or other laws for: alleged materially false or misleading statements made in connection with securities offerings and other transactions; issues related to the suitability of our investment recommendations; the inability to sell or redeem securities in a timely manner during adverse market conditions; contractual issues; employment claims; and potential liability for other advice we provide to participants in strategic transactions. Substantial legal liability could have a material adverse financial impact or cause us significant reputational harm, which in turn could seriously harm our business and future business prospects. In addition to the foregoing financial costs and risks associated with potential liability, the costs of defending individual litigation and claims continue to increase over time. The amount of outside attorneys' fees incurred in connection with the defense of litigation and claims could be substantial and might materially and adversely affect our results of operations.

See Item 3 "Legal Proceedings" of this report for a discussion of our legal matters and see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk management" of this report for a discussion regarding our approach to managing legal risk.

A significant decline in our domestic client cash balances could negatively impact our net revenues and/or our ability to fund RJ Bank's growth.

We rely heavily on bank deposits as a low-cost source of funding for RJ Bank to extend loans to clients and purchase investment securities. Our bank deposits are primarily driven by our multi-bank sweep program in which clients' cash deposits in their brokerage accounts are swept into FDIC-insured interest-bearing accounts at RJ Bank and various third-party banks. A significant reduction in our domestic clients' cash balances, a change in the allocation of that cash between RJ Bank and third-party banks, or a transfer of cash away from RJF, could impact our net revenues and our ability to fund RJ Bank's growth.

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

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions may require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. One of our most critical estimates is RJ Bank's allowance for loan losses. At any given point in time, conditions in real estate and credit markets may increase the complexity and uncertainty involved in estimating the losses inherent in RJ Bank's loan portfolio. If management's underlying assumptions and judgments prove to be inaccurate, the allowance for loan losses could be insufficient to cover actual losses. Our financial condition, including our liquidity and capital, and results of operations could be materially and adversely impacted. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" of this report for additional information on the nature of these estimates.

Our financial instruments, including certain trading assets and liabilities, available-for-sale securities, certain loans, and private equity investments, among other items, require management to make a determination of their fair value in order to prepare our consolidated financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means, which ultimately rely to some degree

on our subjective judgment. Some of these instruments and other assets and liabilities may have no directly observable inputs, making their valuation particularly subjective and, consequently, based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain securities may make it more difficult to value certain items, which may lead to the possibility that such valuations will be subject to further change or adjustment, as well as declines in our earnings in subsequent periods.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. The Financial Accounting Standards Board (the “FASB”) and the SEC have at times revised the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. For further discussion of some of our significant accounting policies and standards, see Item 7 “Management’s



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Discussion and Analysis of Financial Condition and Results of Operations - Critical accounting estimates” of this report, and Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K.

The FASB has issued several new accounting standards, including on the topics of credit losses and leases and the Federal banking regulators have released implementation guidance and proposed implementation rules for some of these new standards. In particular, the new credit losses standard will replace multiple existing impairment models, including the replacement of the “incurred loss” model for loans with an “expected loss” model. We are evaluating the potential impact that the adoption of these standards and the proposed regulatory implementation rules will have on our financial position, results of operations as well as our regulatory capital. See Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K for further information.

Our operations could be adversely affected by serious weather conditions.

Certain of our principal operations are located in St. Petersburg, Florida. While we have a business continuity plan that permits significant operations to be conducted out of our Southfield, Michigan and Memphis, Tennessee locations and our information systems processing to be conducted out of our information technology data center in the Denver, Colorado area, our operations could be adversely affected by hurricanes or other serious weather conditions that could affect the processing of transactions, communications, and the ability of our associates to get to our offices, or work from home. As previously discussed, weather events could also adversely impact certain loans within RJ Bank’s portfolio. Refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management” of this Form 10-K for a discussion of our operational risk management.

We are exposed to risks from international markets.

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

We are exposed to risks related to our insurance programs.

Our operations and financial results are subject to risks and uncertainties related to our use of a combination of insurance, self-insured retention and self-insurance for a number of risks. We have elected to self-insure our workers compensation, errors and omissions liability and our employee-related health care benefit plans. We have self-insured retention risk related to our property and casualty, and general liability benefit plans.

While we endeavor to purchase insurance coverage appropriate to our risk assessment, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. Our business may be negatively affected if our insurance proves to be inadequate or unavailable. In addition, claims associated with risks we have retained either through our self-insurance retention or by self-insuring, may exceed our recorded reserves which could negatively impact future earnings. Insurance claims may divert management resources away from operating our business.

## RISKS RELATED TO OUR REGULATORY ENVIRONMENT

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

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

The Dodd-Frank Act enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see Item 1 “Regulation,” of this report for a discussion of such changes). The ultimate impact that the Dodd-Frank Act and implementing regulations, as further modified by the EGRRCPA and other financial services legislation, will have on us and the financial

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services industry more broadly cannot be quantified until all of the implementing regulations called for under the legislation have been finalized and fully implemented. Nevertheless, it is apparent that these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of our assets, require us to alter at least some of our business practices, impose additional compliance costs, and otherwise adversely affect our businesses.

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

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

The majority of our affiliated financial advisors are independent contractors. Legislative or regulatory action that redefines the criteria for determining whether a person is an employee or an independent contractor could materially impact our relationships with our advisors and our business, resulting in an adverse effect on our results of operations.

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

Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management” of this report regarding our approaches to managing regulatory risk.

Changes in requirements relating to the standard of conduct for broker-dealers applicable under state law may adversely affect our businesses.

In April 2016, the DOL issued its final rule defining the term “fiduciary” and related exemptions in the context of ERISA and retirement accounts. On June 21, 2018, the U.S. Court of Appeals for the Fifth Circuit Court issued an order vacating the DOL Rule and related exemptions. We dedicated significant resources to interpret and implement policies to comply with the DOL Rule and continue to evaluate the solutions available to retirement accounts, with additional changes possible. While the overall impact of the recently vacated DOL Rule may have ultimately been adverse to our financial condition, results of operations and liquidity, we may benefit from the changes to systems, processes, and offerings completed for the DOL Rule in complying with forthcoming regulatory initiatives.

In April 2018, the SEC proposed Regulation Best Interest, which would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities to such customer.

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We anticipate that if a rule imposing heightened standards on broker-dealers is adopted by the SEC or fiduciary rules are adopted at the state level, we will be required to incur costs in order to review and possibly modify the compliance plan and approach that we had previously implemented for the now-vacated DOL Rule. Implementation of any rules addressing similar matters may negatively impact our results including the impact of increased costs related to compliance, legal and information technology.

Numerous regulatory changes and enhanced regulatory and enforcement activity relating to the asset management business may increase our compliance and legal costs and otherwise adversely affect our business.

The SEC has proposed certain measures that would establish a new framework to replace the requirements of Rule 12b-1 under the 1940 Act with respect to how mutual funds pay fees to cover the costs of selling and marketing their shares. The staff of the SEC's Office of Compliance, Inspections and Examinations has indicated that it is reviewing the use of fund assets to pay for fees to sub-transfer agents and sub-administrators for services that may be deemed to be distribution-related. Any adoption of such measures would be phased in over a number of years. As these measures are neither final nor undergoing implementation throughout the financial services industry, their impact cannot be fully ascertained at this time. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

Asset management businesses have experienced a number of highly publicized regulatory inquiries, which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. As some of our wholly owned subsidiaries are registered as investment advisors with the SEC, increased regulatory scrutiny and rulemaking initiatives may result in additional operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. It is not possible to determine the extent of the impact of any new laws, regulations or initiatives that have been or may be proposed, or whether any of the proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business, including our product and service offerings.

In addition, U.S. and foreign governments have taken regulatory actions impacting the investment management industry, and may continue to do so including expanding current (or enacting new) standards, requirements and rules that may be applicable to us and our subsidiaries. For example, several states and municipalities in the U.S. have adopted "pay-to-play" rules, which could limit our ability to charge advisory fees. Such "pay-to-play" rules could affect the profitability of that portion of our business.

The use of "soft dollars," where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, is periodically reexamined and may be limited or modified in the future. A substantial portion of the research relied on by our investment management business in the investment decision-making process is generated internally by our investment analysts and external research, including external research paid for with soft dollars. This external research is generally used for information gathering or verification purposes, and includes broker-provided research, as well as third-party provided databases and research services. If the use of soft dollars is limited, we may have to bear some of these additional costs.

New regulations regarding the management of hedge funds and the use of certain investment products, including additional recordkeeping and disclosure requirements, may impact our asset management business and result in increased costs.

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

RJF and RJ Bank are subject to various regulatory and capital requirements administered by various federal regulators in the U.S. and, accordingly, must meet specific capital guidelines that involve quantitative measures of RJF and RJ Bank's assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification for both RJF and RJ Bank are also subject to qualitative judgments by U.S. federal regulators based on components of our capital, risk-weightings of assets, off-balance sheet transactions, and other factors. Quantitative measures established by regulation to ensure capital adequacy require RJF and RJ Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets, Tier 1 capital to average assets and capital conservation buffers (as defined in the regulations). Failure to meet minimum capital requirements can trigger certain mandatory (and potentially additional discretionary) actions by regulators that, if undertaken, could harm either RJF or RJ Bank's operations and financial condition.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and FINRA's net capital rule, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiaries. The uniform net capital rule sets the minimum level of net capital that a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below certain thresholds. In addition, our Canada-based

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broker-dealer subsidiary is subject to similar limitations under applicable regulation in that jurisdiction by IIROC. Regulatory capital requirements applicable to some of our significant subsidiaries may impede access to funds that RJF needs to make payments on any such obligations.

See Note 21 of the Notes to Consolidated Financial Statements of this Form 10-K for further information on regulations and capital requirements.

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

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

As a financial holding company, RJF's liquidity depends on payments from its subsidiaries, which may be subject to regulatory restrictions.

RJF is a financial holding company and therefore depends on dividends, distributions and other payments from its subsidiaries in order to meet its obligations, including its debt service obligations. RJF's subsidiaries are subject to laws and regulations that restrict dividend payments or authorize regulatory bodies to prevent or reduce the flow of funds from those subsidiaries to RJF. RJF's broker-dealers and bank subsidiary are limited in their ability to lend or transact with affiliates and are subject to minimum regulatory capital and other requirements, as well as limitations on their ability to use funds deposited with them in broker or bank accounts to fund their businesses. These requirements may hinder RJF's ability to access funds from its subsidiaries. RJF may also become subject to a prohibition or limitations on its ability to pay dividends or repurchase its common stock. The federal banking regulators, including the OCC, the Fed and the FDIC, as well as the SEC (through FINRA) have the authority and under certain circumstances, the obligation, to limit or prohibit dividend payments and stock repurchases by the banking organizations they supervise, including RJF and its bank subsidiaries. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and capital resources" of this report for additional information on liquidity and how we manage our liquidity risk.

RJ Bank is subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to penalties.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other U.S. federal fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The U.S. Department of Justice and other federal agencies, including the CFPB, are responsible for enforcing these laws and regulations. An unfavorable CRA rating or a successful challenge to an institution's performance under the fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil monetary penalties, injunctive relief, and the imposition of restrictions on mergers, acquisitions and expansion activity. Private parties may also have the ability to challenge a financial institution's performance under fair lending laws by bringing private class action litigation.

The OCC has requested comment on ways to modernize the regulations that implement the CRA for national banks, such as RJ Bank. Any revisions to the regulations that implement the CRA may negatively impact our business, including through increased costs related to compliance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

ITEM 2. PROPERTIES

We operate our business from our principal location in St. Petersburg, Florida, the Carillon Office Park, a 1.25 million square foot office park that we own. Additionally, we own approximately 65 acres of land located in Pasco County, Florida for future development and occupancy as needed. We conduct certain operations from our owned facility in Southfield, Michigan, comprising approximately 90,000 square feet, and operate a 40,000 square foot information technology data center on land we own in the Denver, Colorado area. Generally, our owned locations and principal leases, identified below, support all of our business segments.

We lease the premises we occupy in other U. S. and foreign locations, including employee-based branch office operations. Our leases contain various expiration dates through fiscal year 2031. Our principal leases are in the following locations:

- We lease approximately 190,000 square feet in Memphis, Tennessee, along with approximately 150,000 square feet in New York and 70,000 square feet in Chicago, with other office and branch locations throughout the U.S;
- We lease approximately 80,000 square feet in Vancouver and approximately 75,000 square feet in Toronto, along with other office and branch locations throughout Canada;
- We lease approximately 24,000 square feet in London, along with other office locations in Germany and France.

We believe that the facilities owned or occupied by our company suit our needs. Leases for branch offices independent contractors are the responsibility of the respective independent contractor financial advisors.

ITEM 3. LEGAL PROCEEDINGS

In addition to the matters specifically described below, in the normal course of our business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a diversified financial services institution.

We are also subject, from time to time, to other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. Such proceedings may involve, among other things, our sales and trading activities, financial products or offerings we sponsored, underwrote or sold, and operational matters. Some of these proceedings have resulted, and may in the future result, in adverse judgments, settlements, fines, penalties, injunctions or other relief and/or require us to undertake remedial actions.

We cannot predict if, how or when such proceedings or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be. A large number of factors may contribute to this inherent unpredictability: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis; the other party is seeking relief other than or in addition to compensatory damages (including, in the case of regulatory and governmental proceedings, potential fines and penalties); the matters present significant legal uncertainties; we have not engaged in settlement discussions; discovery is not complete; there are significant facts in dispute; and numerous parties are named as defendants (including where it is uncertain how liability might be shared among defendants).

We contest liability and/or the amount of damages, as appropriate, in each pending matter. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies has increased significantly in the financial services industry. While we have identified below certain proceedings that we believe could be material, individually or collectively, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material.

We include in some of the descriptions of individual matters below certain quantitative information about the plaintiff's claim against us as alleged in the plaintiff's pleadings or other public filings. Although this information may provide insight into the potential magnitude of a matter, it does not represent our estimate of reasonably possible loss or our judgment as to any currently appropriate accrual related thereto.

Subject to the foregoing, we believe, after consultation with counsel and consideration of the accrued liability amounts included in the accompanying consolidated financial statements, that the outcome of such litigation and regulatory proceedings will not have a material adverse effect on our consolidated financial condition. However, the outcome of such litigation and proceedings could be material to our operating results and cash flows for a particular future period, depending on, among other things, our revenues or income for such period.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

See Note 17 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information regarding legal and regulatory matter contingencies, and refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical accounting estimates” in the section “Loss provisions arising from legal and regulatory matters” of this report, and Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K for information on our criteria for establishing accruals.

### Morgan Keegan litigation

#### Indemnification from Regions

Under the agreement with Regions Financial Corporation (“Regions”) governing our 2012 acquisition of Morgan Keegan & Company Inc., and MK Holding, Inc. and certain of its affiliates (collectively referred to as “Morgan Keegan”) (the “Stock Purchase Agreement”), Regions is obligated to indemnify us for losses we may incur in connection with any Morgan Keegan legal proceedings pending as of the closing date for that transaction (which was April 2, 2012), or commenced after the closing date but related to pre-closing matters that were received prior to April 2, 2015.

#### Morgan Keegan matter (subject to indemnification)

In July 2006, Morgan Keegan & Company, Inc., a Morgan Keegan affiliate, and one of its former analysts were named as defendants in a lawsuit filed by Fairfax Financial Holdings Limited and an affiliate (“Fairfax”) in the Superior Court of New Jersey, Law Division, in Morris County, New Jersey. Plaintiffs made claims under a civil RICO statute, for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Among other things, Plaintiffs alleged that defendants engaged in a multi-year conspiracy to publish and disseminate false and defamatory information about plaintiffs in order to improperly drive down the stock price of Fairfax, so that others could profit from short positions. On September 4, 2018, Fairfax and Morgan Keegan & Company, Inc. entered into a settlement agreement requiring payment to Fairfax of \$20 million in exchange for a full release of all claims relating in any way to the subject of this litigation and dismissal of the action with prejudice. Such payment was made by Regions in accordance with the indemnification provision of the Stock Purchase Agreement. Morgan Keegan & Company, Inc. denied any wrongdoing in connection with this matter.

#### Other litigation

On February 17, 2015, Jyll Brink (“Brink”) filed a putative class action complaint in the U.S. District Court for the Southern District of Florida (the “District Court”) under the caption Jyll Brink v. Raymond James & Associates, Inc. (the “Brink Complaint”). The Brink Complaint alleges that Brink, a former customer of RJ&A, was charged a fee in her Passport Investment Account, and that the fee included an unauthorized and undisclosed profit to RJ&A in violation of its customer agreement and applicable industry standards. The Passport Investment Account is a fee-based account in which clients pay asset-based advisory fees and certain processing fees for ongoing investment advice and monitoring of securities holdings. The Brink Complaint seeks, among other relief, damages in the amount of the difference between the actual cost of processing a trade, as alleged by Brink, and the fee charged by RJ&A. On May 9, 2016, RJ&A filed a motion to dismiss the Brink Complaint for lack of subject matter jurisdiction pursuant to the Securities Litigation Uniform Standards Act (“SLUSA”). On June 6, 2016, the District Court entered an order granting the motion and dismissing the Brink Complaint on SLUSA preclusion grounds. On June 24, 2016, Brink filed a notice of appeal of the order of dismissal with the United States Court of Appeals for the Eleventh Circuit (the “Appellate Court”). On June 8, 2018, the Appellate Court issued its opinion reversing the order of dismissal and remanding the case to the District Court for further proceedings consistent with the opinion. On October 19, 2018, the District Court certified a class of former and current customers of RJ&A who executed a Passport Agreement and were charged such fees during the period between February 17, 2010 and February 17, 2015. The matter is scheduled for trial

commencing April 15, 2019. RJ&A believes the claims in the Brink Complaint are without merit and is vigorously defending the action.

On February 11, 2016, Caleb Wistar (“Wistar”) and Ernest Mayeaux (“Mayeaux”) filed a putative class action complaint in the District Court under the caption Caleb Wistar and Ernest Mayeaux v. Raymond James Financial Services, Inc. and Raymond James Financial Services Advisors, Inc. (as subsequently amended, the “Wistar Complaint”). Similar to the Brink Complaint, the Wistar Complaint alleges that Wistar and Mayeaux, former customers of RJFS and Raymond James Financial Services Advisors, Inc. (“RJFSA”), were charged a fee in RJFS and RJFSA’s Passport Investment Account and that the fee included an unauthorized and undisclosed profit to RJFS and RJFSA in violation of its customer agreement and applicable industry standards. The Wistar Complaint seeks, among other relief, damages in the amount of the difference between the actual cost of processing a trade, as alleged by Wistar and Mayeaux, and the fee charge by RJFS and RJFSA. On September 6, 2018, RJFS and RJFSA filed a motion to dismiss the Wistar Complaint, which motion is pending. The matter is scheduled for trial commencing September 16, 2019. RJFS and RJFSA believe the claims in the Wistar Complaint are without merit and are vigorously defending the action.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

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

Our common stock is traded on the NYSE under the symbol "RJF." As of November 19, 2018, we had 348 holders of record of our common stock. Shares of our common stock are held by a substantially greater number of beneficial owners, whose shares are held of record by banks, brokers, and other financial institutions.

The following table sets forth for the periods indicated the high and low trades for our common stock.

|                | Fiscal year |         |         |         |
|----------------|-------------|---------|---------|---------|
|                | 2018        |         | 2017    |         |
|                | High        | Low     | High    | Low     |
| First quarter  | \$91.29     | \$81.90 | \$74.70 | \$56.61 |
| Second quarter | \$99.26     | \$84.37 | \$81.92 | \$69.09 |
| Third quarter  | \$102.17    | \$83.89 | \$82.59 | \$71.35 |
| Fourth quarter | \$97.62     | \$87.56 | \$85.97 | \$74.81 |

Cash dividends per share of common stock paid during the quarter are reflected in the following table. The dividends were declared during the quarter preceding their payment.

|                | Fiscal year |        |
|----------------|-------------|--------|
|                | 2018        | 2017   |
| First quarter  | \$0.22      | \$0.20 |
| Second quarter | \$0.25      | \$0.22 |
| Third quarter  | \$0.25      | \$0.22 |
| Fourth quarter | \$0.30      | \$0.22 |

On August 22, 2018, our Board of Directors declared a quarterly cash dividend of \$0.30 per share of common stock, which was paid on October 15, 2018.

See Note 21 of the Notes to Consolidated Financial Statements of this Form 10-K for information regarding our intentions for paying cash dividends and the related capital restrictions.

Information related to our compensation plans under which equity securities are authorized for issuance is presented in Part III, Item 12 of this Form 10-K.

We did not have any sales of unregistered securities for the year ended September 30, 2018.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

We purchase our own stock from time to time in conjunction with a number of activities, each of which is described in the following paragraphs. The following table presents information on our purchases of our own stock, on a monthly basis, for the twelve month period ended September 30, 2018.

|  | Total<br>number<br>of<br>shares<br>purchased | Average<br>price<br>per<br>share | Number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans or<br>programs | Approximate<br>dollar value<br>(in<br>thousands)<br>at each<br>month-end,<br>of securities<br>that may yet<br>be purchased<br>under the<br>plans or<br>programs |
|--|--|----------------------------------|---|---|
| October 1, 2017 – October 31, 2017     | 8,493  | \$ 85.25                         | —   | \$ 135,671  |
| November 1, 2017 – November 30, 2017   | 18,539                                       | \$ 85.32                         | —   | \$ 135,671  |
| December 1, 2017 – December 31, 2017   | 205,504                                      | \$ 87.32                         | —   | \$ 135,671  |
| First quarter                          | 232,536                                      | \$ 87.08                         | —   |   |
| January 1, 2018 – January 31, 2018     | 18,887                                       | \$ 91.47                         | —   | \$ 135,671  |
| February 1, 2018 – February 28, 2018   | 5,708  | \$ 91.85                         | —   | \$ 135,671  |
| March 1, 2018 – March 31, 2018         | 861  | \$ 97.04                         | —   | \$ 135,671  |
| Second quarter                         | 25,456                                       | \$ 91.74                         | —   |   |
| April 1, 2018 – April 30, 2018         | 1,966  | \$ 87.44                         | —   | \$ 135,671  |
| May 1, 2018 – May 31, 2018             | 9,035  | \$ 95.11                         | —   | \$ 250,000  |
| June 1, 2018 – June 30, 2018           | 1,750  | \$ 97.60                         | —   | \$ 250,000  |
| Third quarter                          | 12,751                                       | \$ 94.27                         | —   |   |
| July 1, 2018 – July 31, 2018           | 344  | \$ 96.56                         | —   | \$ 250,000  |
| August 1, 2018 – August 31, 2018       | 419,692                                      | \$ 90.63                         | 401,406   | \$ 213,635  |
| September 1, 2018 – September 30, 2018 | 1,218  | \$ 92.77                         | —   | \$ 213,635  |
| Fourth quarter                         | 421,254                                      | \$ 90.64                         | 401,406   |   |
| Fiscal year total                      | 691,997                                      | \$ 89.55                         | 401,406   |   |

On May 22, 2018, we announced an increase to \$250 million in the amount authorized by our Board of Directors to be used, at the discretion of the Board’s Securities Repurchase Committee, for repurchases of our common stock and outstanding senior notes, subject to market conditions and other factors. During August 2018, we repurchased 401 thousand shares of our common stock under this authorization at a weighted-average price of \$90.59, for total consideration of \$36 million. Between October 1, 2018 and November 19, 2018, we utilized the remaining \$214 million under our Board authorization to repurchase 2.77 million shares of our common stock at a weighted-average price of \$77.25.

For the year ended September 30, 2018, share purchases pursuant to the Restricted Stock Trust Fund, which was established to acquire our common stock in the open market and used to settle restricted stock units (“RSUs”) granted as a retention vehicle for certain employees of our wholly-owned Canadian subsidiaries, totaled approximated 77 thousand shares for aggregate consideration of \$7 million. For more information on this trust fund, see Note 2 and

Note 10 of the Notes to Consolidated Financial Statements of this Form 10-K. These activities do not utilize the repurchase authority presented in the preceding table.

We also repurchase shares when employees surrender shares as payment for option exercises or withholding taxes. Of the total for the year ended September 30, 2018, shares surrendered to us by employees for such purposes approximated 214 thousand shares, for a total consideration of \$19 million. These activities do not utilize the repurchase authority presented in the preceding table.

## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## ITEM 6. SELECTED FINANCIAL DATA

| in thousands, except per share amounts                                     | Year ended September 30, |              |              |              |              |
|--|--------------------------|--------------|--------------|--------------|--------------|
|  | 2018                     | 2017         | 2016         | 2015         | 2014         |
| <b>Operating results:</b>  |                          |              |              |              |              |
| Net revenues   | \$7,274,318              | \$6,371,097  | \$5,405,064  | \$5,203,606  | \$4,861,924  |
| Net income attributable to Raymond James Financial, Inc.                   | \$856,695                | \$636,235    | \$529,350    | \$502,140    | \$480,248    |
| Earnings per common share - basic  | \$5.89                   | \$4.43       | \$3.72       | \$3.51       | \$3.41       |
| Earnings per common share - diluted  | \$5.75                   | \$4.33       | \$3.65       | \$3.43       | \$3.32       |
| Weighted-average common shares outstanding - basic                         | 145,271                  | 143,275      | 141,773      | 142,548      | 139,935      |
| Weighted-average common and common equivalent shares outstanding - diluted | 148,838                  | 146,647      | 144,513      | 145,939      | 143,589      |
| Dividends per common share - declared                                      | \$1.10                   | \$0.88       | \$0.80       | \$0.72       | \$0.64       |
| <b>Financial condition:</b>  |                          |              |              |              |              |
| Total assets   | \$37,412,924             | \$34,883,456 | \$31,486,976 | \$26,325,850 | \$23,135,343 |
| Senior notes payable maturing within twelve months                         | \$—                      | \$—          | \$—          | \$250,000    | \$—          |
| <b>Long-term obligations:</b>  |                          |              |              |              |              |
| Non-current portion of other borrowings                                    | \$893,837                | \$898,967    | \$604,080    | \$583,740    | \$537,932    |
| Non-current portion of senior notes payable                                | \$1,550,000              | \$1,550,000  | \$1,700,000  | \$900,000    | \$1,150,000  |
| Total long-term debt   | \$2,443,837              | \$2,448,967  | \$2,304,080  | \$1,483,740  | \$1,687,932  |
| Total equity attributable to Raymond James Financial, Inc.                 | \$6,368,461              | \$5,581,713  | \$4,916,545  | \$4,524,481  | \$4,143,686  |
| Shares outstanding   | 145,642                  | 144,097      | 141,545      | 142,751      | 140,836      |
| Book value per share   | \$43.73                  | \$38.74      | \$34.73      | \$31.69      | \$29.42      |

Senior notes maturing within twelve months and the non-current portion of senior notes payable excludes the impact of debt issuance costs.



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

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

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of our operations and financial condition. This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and accompanying notes to consolidated financial statements. Where "NM" is used in various percentage change computations, the computed percentage change has been determined to be not meaningful.

Executive overview

We operate as a financial holding company and bank holding company. Results in the businesses in which we operate are highly correlated to general economic conditions and, more specifically, to the direction of the U.S. equity and fixed income markets, market volatility, corporate and mortgage lending markets and commercial and residential credit trends. Overall market conditions, interest rates, economic, political and regulatory trends, and industry competition are among the factors which could affect us and which are unpredictable and beyond our control. These factors affect the financial decisions made by market participants who include investors, borrowers, and competitors, impacting their level of participation in the financial markets. These factors also impact the level of investment banking activity as well as trading profits and asset valuations, which ultimately affect our business results.

Year ended September 30, 2018 compared with the year ended September 30, 2017

We achieved net revenues of \$7.27 billion, an increase of \$903 million, or 14%. Pre-tax income of \$1.31 billion, increased \$385 million, or 42%. Our net income of \$857 million increased \$220 million, or 35%, and our earnings per diluted share were \$5.75, a 33% increase.

During the year ended September 30, 2018, earnings were negatively affected by \$105 million due to the impact of the Tax Cuts and Jobs Act ("Tax Act"), primarily related to the remeasurement of U.S. deferred tax assets at a lower enacted federal corporate tax rate. Excluding the impact of the Tax Act and \$4 million of acquisition-related expenses, adjusted net income was \$965 million<sup>(1)</sup>, a 26% increase compared with adjusted net income of \$768 million<sup>(1)</sup> in the prior year, which excluded expenses related to the Jay Peak matter, losses on the extinguishment of certain of our senior notes, and acquisition-related expenses. Adjusted earnings per diluted share were \$6.47<sup>(1)</sup>, a 24% increase compared with adjusted earnings per diluted share of \$5.23<sup>(1)</sup> in the prior year.

The increase in net revenues reflected significant growth in client assets, net interest income and account and service fees earned on balances in our RJBDP, and strong investment banking revenues. Total client assets under administration reached \$790.4 billion at September 30, 2018, a 14% increase, primarily attributable to strong financial advisor recruiting and retention, as well as equity market appreciation. Partially offsetting the aforementioned revenue increases, institutional equity and fixed income commissions declined compared with the prior year, reflecting market-driven challenges.

Non-interest expenses increased \$526 million, or 10%. The increase primarily resulted from increased compensation, commissions and benefits expenses associated with the increase in net revenues, as well as increased staffing levels required to support our continued growth and regulatory compliance requirements. Communications and information processing expenses also increased compared with the prior year as a result of our continued investment in technology infrastructure to support our growth. Offsetting these increases was a decline in legal expenses, as the settlement of the Jay Peak matter had a \$130 million impact on the prior year, and a decline related to our prior year loss on extinguishment of certain of our senior notes.

Our effective tax rate was 34.8% for fiscal 2018, reflecting the impact of the Tax Act of \$105 million, partially offset by a lower blended federal corporate statutory tax rate of 24.5%. Excluding the impact of the Tax Act, our adjusted effective tax rate was 26.7% <sup>(1)</sup>. We estimate our effective tax rate to be approximately 24%-25% for fiscal year 2019, reflecting the lower federal corporate statutory tax rate of 21% for the full year. Our future effective tax rate may be impacted positively or negatively by non-taxable items (such as the gains or losses earned on our company-owned life insurance policies and tax-exempt interest), non-deductible expenses (such as meals and entertainment and certain executive compensation) and vesting and exercises of equity compensation awards. See Note 16 of the Notes to Consolidated Financial Statements of this Form 10-K for further information on the Tax Act.

“Adjusted net income” and “adjusted earnings per diluted share” are each non-GAAP financial measures. Please see the (1) “reconciliation of GAAP measures to non-GAAP measures” in this Item 2, for a reconciliation of our non-GAAP measures to the most directly comparable GAAP measures, and for other important disclosures.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

A summary of our financial results by segment as compared to the prior year is as follows:

Our PCG segment generated net revenues of \$5.09 billion, a 15% increase, and pre-tax income of \$576 million, an increase of 54% over the prior year, which was negatively impacted by \$130 million of legal expenses related to the Jay Peak matter. The increase in net revenues was primarily attributable to an increase in securities commissions and fees, driven by increased fee-based assets resulting from higher equity markets and continued strong financial advisor recruiting and retention. The segment also benefited from an increase in account and service fees related to client cash balances in our RJBDP and higher net interest income. Non-interest expenses increased \$468 million, or 12%, primarily resulting from increases in compensation, commissions and benefits expenses and communications and information processing expenses, offset by a decrease in the aforementioned legal expenses.

Our Capital Markets segment generated net revenues of \$964 million, a 5% decrease over the prior year, and pre-tax income declined 36% to \$91 million. The decrease in net revenues was primarily due to market-driven challenges and low levels of client activity, which led to decreases in institutional fixed income and equity commissions and net trading profits. Investment banking revenues increased due to stronger merger & acquisition activity, partially offset by lower equity underwriting revenues. Non-interest expenses decreased slightly compared with the prior year.

Our Asset Management segment generated a 34% increase in net revenues to \$654 million, and pre-tax income increased 37% to \$235 million. The increase in net revenues primarily reflected increases in advisory fees from managed programs and, to a lesser degree, non-discretionary asset-based administrative fees. Financial assets under management increased 46% over the period year, aided by the acquisition of Scout Investments, Inc. (the "Scout Group"), which added \$27 billion of assets under management in November 2017. Non-interest expenses increased \$100 million, or 32%, primarily resulting from increased expenses related to the Scout Group acquisition and increased investment sub-advisory fees.

RJ Bank generated a 23% increase in net revenues to \$727 million, while pre-tax income increased 20% to \$492 million. The increase in net revenues resulted primarily from an increase in net interest income due to growth in interest-earning assets and an increase in net interest margin. Non-interest expenses increased \$52 million, or 28%, primarily reflecting higher affiliate deposit fees paid to PCG due to an increase in client accounts and an increase in compensation and benefits expenses.

Our Other segment reflected a pre-tax loss that was \$87 million, a decline of 51% from the prior year, primarily due to a decrease in net interest expense, losses on the extinguishment of certain of our senior notes in the prior year, and lower acquisition-related expenses. The decline in net interest expense reflected a decrease in the outstanding balance and average interest rate of our senior notes payable, as well as an increase in interest income related to the increased interest rates earned on higher corporate cash balances.

Year ended September 30, 2017 compared with the year ended September 30, 2016

We achieved net revenues of \$6.37 billion, a \$966 million, or 18% increase. Our pre-tax income amounted to \$925 million, an increase of \$125 million, or 16%. Our net income of \$636 million increased \$107 million, or 20%, and our earnings per diluted share were \$4.33, a 19% increase.

During the year ended September 30, 2017, earnings were impacted negatively by the Jay Peak settlement, losses on the early extinguishment of certain of our senior notes and acquisition-related expenses. After excluding the impact of these expenses, which totaled \$194 million, our adjusted net income was \$768 million,<sup>(1)</sup> an increase of 35% compared with adjusted net income in the prior year. Adjusted earnings per diluted share were \$5.23,<sup>(1)</sup> a 33%

increase compared with adjusted earnings per diluted share in the prior year.

Net revenues increased in each of our four operating segments, including significant growth in PCG and Asset Management segments, which benefited from growth in client assets in fee-based accounts, and significant growth in RJ Bank due to an increase in average interest-earning assets and an increase in net interest margin. Investment banking revenues in our Capital Markets segment were strong and were significantly higher than fiscal year 2016; however institutional sales commissions declined reflecting the low levels of market volatility. Total client assets under administration reached \$692.9 billion at September 30, 2017, a 15% increase, primarily attributable to strong financial advisor recruiting and retention results and equity market appreciation.

“Adjusted net income” and “adjusted earnings per diluted share” are each non-GAAP financial measures. Please see the (1) “reconciliation of GAAP measures to non-GAAP measures” in this Item 2, for a reconciliation of our non-GAAP measures to the most directly comparable GAAP measures, and for other important disclosures.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Non-interest expenses increased \$850 million, or 19%. The increase primarily resulted from increased compensation, commissions and benefits expenses, primarily associated with increased revenues and income, as well as increased staffing levels required to support our continued growth, and increased regulatory and compliance requirements. We also had losses on the early extinguishment of certain senior notes and increased legal expenses during the year for the Jay Peak settlement.

Our effective tax rate was 31.2% in the current year, down from the 33.9% for the prior year. The decrease in our effective tax rate compared to the prior year was primarily due to the favorable impact of the adoption of new stock compensation accounting guidance which had a favorable impact on our effective tax rate of 2.7% and our provision for taxes of \$25 million (see Note 16 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information). Also contributing to the decrease was a favorable impact of 1.7% due to the increase in the amount of nontaxable gains arising from the value of our company-owned life insurance policies as a result of an increase in equity market values, compared to a 1.1% favorable impact in the prior year.

A summary of our financial results by segment as compared to the prior year is as follows:

Our Private Client Group segment generated net revenues of \$4.42 billion, a 22% increase, while pre-tax income increased 10% to \$373 million. The increase in net revenues was primarily attributable to an increase in securities commissions and fees, driven by strong recruiting results, the acquisitions of Alex. Brown and 3Macs in late fiscal 2016 and a stronger market environment compared to the prior year. The segment also benefited from the impact of higher short-term interest rates, resulting in increases in fees related to our RJBDP and interest income. Non-interest expenses increased \$773 million, or 24%, primarily resulting from an increase in sales commission expense, increased legal expenses related to the Jay Peak settlement and increased administrative & incentive compensation and benefits expense.

The Capital Markets segment generated net revenues of \$1.01 billion, a 1% increase, while pre-tax income also increased 1% to \$141 million. The increase in net revenues was primarily due to an increase in merger & acquisition and advisory fee revenues and equity underwriting fees, partially offset by a decline in institutional sales commissions and trading profits, reflecting lower levels of volatility, and a decline in tax credit funds syndication revenues resulting from uncertainty over corporate tax reform. Non-interest expenses increased \$16 million, or 2%, primarily resulting from an increase in incentive compensation and benefits expense largely related to improved investment banking results.

Our Asset Management segment benefited from increased fee-based client assets, generating a 21% increase in net revenues to \$488 million, while pre-tax income increased 30% to \$172 million. The increase in net revenues primarily reflected increases in advisory fee revenues from managed programs and in non-discretionary asset-based administration fee revenues as financial assets under management in managed programs and assets held in non-discretionary asset-based programs increased 25% and 32%, respectively over the prior year level. Non-interest expenses increased \$42 million, or 16%, primarily resulting from increased investment sub-advisory fees and growth-related increases in administrative & incentive compensation and benefits expense.

RJ Bank generated a 20% increase in net revenues to \$593 million, while pre-tax income increased 21% to \$409 million. The increase in pre-tax income resulted primarily from an increase in net interest income and a decrease in the provision for loan losses, partially offset by higher affiliate deposit fees paid to the Private Client Group due to an increase in client account balances. Net interest income increased due to both growth in average interest-earning assets and an increase in the net interest margin which benefited from the impact of higher short-term interest rates.

Activities in our Other segment generated a pre-tax loss that was \$21 million, or 14% more than the prior year, primarily due to the losses on the early extinguishment of certain senior notes payable, combined with higher interest expense related to a higher average balance of our senior notes payable for the fiscal year. Total revenues in the segment increased \$19 million, or 41%, primarily due to higher net valuation gains from our private equity portfolio and an increase in interest income due to increased short-term interest rates and higher corporate cash balances.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Segments

The following table presents our consolidated and segment net revenues and pre-tax income/(loss), the latter excluding noncontrolling interests, for the years indicated.

|                                  | Year ended September 30, |             |             | % change |          |
|----------------------------------|--------------------------|-------------|-------------|----------|----------|
|                                  | 2018                     | 2017        | 2016        | 2018     | 2017     |
| \$ in thousands                  |                          |             |             | vs. 2017 | vs. 2016 |
| <b>Total company</b>             |                          |             |             |          |          |
| Net revenues                     | \$7,274,318              | \$6,371,097 | \$5,405,064 | 14 %     | 18 %     |
| Pre-tax income                   | 1,310,655                | 925,346     | 800,643     | 42 %     | 16 %     |
| <b>Private Client Group</b>      |                          |             |             |          |          |
| Net revenues                     | 5,093,030                | 4,421,633   | 3,616,479   | 15 %     | 22 %     |
| Pre-tax income                   | 576,094                  | 372,950     | 340,564     | 54 %     | 10 %     |
| <b>Capital Markets</b>           |                          |             |             |          |          |
| Net revenues                     | 963,773                  | 1,013,683   | 1,001,716   | (5)%     | 1 %      |
| Pre-tax income                   | 90,647                   | 141,236     | 139,173     | (36)%    | 1 %      |
| <b>Asset Management</b>          |                          |             |             |          |          |
| Net revenues                     | 654,377                  | 487,658     | 404,349     | 34 %     | 21 %     |
| Pre-tax income                   | 235,336                  | 171,736     | 132,158     | 37 %     | 30 %     |
| <b>RJ Bank</b>                   |                          |             |             |          |          |
| Net revenues                     | 726,675                  | 592,670     | 493,966     | 23 %     | 20 %     |
| Pre-tax income                   | 491,779                  | 409,303     | 337,296     | 20 %     | 21 %     |
| <b>Other</b>                     |                          |             |             |          |          |
| Net revenues                     | (15,156 )                | (29,870 )   | (31,692 )   | 49 %     | 6 %      |
| Pre-tax loss                     | (83,201 )                | (169,879 )  | (148,548 )  | 51 %     | (14)%    |
| <b>Intersegment eliminations</b> |                          |             |             |          |          |
| Net revenues                     | (148,381 )               | (114,677 )  | (79,754 )   |          |          |



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Reconciliation of GAAP measures to non-GAAP measures

We utilize certain non-GAAP measures to enhance the understanding of our financial results and related measures. We believe that the non-GAAP measures provide useful information by excluding certain material items that may not be indicative of our core operating results. We believe that these non-GAAP measures allow for better evaluation of the operating performance of the business and facilitate a meaningful comparison of our results in the current year to those in prior and future years. These non-GAAP measures should be considered in addition to, not as a substitute for, measures of financial performance prepared in accordance with GAAP. In addition, our non-GAAP measures may not be comparable to similarly-titled non-GAAP measures of other companies. The following table provides a reconciliation of GAAP measures to non-GAAP measures for the periods which include non-GAAP adjustments.

|   | Year ended September 30, |           |           |
|---|--------------------------|-----------|-----------|
| \$ in thousands, except per share amounts | 2018                     | 2017      | 2016      |
| Net Income                                | \$856,695                | \$636,235 | \$529,350 |
| Non-GAAP adjustments:                     |                          |           |           |
| Acquisition-related expenses              | 3,927                    | 17,995    | 40,706    |
| Losses on extinguishment of debt          | —                        | 45,746    | —         |
| Jay Peak matter                           | —                        | 130,000   | 20,000    |
| Sub-total pre-tax non-GAAP adjustments    | 3,927                    | 193,741   | 60,706    |
| Tax effect of non-GAAP adjustments        | (1,100 )                 | (61,869 ) | (20,570 ) |
| Impact of the Tax Act                     | 105,254                  | —         | —         |
| Total non-GAAP adjustments, net of tax    | 108,081                  | 131,872   | 40,136    |
| Adjusted net income                       | \$964,776                | \$768,107 | \$569,486 |
| Earnings per common share:                |                          |           |           |
| Basic                                     | \$5.89                   | \$4.43    | \$3.72    |
| Diluted                                   | \$5.75                   | \$4.33    | \$3.65    |
| Adjusted basic                            | \$6.63                   | \$5.35    | \$4.01    |
| Adjusted diluted                          | \$6.47                   | \$5.23    | \$3.93    |

## Effective tax rate:

|  | Pre-tax income including noncontrolling interests | Provision for income taxes | Effective tax rate |
|--|---|----------------------------|--------------------|
| For the twelve months ended September 30, 2018 (\$ in thousands) | \$ 1,304,877                                      | \$453,960                  | 34.8 %             |
| Less: impact of the Tax Act                                      |   | 105,254                    |                    |
| As adjusted for the impact of the Tax Act                        |   | \$348,706                  | 26.7 %             |

Net income in the preceding table excludes noncontrolling interests.

For more information on acquisition-related expenses, see Note 3 of the Notes to Consolidated Financial Statements of this Form 10-K.

See Note 16 of the Notes to Consolidated Financial Statements of this Form 10-K for more information related to the impact of the Tax Act.



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Net interest analysis

The Federal Reserve Bank increased its benchmark short-term interest rate four times in fiscal 2018 in 25 basis point increments, compared with three 25 basis point increases in fiscal 2017 and one 25 basis point increase in fiscal 2016. These increases in short-term interest rates have had a significant impact on our overall financial performance, as we have certain assets and liabilities, primarily held in our PCG and RJ Bank segments, which are sensitive to changes in interest rates. Given the relationship of our interest-sensitive assets to liabilities held in each of these segments, increases in short-term interest rates generally result in an overall increase in our net earnings, although the magnitude of the impact to our net interest margin depends upon the yields on interest-earning assets relative to the cost of interest-bearing liabilities. Conversely, any decreases in short-term interest rates and/or increases in the deposit rates paid to clients would likely have a negative impact on our earnings.

Refer to the discussion of the specific components of our net interest income within the “Management’s Discussion and Analysis of Financial Condition - Results of Operations” for our RJ Bank, PCG and Other segments.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

The following table presents our consolidated average balance, interest income and expense and the related yield and rates. Average balances are calculated on a daily basis, with the exception of Trading instruments, Loans to financial advisors, net and Corporate cash and all other, which are calculated based on the average of the end-of-month balances for each month within the period.

| \$ in thousands                         | Year ended September 30, |             | 2017       |              | 2016      |            | Interest inc./exp. | Average yield/cost |        |
|---|--------------------------|-------------|------------|--------------|-----------|------------|--------------------|--------------------|--------|
|   | 2018                     | 2018        | Average    | Average      | Average   | Average    |                    |                    |        |
|   | balance                  | inc./exp.   | yield/cost | balance      | inc./exp. | yield/cost | balance            | inc./exp.          |        |
| Interest-earning assets:                |                          |             |            |              |           |            |                    |                    |        |
| Cash segregated pursuant to regulations | \$2,587,759              | \$52,561    | 2.03 %     | \$3,250,854  | \$37,270  | 1.15 %     | 3,565,252          | 22,287             | 0.63 % |
| Securities loaned                       | 381,422                  | 14,548      | 3.81 %     | 456,573      | 14,049    | 3.08 %     | 577,002            | 8,777              | 1.52 % |
| Trading instruments                     | 694,715                  | 23,016      | 3.31 %     | 655,302      | 21,068    | 3.22 %     | 707,321            | 19,362             | 2.74 % |
| Available-for-sale securities           | 2,530,988                | 52,420      | 2.07 %     | 1,588,484    | 27,946    | 1.76 %     | 561,925            | 7,596              | 1.35 % |
| Margin loans                            | 2,586,882                | 107,201     | 4.14 %     | 2,403,451    | 85,699    | 3.57 %     | 1,811,845          | 68,712             | 3.79 % |
| Bank loans, net:                        |                          |             |            |              |           |            |                    |                    |        |
| Loans held for investment:              |                          |             |            |              |           |            |                    |                    |        |
| C&I loans                               | 7,618,949                | 326,042     | 4.22 %     | 7,340,052    | 281,274   | 3.78 %     | 7,171,402          | 271,476            | 3.73 % |
| CRE construction loans                  | 165,780                  | 8,547       | 5.08 %     | 129,073      | 6,184     | 4.73 %     | 169,101            | 8,462              | 4.92 % |
| CRE loans                               | 3,231,369                | 132,898     | 4.06 %     | 2,831,870    | 100,563   | 3.50 %     | 2,297,224          | 70,048             | 3.00 % |
| Tax-exempt loans                        | 1,146,493                | 29,567      | 2.58 %     | 891,922      | 23,057    | 2.59 %     | 617,701            | 16,707             | 2.70 % |
| Residential mortgage loans              | 3,447,710                | 108,825     | 3.16 %     | 2,803,464    | 83,537    | 2.94 %     | 2,217,789          | 64,607             | 2.87 % |
| SBL                                     | 2,689,612                | 111,403     | 4.09 %     | 2,123,189    | 72,400    | 3.36 %     | 1,713,243          | 51,515             | 2.96 % |
| Loans held for sale                     | 125,970                  | 5,057       | 4.01 %     | 159,384      | 5,156     | 3.34 %     | 150,305            | 4,551              | 3.07 % |
| Total bank loans, net                   | 18,425,883               | 722,339     | 3.93 %     | 16,278,954   | 572,171   | 3.55 %     | 14,336,765         | 487,366            | 3.42 % |
| Loans to financial advisors, net        | 892,776                  | 15,078      | 1.69 %     | 848,677      | 13,333    | 1.57 %     | 563,548            | 8,207              | 1.46 % |
| Corporate cash and all other            | 3,757,719                | 56,830      | 1.51 %     | 3,450,514    | 30,590    | 0.89 %     | 2,750,688          | 18,090             | 0.66 % |
| Total interest-earning assets           | \$31,858,144             | \$1,043,993 | 3.28 %     | \$28,932,809 | \$802,126 | 2.77 %     | \$24,874,346       | \$640,397          | 2.57 % |
| Interest-bearing liabilities:           |                          |             |            |              |           |            |                    |                    |        |
| Bank deposits:                          |                          |             |            |              |           |            |                    |                    |        |
| Certificates of deposit                 | \$372,052                | \$6,217     | 1.67 %     | \$293,589    | \$4,325   | 1.47 %     | 345,628            | 5,402              | 1.56 % |

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|   |              |           |        |              |           |        |              |           |        |
|---|--------------|-----------|--------|--------------|-----------|--------|--------------|-----------|--------|
| Money market, savings and Negotiable Order of Withdrawal (“NOW”) accounts | 18,473,046   | 59,340    | 0.32 % | 15,566,621   | 12,859    | 0.08 % | 12,640,068   | 4,816     | 0.05 % |
| Securities borrowed   | 157,310      | 7,630     | 4.85 % | 110,416      | 6,690     | 6.06 % | 79,613       | 3,174     | 3.99 % |
| Trading instruments sold but not yet purchased                            | 267,759      | 7,344     | 2.74 % | 289,218      | 6,138     | 2.12 % | 281,501      | 5,035     | 1.79 % |
| Brokerage client payables   | 4,167,919    | 15,367    | 0.37 % | 4,678,445    | 4,884     | 0.10 % | 4,291,632    | 2,084     | 0.05 % |
| Other borrowings  | 914,463      | 22,006    | 2.41 % | 855,638      | 16,559    | 1.94 % | 723,904      | 12,957    | 1.79 % |
| Senior notes payable  | 1,549,163    | 72,708    | 4.69 % | 1,689,172    | 94,665    | 5.60 % | 1,210,148    | 78,533    | 6.49 % |
| Other   | 366,182      | 10,891    | 2.97 % | 267,794      | 7,658     | 2.86 % | 241,454      | 4,055     | 1.68 % |
| Total interest-bearing liabilities  | \$26,267,894 | \$201,503 | 0.77 % | \$23,750,893 | \$153,778 | 0.65 % | \$19,813,948 | \$116,056 | 0.59 % |
| Net interest income   |              | \$842,490 |        |              | \$648,348 |        |              | \$524,341 |        |

Nonaccrual loans are included in the average loan balances in the preceding table. Payment or income received on corporate nonaccrual loans are applied to principal. Income on other nonaccrual loans is recognized on a cash basis.

Fee income on all loans included in interest income for the year ended September 30, 2018, 2017 and 2016, was \$24 million, \$38 million and \$36 million, respectively.

#### Results of Operations – Private Client Group

Through our PCG segment, we provide investment advisory and securities transaction services for which we charge asset-based fees or sales commissions. Such revenues are included in “Securities commissions and fees.” Revenues of this segment are correlated with the level of PCG client assets under administration, including fee-based accounts, as well as the overall U.S. equity markets. In

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

periods where equity markets improve, assets under administration and client activity generally increase, thereby having a favorable impact on net revenues.

We also earn certain servicing fees, such as omnibus and education and marketing support (“EMS”) fees from mutual fund and annuity companies whose products we distribute, and from banks to which we sweep client cash in the RJB DP. Such fees are included in “Account and service fees.” Servicing fees earned by mutual fund and annuity companies are generally based on the level of assets or number of positions in such programs. Fees earned from our RJB DP are generally based on client cash balances in the program, as well as the level of short-term interest rates relative to interest paid to clients on balances in the RJB DP.

Net interest revenue in the PCG segment is generated by interest earnings on margin loans provided to clients and on cash segregated pursuant to regulations, less interest paid on client cash balances. Higher client cash balances generally lead to increased interest income, depending on spreads realized in our client interest program. For more information on client cash balances, see our previous discussion of interest-earning assets and interest-bearing liabilities in the Net interest analysis section of this MD&A.

For an overview of our PCG segment operations, refer to the information presented in Item 1 “Business” of this Form 10-K.

## Operating results

| \$ in thousands                                       | Year ended September 30, |             |             | % change      |               |
|---|--------------------------|-------------|-------------|---------------|---------------|
|   | 2018                     | 2017        | 2016        | 2018 vs. 2017 | 2017 vs. 2016 |
| <b>Revenues:</b>                                      |                          |             |             |               |               |
| <b>Securities commissions and fees:</b>               |                          |             |             |               |               |
| Fee-based accounts                                    | \$2,540,336              | \$2,040,839 | \$1,589,124 | 24 %          | 28 %          |
| Mutual funds  | 641,603                  | 646,614     | 631,102     | (1) %         | 2 %           |
| Insurance and annuity products                        | 413,591                  | 385,493     | 377,329     | 7 %           | 2 %           |
| Equity products                                       | 325,514                  | 303,015     | 240,855     | 7 %           | 26 %          |
| Fixed income products                                 | 112,509                  | 118,062     | 95,908      | (5) %         | 23 %          |
| New issue sales credits                               | 47,200                   | 72,281      | 44,088      | (35) %        | 64 %          |
| Subtotal securities commissions and fees              | 4,080,753                | 3,566,304   | 2,978,406   | 14 %          | 20 %          |
| Interest income                                       | 193,105                  | 152,711     | 107,281     | 26 %          | 42 %          |
| <b>Account and service fees:</b>                      |                          |             |             |               |               |
| Mutual fund and annuity service fees                  | 331,543                  | 290,661     | 255,405     | 14 %          | 14 %          |
| RJB DP fees - third-party banks                       | 262,424                  | 202,049     | 92,315      | 30 %          | 119 %         |
| Affiliate deposit account servicing fees from RJ Bank | 91,720                   | 67,981      | 43,145      | 35 %          | 58 %          |
| Client account and service fees                       | 95,794                   | 98,500      | 95,010      | (3) %         | 4 %           |
| Client transaction fees and other                     | 22,658                   | 25,103      | 23,156      | (10) %        | 8 %           |
| Subtotal account and service fees                     | 804,139                  | 684,294     | 509,031     | 18 %          | 34 %          |
| Other   | 42,834                   | 34,279      | 32,000      | 25 %          | 7 %           |
| Total revenues  | 5,120,831                | 4,437,588   | 3,626,718   | 15 %          | 22 %          |
| Interest expense                                      | (27,801)                 | (15,955)    | (10,239)    | 74 %          | 56 %          |
| Net revenues  | 5,093,030                | 4,421,633   | 3,616,479   | 15 %          | 22 %          |
| <b>Non-interest expenses:</b>                         |                          |             |             |               |               |
| Sales commissions                                     | 3,050,539                | 2,653,287   | 2,193,099   | 15 %          | 21 %          |

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|  |           |           |           |       |   |     |   |
|--|-----------|-----------|-----------|-------|---|-----|---|
| Admin & incentive compensation and benefit costs | 835,662   | 713,043   | 595,541   | 17    | % | 20  | % |
| Communications and information processing        | 234,300   | 193,902   | 166,507   | 21    | % | 16  | % |
| Occupancy and equipment costs                    | 154,020   | 146,394   | 125,555   | 5     | % | 17  | % |
| Business development                             | 115,056   | 98,138    | 88,535    | 17    | % | 11  | % |
| Jay Peak matter                                  | —         | 130,000   | 20,000    | (100) | % | 550 | % |
| Other  | 127,359   | 113,919   | 86,678    | 12    | % | 31  | % |
| Total non-interest expenses                      | 4,516,936 | 4,048,683 | 3,275,915 | 12    | % | 24  | % |
| Pre-tax income                                   | \$576,094 | \$372,950 | \$340,564 | 54    | % | 10  | % |

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Selected key metrics

| Client asset balances:           | As of September 30, |         |         | % change      |               |
|----------------------------------|---------------------|---------|---------|---------------|---------------|
|                                  | 2018                | 2017    | 2016    | 2018 vs. 2017 | 2017 vs. 2016 |
| \$ in billions                   |                     |         |         |               |               |
| PCG assets under administration  | \$755.7             | \$659.5 | \$574.1 | 15%           | 15%           |
| PCG assets in fee-based accounts | \$366.3             | \$294.5 | \$231.0 | 24%           | 27%           |

PCG assets under administration increased 15% in each of the fiscal years ended September 30, 2018 and 2017, resulting from equity market appreciation and net client inflows. Net client inflows in each year were primarily attributable to strong financial advisor recruiting and retention. PCG assets in fee-based accounts continued to increase as a percentage of overall PCG assets under administration, representing 48% at September 30, 2018, compared to 45% at September 30, 2017 and 40% at September 30, 2016, due in part to clients moving to fee-based alternatives from traditional transaction-based accounts in response to the regulatory environment.

| Financial advisors:     | September 30,        |                     |       |
|-------------------------|----------------------|---------------------|-------|
|                         | 2018                 | 2017 <sup>(2)</sup> | 2016  |
| Employees               | 3,167                | 3,041               | 3,098 |
| Independent contractors | 4,646 <sup>(1)</sup> | 4,305               | 4,048 |
| Total advisors          | 7,813                | 7,346               | 7,146 |

(1) Includes 126 registered individuals who met the requirements to be classified as financial advisors in fiscal year 2018 following our periodic review procedures.

(2) During the year ended September 30, 2017, we refined the criteria to determine our financial advisor population, which resulted in a decrease in our previously reported counts of approximately 100 advisors as of the date of our adoption. The impact of the change in methodology did not have a significant impact on the fiscal 2016 period, and thus we have not revised the number of financial advisors reported in fiscal 2016.

The net increase in financial advisors as of September 30, 2018 compared to September 30, 2017 and September 30, 2016 primarily resulted from strong financial advisor recruiting and high levels of retention throughout fiscal year 2018 and 2017. We believe the increases in financial advisors and assets under administration are a positive indication of potential future revenue growth in this segment.

| Clients' domestic cash sweep balances       | As of              |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | September 30, 2018 | September 30, 2017 | September 30, 2016 |
| \$ in millions                              |                    |                    |                    |
| RJBDP                                       |                    |                    |                    |
| RJ Bank                                     | \$19,446           | \$17,387           | \$13,904           |
| Third-party banks                           | 15,564             | 20,704             | 23,890             |
| Subtotal RJBDP                              | 35,010             | 38,091             | 37,794             |
| Money market funds                          | 3,240              | 1,818              | 2,009              |
| Client Interest Program ("CIP")             | 2,807              | 3,101              | 4,083              |
| Total clients' domestic cash sweep balances | \$41,057           | \$43,010           | \$43,886           |

A significant portion of our clients' cash is included in our RJBDP, a multi-bank sweep program in which clients' cash deposits in their brokerage accounts are swept into interest-bearing deposit accounts at RJ Bank and various



third-party banks. We earn fees from third-party banks which fluctuate based on the amount of cash swept to such banks, as well as changes in short-term interest rates relative to deposit rates paid on client cash balances. Fees from third-party banks are recorded in “Account and service fees” in our Consolidated Statements of Income and Comprehensive Income. PCG also earns fees from RJ Bank for clients’ cash balances swept to RJ Bank. Such fees are included in “Affiliate deposit account servicing fees from RJ Bank” in the “Operating results” table above and are eliminated in consolidation.

Recent short-term interest rate increases by the Fed had a significant impact on fees earned from third-party banks in RJBDP, despite the decline in RJBDP balances at such banks, but have not had as significant of an impact on market deposit rates paid on client cash balances. As a result, RJBDP fees have increased significantly over the prior years. However, we expect market deposit rates to continue to rise with future increases in short-term interest rates. As such, any future increases in short-term interest rates may have less of a positive impact on fees earned from RJBDP depending on the level of deposit rates paid on client cash balances. Conversely,

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Management's Discussion and Analysis

any decreases in short-term interest rates and/or increases in the deposit rates paid to clients would likely have a negative impact on our earnings.

Year ended September 30, 2018 compared with the year ended September 30, 2017

Net revenues of \$5.09 billion increased \$671 million, or 15%. The portion of segment net revenues that we consider to be recurring was 82% for fiscal 2018, an increase from 79% for fiscal 2017. Recurring revenues include asset-based fees, trailing commissions from mutual funds and variable annuities/insurance products, mutual fund and annuity service fees, fees earned on funds in our RJBDF and interest.

Pre-tax income of \$576 million increased \$203 million, or 54%, compared to the prior year, which included a \$130 million legal charge related to the Jay Peak matter.

Securities commissions and fees increased \$514 million, or 14%. The increase in securities commissions and fees revenue was primarily driven by an increase in client assets, resulting from higher equity markets and strong financial advisor recruiting and retention. Commissions earned from insurance and annuity products and equity products also increased during the year. Offsetting these increases, new issue sales credits declined compared with fiscal 2017 due to lower equity underwriting activity.

Total account and service fees increased \$120 million, or 18%, primarily due to higher RJBDF fees resulting from an increase in short-term interest rates over the prior year. Mutual fund and annuity service fees also increased, reflecting higher EMS fees and mutual fund omnibus fees. The increase in EMS fees was primarily due to increased assets in the program, while the increase in omnibus fees was a result of both an increase in assets and the number of positions invested in fund families on the omnibus platform.

Net interest income increased \$29 million, or 21%, driven by an increase in interest income from margin loans, due to an increase in short-term interest rates as well as higher average balances. To a lesser extent, there was also an increase in interest income from segregated cash due to an increase in short-term interest rates, which more than offset the decrease in average balances. Offsetting the increase in interest income, interest expense also increased, primarily due to the impact of higher interest rates paid on client cash balances, partially offset by lower average client cash balances.

Non-interest expenses increased \$468 million, or 12%, primarily due to an increase in sales commissions expense, which increased \$397 million, or 15%, in line with the increase in securities commissions and fees. Administrative and incentive compensation and benefit costs increased \$123 million, or 17%, primarily due to increased staffing levels to support our continued growth and regulatory compliance requirements. Communications and information processing expense increased \$40 million, or 21%, as a result of our continued investment in technology infrastructure to support our growth. Offsetting these increases was a \$130 million decrease in expenses related to the Jay Peak matter, which was settled in fiscal 2017.

Year ended September 30, 2017 compared with the year ended September 30, 2016

Net revenues of \$4.42 billion in fiscal 2017 increased \$805 million, or 22%. The portion of segment net revenues that we consider to be recurring was 79% for fiscal 2017, an increase from 77% for fiscal 2016. Pre-tax income of \$373 million, which was negatively impacted by the Jay Peak settlement, increased \$32 million, or 10%.

Securities commissions and fees in fiscal 2017 increased \$588 million, or 20%, primarily due to strong recruiting results, the acquisitions of Alex. Brown and 3Macs in late fiscal 2016 and a stronger market environment compared to fiscal 2016.

Account and service fees in fiscal 2017 increased \$175 million, or 34%, primarily due to higher RJBDP fees resulting from an increase in short-term interest rates during the year. Mutual fund and annuity service fees also increased, reflecting higher EMS fees and mutual fund omnibus fees. The increase in EMS fees was primarily due to increased assets in the program. The increase in omnibus fees was a result of an increase in the number of positions invested in fund families on the omnibus platform.

Net interest income increased \$40 million, or 41%. Interest income increased as a result of the impact of an increase in short-term interest rates on segregated cash balances and increased client margin balances, largely driven by our September 2016 acquisition of Alex. Brown. The favorable impact of the growth in margin balances was partially offset by a decrease in average client margin rates on the portfolio. Interest expense increased, albeit to a much lesser extent, primarily due to an increase in client cash balances and an increase in the interest rate paid to clients on such balances.

Non-interest expenses in fiscal 2017 increased \$773 million, or 24%. Sales commissions increased \$460 million, or 21%, relatively in line with the increase in securities commissions and fees. Administrative and incentive compensation and benefit costs increased

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## Management's Discussion and Analysis

\$118 million, or 20%, primarily resulting from additional staffing levels, primarily in operations and information technology functions, to support our continued growth and increased regulatory and compliance requirements.

## Results of Operations – Capital Markets

Our Capital Markets segment conducts fixed income and equity institutional sales and trading activities, equity research, investment banking and the syndication and related management of investments that qualify for tax credits. We primarily conduct these activities in the U.S., Canada and Europe.

We earn institutional sales commissions for the sale of both equity and fixed income products, which are driven primarily through trade volume, resulting from a combination of participation in public offerings, general market activity, and by the Capital Markets group's ability to find attractive investment opportunities and promote those opportunities to clients.

This segment also includes trading which involves the purchase of securities from, and the sale of securities to, our clients as well as other dealers who may be purchasing or selling securities for their own account or acting as agent for their clients. Profits and losses related to this trading activity are primarily derived from the spreads between bid and ask prices, as well as market trends for the individual securities during the period we hold them. In our fixed income businesses, we also enter into interest rate swaps and futures contracts to facilitate client transactions or to actively manage risk exposures.

We provide various investment banking services, including public and private equity and debt financing activities, public financing activities, merger and acquisition advisory, and other advisory services. Revenues from investment banking activities are driven principally by our role in the transaction and the number and dollar value of the transactions with which we are involved. For an overview of our Capital Markets segment operations, refer to the information presented in Item 1 "Business" of this Form 10-K.

## Operating results

| \$ in thousands                          | Year ended September 30, |           |           | % change      |               |
|--|--------------------------|-----------|-----------|---------------|---------------|
|  | 2018                     | 2017      | 2016      | 2018 vs. 2017 | 2017 vs. 2016 |
| Revenues:                                |                          |           |           |               |               |
| Securities commissions and fees:         |                          |           |           |               |               |
| Equity                                   | \$202,809                | \$222,942 | \$228,346 | (9)%          | (2)%          |
| Fixed income                             | 221,684                  | 267,749   | 316,144   | (17)%         | (15)%         |
| Subtotal securities commissions and fees | 424,493                  | 490,691   | 544,490   | (13)%         | (10)%         |
| Equity underwriting fees                 | 53,262                   | 72,845    | 54,492    | (27)%         | 34%           |
| Merger & acquisition and advisory fees   | 296,606                  | 228,422   | 148,503   | 30%           | 54%           |
| Fixed income investment banking          | 39,430                   | 43,234    | 41,024    | (9)%          | 5%            |
| Tax credit funds syndication fees        | 51,464                   | 54,098    | 59,424    | (5)%          | (9)%          |
| Subtotal investment banking              | 440,762                  | 398,599   | 303,443   | 11%           | 31%           |
| Investment advisory fees                 | 24,661                   | 21,623    | 29,684    | 14%           | (27)%         |
| Net trading profit                       | 53,412                   | 78,155    | 87,966    | (32)%         | (11)%         |
| Interest income                          | 32,253                   | 27,095    | 24,867    | 19%           | 9%            |
| Other                                    | 16,023                   | 18,072    | 26,701    | (11)%         | (32)%         |
| Total revenues                           | 991,604                  | 1,034,235 | 1,017,151 | (4)%          | 2%            |

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|  |           |           |           |       |       |
|--|-----------|-----------|-----------|-------|-------|
| Interest expense   | (27,831 ) | (20,552 ) | (15,435 ) | 35 %  | 33 %  |
| Net revenues   | 963,773   | 1,013,683 | 1,001,716 | (5 )% | 1 %   |
| Non-interest expenses:   |           |           |           |       |       |
| Compensation, commissions and benefits   | 634,522   | 645,665   | 638,101   | (2 )% | 1 %   |
| Communications and information processing  | 73,448    | 70,140    | 72,305    | 5 %   | (3 )% |
| Occupancy and equipment costs  | 34,226    | 33,920    | 34,250    | 1 %   | (1 )% |
| Business development   | 45,292    | 38,389    | 39,892    | 18 %  | (4 )% |
| Losses and non-interest expenses of real estate partnerships held by consolidated VIEs | 11,802    | 13,663    | 9,788     | (14)% | 40 %  |
| Other  | 85,648    | 84,702    | 76,189    | 1 %   | 11 %  |
| Total non-interest expenses  | 884,938   | 886,479   | 870,525   | —     | 2 %   |
| Income before taxes and including noncontrolling interests                             | 78,835    | 127,204   | 131,191   | (38)% | (3 )% |
| Noncontrolling interests   | (11,812 ) | (14,032 ) | (7,982 )  | (16)% | 76 %  |
| Pre-tax income excluding noncontrolling interests                                      | \$90,647  | \$141,236 | \$139,173 | (36)% | 1 %   |

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Year ended September 30, 2018 compared with the year ended September 30, 2017

Net revenues of \$964 million decreased \$50 million, or 5%. Pre-tax income of \$91 million decreased \$51 million, or 36%.

Total securities commissions and fees decreased \$66 million, or 13%, reflecting decreases in both fixed income and equity institutional commissions. Institutional fixed income commissions continued to reflect challenging market conditions and low levels of client activity due to the flattening yield curve and relatively low interest rate volatility. The decline in equity commissions reflected lower equity underwriting activity, as well as market-driven challenges such as the industry trend toward separate payment for research and execution services and the shift from high-touch execution services to low-touch execution services.

Net trading profits declined \$25 million, or 32%, reflecting the challenging market conditions for fixed income during the current year.

Investment banking revenues increased \$42 million, or 11%, reflecting strong merger & acquisition activity. Merger & acquisition and advisory fees increased \$68 million, or 30%, due to both a higher volume of transactions and higher average fees per transaction, and aided by the expansion of our investment banking business in Europe. This increase was partially offset by lower equity underwriting revenues, which declined \$20 million, or 27%, reflecting lower levels of client activity. Fixed income investment banking also declined compared with the prior year, reflecting the impact of lower public finance activity due to higher interest rates and tax reform.

Non-interest expenses decreased slightly compared with the prior year, as a decline in compensation, commissions and benefits expense was largely offset by an increase in business development expense.

Year ended September 30, 2017 compared with the year ended September 30, 2016

Net revenues in fiscal 2017 of \$1.01 billion increased \$12 million, or 1%, led by higher merger & acquisition and advisory fees and equity underwriting revenues, partially offset by lower institutional sales commissions. Pre-tax income of \$141 million increased \$2 million, or 1%.

Total securities commissions and fees for fiscal 2017 decreased \$54 million, or 10%. Institutional fixed income commissions decreased \$48 million, or 15%, driven by lower client trading volumes, as fixed income was faced with a challenging operating environment characterized by low levels of volatility and a flattening yield curve. Institutional equity sales commissions decreased \$5 million, or 2%, primarily reflecting the impact of low levels of volatility.

Merger & acquisition and advisory fees increased \$80 million, or 54%, primarily due to a stronger volume of both domestic and foreign merger & acquisition activity in fiscal year 2017 compared to low levels in the prior year, as well as higher average fees per transaction. Fiscal year 2017 also benefited from the impact of a full year of revenues related to our June 2016 acquisition of Mummert & Company Corporate Finance GmbH ("Mummert").

Equity underwriting fees increased \$18 million, or 34%, primarily due to the improved equity market conditions compared with a difficult fiscal 2016. The total number of both lead-managed and co-managed underwritings increased significantly over the prior year levels.

Net revenues related to our public finance underwriting and advisory activities remained solid during our 2017 fiscal year and increased slightly compared with fiscal 2016.

Despite the uncertainty related to the outcome of any corporate tax reform initiatives, our tax credit funds reflected good performance during fiscal year 2017. This uncertainty did depress new investment activity amongst syndicators of Low-Income Housing Tax Credit Fund (“LIHTC”) investments toward the end of fiscal year 2017 and, as a result, our tax credit fund syndication fees decreased \$5 million, or 9%, from fiscal year 2016 levels.

Net trading profit decreased \$10 million, or 11%, compared with a strong fiscal 2016, primarily due to lower market volatility.

Non-interest expenses for fiscal 2017 increased \$16 million, or 2%. Compensation, commissions and benefits expenses increased \$8 million, or 1%, primarily resulting from a net increase in incentive compensation as a result of the increase in investment banking net revenues offset by a decrease in compensation related to lower institutional fixed income commission revenues during fiscal year 2017.

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## Management's Discussion and Analysis

## Results of Operations – Asset Management

Our Asset Management segment provides investment advisory and related administrative services to our PCG clients through our asset management services division (“AMS”) and through Raymond James Trust, N.A. (“RJ Trust”). The segment also provides investment advisory and asset management services to individual and institutional investors, including through third-party broker-dealers, through Carillon Tower Advisers and its affiliates (collectively, “Carillon Tower”), which also sponsors a family of mutual funds.

We earn investment advisory fees and related administrative fees based on assets under management in both AMS and Carillon Tower, where decisions are made by in-house or third-party portfolio managers or investment committees on how to invest client assets.

The Asset Management segment also earns administrative fees on certain asset-based programs offered to PCG clients which are not managed by our Asset Management segment, but for which the segment provides administrative support, including trade execution, record-keeping and periodic investor reporting.

Fees are earned based on balances either at the beginning of the quarter, the end of the quarter, or average daily assets.

Asset balances are impacted by both the performance of the relevant market and the new sales (inflows) and redemptions (outflows) of client accounts/funds. Rising equity markets have historically had a positive impact on revenues as existing accounts increase in value, and individuals and institutions may commit incremental funds in rising markets. For an overview of our Asset Management segment operations, refer to the information presented in Item 1 “Business” of this Form 10-K.

## Operating results

| \$ in thousands  | Year ended September 30, |           |           | % change      |               |
|--|--------------------------|-----------|-----------|---------------|---------------|
|  | 2018                     | 2017      | 2016      | 2018 vs. 2017 | 2017 vs. 2016 |
| Revenues:  |                          |           |           |               |               |
| Investment advisory and related administrative fees:         |                          |           |           |               |               |
| Managed programs   | \$454,027                | \$326,405 | \$270,623 | 39 %          | 21 %          |
| Non-discretionary asset-based administration                 | 115,562                  | 91,087    | 74,130    | 27 %          | 23 %          |
| Subtotal investment advisory and related administrative fees | 569,589                  | 417,492   | 344,753   | 36 %          | 21 %          |
| Account and service fees and other                           | 84,829                   | 70,243    | 59,668    | 21 %          | 18 %          |
| Total revenues   | 654,418                  | 487,735   | 404,421   | 34 %          | 21 %          |
| Interest expense   | (41)                     | (77)      | (72)      | (47)%         | 7 %           |
| Net revenues   | 654,377                  | 487,658   | 404,349   | 34 %          | 21 %          |
| Non-interest expenses:                                       |                          |           |           |               |               |
| Compensation and benefits                                    | 169,993                  | 123,119   | 112,998   | 38 %          | 9 %           |
| Communications and information processing                    | 38,495                   | 30,109    | 27,027    | 28 %          | 11 %          |
| Occupancy and equipment costs                                | 7,360                    | 5,046     | 4,423     | 46 %          | 14 %          |
| Business development   | 11,353                   | 9,673     | 9,500     | 17 %          | 2 %           |
| Investment sub-advisory fees                                 | 89,784                   | 75,497    | 56,751    | 19 %          | 33 %          |
| Other  | 93,697                   | 67,509    | 57,911    | 39 %          | 17 %          |
| Total non-interest expenses                                  | 410,682                  | 310,953   | 268,610   | 32 %          | 16 %          |
| Income before taxes and including noncontrolling interests   | 243,695                  | 176,705   | 135,739   | 38 %          | 30 %          |
| Noncontrolling interests                                     | 8,359                    | 4,969     | 3,581     | 68 %          | 39 %          |
| Pre-tax income excluding noncontrolling interests            | \$235,336                | \$171,736 | \$132,158 | 37 %          | 30 %          |

## Selected key metrics



Managed programs - Our investment advisory fees recorded in this segment were earned based on balances either at the beginning of the quarter, end of the quarter or average assets throughout the quarter. For the year ended September 30, 2018, approximately 55% of our fees were determined based on asset balances at the beginning of each quarter, approximately 20% were based on asset balances at the end of each quarter and the remaining 25% were based on average assets throughout each quarter. For the years ended September 30, 2017 and 2016, approximately 70% of our fees were determined based on asset balances at the beginning of each quarter, approximately 15% were based on asset balances at the end of each quarter and the remaining 15% were based on average assets throughout each quarter. As of September 30, 2018, a greater percentage of fees were determined either based on asset balances at the end of the quarter or on average assets throughout the quarter compared to September 30, 2017. This shift in timing is directly attributable to our Scout Group acquisition.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Financial assets under management:

| \$ in millions                                     | September 30, |          |          |
|--|---------------|----------|----------|
|  | 2018          | 2017     | 2016     |
| Asset management services division of RJ&A ("AMS") | \$83,289      | \$69,962 | \$54,349 |
| Carillon Tower                                     | 63,330        | 31,831   | 27,380   |
| Subtotal financial assets under management         | 146,619       | 101,793  | 81,729   |
| Less: Assets managed for affiliated entities       | (5,702 )      | (5,397 ) | (4,744 ) |
| Total financial assets under management            | \$140,917     | \$96,396 | \$76,985 |

In the preceding table, Carillon Tower includes its subsidiaries and affiliates Eagle Asset Management, ClariVest Asset Management, Cougar Global Investments, and the Scout Group.

The following table presents fee-billable financial assets under management (including assets managed for affiliates) by objective at the dates indicated.

| \$ in millions                          | September 30, |           |          |
|---|---------------|-----------|----------|
|   | 2018          | 2017      | 2016     |
| Equity                                  | \$64,742      | \$48,936  | \$41,785 |
| Fixed income                            | 32,435        | 11,814    | 11,858   |
| Balanced                                | 49,442        | 41,043    | 28,086   |
| Total financial assets under management | \$146,619     | \$101,793 | \$81,729 |

## Activity (including activity in assets managed for affiliated entities):

| \$ in millions   | Year ended September 30, |           |                      |
|--|--------------------------|-----------|----------------------|
|  | 2018                     | 2017      | 2016                 |
| Financial assets under management at beginning of year | \$101,793                | \$81,729  | \$69,093             |
| Carillon Tower:  |                          |           |                      |
| Scout Group acquisition                                | 27,087                   | —         | —                    |
| Other - net inflows/(outflows)                         | (63 )                    | 246       | (1,159 )             |
| AMS - net inflows                                      | 9,279                    | 9,666     | 7,486 <sup>(1)</sup> |
| Net market appreciation/(depreciation) in asset values | 8,523                    | 10,152    | 6,309                |
| Financial assets under management at end of year       | \$146,619                | \$101,793 | \$81,729             |

(1)Includes approximately \$2.0 billion of client assets resulting from our acquisition of Alex. Brown.

Non-discretionary asset-based programs - Our assets held in certain non-discretionary asset-based programs for which the Asset Management segment does not exercise discretion but provides administrative support (including those managed for affiliated entities) totaled \$200.1 billion, \$157.0 billion, and \$119.3 billion as of September 30, 2018, 2017 and 2016, respectively. The increase in assets in fiscal year 2018 over the prior year level was primarily due to market appreciation and to clients moving to fee-based accounts from traditional transaction-based accounts partly in response to regulatory changes. The majority of the administrative fees associated with these programs are determined based on balances at the beginning of the quarter.

Year ended September 30, 2018 compared with the year ended September 30, 2017

Net revenues of \$654 million increased \$167 million, or 34%. Pre-tax income of \$235 million increased \$64 million, or 37%.

Total investment advisory and related administrative fee revenues increased \$152 million, or 36%, primarily driven by an increase in financial assets under management. The increase in financial assets under management was primarily a result of the Scout Group acquisition, as well as both net market appreciation and inflows related to financial advisor recruiting. Administrative fees also increased over the prior year due to the aforementioned increase in assets held in non-discretionary asset-based programs.

Account and service fees and other income increased \$15 million, or 21%, primarily reflecting increased shareholder servicing fees as a result of the Scout Group acquisition, as well as increased trust fee revenue due to an 11% increase in assets in RJ Trust.

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Management's Discussion and Analysis

Non-interest expenses increased \$100 million, or 32%, primarily the result of a \$47 million increase in compensation and benefits expense, a \$26 million increase in other expense and a \$14 million increase in investment sub-advisory fees. Compensation and benefits expense increased primarily due to the Scout Group acquisition, in addition to annual salary increases and an increase in personnel over the prior year to support the growth of the business. The increase in other expense was primarily due to certain incremental costs associated with the Scout Group acquisition, including platform fees related to the new funds offered, as well as the amortization of intangible assets arising from the acquisition. The increase in investment sub-advisory fees resulted from increased assets under management in applicable programs.

Year ended September 30, 2017 compared to the year ended September 30, 2016

Net revenues of \$488 million increased \$83 million, or 21%. Pre-tax income of \$172 million increased \$40 million, or 30%.

Total investment advisory and related administrative fee revenues increased \$73 million, or 21%. Investment advisory fee revenues arising from managed programs increased \$56 million, or 21%, and fee revenues on non-discretionary asset-based administration activities increased \$17 million, or 23%, both resulting from the increases in assets held by such programs, including the impact of the Alex. Brown acquisition at the end of our 2016 fiscal year. Financial assets under management and non-discretionary assets were positively impacted by net financial advisor growth, the move to fee based accounts as a result of anticipated regulatory changes and market appreciation.

Account and service fees and other increased \$11 million, or 18%, primarily resulting from RJ Trust which generated increased trust fee revenue arising from the increase in trust assets to \$5.5 billion as of September 30, 2017, as well as increased shareholder servicing fees.

Non-interest expenses increased \$42 million, or 16%, primarily resulting from a \$19 million, or 33%, increase in investment sub-advisory fees and a \$10 million, or 9%, increase in compensation and benefits expense. The increase in investment sub-advisory fees resulted from the increase in assets under management in applicable programs. The increase in compensation and benefits expense resulted primarily from annual salary increases as well as increases in personnel to support the growth of the business. Other expenses increased \$10 million, or 17%, as a result of additional regulatory and compliance costs.

The results presented do not include any acquisition-related expenses associated with acquisition of the Scout Group which closed in November 2017. The acquisition-related expenses incurred in fiscal year 2017 related to this acquisition are reflected in the Other segment. See Note 3 of the Notes to Consolidated Financial Statements of this Form 10-K for further information about this acquisition.

Results of Operations – RJ Bank

RJ Bank provides corporate loans (C&I, CRE and CRE construction), SBL, tax-exempt and residential loans. RJ Bank is active in corporate loan syndications and participations. RJ Bank also provides FDIC-insured deposit accounts to clients of our broker-dealer subsidiaries. RJ Bank generates net interest revenue principally through the interest income earned on loans and an investment portfolio of securities, which is offset by the interest expense it pays on client deposits and on its borrowings. Higher interest-earning asset balances generally lead to increased net interest earnings, depending upon spreads realized on net interest-bearing liabilities. For more information on average interest-earning asset and interest-bearing liability balances, see the following discussion in this MD&A.

For an overview of our RJ Bank segment operations, refer to the information presented in Item 1 “Business” of this Form 10-K.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Operating results

| \$ in thousands                                 | Year ended September 30, |           |           | % change      |               |
|---|--------------------------|-----------|-----------|---------------|---------------|
|   | 2018                     | 2017      | 2016      | 2018 vs. 2017 | 2017 vs. 2016 |
| Revenues:                                       |                          |           |           |               |               |
| Interest income                                 | \$792,970                | \$609,971 | \$501,967 | 30 %          | 22 %          |
| Interest expense                                | (88,609 )                | (35,175 ) | (23,277 ) | 152 %         | 51 %          |
| Net interest income                             | 704,361                  | 574,796   | 478,690   | 23 %          | 20 %          |
| Other   | 22,314                   | 17,874    | 15,276    | 25 %          | 17 %          |
| Net revenues                                    | 726,675                  | 592,670   | 493,966   | 23 %          | 20 %          |
| Non-interest expenses:                          |                          |           |           |               |               |
| Compensation and benefits                       | 40,670                   | 33,991    | 29,742    | 20 %          | 14 %          |
| Communications and information processing       | 9,713                    | 7,946     | 7,090     | 22 %          | 12 %          |
| Loan loss provision                             | 20,481                   | 12,987    | 28,167    | 58 %          | (54) %        |
| FDIC insurance premiums                         | 20,145                   | 16,832    | 15,478    | 20 %          | 9 %           |
| Affiliate deposit account servicing fees to PCG | 91,720                   | 67,981    | 43,145    | 35 %          | 58 %          |
| Other   | 52,167                   | 43,630    | 33,048    | 20 %          | 32 %          |
| Total non-interest expenses                     | 234,896                  | 183,367   | 156,670   | 28 %          | 17 %          |
| Pre-tax income                                  | \$491,779                | \$409,303 | \$337,296 | 20 %          | 21 %          |

## Year ended September 30, 2018 compared with the year ended September 30, 2017

Net revenues of \$727 million increased \$134 million, or 23%, primarily reflecting an increase in net interest income. Pre-tax income of \$492 million increased \$82 million, or 20%.

Net interest income increased \$130 million, or 23%, due to a \$3.19 billion increase in average interest-earning banking assets, as well as an increase in net interest margin. The increase in average interest-earning banking assets was driven by growth in average loans of \$2.15 billion and a \$967 million increase in our average available-for-sale securities portfolio. The net interest margin increased to 3.22% from 3.10%, due to an increase in asset yields, offset by an increase in the total cost of funds. The increase in asset yields primarily resulted from an increase in the loan portfolio yield due to an increase in interest rates. The total cost of funds increased primarily due to an increase in deposit costs, a result of increased interest rates and balances. Corresponding to the increase in average interest-earning banking assets, average interest-bearing banking liabilities increased \$3.00 billion.

The loan loss provision increased by \$7 million, primarily due to higher corporate loan growth, partially offset by lower reserve rates on pass-rated, corporate loans as a result of improved credit characteristics.

Non-interest expenses (excluding the loan loss provision) increased \$44 million, or 26%, including a \$24 million increase in affiliate deposit account servicing fees to PCG due to an increase in client accounts and a \$7 million increase in compensation and benefits expense resulting from compensation increases and staff additions to support the growth of the business.

## Year ended September 30, 2017 compared to the year ended September 30, 2016

Net revenues of \$593 million increased \$99 million, or 20%, primarily reflecting an increase in net interest income. Pre-tax income of \$409 million increased \$72 million, or 21%.

Net interest income increased \$96 million, or 20%, primarily due to a \$2.92 billion increase in average interest-earning banking assets and an increase in net interest margin. The increase in average interest-earning banking assets was driven by a \$1.94 billion increase in average loans and a \$1.03 billion increase in our average available-for-sale securities portfolio. The net interest margin increased to 3.10% from 3.04% due to an increase in the total banking assets yield, partially offset by an increase in RJ Bank's total cost of funds. The increase in the total banking assets yield was primarily due to an increase in the loan portfolio yield resulting from an overall rise in market interest rates. The increase in the total cost of funds primarily resulted from the rise in market interest rates as well as an increase in average FHLB advances. Corresponding to the increase in average interest-earning banking assets, average interest-bearing banking liabilities increased \$2.83 billion.

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The loan loss provision decreased \$15 million, or 54%, due to the change in mix of loan growth during fiscal 2017. Growth was significantly lower in the C&I loan portfolio during the year, which has higher allowance percentages, and was higher in the residential mortgage loans, securities-based loans and tax-exempt loans portfolios, which have lower allowance percentages. This positive impact was partially offset by additional provision during the current year for C&I loans and CRE loans in specific industry sectors.

During August and September 2017, Texas and Florida suffered severe damage from Hurricanes Harvey and Irma. We performed an assessment of the impact to our loan portfolio associated with these weather-related events and determined that only our residential mortgage loan portfolio could be impacted. A qualitative adjustment was made to the allowance for loan losses during the 2017 fiscal year with respect to the residential mortgage loan portfolio.

Non-interest expenses (excluding the loan loss provision) increased \$42 million, or 33%, primarily reflecting a \$25 million increase in affiliate deposit account servicing fees to PCG due to an increase in client accounts and a \$4 million increase in compensation and benefits expense resulting from compensation increases and staff additions to support the growth of the business.



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## Management's Discussion and Analysis

The following table presents average balances, interest income and expense, the related interest yields and rates, and interest spreads and margins for RJ Bank.

| \$ in thousands                                  | Year ended September 30,<br>2018 |                       |                           | 2017               |                       |                           | 2016               |                       |                           |
|--|----------------------------------|-----------------------|---------------------------|--------------------|-----------------------|---------------------------|--------------------|-----------------------|---------------------------|
|  | Average<br>balance               | Interest<br>inc./exp. | Average<br>yield/<br>cost | Average<br>balance | Interest<br>inc./exp. | Average<br>yield/<br>cost | Average<br>balance | Interest<br>inc./exp. | Average<br>yield/<br>cost |
| Interest-earning banking assets:                 |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| Cash   | \$956,567                        | \$14,996              | 1.57 %                    | \$859,020          | \$7,696               | 0.90 %                    | \$884,556          | \$4,140               | 0.47 %                    |
| Available-for-sale securities                    | 2,429,718                        | 49,628                | 2.04 %                    | 1,462,938          | 25,970                | 1.78 %                    | 432,626            | 6,757                 | 1.56 %                    |
| Bank loans, net of unearned income:              |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| Loans held for investment:                       |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| C&I loans  | 7,618,949                        | 326,042               | 4.22 %                    | 7,340,052          | 281,274               | 3.78 %                    | 7,171,402          | 271,476               | 3.73 %                    |
| CRE construction loans                           | 165,780                          | 8,547                 | 5.08 %                    | 129,073            | 6,184                 | 4.73 %                    | 169,101            | 8,462                 | 4.92 %                    |
| CRE loans  | 3,231,369                        | 132,898               | 4.06 %                    | 2,831,870          | 100,563               | 3.50 %                    | 2,297,224          | 70,048                | 3.00 %                    |
| Tax-exempt loans                                 | 1,146,493                        | 29,567                | 3.42 %                    | 891,922            | 23,057                | 3.98 %                    | 617,701            | 16,707                | 4.16 %                    |
| Residential mortgage loans                       | 3,447,710                        | 108,825               | 3.16 %                    | 2,803,464          | 83,537                | 2.94 %                    | 2,217,789          | 64,607                | 2.87 %                    |
| SBL  | 2,689,612                        | 111,403               | 4.09 %                    | 2,123,189          | 72,400                | 3.36 %                    | 1,713,243          | 51,515                | 2.96 %                    |
| Loans held for sale                              | 125,970                          | 5,057                 | 4.01 %                    | 159,384            | 5,156                 | 3.34 %                    | 150,305            | 4,551                 | 3.07 %                    |
| Total loans, net                                 | 18,425,883                       | 722,339               | 3.93 %                    | 16,278,954         | 572,171               | 3.55 %                    | 14,336,765         | 487,366               | 3.42 %                    |
| FHLB stock, FRB stock, and other                 | 138,635                          | 6,007                 | 4.33 %                    | 157,395            | 4,134                 | 2.63 %                    | 186,589            | 3,704                 | 1.98 %                    |
| Total interest-earning banking assets            | 21,950,803                       | \$792,970             | 3.62 %                    | 18,758,307         | \$609,971             | 3.28 %                    | 15,840,536         | \$501,967             | 3.18 %                    |
| Non-interest-earning banking assets:             |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| Unrealized loss on available-for-sale securities | (44,104 )                        |                       |                           | (6,663 )           |                       |                           | (3,172 )           |                       |                           |
| Allowance for loan losses                        | (193,220 )                       |                       |                           | (194,029 )         |                       |                           | (188,429 )         |                       |                           |
| Other assets                                     | 379,461                          |                       |                           | 374,769            |                       |                           | 281,961            |                       |                           |
| Total non-interest-earning banking assets        | 142,137                          |                       |                           | 174,077            |                       |                           | 90,360             |                       |                           |
| Total banking assets                             | \$22,092,940                     |                       |                           | \$18,932,384       |                       |                           | \$15,930,896       |                       |                           |
| Interest-bearing banking liabilities:            |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| Bank deposits:                                   |                                  |                       |                           |                    |                       |                           |                    |                       |                           |
| Certificates of deposit                          | \$372,052                        | \$6,217               | 1.67 %                    | \$293,589          | \$4,325               | 1.47 %                    | \$345,628          | \$5,402               | 1.56 %                    |

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|   |              |           |        |   |              |           |        |   |              |           |        |   |
|---|--------------|-----------|--------|---|--------------|-----------|--------|---|--------------|-----------|--------|---|
| Savings, money market, and NOW accounts   | 18,693,862   | 62,628    | 0.34   | % | 15,975,308   | 16,230    | 0.10   | % | 13,238,007   | 7,087     | 0.05   | % |
| FHLB advances and other   | 1,022,290    | 19,764    | 1.91   | % | 820,594      | 14,620    | 1.76   | % | 680,778      | 10,788    | 1.56   | % |
| Total interest-bearing banking liabilities  | 20,088,204   | \$88,609  | 0.44   | % | 17,089,491   | \$35,175  | 0.20   | % | 14,264,413   | \$23,277  | 0.16   | % |
| Non-interest-bearing banking liabilities  | 89,663       |           |        |   | 92,762       |           |        |   | 71,278       |           |        |   |
| Total banking liabilities   | 20,177,867   |           |        |   | 17,182,253   |           |        |   | 14,335,691   |           |        |   |
| Total banking shareholder's equity  | 1,915,073    |           |        |   | 1,750,131    |           |        |   | 1,595,205    |           |        |   |
| Total banking liabilities and shareholders' equity  | \$22,092,940 |           |        |   | \$18,932,384 |           |        |   | \$15,930,896 |           |        |   |
| Excess of interest-earning banking assets over interest-bearing banking liabilities/net interest income | \$1,862,599  | \$704,361 |        |   | \$1,668,816  | \$574,796 |        |   | \$1,576,123  | \$478,690 |        |   |
| Bank net interest: Spread   |              |           | 3.18   | % |              |           | 3.08   | % |              |           | 3.02   | % |
| Margin (net yield on interest-earning banking assets)   |              |           | 3.22   | % |              |           | 3.10   | % |              |           | 3.04   | % |
| Ratio of interest-earning banking assets to interest-bearing banking liabilities                        |              |           | 109.27 | % |              |           | 109.77 | % |              |           | 111.05 | % |

Nonaccrual loans are included in the average loan balances in the preceding table. Payment or income received on corporate nonaccrual loans are applied to principal. Income on other nonaccrual loans is recognized on a cash basis.

Fee income on loans included in interest income for the years ended September 30, 2018, 2017 and 2016 was \$24 million, \$38 million, and \$36 million, respectively.

The yield on tax-exempt loans in the preceding table is presented on a tax-equivalent basis utilizing the applicable federal statutory rates for each of the years presented.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

| \$ in thousands                            | Year ended September 30,<br>2018 compared to 2017 |          |           | 2017 compared to 2016                |          |            |
|--|---|----------|-----------|--------------------------------------|----------|------------|
|  | Increase/(decrease) due to<br>Volume              | Rate     | Total     | Increase/(decrease) due to<br>Volume | Rate     | Total      |
| Interest revenue:                          |   |          |           |                                      |          |            |
| Interest-earning banking assets:           |   |          |           |                                      |          |            |
| Cash                                       | \$874   | \$6,426  | \$7,300   | \$(120 )                             | \$3,676  | \$3,556    |
| Available-for-sale securities              | 17,162  | 6,496    | 23,658    | 13,682                               | 5,531    | 19,213     |
| Bank loans, net of unearned income:        |   |          |           |                                      |          |            |
| Loans held for investment:                 |   |          |           |                                      |          |            |
| C&I loans                                  | 10,687  | 34,081   | 44,768    | 6,384                                | 3,414    | 9,798      |
| CRE construction loans                     | 1,759   | 604      | 2,363     | (2,003 )                             | (275 )   | (2,278 )   |
| CRE loans                                  | 14,187  | 18,148   | 32,335    | 16,303                               | 14,212   | 30,515     |
| Tax-exempt loans                           | 6,580   | (70 )    | 6,510     | 7,416                                | (1,066 ) | 6,350      |
| Residential mortgage loans                 | 19,197  | 6,091    | 25,288    | 17,062                               | 1,868    | 18,930     |
| SBL  | 19,315  | 19,688   | 39,003    | 12,327                               | 8,558    | 20,885     |
| Loans held for sale                        | (1,081 )  | 982      | (99 )     | 275                                  | 330      | 605        |
| Total bank loans, net                      | 70,644  | 79,524   | 150,168   | 57,764                               | 27,041   | 84,805     |
| FHLB stock, FRB stock and other            | (493 )  | 2,366    | 1,873     | (579 )                               | 1,009    | 430        |
| Total interest-earning banking assets      | \$88,187  | \$94,812 | \$182,999 | \$70,747                             | \$37,257 | \$108,004  |
| Interest expense:                          |   |          |           |                                      |          |            |
| Interest-bearing banking liabilities:      |   |          |           |                                      |          |            |
| Bank deposits:                             |   |          |           |                                      |          |            |
| Certificates of deposit                    | \$1,156   | \$736    | \$1,892   | \$(814 )                             | \$(263 ) | \$(1,077 ) |
| Savings, money market, and NOW accounts    | 2,762   | 43,636   | 46,398    | 1,466                                | 7,677    | 9,143      |
| FHLB advances and other                    | 3,594   | 1,550    | 5,144     | 2,216                                | 1,616    | 3,832      |
| Total interest-bearing banking liabilities | 7,512   | 45,922   | 53,434    | 2,868                                | 9,030    | 11,898     |
| Change in net interest income              | \$80,675  | \$48,890 | \$129,565 | \$67,879                             | \$28,227 | \$96,106   |

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Results of Operations – Other

This segment's results include our private equity activities as well as certain corporate overhead costs of RJF, including the interest cost on our public debt, losses on extinguishment of debt, and the acquisition and integration costs associated with certain acquisitions. For an overview of our Other segment operations, refer to the information presented in Item 1 "Business" of this Form 10-K.

## Operating results

| \$ in thousands   | Year ended September 30, |             |             | % change      |               |
|---|--------------------------|-------------|-------------|---------------|---------------|
|   | 2018                     | 2017        | 2016        | 2018 vs. 2017 | 2017 vs. 2016 |
| <b>Revenues:</b>  |                          |             |             |               |               |
| Interest income   | \$41,577                 | \$24,998    | \$16,977    | 66 %          | 47 %          |
| Realized/unrealized gains - private equity investments    | 8,944                    | 31,386      | 23,735      | (72 )%        | 32 %          |
| Other   | 9,471                    | 9,114       | 5,579       | 4 %           | 63 %          |
| Total revenues  | 59,992                   | 65,498      | 46,291      | (8 )%         | 41 %          |
| Interest expense  | (75,148 )                | (95,368 )   | (77,983 )   | (21 )%        | 22 %          |
| Net revenues  | (15,156 )                | (29,870 )   | (31,692 )   | 49 %          | 6 %           |
| <b>Non-interest expenses:</b>                             |                          |             |             |               |               |
| Compensation and other                                    | 66,442                   | 64,573      | 60,448      | 3 %           | 7 %           |
| Acquisition-related expenses                              | 3,927                    | 17,995      | 40,706      | (78 )%        | (56 )%        |
| Losses on extinguishment of debt                          | —                        | 45,746      | —           | (100)%        | NM            |
| Total non-interest expenses                               | 70,369                   | 128,314     | 101,154     | (45 )%        | 27 %          |
| Loss before taxes and including noncontrolling interests: | (85,525 )                | (158,184 )  | (132,846 )  | 46 %          | (19 )%        |
| Noncontrolling interests                                  | (2,324 )                 | 11,695      | 15,702      |               |               |
| Pre-tax loss excluding noncontrolling interests           | \$(83,201)               | \$(169,879) | \$(148,548) | 51 %          | (14 )%        |

Year ended September 30, 2018 compared to the year ended September 30, 2017

The pre-tax loss generated by this segment of \$83 million was \$87 million, or 51%, less than the loss generated in the prior year.

Net revenues in this segment increased \$15 million, or 49%, due to an increase in our net interest expense, partially offset by lower net gains on our private equity investments.

Net interest expense decreased by \$37 million, or 52%, primarily due to a decrease in interest expense on our senior notes payable and an increase in interest income. The decline in interest expense on our senior notes was due to a decrease in the average interest rate and a lower average balance outstanding as a result of net redemptions in the prior year. Interest income increased as a result of the increase in interest rates earned on higher corporate cash balances.

Non-interest expenses decreased \$58 million, or 45%, as the prior year included a \$46 million loss on extinguishment of debt comprised of a make-whole premium and the acceleration of unamortized debt issuance costs related to the early extinguishment of our senior notes during the prior year. Acquisition-related expenses in fiscal year 2018, which were \$14 million lower than the prior year, pertained to certain incremental expenses incurred in connection with our acquisition of the Scout Group, which closed in November 2017. Prior year acquisition-related expenses primarily related to our acquisitions of the Scout Group, as well as our fiscal year 2016 acquisitions of Alex. Brown and 3Macs.

See Note 3 of the Notes to Consolidated Financial Statements in this Form 10-K for information regarding the components of these expenses.

Year ended September 30, 2017 compared to the year ended September 30, 2016

The pre-tax loss generated by this segment of \$170 million was \$21 million, or 14%, more than the loss in fiscal 2016.

Net revenues in this segment decreased \$2 million, or 6%, due to higher net gains arising from our private equity investments portfolio, which increased \$8 million, a portion of which relates to noncontrolling interests, compared to fiscal 2016.

Net interest expense increased by \$9 million, or 15%, due to an increase in interest expense, partially offset by an increase in interest income. The increase in interest expense was the result of an increase in the average outstanding balance of our senior notes. The increase in interest income was due to an increase in interest rates and higher corporate cash balances.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

Non-interest expenses increased \$27 million, or 27%. Fiscal year 2017 included \$46 million of losses on extinguishment of debt comprised of a make-whole premium and the acceleration of unamortized debt issuance costs related to the early extinguishment of our senior notes during fiscal 2017. Acquisition-related expenses in fiscal year 2017, which were \$23 million, or 56%, lower than fiscal 2016, pertained to certain incremental expenses incurred in connection with our November 2017 acquisition of the Scout Group as well as our fiscal year 2016 acquisitions of Alex. Brown and 3Macs. See Note 3 of the Notes to Consolidated Financial Statements of this Form 10-K for information regarding the components of these expenses.

## Certain statistical disclosures by bank holding companies

We are required to provide certain statistical disclosures required for bank holding companies under the SEC's Industry Guide 3. The following table provides certain of those disclosures.

|                                  | Year ended<br>September 30, |       |       |
|----------------------------------|-----------------------------|-------|-------|
|                                  | 2018                        | 2017  | 2016  |
| Return on average assets         | 2.4%                        | 1.9%  | 1.9%  |
| Return on average equity         | 14.4%                       | 12.2% | 11.3% |
| Average equity to average assets | 16.5%                       | 15.9% | 16.6% |
| Dividend payout ratio            | 19.1%                       | 20.3% | 21.9% |

Return on average assets is computed by dividing net income attributable to RJF for the year indicated by average assets for each respective fiscal year. Average assets is computed by adding total assets as of each quarter-end to the beginning of the year total, and dividing by five.

Return on average equity is computed by dividing net income attributable to RJF for the year indicated by average equity attributable to RJF for each respective fiscal year. Average equity is computed by adding the total equity attributable to RJF as of each quarter-end to the beginning of the year total, and dividing by five.

Average equity to average assets is computed by dividing average equity by average assets as calculated in accordance with the previous explanations.

Dividend payout ratio is computed by dividing dividends declared per common share during the fiscal year by earnings per diluted common share.

Refer to the "Results of Operations - RJ Bank" and "Risk management - Credit Risk" sections of Management's Discussion and Analysis of Financial Condition and Results of Operations and to the Notes to Consolidated Financial Statements of this Form 10-K for the other required disclosures.

## Liquidity and capital resources

Liquidity is essential to our business. The primary goal of our liquidity management activities is to ensure adequate funding to conduct our business over a range of economic and market environments.

Senior management establishes our liquidity and capital management framework. This framework includes senior management's review of short- and long-term cash flow forecasts, review of monthly capital expenditures, monitoring of the availability of alternative sources of financing, and daily monitoring of liquidity in our significant subsidiaries.

Our decisions on the allocation of capital to our business units consider, among other factors, projected profitability and cash flow, risk, and impact on future liquidity needs. Our treasury department assists in evaluating, monitoring and controlling the impact that our business activities have on our financial condition, liquidity and capital structure, and maintains our relationships with various lenders. The objective of this framework is to support the successful execution of our business strategies while ensuring ongoing and sufficient liquidity.

Liquidity is provided primarily through our business operations and financing activities. Financing activities could include bank borrowings, repurchase agreement transactions or additional capital raising activities under our “universal” shelf registration statement.

Cash and cash equivalents decreased \$169 million to \$3.50 billion at September 30, 2018 due to the firm using \$3.48 billion of cash for its investing activities, primarily investments in bank loans and our available-for-sale securities portfolio during the year. Offsetting the cash used for investing activities, operating activities provided \$1.90 billion of cash during the year. Financing activities provided cash of \$1.42 billion, primarily driven by an increase in bank deposits, as RJ Bank retained a higher portion of RJBDF balances, partially offset by repayments of short-term borrowings and payments of dividends to our shareholders during the year.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

We believe our existing assets, most of which are liquid in nature, together with funds generated from operations and available from committed and uncommitted financing facilities provide adequate funds for continuing operations at current levels of activity.

## Sources of liquidity

Approximately \$1.40 billion of our total September 30, 2018 cash and cash equivalents included cash on hand at the parent, as well as parent cash loaned to RJ&A. The following table presents our holdings of cash and cash equivalents.

| \$ in thousands                 | September 30,<br>2018 |
|---------------------------------|-----------------------|
| RJF                             | \$ 694,695            |
| RJ&A                            | 1,604,648             |
| RJ Bank                         | 354,131               |
| RJ Ltd.                         | 355,699               |
| RJFS                            | 136,951               |
| Carillon Tower                  | 100,443               |
| Other subsidiaries              | 253,739               |
| Total cash and cash equivalents | \$ 3,500,306          |

RJF maintained depository accounts at RJ Bank with a balance of \$277 million as of September 30, 2018. The portion of this total that was available on demand without restrictions, which amounted to \$254 million as of September 30, 2018, is reflected in the RJF total (and is excluded from the RJ Bank cash balance in the preceding table).

RJF had loaned \$735 million to RJ&A as of September 30, 2018 (such amount is included in the RJ&A cash balance in the preceding table), which RJ&A has invested on behalf of RJF in cash and cash equivalents or otherwise deployed in its normal business activities. On October 1, 2018 we deposited approximately \$400 million of cash into RJ&A's segregated reserve accounts as a result of its year end reserve calculation.

In addition to the cash balances described, we have various other potential sources of cash available to the parent from subsidiaries, as described in the following section.

## Liquidity available from subsidiaries

Liquidity is principally available to RJF, the parent company, from RJ&A and RJ Bank.

RJ&A is required to maintain net capital equal to the greater of \$1 million or 2% of aggregate debit balances arising from client transactions. In addition, covenants in RJ&A's committed secured financing facilities require its net capital to be a minimum of 10% of aggregate debit items. At September 30, 2018, RJ&A significantly exceeded both the minimum regulatory requirements and the covenants in its financing arrangements pertaining to net capital. At that date, RJ&A had excess net capital of \$868 million, of which \$438 million was available for dividend while still maintaining the internally-targeted net capital ratio of 15% of aggregate debit items. There are also limitations on the amount of dividends that may be declared by a broker-dealer without FINRA approval.

RJ Bank may pay dividends to RJF without the prior approval of its regulator as long as the dividend does not exceed the sum of RJ Bank's current calendar year and the previous two calendar years' retained net income, and RJ Bank maintains its targeted regulatory capital ratios. At September 30, 2018, RJ Bank had \$226 million of capital in excess



of the amount it would need at September 30, 2018 to maintain its targeted regulatory capital ratios, and could pay a dividend of such amount without requiring prior approval of its regulator.

Although we have liquidity available to us from our other subsidiaries, the available amounts are not as significant as those previously described and, in certain instances, may be subject to regulatory requirements.

#### Borrowings and financing arrangements

##### Committed financing arrangements

Our ability to borrow is dependent upon compliance with the conditions in our various loan agreements and, in the case of secured borrowings, collateral eligibility requirements. Our committed financing arrangements are in the form of either tri-party repurchase agreements or, in the case of the RJF Credit Facility, an unsecured line of credit. The required market value of the collateral associated with the committed secured facilities ranges from 102% to 125% of the amount financed.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

The following table presents our committed financing arrangements with third-party lenders, which we generally utilize to finance a portion of our fixed income trading instruments held, and the outstanding balances related thereto.

September 30, 2018

| \$ in thousands                        | RJ&A      | RJF       | Total     | Total number<br>of<br>arrangements |
|--|-----------|-----------|-----------|------------------------------------|
| Financing arrangement:                 |           |           |           |                                    |
| Committed secured                      | \$300,000 | \$—       | \$300,000 | 3                                  |
| Committed unsecured                    | —         | 300,000   | 300,000   | 1                                  |
| Total committed financing arrangements | \$300,000 | \$300,000 | \$600,000 | 4                                  |
| Outstanding borrowing amount:          |           |           |           |                                    |
| Committed secured                      | \$—       | \$—       | \$—       |                                    |
| Committed unsecured                    | —         | —         | —         |                                    |
| Total outstanding borrowing amount     | \$—       | \$—       | \$—       |                                    |

## Uncommitted financing arrangements

Our uncommitted financing arrangements are in the form of secured lines of credit, secured bilateral or tri-party repurchase agreements, or unsecured lines of credit. Our arrangements with third-party lenders are generally utilized to finance a portion of our fixed income securities or for cash management purposes. Our uncommitted secured financing arrangements generally require us to post collateral in excess of the amount borrowed. As of September 30, 2018, we had outstanding borrowings under two uncommitted secured borrowing arrangements with lenders out of a total of 13 uncommitted financing arrangements (seven uncommitted secured and six uncommitted unsecured). However, lenders are under no contractual obligation to lend to us under uncommitted credit facilities.

The following table presents our borrowings on uncommitted financing arrangements, all of which were in RJ&A.

| \$ in thousands                    | September<br>30, 2018 |
|------------------------------------|-----------------------|
| Outstanding borrowing amount:      |                       |
| Uncommitted secured                | \$ 186,205            |
| Uncommitted unsecured              | —                     |
| Total outstanding borrowing amount | \$ 186,205            |

## Other financings

RJ Bank had \$875 million in FHLB borrowings outstanding at September 30, 2018, comprised of floating-rate advances totaling \$850 million and a \$25 million fixed-rate advance, all of which were secured by a blanket lien on RJ Bank's residential mortgage loan portfolio (see Note 14 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information regarding these borrowings). RJ Bank had an additional \$1.79 billion in immediate credit available from the FHLB as of September 30, 2018 and, with the pledge of additional eligible collateral to the FHLB, total available credit of up to 30% of total assets.

RJ Bank is eligible to participate in the FRB's discount-window program; however, we do not view borrowings from the FRB as a primary source of funding. The credit available in this program is subject to periodic review, may be terminated or reduced at the discretion of the FRB, and is secured by pledged C&I loans.

We act as an intermediary between broker-dealers and other financial institutions whereby we borrow securities from one broker-dealer and then lend them to another. Where permitted, we have also loaned, to broker-dealers and other financial institutions, securities owned by clients, others or the firm. We account for each of these types of transaction as collateralized agreements and financings, with the outstanding balances related to the securities loaned included in “Securities loaned” on our Consolidated Statements of Financial Condition of this Form 10-K, in the amount of \$423 million as of September 30, 2018. Such financings are generally collateralized by cash or other collateral. See Note 7 of the Notes to Consolidate Financial Statements of this Form 10-K for more information on our securities borrowed and securities loaned.

From time to time we purchase securities under agreements to resell (“reverse repurchase agreements”) and sell securities under agreements to repurchase (“repurchase agreements”). We account for each of these types of transactions as collateralized agreements and financings, with the outstanding balances on the repurchase agreements included in “Securities sold under agreements to repurchase” on our Consolidated Statements of Financial Condition of this Form 10-K, in the amount \$186 million as of September 30, 2018 (which

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

are reflected in the preceding table of uncommitted financing arrangements). Such financings are generally collateralized by non-customer, RJ&A-owned securities or by securities that we have received as collateral under reverse repurchase agreements.

The average daily balance outstanding during the five most recent successive quarters, the maximum month-end balance outstanding during the quarter and the period-end balances for repurchase agreements and reverse repurchase agreements is detailed in the following table.

|   | Repurchase transactions           |  |                                   | Reverse repurchase transactions   |  |                                   |
|---|-----------------------------------|--|-----------------------------------|-----------------------------------|--|-----------------------------------|
|   | Average daily balance outstanding | Maximum month-end balance outstanding during the quarter | End of period balance outstanding | Average daily balance outstanding | Maximum month-end balance outstanding during the quarter | End of period balance outstanding |
| For the quarter ended:<br>(\$ in thousands) |                                   |  |                                   |                                   |  |                                   |
| September 30, 2018                          | \$ 117,388                        | \$ 186,205   | \$ 186,205                        | \$ 354,991                        | \$ 375,616   | \$ 372,603                        |
| June 30, 2018                               | \$ 151,233                        | \$ 164,891   | \$ 115,464                        | \$ 364,410                        | \$ 368,822   | \$ 343,052                        |
| March 31, 2018                              | \$ 163,923                        | \$ 157,466   | \$ 142,791                        | \$ 378,109                        | \$ 448,474   | \$ 448,474                        |
| December 31, 2017                           | \$ 218,690                        | \$ 229,036   | \$ 229,036                        | \$ 443,391                        | \$ 506,711   | \$ 307,742                        |
| September 30, 2017                          | \$ 241,365                        | \$ 247,048   | \$ 220,942                        | \$ 463,618                        | \$ 503,462   | \$ 404,462                        |

At September 30, 2018, in addition to the financing arrangements previously described, we had \$24 million outstanding on a mortgage loan for our St. Petersburg, Florida home-office complex, that is included in "Other borrowings" in our Consolidated Statements of Financial Condition of this Form 10-K.

At September 30, 2018 we had aggregate outstanding senior notes payable of \$1.55 billion. Our senior notes payable, exclusive of any unaccreted premiums or discounts and debt issuance costs, was comprised of \$250 million par 5.625% senior notes due 2024, \$500 million par 3.625% senior notes due 2026, and \$800 million par 4.95% senior notes due 2046. See Note 15 of the Notes to the Consolidated Financial Statements of this Form 10-K for additional information.

Our senior long-term debt ratings as of the most current report are detailed in the following table.

| Rating Agency                      | Rating Outlook |
|------------------------------------|----------------|
| Standard & Poor's Ratings Services | BBB+ Stable    |
| Moody's Investors Services         | Baa1 Stable    |

Our current long-term debt ratings depend upon a number of factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trends and volatility, balance sheet composition, liquidity and liquidity management, capital structure, overall risk management, business diversification and market share, and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings. Any rating downgrades could increase our costs in the event we were to obtain additional financing.

Should our credit rating be downgraded prior to a public debt offering, it is probable that we would have to offer a higher rate of interest to bond holders. A downgrade to below investment grade may make a public debt offering difficult to execute on terms we would consider to be favorable. A downgrade below investment grade could result in the termination of certain derivative contracts and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing overnight collateralization on our derivative instruments in liability positions (see Note 6 of the Notes to Consolidated Financial Statements of this Form 10-K for additional

information). A credit downgrade could damage our reputation and result in certain counterparties limiting their business with us, result in negative comments by analysts, and potentially negatively impact investor perception of us, and cause a decline in our stock price and/or our clients' perception of us. A credit downgrade would result in RJF incurring a higher commitment fee on any unused balance on the \$300 million RJF Credit Facility, in addition to triggering a higher interest rate applicable to any borrowings outstanding on that line as of and subsequent to such downgrade. Conversely, an improvement in RJF's current credit rating could have a favorable impact on the commitment fee, as well as the interest rate, applicable to any borrowings on such line. None of our borrowing arrangements contain a condition or event of default related to our credit ratings.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Other sources and uses of liquidity

We have company-owned life insurance policies which are utilized to fund certain non-qualified deferred compensation plans and other employee benefit plans. Certain of our non-qualified deferred compensation plans and other employee benefit plans are employee-directed while others are company-directed. Certain policies which we could readily borrow against had a cash surrender value of \$504 million as of September 30, 2018, comprised of \$292 million related to employee-directed plans and \$212 million related to company-directed plans, and we were able to borrow up to 90%, or \$454 million, of the September 30, 2018 total without restriction. To effect any such borrowing, the underlying investments would be converted to money market investments, therefore requiring us to take market risk related to the employee-directed plans. There were no borrowings outstanding against any of these policies as of September 30, 2018.

Between October 1, 2018 and November 19, 2018, we utilized the remaining \$214 million under our Board authorization to repurchase 2.77 million shares of our common stock at a weighted-average price of \$77.25. See Item 5 "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" of this Form 10-K for more information.

On May 18, 2018, we filed a "universal" shelf registration statement with the SEC to be in a position to access the capital markets if and when necessary or perceived by us to be opportune.

See the Contractual obligations section of this MD&A for information regarding our contractual obligations.

Statement of financial condition analysis

The assets on our consolidated statements of financial condition consisted primarily of cash and cash equivalents (a large portion of which is segregated for the benefit of clients), receivables including bank loans, financial instruments held for either trading purposes or as investments, and other assets. A significant portion of our assets were liquid in nature, providing us with flexibility in financing our business.

Total assets of \$37.41 billion as of September 30, 2018 were \$2.53 billion, or 7%, higher than our total assets as of September 30, 2017. The increase in assets was primarily due to a \$2.51 billion increase in net bank loans and a \$508 million increase in our available-for-sale securities portfolio, in line with our growth plans for such assets, as well as a \$576 million increase in brokerage client receivables reflecting client activity. Offsetting these increases, cash segregated pursuant to regulations decreased \$1.03 billion compared with September 30, 2017.

As of September 30, 2018, our total liabilities of \$30.96 billion were \$1.77 billion, or 6%, higher than our total liabilities as of September 30, 2017, primarily reflecting a \$2.21 billion increase in bank deposits, as RJ Bank retained a higher portion of RJBDFP balances to fund a portion of our loan and available-for-sale securities portfolio growth. Brokerage client payables increased \$213 million, due to an increase in client cash held at the firm as of September 30, 2018. Offsetting these increases was a \$615 million decrease in other borrowings due to the repayment of certain borrowings during the year.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

## Contractual obligations

The following table sets forth our contractual obligations and payments due thereunder by fiscal year.

| \$ in thousands                              | Total       | Year ended September 30, |             |           |           |           | Thereafter  |
|--|-------------|--------------------------|-------------|-----------|-----------|-----------|-------------|
|  |             | 2019                     | 2020        | 2021      | 2022      | 2023      |             |
| Long-term debt obligations:                  |             |                          |             |           |           |           |             |
| Senior notes payable - principal             | \$1,550,000 | \$—                      | \$—         | \$—       | \$—       | \$—       | \$1,550,000 |
| Long-term portion of other borrowings        | 893,837     | —                        | 855,430     | 30,748    | 6,084     | 1,575     | —           |
| Long-term debt obligations                   | 2,443,837   | —                        | 855,430     | 30,748    | 6,084     | 1,575     | 1,550,000   |
| Contractual interest payments                | 1,375,197   | 91,736                   | 86,949      | 73,043    | 72,430    | 71,802    | 979,237     |
| Operating lease obligations                  | 410,764     | 95,556                   | 83,591      | 70,487    | 51,426    | 39,544    | 70,160      |
| Purchase obligations                         | 271,548     | 140,679                  | 50,264      | 25,745    | 12,072    | 9,858     | 32,930      |
| Other long-term liabilities:                 |             |                          |             |           |           |           |             |
| Certificates of deposit (including interest) | 468,043     | 150,790                  | 111,296     | 38,854    | 73,283    | 93,820    | —           |
| Other  | 13,743      | 9,176                    | 2,193       | 1,483     | 891       | —         | —           |
| Subtotal long-term liabilities               | 481,786     | 159,966                  | 113,489     | 40,337    | 74,174    | 93,820    | —           |
| Total contractual obligations                | \$4,983,132 | \$487,937                | \$1,189,723 | \$240,360 | \$216,186 | \$216,599 | \$2,632,327 |

Contractual interest payments represent estimated future interest payments related to our senior notes, mortgage note payable, FHLB advances, and unsecured borrowings with original maturities greater than one year based on applicable interest rates at September 30, 2018. Estimated future interest payments for FHLB advances include the effect of the related interest rate hedges, which swap variable interest rate payments to fixed interest payments. See Notes 14 and 15 of the Notes to Consolidated Financial Statements of this Form 10-K for information regarding our senior notes payable and other borrowings.

In the normal course of our business, we enter into contractual arrangements whereby we commit to future purchases of products or services from unaffiliated parties. Purchase obligations for purposes of this table include amounts associated with agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms including: minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Our most significant purchase obligations are vendor contracts for data services, communication services, processing services, computer software contracts and our stadium naming rights contract which goes through 2027. Most of our contracts have provisions for early termination. For purposes of this table we have assumed we would not pursue early termination of such contracts.

We have entered into investment commitments, lending commitments and other commitments to extend credit for which we are unable to reasonably predict the timing of future payments. See Note 17 of the Notes to Consolidated Financial Statements of this Form 10-K for further information.

## Regulatory

Refer to the discussion of the regulatory environment in which we operate and the impact on our operations of certain rules and regulations in Item 1 “Business - Regulation” of this Form 10-K.

RJF and many of its subsidiaries are each subject to various regulatory capital requirements. As of September 30, 2018, all of our active regulated domestic and international subsidiaries had net capital in excess of minimum

requirements. In addition, RJF and RJ Bank were categorized as “well capitalized” as of September 30, 2018.

The maintenance of certain risk-based regulatory capital levels could impact various capital allocation decisions impacting one or more of our businesses. However, due to the strong capital position of RJF and its regulated subsidiaries, we do not anticipate these capital requirements will have a negative impact on our future business activities.

See Note 21 of the Notes to Consolidated Financial Statements of this Form 10-K for information on regulatory and capital requirements.



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Critical accounting estimates

The consolidated financial statements are prepared in accordance with GAAP, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during any reporting period in our consolidated financial statements. Management has established detailed policies and control procedures intended to ensure the appropriateness of such estimates and assumptions and their consistent application from period to period. For a description of our significant accounting policies, see Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K.

We believe that of our accounting estimates and assumptions, those described in the following sections involve a high degree of judgment and complexity. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements. Therefore, understanding these critical accounting estimates is important in understanding our reported results of operations and financial position.

Valuation of financial instruments

The use of fair value to measure financial instruments, with related gains or losses recognized in our Consolidated Statements of Income and Comprehensive Income, is fundamental to our financial statements and our risk management processes.

“Financial instruments owned” and “Financial instruments sold but not yet purchased” are reflected in the Consolidated Statements of Financial Condition at fair value. Unrealized gains and losses related to these financial instruments are reflected in our net income or our other comprehensive income/(loss) (“OCI”), depending on the underlying purpose of the instrument.

We measure the fair value of our financial instruments in accordance with GAAP, which defines fair value, establishes a framework that we use to measure fair value and provides for certain disclosures in our financial statements. Fair value is defined by GAAP as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability.

In determining the fair value of our financial instruments in accordance with GAAP, we use various valuation approaches, including market and/or income approaches. Fair value is a market-based measure considered from the perspective of a market participant. As such, our fair value measurements reflect assumptions that we believe market participants would use in pricing the asset or liability at the measurement date. In determining fair value, GAAP provides for the following three levels to be used to classify our fair value measurements.

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs that are other than quoted prices in active markets, but which are either directly or indirectly observable as of the reporting date (i.e., prices for similar instruments).

Level 3 - Inputs that cannot be observed in market activity.

GAAP requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when performing our fair value measurements. The availability of observable inputs can vary from instrument to instrument

and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument.

See Notes 2, 4, 5 and 6 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information on our financial instruments.

Assets and liabilities measured at fair value on a recurring basis

As of both September 30, 2018 and September 30, 2017, 10% of our total assets and 2% of our total liabilities were financial instruments measured at fair value on a recurring basis.

Financial instruments owned and measured at fair value on a recurring basis categorized as Level 3 amounted to \$124 million as of September 30, 2018, and represented 3% of our assets measured at fair value and 2% of our total equity. Our Level 3 assets were primarily comprised of preferred auction rate securities ("ARS") and private equity investments. Our Level 3 assets declined \$77 million compared with September 30, 2017, primarily due to sales of ARS and certain private equity investments.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Valuation techniques

The fair values for certain of our financial instruments are derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of our financial instruments. Financial instruments which are actively traded will generally have a higher degree of price transparency than financial instruments that are thinly traded. In accordance with GAAP, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. We have determined the market for certain other types of financial instruments, including private equity investments and auction-rate securities, to be uncertain or inactive as of both September 30, 2018 and 2017. As a result, the valuation of these financial instruments included management judgment in determining the relevance and reliability of market information available. We considered the inactivity of the market to be evidenced by several factors, including low levels of price transparency caused by a low volume of trades, stale transaction prices and transaction prices that varied significantly either over time or among market makers.

See Notes 2 and 4 of the Notes to Consolidated Financial Statements of this Form 10-K for further information about the level within the fair value hierarchy, specific valuation techniques and inputs, and other significant accounting policies pertaining to financial instruments at fair value.

Loss provisions

Loss provisions arising from legal and regulatory matters

The recorded amount of liabilities related to legal and regulatory matters is subject to significant management judgment. For a description of the significant estimates and judgments associated with establishing such accruals, see the "Contingent liabilities" section of Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K. In addition, refer to Note 17 of the Notes to the Consolidated Financial Statements of this Form 10-K for information regarding legal and regulatory matter contingencies as of September 30, 2018.

Loan loss provisions arising from operations of RJ Bank

RJ Bank provides an allowance for loan losses which reflects our continuing evaluation of the probable losses inherent in the loan portfolio. Refer to Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K for discussion of RJ Bank's policies regarding the allowance for loan losses, and refer to Note 8 of the Notes to Consolidated Financial Statements of this Form 10-K for quantitative information regarding the allowance balance as of September 30, 2018.

At September 30, 2018, the amortized cost of all RJ Bank loans was \$19.7 billion and an allowance for loan losses of \$203 million was recorded against that balance. The total allowance for loan losses was equal to 1.04% of the amortized cost of the loan portfolio.

RJ Bank's process of evaluating its probable loan losses includes a complex analysis of several quantitative and qualitative factors, requiring a substantial amount of judgment. As a result, the allowance for loan losses could be insufficient to cover actual losses. In such an event, any losses in excess of our allowance would result in a decrease in our net income, as well as a decrease in the level of regulatory capital at RJ Bank.

Recent accounting developments

For information regarding our recent accounting developments, see Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K.

Off-Balance sheet arrangements

For information regarding our off-balance sheet arrangements, see Notes 2 and 17 of the Notes to Consolidated Financial Statements of this Form 10-K.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Effects of inflation

Our assets are primarily liquid in nature and are not significantly affected by inflation. However, the rate of inflation affects our expenses, including employee compensation, communications and information processing, and occupancy costs, which may not be readily recoverable through charges for services we provide to our clients.

Risk management

Risks are an inherent part of our business and activities. Management of these risks is critical to our fiscal soundness and profitability. Our risk management processes are multi-faceted and require communication, judgment and knowledge of financial products and markets. We have a formal Enterprise Risk Management ("ERM") program to assess and review aggregate risks across the firm. Our management takes an active role in the ERM process, which requires specific administrative and business functions to participate in the identification, assessment, monitoring and control of various risks. The results of this process are extensively documented and reported to executive management and the Audit and Risk Committee of the Board of Directors.

The principal risks related to our business activities are market, credit, liquidity, operational, model, and compliance.

Market risk

Market risk is our risk of loss resulting from the impact of changes in market prices on our inventory, derivative and investment positions. We have exposure to market risk primarily through our broker-dealer trading operations and, to a lesser extent, through our banking operations. Our broker-dealer subsidiaries, primarily RJ&A, trade taxable and tax-exempt debt obligations and act as an active market maker in over-the-counter equity securities. In connection with these activities, we maintain inventories in order to ensure availability of securities and to facilitate client transactions. We also hold investments in MBS and CMOs within RJ Bank's available-for-sale securities portfolio, and also from time-to-time may hold SBA loan securitizations not yet transferred.

See Notes 2, 4, 5 and 6 of the Notes to Consolidated Financial Statements of this Form 10-K for fair value and other information regarding our trading inventories, available-for-sale securities and derivative instruments.

Changes in value of our trading inventory may result from fluctuations in interest rates, credit spreads, equity prices, macroeconomic factors, asset liquidity and dynamic relationships among these factors. We manage our trading inventory by product type and have established trading desks with responsibility for particular product types. Our primary method of controlling risk in our trading inventory is through the establishment and monitoring of risk-based limits and limits on the dollar amount of securities positions held overnight in inventory. A hierarchy of limits exists at multiple levels including firm, division, trading desk (e.g., for OTC equities, corporate bonds, municipal bonds), product sub-type (e.g., below-investment-grade positions) and individual trader. Position limits in trading inventory accounts are monitored on a daily basis. Consolidated position and exposure reports are prepared and distributed daily to senior management. Trading positions are carefully monitored for potential limit violations. Management likewise monitors inventory levels and trading results, as well as inventory aging, pricing, concentration and securities ratings. For our derivatives positions, which are composed primarily of interest rate swaps but include futures contracts and forward foreign exchange contracts, we monitor daily exposure against established limits with respect to a number of factors, including interest rates, foreign exchange spot and forward rates, spread, ratio, basis and volatility risk. These derivative exposures are monitored both on a total portfolio basis and separately for each agreement for selected maturity periods.

In the normal course of business, we enter into underwriting commitments. RJ&A and RJ Ltd., as a lead or co-lead manager or syndicate member in the underwriting deal, may be subject to market risk on any unsold shares issued in the offering to which we are committed. Risk exposure is controlled by limiting participation, the deal size or through the syndication process.

#### Interest rate risk

#### Trading activities

We are exposed to interest rate risk as a result of our trading inventories (primarily comprised of fixed income instruments) in our Capital Markets segment. We actively manage the interest rate risk arising from our fixed income trading securities through the use of hedging strategies that involve U.S. Treasury securities, futures contracts, liquid spread products and derivatives.

We monitor daily, the Value-at-Risk (“VaR”) for all of our trading portfolios. VaR is an appropriate statistical technique for estimating potential losses in trading portfolios due to typical adverse market movements over a specified time horizon with a suitable confidence level. We apply the Fed’s Market Risk Rule (“MRR”) for the purpose of calculating our capital ratios. The MRR, also known as the

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

“Risk-Based Capital Guidelines: Market Risk” rule released by the Fed, OCC and FDIC, requires us to calculate VaR numbers for all of our trading portfolios, including fixed income, equity, foreign exchange and derivative instruments.

To calculate VaR, we use historical simulation. This approach assumes that historical changes in market conditions, such as in interest rates and equity prices, are representative of future changes. Simulation is based on daily market data for the previous twelve months. VaR is reported at a 99% confidence level for a one-day time horizon. Assuming that future market conditions change as they have in the past twelve months, we would expect to incur losses greater than those predicted by our one-day VaR estimates about once every 100 trading days, or about three times per year on average. For regulatory capital calculation purposes, we also report VaR numbers for a ten-day time horizon.

The Fed’s MRR requires us to perform daily back testing procedures of our VaR model, whereby we compare each day’s projected VaR to its regulatory-defined daily trading losses, which exclude fees, commissions, reserves, net interest income and intraday trading. Based on these daily “ex ante” versus “ex post” comparisons, we determine whether the number of times that regulatory-defined daily trading losses exceed VaR is consistent with our expectations at a 99% confidence level. During the year ended September 30, 2018, our regulatory-defined daily loss in our trading portfolios exceeded our predicted VaR twice.

The following table sets forth the high, low, period end and daily average VaR for all of our trading portfolios, including fixed income, equity, and derivative instruments, for the period and dates indicated.

|                 | Year ended         |       | Period end VaR     |                    | Daily average VaR  |                    |
|-----------------|--------------------|-------|--------------------|--------------------|--------------------|--------------------|
|                 | September 30, 2018 |       | September 30, 2017 |                    | September 30, 2017 |                    |
| \$ in thousands | High               | Low   | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Daily VaR       | \$3,917            | \$654 | \$1,204            | \$1,427            | \$1,437            | \$1,827            |

The modeling of the risk characteristics of trading positions involves a number of assumptions and approximations. While management believes that its assumptions and approximations are reasonable, there is no uniform industry methodology for estimating VaR, and different assumptions or approximations could produce materially different VaR estimates. As a result, VaR statistics are more reliable when used as indicators of risk levels and trends within a firm than as a basis for inferring differences in risk-taking across firms.

Separately, RJF provides additional market risk disclosures to comply with the MRR. The results of the application of this market risk capital rule are available on our website under [www.raymondjames.com/investor-relations/financial-report](http://www.raymondjames.com/investor-relations/financial-report) under “Market Risk Rule Disclosure.”

Should markets suddenly become more volatile, actual trading losses may exceed VaR results presented on a single day and might accumulate over a longer time horizon, such as a number of consecutive trading days. Accordingly, management applies additional controls including position limits, a daily review of trading results, review of the status of aged inventory, independent controls on pricing, monitoring of concentration risk, review of issuer ratings and stress testing. We utilize stress testing to complement our VaR analysis so as to measure risk under historical and hypothetical adverse scenarios. During volatile markets, we may choose to pare our trading inventories to reduce risk.

As a part of our fixed income public finance operations, we enter into forward commitments to purchase agency MBS which are issued on behalf of various state and local housing finance agencies. These activities result in exposure to interest rate risk. In order to hedge the interest rate risk to which we would otherwise be exposed between the date of the commitment and the date of sale of the MBS, we enter into to be announced (“TBA”) security contracts with

investors for generic MBS at specific rates and prices to be delivered on settlement dates in the future. See Notes 2 and 17 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information regarding these activities.

#### Banking operations

RJ Bank maintains an earning asset portfolio that is comprised of cash, C&I loans, tax-exempt loans, SBL, commercial and residential real estate loans, MBS and CMOs (both of which are held in the available-for-sale securities portfolio), SBA loan securitizations and a trading portfolio of corporate loans. Those earning assets are primarily funded by client deposits. Based on its current earning asset portfolio, RJ Bank is subject to interest rate risk. In recent years, RJ Bank has focused its interest rate risk analysis on the risk of market interest rates rising given the Federal Reserve Bank's increases in short-term interest rates since December 2015. RJ Bank analyzes interest rate risk based on forecasted net interest income, which is the net amount of interest received and interest paid, and the net portfolio valuation, both in a range of interest rate scenarios.



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

One of the objectives of RJ Bank's Asset Liability Management Committee is to manage the sensitivity of net interest income to changes in market interest rates. This committee uses several measures to monitor and limit RJ Bank's interest rate risk, including scenario analysis and economic value of equity.

RJ Bank uses simulation models and estimation techniques to assess the sensitivity of net interest income to movements in interest rates. To ensure that RJ Bank remains within its tolerances established for net interest income, a sensitivity analysis of net interest income to interest rate conditions is estimated under a variety of scenarios. The model estimates the sensitivity by calculating interest income and interest expense in a dynamic balance sheet environment using current repricing, prepayment, and reinvestment of cash flow assumptions over a twelve month time horizon. Various interest rate scenarios are modeled in order to determine the effect those scenarios may have on net interest income. Scenarios presented include instantaneous interest rate shocks of up 100 and 200 basis points and down 100 basis points. While not presented, additional rate scenarios are performed including interest rate ramps and yield curve shifts that may more realistically mimic the speed of potential interest rate movements. RJ Bank also performs simulations on time horizons up to five years to assess longer term impacts to various interest rate scenarios. On a quarterly basis, RJ Bank tests expected model results to actual performance. Additionally, any changes made to key assumptions in the model are documented and approved by RJ Bank's Asset Liability Management Committee.

We utilize a hedging strategy using interest rate swaps as a result of RJ Bank's asset and liability management process previously described. For further information regarding this risk management objective, see the discussion of this hedging strategy in Notes 2 and 6 of the Notes to Consolidated Financial Statements of this Form 10-K.

The following table is an analysis of RJ Bank's estimated net interest income over a 12 month period based on instantaneous shifts in interest rates (expressed in basis points) using RJ Bank's own asset/liability model.

| Instantaneous changes in rate | Net interest income (\$ in thousands) | Projected change in net interest income |
|-------------------------------|---------------------------------------|---|
| +200                          | \$776,537                             | (6.51)%                                 |
| +100                          | \$804,936                             | (3.09)%                                 |
| 0                             | \$830,600                             | —                                       |
| -100                          | \$766,500                             | (7.72)%                                 |

Refer to "Management's Discussion and Analysis - Net interest analysis" of this Form 10-K, for a discussion of the impact changes in short-term interest rates could have on the firm's operations.

The following table shows the contractual maturities of RJ Bank's loan portfolio at September 30, 2018, including contractual principal repayments. This table does not include any estimates of prepayments, which could shorten the average loan lives and cause the actual timing of the loan repayments to differ significantly from those shown in the table. Loan amounts in the table exclude unearned income and deferred expenses.

| \$ in thousands            | Due in           |                         |             | Total       |
|----------------------------|------------------|-------------------------|-------------|-------------|
|                            | One year or less | > One year – five years | > 5 years   |             |
| Loans held for investment: |                  |                         |             |             |
| C&I loans                  | \$69,666         | \$3,687,554             | \$4,028,017 | \$7,785,237 |
| CRE construction loans     | —                | 133,118                 | 17,707      | 150,825     |
| CRE loans                  | 429,584          | 2,489,507               | 705,316     | 3,624,407   |
| Tax-exempt loans           | —                | 23,535                  | 1,203,577   | 1,227,112   |
| Residential mortgage loans | 898              | 2,907                   | 3,752,804   | 3,756,609   |

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|                                 |             |             |             |              |
|---------------------------------|-------------|-------------|-------------|--------------|
| SBL                             | 3,029,873   | 3,517       | —           | 3,033,390    |
| Total loans held for investment | 3,530,021   | 6,340,138   | 9,707,421   | 19,577,580   |
| Loans held for sale             | —           | 12          | 153,661     | 153,673      |
| Total loans                     | \$3,530,021 | \$6,340,150 | \$9,861,082 | \$19,731,253 |

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## Management's Discussion and Analysis

The following table shows the distribution of the recorded investment of those RJ Bank loans that mature in more than one year between fixed and adjustable interest rate loans at September 30, 2018. Loan amounts in the table exclude unearned income and deferred expenses.

| \$ in thousands                 | Interest rate type |               |               |
|---------------------------------|--------------------|---------------|---------------|
|                                 | Fixed              | Adjustable    | Total         |
| Loans held for investment:      |                    |               |               |
| C&I loans                       | \$ 17,884          | \$ 7,697,687  | \$ 7,715,571  |
| CRE construction loans          | —                  | 150,825       | 150,825       |
| CRE loans                       | 78,917             | 3,115,906     | 3,194,823     |
| Tax-exempt loans                | 1,195,212          | 31,900        | 1,227,112     |
| Residential mortgage loans      | 238,994            | 3,516,717     | 3,755,711     |
| SBL                             | 3,517              | —             | 3,517         |
| Total loans held for investment | 1,534,524          | 14,513,035    | 16,047,559    |
| Loans held for sale             | 1,937              | 151,736       | 153,673       |
| Total loans                     | \$ 1,536,461       | \$ 14,664,771 | \$ 16,201,232 |

Contractual loan terms for C&I, CRE, CRE construction and residential mortgage loans may include an interest rate floor and/or fixed interest rates for a certain period of time, which would impact the timing of the interest rate reset for the respective loan.

See the discussion within the “Management’s Discussion and Analysis - Risk management - Credit risk - Risk monitoring process” section of this Form 10-K for additional information regarding RJ Bank’s interest-only residential mortgage loan portfolio.

In our RJ Bank available-for-sale securities portfolio, we hold primarily fixed-rate agency MBS and CMOs which were carried at fair value in our Consolidated Statements of Financial Condition at September 30, 2018 with changes in the fair value of the portfolio recorded through OCI in our Consolidated Statements of Income and Comprehensive Income. At September 30, 2018, our RJ Bank available-for-sale securities portfolio had a fair value of \$2.63 billion with a weighted-average yield of 2.29% and average expected duration of three years. See Note 5 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information.

## Other

We hold ARS, which are long-term variable rate securities tied to short-term interest rates, that are accounted for as available-for-sale and are carried at fair value on our Consolidated Statements of Financial Condition. These securities generally have embedded penalty interest rate provisions in the event auctions fail to set the security’s interest rate, which 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 and the fair value of the security increases, as we estimate that at some level of increase in short-term interest rates, issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. See Notes 2, 4 and 5 of the Notes to Consolidated Financial Statements of this Form 10-K for additional information on these securities.

## Equity price risk

We are exposed to equity price risk as a consequence of our capital markets activities. Our broker-dealer activities are primarily client-driven, with the objective of meeting clients’ needs while earning a trading profit to compensate for the risk associated with carrying inventory. We attempt to reduce the risk of loss inherent in our inventory of equity

securities by monitoring those security positions throughout each day and establishing position limits.

#### Foreign exchange risk

We are subject to foreign exchange risk due to our investments in foreign subsidiaries as well as transactions and resulting balances denominated in a currency other than the U.S. dollar. For example, a portion of our bank loan portfolio includes loans which are denominated in Canadian dollars totaling \$1.05 billion and \$1.00 billion at September 30, 2018 and September 30, 2017, respectively. A portion of such loans are held by RJ Bank's Canadian subsidiary, which is discussed in the following sections.

#### Investments in foreign subsidiaries

RJ Bank has an investment in a Canadian subsidiary, resulting in foreign exchange risk. To mitigate its foreign exchange risk, RJ Bank utilizes short-term, forward foreign exchange contracts. These derivative agreements are primarily accounted for as net investment

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hedges in the consolidated financial statements. See Notes 2 and 6 of the Notes to Consolidated Financial Statements of this Form 10-K for further information regarding these derivative contracts.

We had foreign exchange risk in our investment in RJ Ltd. of CAD 352 million at September 30, 2018, which was not hedged. Foreign exchange gains/losses related to this investment are primarily reflected in OCI on our Consolidated Statements of Income and Comprehensive Income. See Note 18 of the Notes to Consolidated Financial Statements of this Form 10-K for further information regarding all of our components of OCI.

We also have foreign exchange risk associated with our investments in subsidiaries located in Europe. These investments are not hedged and we do not believe we have material foreign exchange risk either individually, or in the aggregate, pertaining to these subsidiaries.

Transactions and resulting balances denominated in a currency other than the U.S. dollar

We are subject to foreign exchange risk due to our holdings of cash and certain other assets and liabilities resulting from transactions denominated in a currency other than the U.S. dollar. Any currency related gains/losses arising from these foreign currency denominated balances are reflected in "Other" revenues in our Consolidated Statements of Income and Comprehensive Income. The foreign exchange risk associated with a portion of such transactions and balances denominated in foreign currency are mitigated utilizing short-term, forward foreign exchange contracts. Such derivatives are not designated hedges and therefore, the related gains/losses associated with these contracts are included in "Other" revenues in our Consolidated Statements of Income and Comprehensive Income. See Note 6 of the Notes to Consolidated Financial Statements of this Form 10-K for information regarding our derivative contracts.

Credit risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction, and the parties involved. Credit risk is an integral component of the profit assessment of lending and other financing activities.

We are engaged in various trading and brokerage activities in which our counterparties primarily include broker-dealers, banks and other financial institutions. We are exposed to risk that these counterparties may not fulfill their obligations. The risk of default depends on the creditworthiness of the counterparty and/or the issuer of the instrument. We manage this risk by imposing and monitoring individual and aggregate position limits within each business segment for each counterparty, conducting regular credit reviews of financial counterparties, reviewing security and loan concentrations, holding and calculating the fair value of collateral on certain transactions and conducting business through clearing organizations, which may guarantee performance.

Our client activities involve the execution, settlement, and financing of various transactions on behalf of our clients. Client activities are transacted on either a cash or margin basis. Credit exposure results from client margin accounts, which are monitored daily and are collateralized. We monitor exposure to industry sectors and individual securities and perform analysis on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions. In addition, when clients execute a purchase, we are at some risk that the client will renege on the trade. If this occurs, we may have to liquidate the position at a loss. However, most private clients have available funds in the account before the trade is executed.

We offer loans to financial advisors and certain other key revenue producers, primarily for recruiting, transitional cost assistance and retention purposes. We have credit risk and may incur a loss in the event that such borrower declares bankruptcy or is no longer affiliated with us. Historically, such losses have not been significant due to our strong advisor retention and successful collection efforts.

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

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RJ Bank has substantial C&I, CRE, tax-exempt, SBL and residential mortgage loan portfolios. A significant downturn in the overall economy, deterioration in real estate values or a significant issue within any sector or sectors where RJ Bank has a concentration could result in large provisions for loan losses and/or charge-offs.

RJ Bank's strategy for credit risk management includes well-defined credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all corporate, tax-exempt, residential and SBL credit exposures. The strategy also includes diversification on a geographic, industry and customer level, regular credit examinations and management reviews of all corporate and tax-exempt loans as well as individual delinquent residential loans. The credit risk management process also includes an annual independent review of the credit risk monitoring process that performs assessments of compliance with credit policies, risk ratings, and other critical credit information. RJ Bank seeks to identify potential problem loans early, record any necessary risk rating changes and charge-offs promptly and maintain appropriate reserve levels for probable inherent losses. RJ Bank utilizes a comprehensive credit risk rating system to measure the credit quality of individual corporate and tax-exempt loans and related unfunded lending commitments, including the probability of default and/or loss given default of each corporate and tax-exempt loan, and commitment outstanding. For its SBL and residential mortgage loans, RJ Bank utilizes the credit risk rating system used by bank regulators in measuring the credit quality of each homogeneous class of loans.

RJ Bank's allowance for loan losses methodology is described in Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K. As RJ Bank's loan portfolio is segregated into six portfolio segments, likewise, the allowance for loan losses is segregated by these same segments. The risk characteristics relevant to each portfolio segment are as follows.

**C&I:** Loans in this segment are made to businesses and are generally secured by all assets of the business. Repayment is expected from the cash flows of the respective business. Unfavorable economic and political conditions, including the resultant decrease in consumer or business spending, may have an adverse effect on the credit quality of loans in this segment.

**CRE:** Loans in this segment are primarily secured by income-producing properties. For owner-occupied properties, the cash flows are derived from the operations of the business, and the underlying cash flows may be adversely affected by the deterioration in the financial condition of the operating business. The underlying cash flows generated by non-owner-occupied properties may be adversely affected by increased vacancy and rental rates, which are monitored on a quarterly basis. Adverse developments in either of these areas may have a negative effect on the credit quality of loans in this segment.

**CRE construction:** Loans in this segment have similar risk characteristics of loans in the CRE segment as previously described. In addition, project budget overruns and performance variables related to the contractor and subcontractors may affect the credit quality of loans in this segment. With respect to commercial construction of residential developments, there is also the risk that the builder has a geographical concentration of developments. Adverse developments in all of these areas may significantly affect the credit quality of the loans in this segment.

**Tax-exempt:** Loans in this segment are made to governmental and nonprofit entities and are generally secured by a pledge of revenue and, in some cases, by a security interest in or a mortgage on the asset being financed. For loans to governmental entities, repayment is expected from a pledge of certain revenues or taxes. For nonprofit entities, repayment is expected from revenues which may include fundraising proceeds. These loans are subject to demographic risk, therefore much of the credit assessment of tax-exempt loans is driven by the entity's revenue base and general economic environment. Adverse developments in either of these areas may have a negative effect on the credit quality of loans in this segment.

Residential mortgage (includes home equity loans/lines): All of RJ Bank's residential mortgage loans adhere to stringent underwriting parameters pertaining to credit score and credit history, debt-to-income ratio of borrower, loan-to-value ("LTV"), and combined LTV (including second mortgage/home equity loans). RJ Bank does not originate or purchase option adjustable rate mortgage ("ARM") loans with negative amortization, reverse mortgages, or loans to subprime borrowers. Loans with deeply discounted teaser rates are not originated or purchased. All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality of the individual borrower. A decline in the strength of the economy, particularly unemployment rates and housing prices, among other factors, could have a significant effect on the credit quality of loans in this segment.

SBL: Loans in this segment are generally secured by marketable securities at advance rates consistent with industry standards. These loans are monitored daily for adherence to LTV guidelines and when a loan exceeds the required LTV, a collateral call is issued. Past due loans are minimal as any past due amounts result in a notice to the client for payment or the potential sale of securities which will bring the loan current.



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In evaluating credit risk, RJ Bank considers trends in loan performance, the level of allowance coverage relative to similar banking institutions, industry or customer concentrations, the loan portfolio composition and macroeconomic factors. There continue to be concerns over the retail and energy sectors. These factors have a potentially negative impact on loan performance and net charge-offs. However, during fiscal year 2018, corporate borrowers have continued to access the markets for new equity and debt.

Several factors were taken into consideration in evaluating the allowance for loan losses at September 30, 2018, including the risk profile of the portfolios, net charge-offs during the period, the level of nonperforming loans and delinquency ratios. RJ Bank also considered the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. Finally, RJ Bank considered current economic conditions that might impact the portfolio. RJ Bank determined the allowance that was required for specific loan grades based on relative risk characteristics of the loan portfolio. On an ongoing basis, RJ Bank evaluates its methods for determining the allowance for each class of loans and makes enhancements it considers appropriate. There was no material change in RJ Bank's methodology for determining the allowance for loan losses during the year ended September 30, 2018.

The following table presents RJ Bank's changes in the allowance for loan losses.

| \$ in thousands   | Year ended September 30, |           |           |           |           |
|---|--------------------------|-----------|-----------|-----------|-----------|
|   | 2018                     | 2017      | 2016      | 2015      | 2014      |
| Allowance for loan losses beginning of year               | \$190,442                | \$197,378 | \$172,257 | \$147,574 | \$136,501 |
| Provision for loan losses                                 | 20,481                   | 12,987    | 28,167    | 23,570    | 13,565    |
| Charge-offs:  |                          |           |           |           |           |
| C&I loans   | (9,587 )                 | (26,088 ) | (2,956 )  | (1,191 )  | (1,845 )  |
| CRE loans   | (32 )                    | —         | —         | —         | (16 )     |
| Residential mortgage loans                                | (383 )                   | (918 )    | (1,470 )  | (1,667 )  | (2,015 )  |
| Total charge-offs   | (10,002 )                | (27,006 ) | (4,426 )  | (2,858 )  | (3,876 )  |
| Recoveries:   |                          |           |           |           |           |
| C&I loans   | 4                        | 340       | —         | 611       | 16        |
| CRE loans   | —                        | 5,013     | —         | 3,773     | 80        |
| Residential mortgage loans                                | 2,320                    | 1,001     | 1,417     | 1,231     | 2,033     |
| Total recoveries  | 2,324                    | 6,354     | 1,417     | 5,615     | 2,129     |
| Net (charge-offs)/recoveries                              | (7,678 )                 | (20,652 ) | (3,009 )  | 2,757     | (1,747 )  |
| Foreign exchange translation adjustment                   | (495 )                   | 729       | (37 )     | (1,644 )  | (745 )    |
| Allowance for loan losses end of year                     | \$202,750                | \$190,442 | \$197,378 | \$172,257 | \$147,574 |
| Allowance for loan losses to total bank loans outstanding | 1.04                     | % 1.11    | % 1.30    | % 1.32    | % 1.33    |

See explanation of the loan loss provision in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - RJ Bank" of this Form 10-K. As a result of improved credit quality in the loan portfolio, the total allowance for loan losses to total bank loans outstanding declined to 1.04% at September 30, 2018 from 1.11% at September 30, 2017.

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The following tables present net loan (charge-offs)/recoveries and the percentage of net loan (charge-offs)/recoveries to the average outstanding loan balances by loan portfolio segment.

|                            | Year ended September 30,              |                             |                                       |                             |                                       |                             |
|----------------------------|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|
|                            | 2018                                  |                             | 2017                                  |                             | 2016                                  |                             |
| \$ in thousands            | Net loan (charge-off)/recovery amount | % of avg. outstanding loans | Net loan (charge-off)/recovery amount | % of avg. outstanding loans | Net loan (charge-off)/recovery amount | % of avg. outstanding loans |
| C&I loans                  | \$(9,583)                             | 0.13 %                      | \$(25,748)                            | 0.35 %                      | \$(2,956)                             | 0.04 %                      |
| CRE loans                  | (32)                                  | —                           | 5,013                                 | 0.18 %                      | —                                     | —                           |
| Residential mortgage loans | 1,937                                 | 0.06 %                      | 83                                    | —                           | (53)                                  | —                           |
| Total                      | \$(7,678)                             | 0.04 %                      | \$(20,652)                            | 0.13 %                      | \$(3,009)                             | 0.02 %                      |

  

|                            | Year ended September 30,              |                             |                                       |                             |  |  |
|----------------------------|---------------------------------------|-----------------------------|---------------------------------------|-----------------------------|--|--|
|                            | 2015                                  |                             | 2014                                  |                             |  |  |
| \$ in thousands            | Net loan (charge-off)/recovery amount | % of avg. outstanding loans | Net loan (charge-off)/recovery amount | % of avg. outstanding loans |  |  |
| C&I loans                  | \$(580)                               | 0.01 %                      | \$(1,829)                             | 0.03 %                      |  |  |
| CRE loans                  | 3,773                                 | 0.22 %                      | 64                                    | —                           |  |  |
| Residential mortgage loans | (436)                                 | 0.02 %                      | 18                                    | —                           |  |  |
| Total                      | \$2,757                               | 0.02 %                      | \$(1,747)                             | 0.02 %                      |  |  |

The level of charge-off activity is a factor that is considered in evaluating the potential for severity of future credit losses. Net charge-offs during fiscal 2018 decreased \$13 million as compared to the prior year. The decrease was due to the prior year reflecting the resolution of one C&I loan which resulted in a significant charge-off during fiscal 2017.

The following tables present the nonperforming loans balance and total allowance for loan losses balance for the periods presented.

|   | September 30, 2018         |                                   | September 30, 2017                             |                            |                                   |  |
|---|----------------------------|-----------------------------------|--|----------------------------|-----------------------------------|--|
|   | Nonperforming loan balance | Allowance for loan losses balance | Loan category as a % of total loans receivable | Nonperforming loan balance | Allowance for loan losses balance | Loan category as a % of total loans receivable |
| Loans held for investment:                              |                            |                                   |  |                            |                                   |  |
| C&I loans   | \$1,558                    | \$(123,395)                       | 40 %   | \$5,221                    | \$(119,901)                       | 43 %   |
| CRE construction loans                                  | —                          | (3,168)                           | 1 %  | —                          | (1,421)                           | 1 %  |
| CRE loans   | —                          | (46,811)                          | 18 %   | —                          | (41,749)                          | 18 %   |
| Tax-exempt loans  | —                          | (8,544)                           | 6 %  | —                          | (6,381)                           | 6 %  |
| Residential mortgage loans                              | 22,970                     | (16,886)                          | 19 %   | 33,749                     | (16,691)                          | 18 %   |
| SBL   | —                          | (3,946)                           | 15 %   | —                          | (4,299)                           | 14 %   |
| Loans held for sale                                     | —                          | —                                 | 1 %  | —                          | —                                 | —  |
| Total   | \$24,528                   | \$(202,750)                       | 100 %  | \$38,970                   | \$(190,442)                       | 100 %  |
| Total nonperforming loans as a % of RJ Bank total loans | 0.12 %                     |                                   |  | 0.23 %                     |                                   |  |



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| \$ in thousands   | September 30,<br>2016            |  |   |   | 2015                             |  |   |   |
|---|----------------------------------|--|---|---|----------------------------------|--|---|---|
|   | Nonperforming<br>loan<br>balance | Allowance<br>for loan<br>losses<br>balance | Loan<br>category<br>as a % of<br>total<br>loans<br>receivable |   | Nonperforming<br>loan<br>balance | Allowance<br>for loan<br>losses<br>balance | Loan<br>category<br>as a % of<br>total<br>loans<br>receivable |   |
| Loans held for investment:                              |                                  |  |   |   |                                  |  |   |   |
| C&I loans   | \$35,194                         | \$(137,701)                                | 48  | % | \$—                              | \$(117,623)                                | 52  | % |
| CRE construction loans                                  | —                                | (1,614)                                    | 1   | % | —                                | (2,707)                                    | 1   | % |
| CRE loans   | 4,230                            | (36,533)                                   | 17  | % | 4,796                            | (30,486)                                   | 16  | % |
| Tax-exempt loans  | —                                | (4,100)                                    | 5   | % | —                                | (5,949)                                    | 4   | % |
| Residential mortgage loans                              | 41,783                           | (12,664)                                   | 16  | % | 47,823                           | (12,526)                                   | 15  | % |
| SBL   | —                                | (4,766)                                    | 12  | % | —                                | (2,966)                                    | 11  | % |
| Loans held for sale                                     | —                                | —  | 1   | % | —                                | —  | 1   | % |
| Total   | \$81,207                         | \$(197,378)                                | 100   | % | \$52,619                         | \$(172,257)                                | 100   | % |
| Total nonperforming loans as a % of RJ Bank total loans | 0.53                             | %  |   |   | 0.40                             | %  |   |   |

| \$ in thousands   | September 30,<br>2014            |  |  |   |
|---|----------------------------------|--|--|---|
|   | Nonperforming<br>loan<br>balance | Allowance<br>for loan<br>losses<br>balance | Loan<br>category<br>as a % of<br>total loans<br>receivable |   |
| Loans held for investment:                              |                                  |  |  |   |
| C&I loans   | \$—                              | \$(103,179)                                | 58   | % |
| CRE construction loans                                  | —                                | (1,594)                                    | 1  | % |
| CRE loans   | 18,876                           | (25,022)                                   | 15   | % |
| Tax-exempt loans  | —                                | (1,380)                                    | 1  | % |
| Residential mortgage loans                              | 61,789                           | (14,350)                                   | 16   | % |
| SBL   | —                                | (2,049)                                    | 9  | % |
| Loans held for sale                                     | —                                | —  | —  |   |
| Total   | \$80,665                         | \$(147,574)                                | 100  | % |
| Total nonperforming loans as a % of RJ Bank total loans | 0.73                             | %  |  |   |

The level of nonperforming loans is another indicator of potential future credit losses. The amount of nonperforming loans decreased \$14 million during the year ended September 30, 2018 primarily due to an \$11 million decrease in nonperforming residential mortgage loans. Included in nonperforming residential mortgage loans were \$22 million in loans for which \$11 million in charge-offs were previously recorded, resulting in less exposure within the remaining balance.

The nonperforming loan balances above exclude \$12 million, \$14 million, \$14 million, \$15 million and \$14 million as of September 30, 2018, 2017, 2016, 2015, and 2014, respectively, of residential troubled debt restructurings ("TDR") which were returned to accrual status in accordance with our policy. Total nonperforming assets, including other real

estate acquired in the settlement of residential mortgages, amounted to \$28 million, \$44 million, \$86 million, \$57 million and \$86 million at as of September 30, 2018, 2017, 2016, 2015, and 2014, respectively. Total nonperforming assets as a percentage of RJ Bank total assets were 0.12%, 0.21%, 0.50%, 0.39% and 0.69% at as of September 30, 2018, 2017, 2016, 2015, and 2014 respectively.

#### Loan underwriting policies

A component of RJ Bank's credit risk management strategy is conservative, well-defined policies and procedures. RJ Bank's underwriting policies for the major types of loans are described below.

#### SBL and residential mortgage loan portfolios

RJ Bank's residential mortgage loan portfolio consists of first mortgage loans originated by RJ Bank via referrals from our PCG financial advisors and the general public, as well as first mortgage loans purchased by RJ Bank. All of RJ Bank's residential mortgage loans adhere to strict underwriting parameters pertaining to credit score and credit history, debt-to-income ratio of the borrower, LTV, and combined LTV (including second mortgage/home equity loans). As of September 30, 2018, approximately 70% of the residential loans were fully documented loans to industry standards and 96% of the residential mortgage loan portfolio consisted of owner-occupant borrowers (78% for their primary residences and 18% for second home residences). Approximately 25% of the first lien residential

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mortgage loans were ARMs with interest-only payments based on a fixed rate for an initial period of the loan, typically five to seven years, then become fully amortizing, subject to annual and lifetime interest rate caps. A significant portion of our originated 15 or 30-year fixed-rate mortgage loans are sold in the secondary market. RJ Bank's SBL portfolio is comprised of loans fully collateralized by client's marketable securities and represented 15% of RJ Bank's total loan portfolio as of September 30, 2018. The underwriting policy for RJ Bank's SBL primarily includes a review of collateral, including LTV, with a limited review of repayment history.

While RJ Bank has chosen not to participate in any government-sponsored loan modification programs, its loan modification policy does take into consideration some of the programs' parameters and supports every effort to assist borrowers within the guidelines of safety and soundness. In general, RJ Bank considers the qualification terms outlined in the government-sponsored programs as well as the affordability test and other factors. RJ Bank retains flexibility to determine the appropriate modification structure and required documentation to support the borrower's current financial situation before approving a modification. Short sales are also used by RJ Bank to mitigate credit losses.

Corporate and tax-exempt loan portfolios

RJ Bank's corporate and tax-exempt loan portfolios were comprised of approximately 500 borrowers, the majority of which are underwritten, managed and reviewed at our corporate headquarters location, which facilitates close monitoring of the portfolio by credit risk personnel, relationship officers and senior RJ Bank executives. RJ Bank's corporate loan portfolio is diversified among a number of industries in both the U.S. and Canada and comprised of project finance real estate loans, commercial lines of credit and term loans, the majority of which are participations in Shared National Credit ("SNC") or other large syndicated loans, and tax-exempt loans. RJ Bank is sometimes involved in the syndication of the loan at inception and some of these loans have been purchased in the secondary trading markets. The remainder of the corporate loan portfolio is comprised of smaller participations and direct loans. There are no subordinated loans or mezzanine financings in the corporate loan portfolio. RJ Bank's tax-exempt loans are long-term loans to governmental and nonprofit entities. These loans generally have lower overall credit risk, but are subject to other risks that are not usually present with corporate clients, including the risk associated with the constituency served by a local government and the risk in ensuring an obligation has appropriate tax treatment.

Regardless of the source, all corporate and tax-exempt loans are independently underwritten to RJ Bank credit policies and are subject to approval by a loan committee, and credit quality is monitored on an on-going basis by RJ Bank's lending staff. RJ Bank credit policies include criteria related to LTV limits based upon property type, single borrower loan limits, loan term and structure parameters (including guidance on leverage, debt service coverage ratios and debt repayment ability), industry concentration limits, secondary sources of repayment, municipality demographics, and other criteria. A large portion of RJ Bank's corporate loans are to borrowers in industries in which we have expertise, through coverage provided by our Capital Markets research analysts. More than half of RJ Bank's corporate borrowers are public companies. RJ Bank's corporate loans are generally secured by all assets of the borrower, in some instances are secured by mortgages on specific real estate, and with respect to tax-exempt loans, are generally secured by a pledge of revenue. In a limited number of transactions, loans in the portfolio are extended on an unsecured basis. In addition, all corporate and tax-exempt loans are subject to RJ Bank's regulatory review.

Risk monitoring process

Another component of the credit risk strategy at RJ Bank is the ongoing risk monitoring and review processes for all residential, SBL, corporate and tax-exempt credit exposures, as well as our rigorous processes to manage and limit credit losses arising from loan delinquencies. There are various other factors included in these processes, depending

on the loan portfolio.

#### SBL and residential mortgage loans

The marketable collateral securing RJ Bank's SBL is monitored on a daily basis. Collateral adjustments are made by the borrower as necessary to ensure RJ Bank's loans are adequately secured, resulting in minimizing its credit risk. Collateral calls have been minimal relative to our SBL portfolio with no losses incurred to date.

We track and review many factors to monitor credit risk in RJ Bank's residential mortgage loan portfolio. The qualitative factors include, but are not limited to: loan performance trends, loan product parameters and qualification requirements, borrower credit scores, occupancy (i.e., owner-occupied, second home or investment property), level of documentation, loan purpose, geographic concentrations, average loan size and loan policy exceptions. These qualitative measures, while considered and reviewed in establishing the allowance for loan losses, have not resulted in any material quantitative adjustments to RJ Bank's historical loss rates.

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The following table presents a summary of delinquent residential mortgage loans, which are comprised of loans which are two or more payments past due as well as loans in the process of foreclosure.

| \$ in thousands                  | Amount of delinquent residential loans |                 |          | Delinquent residential loans as a percentage of outstanding loan balances |                 |       |
|----------------------------------|--|-----------------|----------|---|-----------------|-------|
|                                  | 30-89 days                             | 90 days or more | Total    | 30-89 days  | 90 days or more | Total |
|                                  | September 30, 2018                     |                 |          |   |                 |       |
| Residential mortgage loans:      |  |                 |          |   |                 |       |
| First mortgage loans             | \$2,214                                | \$12,541        | \$14,755 | 0.06%   | 0.33%           | 0.39% |
| Home equity loans/lines          | 23                                     | 122             | 145      | 0.09%   | 0.46%           | 0.55% |
| Total residential mortgage loans | \$2,237                                | \$12,663        | \$14,900 | 0.06%   | 0.33%           | 0.39% |

September 30, 2017

Residential mortgage loans:

|                                  |         |          |          |       |       |       |
|----------------------------------|---------|----------|----------|-------|-------|-------|
| First mortgage loans             | \$3,061 | \$19,823 | \$22,884 | 0.10% | 0.63% | 0.73% |
| Home equity loans/lines          | 248     | 18       | 266      | 0.91% | 0.07% | 0.98% |
| Total residential mortgage loans | \$3,309 | \$19,841 | \$23,150 | 0.10% | 0.63% | 0.73% |

At September 30, 2018, loans over 30 days delinquent (including nonperforming loans) decreased to 0.39% of residential mortgage loans outstanding, compared to 0.73% over 30 days delinquent at September 30, 2017. Our September 30, 2018 percentage continues to compare favorably to the national average for over 30 day delinquencies of 3.53%, as most recently reported by the Fed. RJ Bank's significantly lower delinquency rate as compared to its peers is the result of our uniform underwriting policies, the lack of subprime loans and the limited amount of non-traditional loan products.

To manage and limit credit losses, we maintain a rigorous process to manage our loan delinquencies. With all residential first mortgages serviced by a third party, the primary collection effort resides with the servicer. RJ Bank personnel direct and actively monitor the servicers' efforts through extensive communications regarding individual loan status changes and requirements of timely and appropriate collection or property management actions and reporting, including management of third parties used in the collection process (appraisers, attorneys, etc.). Additionally, every residential mortgage loan over 60 days past due is reviewed by RJ Bank personnel monthly and documented in a written report detailing delinquency information, balances, collection status, appraised value, and other data points. RJ Bank senior management meets monthly to discuss the status, collection strategy and charge-off recommendations on every residential mortgage loan over 60 days past due. Updated collateral valuations are obtained for loans over 90 days past due and charge-offs are taken on individual loans based on these valuations.

Credit risk is also managed by diversifying the residential mortgage portfolio. The following table details the geographic concentrations (top five states) of RJ Bank's one-to-four family residential mortgage loans.

September 30, 2018

September 30, 2017

| Loans outstanding as a % of RJ Bank total residential mortgage loans | Loans outstanding as a % of RJ Bank total loans | Loans outstanding as a % of RJ Bank total residential mortgage loans | Loans outstanding as a % of RJ Bank total loans |
|--|---|--|---|
|  |   |  |   |



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|          |      |          |      |
|----------|------|----------|------|
| CA 25.1% | 4.8% | CA 23.8% | 4.4% |
| FL 17.2% | 3.3% | FL 18.9% | 3.5% |
| NY 7.9%  | 1.5% | TX 7.8%  | 1.4% |
| TX 7.8%  | 1.5% | NY 6.8%  | 1.3% |
| CO 3.4%  | 0.6% | CO 3.4%  | 0.6% |

Loans where borrowers may be subject to payment increases include adjustable rate mortgage loans with terms that initially require payment of interest only. Payments may increase significantly when the interest-only period ends and the loan principal begins to amortize. At September 30, 2018 and 2017, these loans totaled \$992 million and \$683 million, respectively, or approximately 25% and 20% of the residential mortgage portfolio, respectively. The weighted average number of years before the remainder of the loans, which were still in their interest-only period at September 30, 2018, begins amortizing is 6.6 years.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis

A component of credit risk management for the residential portfolio is the LTV ratio and borrower credit score at origination or purchase. The following table details the most recent weighted-average LTV ratios and FICO scores at origination of RJ Bank's residential first mortgage loan portfolio.

|   | September 30, 2018 | September 30, 2017 |
|---|--------------------|--------------------|
| Residential first mortgage loan weighted-average LTV/FICO | 64%/763            | 65%/758            |

## Corporate and tax-exempt loans

Credit risk in RJ Bank's corporate and tax-exempt loan portfolios are monitored on an individual loan basis for trends in borrower operating performance, payment history, credit ratings, collateral performance, loan covenant compliance, semi-annual SNC exam results, municipality demographics and other factors including industry performance and concentrations. As part of the credit review process, the loan grade is reviewed at least quarterly to confirm the appropriate risk rating for each credit. The individual loan ratings resulting from the SNC exams are incorporated in RJ Bank's internal loan ratings when the ratings are received and if the SNC rating is lower on an individual loan than RJ Bank's internal rating, the loan is downgraded. While RJ Bank considers historical SNC exam results in its loan ratings methodology, differences between the SNC exam and internal ratings on individual loans typically arise due to subjectivity of the loan classification process. These differences may result in additional provision for loan losses in periods when SNC exam results are received. See Note 2 of the Notes to Consolidated Financial Statements of this Form 10-K, specifically the "Bank loans, net" section, for additional information on RJ Bank's allowance for loan loss policies.

Other than loans classified as nonperforming, there were no corporate and tax-exempt loans that were delinquent greater than 30 days at September 30, 2018.

Credit risk is also managed by diversifying the corporate loan portfolio. RJ Bank's corporate loan portfolio does not contain a significant concentration in any single industry. The following table details the industry concentrations (top five categories) of RJ Bank's corporate loans.

|                                | September 30, 2018  |   | September 30, 2017  |   |
|--------------------------------|---|---|---|---|
|                                | Loans outstanding as a % of RJ Bank total corporate loans | Loans outstanding as a % of RJ Bank total loans | Loans outstanding as a % of RJ Bank total corporate loans | Loans outstanding as a % of RJ Bank total loans |
| Office (real estate)           | 5.8%  | 3.8%  | Office (real estate)                                      | 4.0%  |
| Hospitality                    | 5.1%  | 3.3%  | Retail real estate  | 3.6%  |
| Business systems and services  | 4.7%  | 3.1%  | Consumer products and services                            | 3.5%  |
| Consumer products and services | 4.6%  | 3.0%  | Hospitality   | 3.2%  |
| Retail real estate             | 4.3%  | 2.8%  | Business systems and services                             | 3.1%  |

## Liquidity risk

See the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and capital resources” of this Form 10-K for information regarding our liquidity and how we manage liquidity risk.

#### Operational risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, business disruptions, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems and inadequacies or breaches in our control processes including cybersecurity incidents. See Item 1A “Risk Factors” of this Form 10-K for a discussion of certain cybersecurity risks. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes and complexity. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions and damage to our reputation. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance, Risk Management and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

We have an Operational Risk Management Committee comprised of members of senior management, which reviews and addresses operational risks across our businesses. The committee establishes, and from time-to-time will reassess, risk appetite levels for major operational risks, monitors operating unit performance for adherence to defined risk tolerances, and establishes policies for risk management at the enterprise level.

As more fully described in the discussion of our business technology risks included in various risk factors presented in Item 1A "Risk Factors" of this Form 10-K, despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code and other events that could have an impact on the security and stability of our operations. Notwithstanding the precautions we take, if one or more of these events were to occur, this could jeopardize the information we confidentially maintain, including that of our clients and counterparties, which is processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our clients or counterparties. To-date, we have not experienced any material losses relating to cyberattacks or other information security breaches; however, there can be no assurances that we will not suffer such losses in the future.

Model Risk

Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. Models are used throughout the firm for a variety of purposes such as the valuation of financial instruments, assessing risk, stress testing, and to assist in the making of business decisions. Model risk includes the potential risk that management makes incorrect decisions based upon either incorrect model results or incorrect understanding and use of model results. Model risk may also occur when model output experiences a deviation from the expected result. Model risk can result in significant financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to our reputation.

Model Risk Management ("MRM") is a separate department within our Risk Management department and is independent of model owners, users, and developers. Our model risk management framework consists primarily of model governance, maintaining the firm-wide model inventory, validating and approving all material models used across the firm, and on-going monitoring. Results of validations and issues identified are reported to the Enterprise Risk Management Committee and the Audit and Risk Committee of the Board of Directors. MRM assumes responsibility for the independent and effective challenge of model completeness, integrity and design based on intended use.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss, or reputational damage that we may suffer from a failure to comply with applicable laws, external standards, or internal requirements. Our Compliance department plays a key leadership role in the oversight, management, and mitigation of compliance risk throughout the firm, including through conducting an annual compliance risk assessment and monitoring and testing activities, implementing policies, training associates on compliance-related topics, and reporting compliance risk-related issues and metrics to the Board of Directors and senior management, among other activities.

Our Board of Directors oversees the firm's management and mitigation of compliance risk, setting a culture that encourages ethical conduct and compliance throughout the firm. Senior management communicates and reinforces this culture. Our first line of defense, which includes all of our segments, is responsible for managing and mitigating

compliance risk arising from its activities. The second line of defense - which includes the Compliance, Legal, and Risk Management departments, including the Anti-Money Laundering and Financial Crimes department - supports, oversees, and provides challenge to the first line of defense in its management and mitigation of compliance risk. The third line of defense, Internal Audit, independently reviews activities conducted by the previous lines of defense to assess their management and mitigation of compliance risk, providing additional assurance to the Board of Directors and senior management with a view to enhancing our oversight, management, and mitigation of compliance risk.

The firm has a number of management-level committees through which compliance risk is overseen, managed, and mitigated. These committees include the Anti-Money Laundering Oversight Committee, Compliance and Standards Committee, Compliance Risk and Ethics Committee, Enterprise Risk Management Committee, Executive Committee, New Product Approval Committee, Operational Risk Management Committee, and Supplier Risk Management Committee.

We have significantly increased the number of associates who are dedicated to managing and mitigating compliance risk, including anti-money laundering-related matters. We have also invested in technology to improve our associates' ability to monitor and detect compliance risk, including suspicious activities. We will continue to devote significant resources to the expansion and support of the firm's framework for managing and mitigating compliance risk.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk management” of this Form 10-K for our quantitative and qualitative disclosures about market risk.

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## RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm  
To the Shareholders and Board of Directors  
Raymond James Financial, Inc.:

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Raymond James Financial, Inc. and subsidiaries (the Company) as of September 30, 2018 and 2017, the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2018 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 20, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

/s/ KPMG LLP

We have served as the Company's auditor since 2001.

Tampa, Florida  
November 20, 2018



RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|  | September 30, |              |
|--|---------------|--------------|
| \$ in thousands, except share amounts  | 2018          | 2017         |
| Assets:  |               |              |
| Cash and cash equivalents  | \$3,500,306   | \$3,669,672  |
| Cash segregated pursuant to regulations  | 2,441,241     | 3,476,085    |
| Securities purchased under agreements to resell  | 372,603       | 404,462      |
| Securities borrowed  | 255,280       | 138,319      |
| Financial instruments, at fair value:  |               |              |
| Trading instruments (includes \$464,528 and \$357,099 pledged as collateral)   | 702,390       | 564,263      |
| Available-for-sale securities (includes \$19,672 and \$- pledged as collateral)  | 2,696,366     | 2,188,282    |
| Derivative assets  | 180,224       | 318,775      |
| Private equity investments   | 147,158       | 198,779      |
| Other investments (includes \$25,503 and \$6,640 pledged as collateral)  | 202,202       | 220,980      |
| Brokerage client receivables, net  | 3,342,534     | 2,766,771    |
| Receivables from brokers, dealers and clearing organizations   | 256,965       | 268,021      |
| Other receivables  | 582,918       | 652,769      |
| Bank loans, net  | 19,518,100    | 17,006,795   |
| Loans to financial advisors, net   | 934,420       | 873,272      |
| Investments in real estate partnerships held by consolidated variable interest entities  | 107,405       | 111,743      |
| Property and equipment, net  | 486,274       | 437,374      |
| Deferred income taxes, net   | 203,125       | 313,486      |
| Goodwill and identifiable intangible assets, net   | 639,097       | 493,183      |
| Other assets   | 844,316       | 780,425      |
| Total assets   | \$37,412,924  | \$34,883,456 |
| Liabilities and equity:  |               |              |
| Bank deposits  | \$19,941,507  | \$17,732,362 |
| Securities sold under agreements to repurchase   | 186,205       | 220,942      |
| Securities loaned  | 422,785       | 383,953      |
| Financial instruments sold but not yet purchased, at fair value:   |               |              |
| Trading instruments  | 235,342       | 221,449      |
| Derivative liabilities   | 246,913       | 356,964      |
| Brokerage client payables  | 5,624,810     | 5,411,829    |
| Payables to brokers, dealers and clearing organizations  | 205,952       | 172,714      |
| Accrued compensation, commissions and benefits   | 1,189,485     | 1,059,996    |
| Other payables   | 458,884       | 567,045      |
| Other borrowings   | 899,059       | 1,514,012    |
| Senior notes payable   | 1,549,636     | 1,548,839    |
| Total liabilities  | 30,960,578    | 29,190,105   |
| Commitments and contingencies (see Note 17)  |               |              |
| Equity   |               |              |
| Preferred stock; \$.10 par value; 10,000,000 shares authorized; -0- shares issued and outstanding  | —             | —            |
| Common stock; \$.01 par value; 350,000,000 shares authorized; 156,363,615 and 154,228,235 shares issued as of September 30, 2018 and 2017, respectively. Shares outstanding of 145,642,437 and 144,096,521 as of September 30, 2018 and 2017, respectively | 1,563         | 1,542        |

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|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital   | 1,808,042    | 1,645,397    |
| Retained earnings  | 5,033,059    | 4,340,054    |
| Treasury stock, at cost; 10,693,026 and 10,084,038 common shares as of September 30, 2018 and 2017, respectively | (447,274 )   | (390,081 )   |
| Accumulated other comprehensive loss   | (26,929 )    | (15,199 )    |
| Total equity attributable to Raymond James Financial, Inc.   | 6,368,461    | 5,581,713    |
| Noncontrolling interests   | 83,885       | 111,638      |
| Total equity   | 6,452,346    | 5,693,351    |
| Total liabilities and equity   | \$37,412,924 | \$34,883,456 |

See accompanying Notes to Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| in thousands, except per share amounts   | Year ended September 30, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2018                     | 2017        | 2016        |
| <b>Revenues:</b>   |                          |             |             |
| Securities commissions and fees  | \$4,483,040              | \$4,020,910 | \$3,498,615 |
| Investment banking   | 440,811                  | 398,675     | 304,155     |
| Investment advisory and related administrative fees  | 605,634                  | 462,989     | 393,346     |
| Interest income  | 1,043,993                | 802,126     | 640,397     |
| Account and service fees   | 771,012                  | 667,274     | 511,326     |
| Net trading profit   | 56,722                   | 81,880      | 91,591      |
| Other  | 74,609                   | 91,021      | 81,690      |
| Total revenues   | 7,475,821                | 6,524,875   | 5,521,120   |
| Interest expense   | (201,503 )               | (153,778 )  | (116,056 )  |
| Net revenues   | 7,274,318                | 6,371,097   | 5,405,064   |
| <b>Non-interest expenses:</b>  |                          |             |             |
| Compensation, commissions and benefits   | 4,795,375                | 4,228,387   | 3,624,607   |
| Communications and information processing  | 365,879                  | 310,961     | 279,746     |
| Occupancy and equipment costs  | 201,943                  | 190,737     | 167,455     |
| Business development   | 181,470                  | 154,926     | 148,413     |
| Investment sub-advisory fees   | 92,388                   | 78,656      | 59,930      |
| Bank loan loss provision   | 20,481                   | 12,987      | 28,167      |
| Acquisition-related expenses   | 3,927                    | 17,995      | 40,706      |
| Losses on extinguishment of debt   | —                        | 45,746      | —           |
| Other  | 307,978                  | 402,724     | 244,096     |
| Total non-interest expenses  | 5,969,441                | 5,443,119   | 4,593,120   |
| Income including noncontrolling interests and before provision for income taxes  | 1,304,877                | 927,978     | 811,944     |
| Provision for income taxes   | 453,960                  | 289,111     | 271,293     |
| Net income including noncontrolling interests  | 850,917                  | 638,867     | 540,651     |
| Net income/(loss) attributable to noncontrolling interests   | (5,778 )                 | 2,632       | 11,301      |
| Net income attributable to Raymond James Financial, Inc.   | \$856,695                | \$636,235   | \$529,350   |
| <b>Earnings per common share – basic</b>   |                          |             |             |
| Earnings per common share – basic  | \$5.89                   | \$4.43      | \$3.72      |
| <b>Earnings per common share – diluted</b>   |                          |             |             |
| Earnings per common share – diluted  | \$5.75                   | \$4.33      | \$3.65      |
| Weighted-average common shares outstanding – basic   | 145,271                  | 143,275     | 141,773     |
| Weighted-average common and common equivalent shares outstanding – diluted   | 148,838                  | 146,647     | 144,513     |
| <b>Net income attributable to Raymond James Financial, Inc.</b>  |                          |             |             |
| Net income attributable to Raymond James Financial, Inc.   | \$856,695                | \$636,235   | \$529,350   |
| <b>Other comprehensive income/(loss), net of tax:</b>  |                          |             |             |
| Net change in unrealized gain/(loss) on available-for-sale securities and non-credit portion of other-than-temporary impairment losses | (43,221 )                | 1,684       | (5,576 )    |
| Net change in unrealized gain/(loss) on currency translations, net of the impact of net investment hedges                              | (3,315 )                 | 15,618      | 2,179       |
| Net change in unrealized gain/(loss) on cash flow hedges   | 34,806                   | 23,232      | (11,833 )   |
| Total comprehensive income   | \$844,965                | \$676,769   | \$514,120   |

See accompanying Notes to Consolidated Financial Statements.

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

| \$ in thousands, except per share amounts  | Year ended September 30, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2018                     | 2017        | 2016        |
| Common stock, par value \$.01 per share:   |                          |             |             |
| Balance beginning of year  | \$1,542                  | \$1,513     | \$1,491     |
| Share issuances  | 21                       | 29          | 22          |
| Balance end of year  | 1,563                    | 1,542       | 1,513       |
| Additional paid-in capital:  |                          |             |             |
| Balance beginning of year  | 1,645,397                | 1,498,921   | 1,344,779   |
| Employee stock purchases   | 31,134                   | 26,277      | 28,025      |
| Exercise of stock options and vesting of restricted stock units, net of forfeitures  | 32,086                   | 28,258      | 16,470      |
| Restricted stock, stock option and restricted stock unit expense   | 98,048                   | 90,748      | 73,871      |
| Excess tax benefit from share-based payments <sup>(1)</sup>  | —                        | —           | 35,121      |
| Other  | 1,377                    | 1,193       | 655         |
| Balance end of year  | 1,808,042                | 1,645,397   | 1,498,921   |
| Retained earnings:   |                          |             |             |
| Balance beginning of year  | 4,340,054                | 3,834,781   | 3,422,169   |
| Net income attributable to Raymond James Financial, Inc.   | 856,695                  | 636,235     | 529,350     |
| Cash dividends declared  | (163,501 )               | (130,643 )  | (116,738 )  |
| Other  | (189 )                   | (319 )      | —           |
| Balance end of year  | 5,033,059                | 4,340,054   | 3,834,781   |
| Treasury stock:  |                          |             |             |
| Balance beginning of year  | (390,081 )               | (362,937 )  | (203,455 )  |
| Purchases/surrenders   | (45,228 )                | (9,404 )    | (153,137 )  |
| Exercise of stock options and vesting of restricted stock units, net of forfeitures  | (11,965 )                | (17,740 )   | (6,345 )    |
| Balance end of year  | (447,274 )               | (390,081 )  | (362,937 )  |
| Accumulated other comprehensive loss:  |                          |             |             |
| Balance beginning of year  | (15,199 )                | (55,733 )   | (40,503 )   |
| Net change in unrealized gain/(loss) on available-for-sale securities and non-credit portion of other-than-temporary impairment losses, net of tax | (43,221 )                | 1,684       | (5,576 )    |
| Net change in unrealized gain/(loss) on currency translations, net of the impact of net investment hedges, net of tax                              | (3,315 )                 | 15,618      | 2,179       |
| Net change in unrealized gain on cash flow hedges, net of tax  | 34,806                   | 23,232      | (11,833 )   |
| Balance end of year  | (26,929 )                | (15,199 )   | (55,733 )   |
| Total equity attributable to Raymond James Financial, Inc.   | \$6,368,461              | \$5,581,713 | \$4,916,545 |
| Noncontrolling interests:  |                          |             |             |
| Balance beginning of year  | \$111,638                | \$146,431   | \$154,454   |
| Net income attributable to noncontrolling interests  | (5,778 )                 | 2,632       | 11,301      |
| Capital contributions  | —                        | 9,775       | 917         |
| Distributions  | (21,904 )                | (43,568 )   | (18,312 )   |
| Derecognition resulting from sales   | —                        | (4,649 )    | —           |

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|                     |             |   |             |             |   |
|---------------------|-------------|---|-------------|-------------|---|
| Other               | (71         | ) | 1,017       | (1,929      | ) |
| Balance end of year | 83,885      |   | 111,638     | 146,431     |   |
| Total equity        | \$6,452,346 |   | \$5,693,351 | \$5,062,976 |   |

(1) During the year ended September 30, 2017, we adopted new stock compensation simplification guidance. See Note 16 for additional information.

See accompanying Notes to Consolidated Financial Statements.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

| \$ in thousands  | Year ended September 30, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2018                     | 2017        | 2016        |
| Cash flows from operating activities:  |                          |             |             |
| Net income attributable to Raymond James Financial, Inc.   | \$856,695                | \$636,235   | \$529,350   |
| Net income/(loss) attributable to noncontrolling interests   | (5,778 )                 | 2,632       | 11,301      |
| Net income including noncontrolling interests  | 850,917                  | 638,867     | 540,651     |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by/(used in) operating activities: |                          |             |             |
| Depreciation and amortization  | 98,735                   | 84,132      | 72,383      |
| Deferred income taxes  | 116,549                  | (11,617 )   | (58,798 )   |
| Premium and discount amortization on available-for-sale securities and (gain)/loss on other investments                        | 21,058                   | (27,572 )   | (25,010 )   |
| Provisions for loan losses, legal and regulatory proceedings and bad debts   | 54,683                   | 36,357      | 42,394      |
| Share-based compensation expense   | 103,054                  | 96,164      | 78,528      |
| Compensation expense/(benefit) payable in common stock of an acquiree  | (3,568 )                 | 13,301      | (2,102 )    |
| Unrealized gain on company-owned life insurance policies, net of expenses  | (31,932 )                | (43,385 )   | (24,586 )   |
| Losses on extinguishment of debt   | —                        | 45,746      | —           |
| Other  | 24,847                   | 29,532      | 16,940      |
| Net change in:   |                          |             |             |
| Cash segregated pursuant to regulations  | 1,019,096                | 1,430,898   | (1,942,429) |
| Securities purchased under agreements to resell, net of securities sold under agreements to repurchase                         | (5,417 )                 | 97,001      | (134,085 )  |
| Securities loaned, net of securities borrowed  | (78,346 )                | (261,659 )  | 152,380     |
| Loans provided to financial advisors, net of repayments  | (83,177 )                | (53,785 )   | (344,164 )  |
| Brokerage client receivables and other accounts receivable, net  | (522,372 )               | (50,917 )   | (609,952 )  |
| Trading instruments, net   | (142,597 )               | 57,106      | 7,048       |
| Derivative instruments, net  | 72,932                   | 57,889      | (18,590 )   |
| Other assets   | 27,371                   | 97,391      | (47,094 )   |
| Brokerage client payables and other accounts payable   | 345,996                  | (1,133,283) | 1,782,456   |
| Accrued compensation, commissions and benefits   | 131,569                  | 160,038     | 46,367      |
| Purchases and originations of loans held for sale, net of proceeds from sales of securitizations and loans held for sale       | (96,071 )                | 189,232     | (101,155 )  |
| Jay Peak matter payments   | —                        | (145,500 )  | (4,500 )    |
| Net cash provided by/(used in) operating activities  | 1,903,327                | 1,305,936   | (573,318 )  |
| Cash flows from investing activities:  |                          |             |             |
| Additions to property and equipment  | (133,586 )               | (189,994 )  | (121,733 )  |
| Increase in bank loans, net  | (2,818,434)              | (2,253,574) | (2,400,247) |
| Proceeds from sales of loans held for investment   | 193,157                  | 333,130     | 197,557     |
| Purchases of available-for-sale securities   | (1,124,203)              | (1,732,790) | (463,202 )  |
| Available-for-sale securities maturations, repayments and redemptions  | 495,465                  | 299,343     | 95,961      |
| Proceeds from sales of available-for-sale securities   | 45,449                   | 93,774      | 11,062      |
| Business acquisitions, net of cash acquired  | (159,200 )               | —           | (175,283 )  |
| Other investing activities, net  | 25,438                   | 74,041      | (62,018 )   |
| Net cash used in investing activities  | (3,475,914)              | (3,376,070) | (2,917,903) |

(continued on next page)

See accompanying Notes to Consolidated Financial Statements.

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

| \$ in thousands  | Year ended September 30, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2018                     | 2017        | 2016        |
| 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 )               | —           | —           |
| Proceeds from/(repayments of) short-term borrowings, net               | (610,000 )               | 610,000     | (115,000 )  |
| Proceeds from Federal Home Loan Bank advances                          | 850,000                  | 950,000     | 25,000      |
| Repayments of Federal Home Loan Bank advances and other borrowed funds | (854,952 )               | (654,647 )  | (4,407 )    |
| Proceeds from senior note issuances, net of debt issuance costs paid   | —                        | 508,473     | 792,221     |
| Extinguishment of senior notes payable                                 | —                        | (650,000 )  | (250,000 )  |
| Premium paid on extinguishment of senior notes payable                 | —                        | (36,892 )   | —           |
| Acquisition-related contingent consideration (paid)/received, net      | (6,888 )                 | 2,992       | —           |
| Exercise of stock options and employee stock purchases                 | 63,347                   | 57,462      | 43,331      |
| Increase in bank deposits  | 2,209,145                | 3,469,815   | 2,342,666   |
| Purchases of treasury stock  | (61,971 )                | (34,055 )   | (162,502 )  |
| Dividends on common stock  | (151,336 )               | (127,202 )  | (113,435 )  |
| Distributions to noncontrolling interests, net                         | (17,163 )                | (31,383 )   | (17,395 )   |
| Net cash provided by financing activities                              | 1,420,182                | 4,064,563   | 2,540,479   |
| Currency adjustment:   |                          |             |             |
| Effect of exchange rate changes on cash                                | (16,961 )                | 24,791      | 188         |
| Net increase/(decrease) in cash and cash equivalents                   | (169,366 )               | 2,019,220   | (950,554 )  |
| Cash and cash equivalents at beginning of year                         | 3,669,672                | 1,650,452   | 2,601,006   |
| Cash and cash equivalents at end of year                               | \$3,500,306              | \$3,669,672 | \$1,650,452 |
| Supplemental disclosures of cash flow information:                     |                          |             |             |
| Cash paid for interest   | \$200,928                | \$155,984   | \$113,517   |
| Cash paid for income taxes, net  | \$231,136                | \$349,009   | \$303,793   |

See accompanying Notes to Consolidated Financial Statements.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 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 which, together with its subsidiaries, is engaged in various financial services activities, including providing investment management services for retail and institutional clients, the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. The firm also provides corporate and retail banking services, and trust services. For further information about our business segments, see Note 23 of this Form 10-K. As used herein, the terms “our,” “we,” or “us” refer to RJF and/or one or more of its subsidiaries.

Basis of presentation

The accompanying 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 in Note 10. 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

The preparation of consolidated financial statements in conformity with United States of America (“U.S.”) generally accepted accounting principles (“GAAP”) requires us to 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 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 consolidated financial statements.

Reclassifications

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of revenues

Securities commissions and fees - The significant components of our securities commissions and fees revenue include the following:

- a. Commission revenues and related expenses from securities transactions are recorded on a trade date basis.
- a. Commission revenues are recorded at the amount charged to clients which, in certain cases, may include discounts.
- b. Fees earned by financial advisors who provide investment advisory services under various manners of affiliation with us. These fee revenues are computed as either a percentage of the assets in the client account, or a flat periodic fee charged to the client for investment advice and are recognized over the period in which the service is provided.

Such fees are earned from the services provided by the financial advisors who affiliate with us.

Financial advisors may choose to affiliate with us as either an employee, and thus operate under our registered investment advisor (“RIA”) license, or as an independent contractor. If affiliated as an independent contractor, the financial advisor may choose to provide such advisory services either under their own RIA license, or under the RIA license of one of our subsidiaries.

RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

The revenue recognition and related expense policies associated with the generation of advisory fees from each of these affiliation alternatives are as follows:

i. Investment advisory service fee revenues earned by employee financial advisors and independent contractors who offer such services under one of our subsidiary RIA licenses are presented in "Securities commissions and fees" revenue on a gross basis. These advisors' compensation is calculated as a percentage of the revenues generated and is recorded as a component of "Compensation, commissions and benefits expense".

ii. Independent RIA firms owned and operated by a financial advisor who is an independent contractor, may receive administrative and custodial services from us. These firms operate under their own RIA license and pay a fee for services provided to the RIA and its clients. These fees are recorded in "Securities commissions and fees" revenue, net of the portion of the fees that are remitted to the independent RIA firm.

iii. We may earn fees as a result of providing a custodial platform for unaffiliated independent RIA firms. These independent RIA firms operate under their own RIA license and pay for administrative and other services that we provide. These fees are recorded in "Securities commissions and fees" revenue, net of the portion of the fees that are remitted to the independent RIA firm.

c. Trailing commissions from mutual funds and variable annuities/insurance products, which are recorded over the period earned.

d. Insurance commission revenues and related expenses are recognized when the delivery of the insurance policy is confirmed by the carrier, the premium is remitted to the insurance company and the policy requirements are met.

e. Annuity commission revenues and related expenses are recognized when the signed annuity application and premium is submitted to the annuity carrier.

Investment banking - Investment banking revenues are generally recorded at the time the services related to the transaction are completed under the terms of the engagement and the related income is reasonably determinable. Such investment banking revenues include merger & acquisition and advisory fees, management fees and underwriting fees earned in connection with the distribution of public offerings and private placements. Expenses associated with such transactions, net of client reimbursements, are deferred until the related revenue is recognized or the assignment is otherwise concluded and are presented net with the related revenues. Investment banking revenues also include syndication fees on the sale of low income housing tax credit fund interests.

Investment advisory and related administrative fees - We provide advice, research and administrative services for clients participating in both our managed and non-discretionary asset-based investment programs. These revenues are generated by our asset management businesses for administering and managing portfolios, funds and separately managed accounts for our clients, including individuals, mutual funds and managed programs. We earn investment advisory and related administrative fees based on the value of clients' portfolios which are held in either managed or non-discretionary asset-based programs. Fees are computed based on balances either at the beginning of the quarter, the end of the quarter, or average assets. These fees are recorded over the period earned.

We may earn performance fees from various funds and separately managed accounts we manage when their performance exceeds certain specified rates of return. We record performance fee revenues in the period they are specifically quantifiable and are earned and are not subject to clawback or reversal.

In our low-income housing tax credit fund activities, we provide oversight and management of the funds during the fifteen year tax credit compliance period of the funds' underlying investments. We recognize these fees over the period the services are provided.

Account and service fees - Account and service fees primarily include transaction fees, annual account fees, service charges, servicing fees and fees generated from unaffiliated banks related to our Raymond James Bank Deposit Program ("RJBDP"), a multi-bank sweep program. Transaction fees are earned and collected from clients as trades are executed. Annual account fees such as IRA fees and distribution fees are recognized as earned over the term of the contract. Fees related to RJBDP and servicing fees, such as omnibus and education and marketing support fees paid to us for marketing and administrative services provided to mutual fund and insurance/annuity companies, are recognized as earned.

#### Cash and cash equivalents

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes.

RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Cash segregated pursuant to regulations

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Raymond James & Associates, Inc. (“RJ&A”), as a broker-dealer carrying client accounts, is subject to requirements to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. The amounts included in Cash segregated pursuant to regulations in our consolidated statements of financial condition represented the amounts of cash actually on deposit in our segregated reserve accounts for regulatory purposes as of each respective period-end. In addition, Raymond James Ltd. (“RJ Ltd.”) is required to hold client Registered Retirement Savings Plan funds in trust. Raymond James Bank, N.A. (“RJ Bank”) maintains cash in an interest-bearing pass-through account at the Federal Reserve Bank in accordance with Regulation D of the Federal Reserve Act, which requires depository institutions to maintain minimum average reserve balances against its deposits.

Securities purchased under agreements to resell and securities sold under agreements to repurchase

We purchase securities under short-term agreements to resell (“reverse repurchase agreements”). Additionally, we sell securities under agreements to repurchase (“repurchase agreements”). Both reverse repurchase agreements and repurchase agreements are accounted for as collateralized financings and are carried at contractual amounts plus accrued interest. To mitigate credit exposure under repurchase agreements, we receive collateral with a fair value equal to or in excess of the principal amount loaned under such agreements. To ensure that the market value of the underlying collateral remains sufficient, the securities are valued daily, and collateral is obtained from or returned to the counterparty when contractually required. In addition, under repurchase agreements, we are required to post collateral in an amount that exceeds the carrying value of these agreements. In the event that the market value of the securities we pledge as collateral declines, we may have to post additional collateral or reduce borrowing amounts. See Note 7 for additional information regarding collateralized agreements and financings.

Securities borrowed and securities loaned

We act as an intermediary between broker-dealers and other financial institutions whereby we borrow securities from one broker-dealer and then either lend them to another broker-dealer or use them to cover short positions. Where permitted, we have also loaned, to broker-dealers and other financial institutions, securities owned by the firm or our clients and others we have received as collateral. Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of collateral advanced or received. In securities borrowed transactions, we are required to deposit cash with the lender. With respect to securities loaned, we generally receive collateral in the form of cash in an amount in excess of the market value of securities loaned. We monitor the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. See Note 7 for additional information regarding collateral agreements and financings.

Financial instruments, financial instruments sold but not yet purchased, at fair value

“Financial instruments owned” and “Financial instruments sold, but not yet purchased” are recorded at fair value. Fair value is defined by GAAP as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability.

In determining the fair value of our financial instruments in accordance with GAAP, we use various valuation approaches, including market and/or income approaches. Fair value is a market-based measurement considered from the perspective of a market participant. As such, our fair value measurements reflect assumptions that we believe market participants would use in pricing the asset or liability at the measurement date. GAAP provides for the

following three levels to be used to classify our fair value measurements.

Level 1 - Financial instruments included in Level 1 are highly liquid instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Financial instruments reported in Level 2 include those that have pricing inputs that are other than quoted prices in active markets, but which are either directly or indirectly observable as of the reporting date (i.e., prices for similar instruments).

Level 3 - Financial instruments reported in Level 3 have little, if any, market activity and are measured using one or more inputs that are significant to the fair value measurement and unobservable. These valuations require significant judgment or estimation. These instruments are generally valued using discounted cash flow techniques, market multiples, or investment-specific events.

GAAP requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when performing our fair value measurements. The availability of observable inputs can vary from instrument to instrument and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value



RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument.

We offset our long and short positions for identical securities recorded at fair value as part of our trading instruments (long positions) and trading instruments sold but not yet purchased (short positions).

Valuation techniques and inputs - The fair values for certain of our financial instruments are derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of our financial instruments. Financial instruments which are actively traded will generally have a higher degree of price transparency than financial instruments that are thinly traded. In accordance with GAAP, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. For equity securities, our definition of actively traded is based on average daily volume and other market trading statistics. We have determined the market for certain other types of financial instruments, including private equity investments and auction-rate securities (“ARS”), to be uncertain or inactive as of both September 30, 2018 and 2017. As a result, the valuation of these financial instruments included management judgment in determining the relevance and reliability of market information available. We considered the inactivity of the market to be evidenced by several factors, including low levels of price transparency caused by low volume of trades, stale transaction prices and transaction prices that varied significantly either over time or among market makers.

The level within the fair value hierarchy, specific valuation techniques, and other significant accounting policies pertaining to financial instruments presented in our Consolidated Statements of Financial Condition are described as follows:

Trading instruments and trading instruments sold but not yet purchased - Trading instruments and trading instruments sold but not yet purchased are comprised primarily of the financial instruments held by our broker-dealer subsidiaries and include debt securities, equity securities, brokered certificates of deposit, and other securities. These instruments are recorded at fair value with realized and unrealized gains and losses reflected in current period net income.

When available, we use quoted prices in active markets to determine the fair value of our trading instruments. Such instruments are classified within Level 1 of the fair value hierarchy.

When trading instruments are traded in secondary markets and quoted market prices for identical instruments do not exist, we utilize valuation techniques including matrix pricing to estimate fair value. Matrix pricing generally utilizes spread-based models periodically re-calibrated to observable inputs such as market trades or to dealer price bids in similar securities in order to derive the fair value of the instruments. Valuation techniques may also rely on other observable inputs such as yield curves, interest rates and expected principal repayments and default probabilities. We utilize prices from independent services to corroborate our estimate of fair value. Depending upon the type of security, the pricing service may provide a listed price, a matrix price or use other methods including broker-dealer price quotations. Securities valued using these techniques are classified within Level 2 of the fair value hierarchy.

Included within trading instruments are to be announced (“TBA”) security contracts with investors for generic mortgage backed securities (“MBS”) at specific rates and prices to be delivered on settlement dates in the future. We enter into these TBAs to hedge interest rate risk that arises as part of a program our fixed income public finance operations offers to certain state and local housing finance agencies (“HFA”). Under this program, we enter into forward commitments to purchase Government National Mortgage Association (“GNMA”) or Federal National Home Mortgage Association (“FNMA”) MBS. The MBS are issued on behalf of various HFA clients and consist of the mortgages

originated through their lending programs. Our forward GNMA or FNMA MBS purchase commitments arise at the time of the loan reservation for a borrower in the HFA lending program. The underlying terms of the GNMA or FNMA MBS purchase, including the price for the MBS (which is dependent upon the interest rates associated with the underlying mortgages) are also fixed at loan reservation. We typically sell such MBS upon acquisition as part of our fixed income operations. The TBA securities used to hedge these transactions are accounted for at fair value and are classified within Level 1 of the fair value hierarchy. The TBA securities may aggregate to either a net asset or net liability at any reporting date, depending upon market conditions. The offsetting purchase commitment is accounted for at fair value and is included in "Trading instruments" or "Trading instruments sold but not yet purchased," depending upon whether the TBA securities aggregate to a net asset or net liability. The fair value of the purchase commitment is classified within Level 3 of the fair value hierarchy.

Available-for-sale securities - Available-for-sale securities are generally classified at the date of purchase and are comprised primarily of agency MBS and collateralized mortgage obligations ("CMOs") held by RJ Bank.

Available-for-sale securities held at RJ Bank are used as part of its interest rate risk and liquidity management strategies and may be sold in response to changes in interest rates, changes in prepayment risks, or other factors.

RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Interest on available-for-sale securities is recognized in interest income on an accrual basis. For the RJ Bank available-for-sale securities, discounts are accreted and premiums are amortized as an adjustment to yield over the estimated average life of the security. Realized gains and losses on sales of available-for-sale securities are recognized using the specific identification method and reflected in other revenue in the period sold. Unrealized gains or losses on available-for-sale securities, except for those that are deemed to be other-than-temporary, are recorded through other comprehensive income/(loss) (“OCI”) and are thereafter presented in equity as a component of accumulated other comprehensive income (“AOCI”) on our Consolidated Statements of Financial Condition.

For any available-for-sale securities in an unrealized loss position at a reporting period end, we make an assessment whether such securities are impaired on an other-than-temporary basis. The following factors are considered in order to determine whether an impairment is other-than-temporary: our intention to sell the security, our assessment of whether it is more likely than not that we will be required to sell the security before the recovery of its amortized cost basis, and whether the evidence indicating that we will recover the amortized cost basis of a security in full outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to period end, recent events specific to the issuer or industry and forecasted performance of the security.

We have the ability and intent to hold our available-for-sale securities. We have concluded that it is not more likely than not that we will be required to sell these available-for-sale securities before the recovery of their amortized cost basis. Those securities whose amortized cost basis we do not expect to recover in full are deemed to be other-than-temporarily impaired (“OTTI”) and are written down to fair value with the credit loss portion of the write-down recorded as a realized loss in other revenue and the non-credit portion of the write-down recorded, net of deferred taxes, in shareholders’ equity as a component of AOCI. The credit loss portion of the write-down is the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the security. We do not consider these securities (MBS and CMOs) OTTI due to the guarantee of the full payment of principal and interest, and the fact that we have the ability and intent to hold these securities. We estimate the portion of loss attributable to credit using a discounted cash flow model.

The fair value of agency securities included within the RJ Bank available-for-sale securities is determined by obtaining third-party pricing service bid quotations from two independent pricing services. Third-party pricing service bid quotations are based on either current market data or the most recently available market data. The third-party pricing services provide comparable price evaluations utilizing available market data for similar securities. The market data the third-party pricing services utilize for these price evaluations includes observable data comprised of benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data including market research publications, and loan performance experience. On a quarterly basis, we utilize bid quotations from other third-party pricing services to corroborate the pricing information obtained from the primary pricing service. Securities valued using these valuation techniques are classified within Level 2 of the fair value hierarchy.

We also hold ARS which are long-term variable rate securities tied to short-term interest rates that were intended to be reset through a “Dutch auction” process, which generally occurs every seven to 35 days. Holders of ARS were, at one time, able to liquidate their holdings to prospective buyers by participating in the auctions. During 2008, the Dutch auction process failed and holders were no longer able to liquidate their holdings through the auction process. The fair value of the ARS holdings is estimated based on internal pricing models. The pricing models take into consideration the characteristics of the underlying securities, as well as multiple inputs including the issuer and its credit quality, data from recent trades, if any, the expected timing of redemptions and an estimated yield premium that a market participant would require over otherwise comparable securities to compensate for the illiquidity of the ARS. These valuation techniques use unobservable inputs and accordingly are classified within Level 3 of the fair value hierarchy.

Derivative assets and derivative liabilities - Our derivative assets and derivative liabilities are recorded at fair value and are included in “Derivative assets” and “Derivative liabilities” in our Consolidated Statements of Financial Condition. 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 our 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.

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. Any realized or unrealized gains or losses, including interest, are recorded in “Net trading profit” within our Consolidated Statements of Income and Comprehensive Income. The fair value of these interest rate derivative

RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

contracts is obtained from internal pricing models that consider current market trading levels and the contractual prices for the underlying financial instruments, as well as time value, yield curve and other volatility factors underlying the positions. Since our model inputs can be observed in a liquid market and the models do not require significant judgment, such derivative contracts are classified within Level 2 of the fair value hierarchy. We utilize values obtained from third-party derivatives dealers to corroborate the output of our internal pricing models.

**Matched book:** 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. Fair value is determined using an internal pricing model which includes inputs from independent pricing sources to project future cash flows under each underlying derivative contract. Since any changes in fair value are completely offset by a change in fair value of the offsetting derivative, there is no net impact in our Consolidated Statements of Income and Comprehensive Income from changes in the fair value of these derivative instruments. We recognize revenue on derivative transactions on the transaction date, computed as the present value of the expected cash flows we expect to receive from the third-party financial institution over the life of the derivative contract. The difference between the present value of these cash flows at the date of inception and the gross amount potentially received is accreted to revenue over the term of the contract. The revenue from these transactions is included within “Other” revenues in our Consolidated Statements of Income and Comprehensive Income.

**RJ Bank derivatives:** We enter into three-month forward foreign exchange contracts to hedge the risks related to RJ Bank’s investment in their Canadian subsidiary, as well as their risk due to holdings of cash and other assets and liabilities resulting from transactions denominated in currencies other than the U.S. dollar. The majority of these derivatives are designated as net investment hedges. The gain or loss related to the designated derivative instruments is recorded, net of tax, in shareholders’ equity as part of the cumulative translation adjustment component of AOCI with such balance impacting “Other” revenues in the event the net investment is sold or substantially liquidated. Gains and losses on the undesignated derivative instruments are recorded in earnings in our Consolidated Statements of Income and Comprehensive Income. Hedge effectiveness is assessed at each reporting period using a method that is based on changes in forward rates and measured using the hypothetical derivatives method. As the terms of the hedging instrument and hypothetical derivative generally match at inception, the hedge is expected to be highly effective.

The fair value of our forward foreign exchange contracts is determined by obtaining valuations from a third-party pricing service or model. These valuations are based on observable inputs such as spot rates, foreign exchange rates and both U.S. and foreign interest rate curves. We validate the observable inputs utilized in the third-party valuation model by preparing an independent calculation using a secondary, third-party valuation model. These forward foreign exchange contracts are classified within Level 2 of the fair value hierarchy.

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. We enter into floating-rate advances from the Federal Home Loan Bank of Atlanta (“FHLB”) to, in part, fund these assets and then enter 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 our cost of funds associated with these assets to mitigate a portion of the market risk.

The gain or loss on these interest rate derivatives is recorded, net of tax, in shareholders' equity as part of the cash flow hedge component of AOCI and subsequently reclassified to earnings when the hedged transaction affects earnings, specifically upon the incurrence of interest expense on the hedged borrowings. Hedge effectiveness is assessed at inception and at each reporting period utilizing regression analysis. As the key terms of the hedging instrument and hedged transaction match at inception, management expects the hedges to be effective while they are outstanding. The fair value of these interest rate hedges is determined by obtaining valuations from a third-party pricing service. These third-party valuations are based on observable inputs such as time value and yield curve. We validate these observable inputs by preparing an independent calculation using a secondary third-party model. We classify these derivative instruments within Level 2 of the fair value hierarchy.

Other: As part of our acquisition of Alex. Brown, we assumed certain Deutsche Bank restricted stock unit ("DBRSU") awards, including the associated plan terms and conditions. Refer to the share-based compensation section of this footnote for a description of the assumed obligation. 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, as traded on the New York Stock Exchange ("NYSE"), provided the performance metrics are achieved. The DBRSU obligation results in a derivative that is measured

RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

by applying the reporting period end DB common share price to the DBRSU awards outstanding as of the end of such period. This computation is a Level 2 measurement under the fair value hierarchy and the liability is included in “Derivative liabilities” in our Consolidated Statements of Financial Condition.

**Private equity investments** - Private equity investments consist of direct investments and investments in third-party private equity funds and various private equity funds which we sponsor. The private equity funds in which we invest are primarily closed-end funds in which the Company’s investments are generally not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated or distributed. These investments are measured at fair value with any changes recognized in “Other” revenues on our Consolidated Statements of Income and Comprehensive Income. The fair value of private equity fund investments are determined utilizing either the net asset value (“NAV”) of the fund as a practical expedient or Level 3 valuation techniques.

We utilize NAV or its equivalent as a practical expedient to determine the fair value of our private equity investments when: (1) the fund does not have a readily determinable fair value; (2) the NAV of the fund is calculated in a manner consistent with the measurement principles of investment-company accounting, including measurement of the underlying investments at fair value; and (3) it is not probable that we will sell the investment at an amount other than NAV. The NAV is calculated based on our proportionate share of the net assets of the fund as provided by the fund manager.

The portion of our private equity investment portfolio that is not valued at NAV is valued initially at the transaction price until significant transactions or developments indicate that a change in the carrying values of these investments is appropriate. The carrying values of these investments are adjusted based on financial performance, investment-specific events, financing and sales transactions with third parties and/or discounted cash flow models incorporating changes in market outlook. Investments valued using these valuation techniques are classified within Level 3 of the fair value hierarchy. The valuation of such investments requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity and long-term nature of these assets. As a result, these values cannot be determined with precision and the calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument.

**Other investments** - Other investments consist primarily of marketable securities we hold that are associated with certain of our deferred compensation plans, term deposits with Canadian financial institutions, and securities pledged as collateral with clearing organizations.

The non-qualified deferred compensation plans or arrangements are for the benefit of certain employees, and provide a return to the participating employees based upon the performance of various referenced investments. The balances associated with these plans are invested in certain marketable securities that we hold until the vesting date, which is typically five years from the date of the deferral. A liability associated with these deferrals is reflected as a component of “Accrued compensation, commissions and benefits” on our Consolidated Statements of Financial Condition. We use quoted prices in active markets to determine the fair value of these investments. Such instruments are classified within Level 1 of the fair value hierarchy.

Canadian financial institution term deposits are recorded at cost which approximates fair value. These investments are classified within Level 1 of the fair value hierarchy.

**Brokerage client receivables, net**

Brokerage client receivables include receivables from the clients of our broker-dealer and asset management subsidiaries. The receivables from broker-dealer clients are principally for amounts due on cash and margin

transactions and are generally collateralized by securities owned by the clients. The receivables from asset management clients are primarily for accrued investment advisory fees. Brokerage client receivables are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. An allowance is established when collectability is not reasonably assured. When the receivable from a brokerage client is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations.

Securities beneficially owned by customers, including those that collateralize margin or other similar transactions, are not reflected in our Consolidated Statements of Financial Condition (see Note 7 for additional information regarding this collateral). We present “Brokerage client receivables, net” at their outstanding principal balance on our Consolidated Statements of Financial Condition, net of any allowance for doubtful accounts. Our allowance for doubtful accounts was insignificant at both September 30, 2018 and 2017.



RAYMOND JAMES FINANCIAL, INC AND SUBSIDIARIES  
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Receivables from brokers, dealers and clearing organizations

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities failed to deliver and cash on deposit with clearing organizations. We present "Receivables from brokers, dealers and clearing organizations" on our Consolidated Statements of Financial Condition, net of any allowance for doubtful accounts.

Bank loans, net

Loans held for investment - Bank loans are comprised of loans originated or purchased by RJ Bank and include commercial and industrial ("C&I") loans, commercial and residential real estate loans, tax-exempt loans, as well as securities-based loans ("SBL") which are fully collateralized by the borrower's marketable securities. The loans which we have the intent and the ability to hold until maturity or payoff are recorded at their unpaid principal balance plus any premium paid in connection with the purchase of the loan, less the allowance for loan losses and any discounts received in connection with the purchase of the loan and net of deferred fees and costs on originated loans. Syndicated loans purchased in the secondary market are recognized as of the trade date. Interest income is recognized on an accrual basis. Loan origination fees and direct costs, as well as premiums and discounts on loans that are not revolving, are capitalized and recognized in interest income using the interest method. For revolving loans, the straight-line method is used based on the contractual term.

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.

Loans held for sale - Certain residential mortgage loans originated and intended for sale in the secondary market due to their fixed interest rate terms, as well as SBA loans purchased and intended for sale in the secondary market but not yet aggregated for securitization into pools, are each carried at the lower of cost or estimated fair value. The fair value of the residential mortgage loans held for sale are estimated using observable prices obtained from counterparties for similar loans. These nonrecurring fair value measurements are classified within Level 2 of the fair value hierarchy.

We purchase the guaranteed portions of SBA loans and account for these loans in accordance with the policy for loans held for sale. We then aggregate SBA loans with similar characteristics into pools for securitization and sell these pools in the secondary market. Individual loans may be sold prior to securitization.

The determination of the fair value of the SBA loans depends upon their intended disposition. The fair value of the SBA loans to be individually sold are determined based upon their committed sales price. The fair value of the loans to be aggregated into pools for securitization, which are committed to be sold, are determined based upon third-party price quotes. The fair value of all other SBA loans are determined using a third-party pricing service. The prices for the SBA loans, other than those committed to be individually sold, are validated by comparing the third-party price quote or the third-party pricing service prices, as applicable, for a sample of loans to observable market trades obtained from external sources.

Once the SBA loans are securitized into a pool, the respective securities are classified as trading instruments and are carried at fair value based on our intention to sell the securitizations within the near term. Any changes in the fair value of the securitized pools as well as any realized gains or losses earned thereon are reflected in "Net trading profit" on our Consolidated Statements of Income and Comprehensive Income. Sales of the securitizations are accounted for as of settlement date, which is the date we have surrendered control over the transferred assets. We do not retain any interest in the securitizations once they are sold. The fair value for SBA loan securitizations is determined by utilizing

observable prices obtained from a third-party pricing service, which provides comparable price evaluations utilizing observable market data for similar securities. We substantiate the prices obtained from the third-party pricing service by comparing such prices for a sample of securities to observable market trades obtained from external sources. The instruments valued using these observable inputs are typically classified within Level 2 of the fair value hierarchy.

Corporate loans, which include C&I, CRE, and CRE construction, as well as tax-exempt loans are designated as held for investment upon inception and recognized in loans receivable. If we subsequently designate a corporate or tax-exempt loan as held for sale, which generally occurs as part of a loan workout situation, we then write down the carrying value of the loan with a partial charge-off, if necessary, to carry it at the lower of cost or estimated fair value.

Gains and losses on sales of residential mortgage loans held for sale, SBA loans that are not part of a securitized pool, and corporate loans transferred from the held for investment portfolio, are included as a component of "Other" revenues in our Consolidated Statements of Income and Comprehensive Income, while interest collected on these assets is included in "Interest income." Net unrealized losses

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are recognized through a valuation allowance by charges to income as a component of “Other” revenues in our Consolidated Statements of Income and Comprehensive Income.

**Off-balance sheet loan commitments** - We have outstanding at any time a significant number of commitments to extend credit and other credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases. Our policy is generally to require customers to provide collateral at the time of closing. The amount of collateral obtained, if it is deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. Collateral held varies but may include assets such as marketable securities, accounts receivable, inventory, real estate, and income-producing commercial properties. The potential credit loss associated with these off-balance sheet loan commitments is accrued and reflected in “Other payables” within our Consolidated Statements of Financial Condition. Refer to the allowance for loan losses and reserve for unfunded lending commitments section that follows for a discussion of the reserve calculation methodology.

We recognize the revenue associated with corporate syndicated standby letters of credit, which is generally received quarterly, on a cash basis, the effect of which does not differ materially from recognizing the revenue in the period the fee is earned. Unused corporate line fees are accounted for on an accrual basis.

**Nonperforming assets** - Nonperforming assets are comprised of both nonperforming loans and other real estate owned (“OREO”). Nonperforming loans represent those loans which have been placed on nonaccrual status and loans which have been restructured in a manner that grant a concession to a borrower experiencing financial difficulties we would not otherwise consider. Loans structured as described above are deemed to be a troubled debt restructuring (“TDR”). Additionally, any accruing loans which are 90 days or more past due and in the process of collection are considered nonperforming loans.

Loans of all classes are placed on nonaccrual status when we determine that full payment of all contractual principal and interest is in doubt, or the loan is past due 90 days or more as to contractual interest or principal unless the loan, in our opinion, is well-secured and in the process of collection. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is written off against interest income and accretion of the net deferred loan origination fees cease. Interest is recognized using the cash method for SBL and residential (first mortgage and home equity) loans and the cost recovery method for corporate and tax-exempt loans thereafter until the loan qualifies for return to accrual status. Loans (including first mortgage and home equity residential mortgage TDRs) are returned to an accrual status when the loans have been brought contractually current with the original or amended terms and have been maintained on a current basis for a reasonable period, generally six months. Corporate loan TDRs have generally been partially charged off and therefore, remain on nonaccrual status until the loan is fully resolved.

Other real estate acquired in the settlement of loans, including through, or in lieu of, loan foreclosure, is initially recorded at the lower of cost or fair value less estimated selling costs through a charge to the allowance for loan losses, thus establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of the carrying amount or fair value, as determined by a current appraisal or valuation less estimated costs to sell, and are classified as “Other assets” on our Consolidated Statements of Financial Condition. These nonrecurring fair value measurements are classified within Level 2 of the fair value hierarchy.

**Impaired loans** - Loans in all classes are considered to be impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest on a loan when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. For individual loans

identified as impaired, impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate and taking into consideration the factors described below in relation to the evaluation of the allowance for loan losses, except that as a practical expedient, we measure impairment based on the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Impaired loans include all corporate nonaccrual loans, all residential mortgage nonaccrual loans for which a charge-off had previously been recorded, and all loans which have been modified in TDRs. Interest income on impaired loans is recognized consistently with the recognition policy of nonaccrual loans.

Allowance for loan losses and reserve for unfunded lending commitments - We maintain an allowance for loan losses to provide for probable losses inherent in our loan portfolio based on ongoing evaluations of the portfolio, the related risk characteristics, and the overall economic and environmental conditions affecting the loan portfolio. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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We have developed policies and procedures for assessing the adequacy of the allowance for loan losses that reflect the assessment of risk considering all available information. In developing this assessment, we rely on estimates and exercise judgment in evaluating credit risk. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Depending on changes in circumstances, future assessments of credit risk may yield materially different results from the prior estimates, which may require an increase or a decrease in the allowance for loan losses. Estimates that are particularly susceptible to change that may have an impact on the amount of the allowance include:

- the selection of proxy data used to calculate loss factors;
- the evaluation of loss emergence and historical loss experience periods;
- our evaluation of the risk profile of loan portfolio segments, including internal risk ratings;
- the value of underlying collateral, which impacts loss severity and certain cash flow assumptions; and
- our selection and evaluation of qualitative factors, which reflect the imprecision that is inherent in the estimation of probable loan losses.

The allowance for loan losses is comprised of two components: allowances calculated based on formulas for homogeneous classes of loans collectively evaluated for impairment, which are re-evaluated quarterly and adjusted based on our analysis of certain qualitative factors, and specific allowances assigned to certain classified loans individually evaluated for impairment. These homogeneous classes are a result of management's disaggregation of the loan portfolio and are comprised of the previously mentioned classes: C&I, CRE, CRE construction, tax-exempt, residential first mortgage, residential home equity, and SBL.

An annual analysis of the loss emergence period estimate, which is the average length of time between the event that triggers a loss and the confirmation and/or charge-off of that loss, is performed for all loan classes. The analysis is utilized in establishing the allowance for each of the classes of loans through the application of an adjustment to the calculated allowance percentage for the respective loan grade.

The loans within the corporate and tax-exempt loan classes are assigned to an internal loan grade based upon the respective loan's credit characteristics. The loans within the residential first mortgage, residential home equity, and SBL classes are assigned loan grades equivalent to the loan classifications utilized by bank regulators, dependent on their respective likelihood of loss. For all loan classes except for CRE loans, we assign each loan grade an allowance percentage based on the estimated incurred loss associated with that grade. The allowance for loan losses for all non-impaired loans within those loan classes is then calculated based on the allowance percentage assigned to the respective loan's class and grade factoring in the respective loss emergence period. For the CRE loan class, the allowance for loan losses is calculated based on the allowance percentage assigned to each loan. The allowance for loan losses for all impaired loans and those nonaccrual residential first mortgage loans that have been evaluated for a charge-off are based on an individual evaluation of impairment as previously described in the impaired loans section.

The quantitative factors taken into consideration when assigning loan grades and allowance percentages to loans within the corporate and tax-exempt loan classes include: estimates of borrower default probabilities and collateral type; past loss history, Shared National Credit ("SNC") reviews and examination results from bank regulators. Loan grades for individual C&I and tax-exempt loans are derived from analyzing two aspects of the risk profile in a particular loan: the obligor rating and the facility (collateral) rating. The obligor rating relates to a borrower's probability of default and the facility rating is utilized to estimate the anticipated loss given default. These two ratings, which are based on historical long-term industry loss rates (proxy data) as we have limited loss history, are considered in combination with certain adjustments for the loss emergence period to derive the final C&I and tax-exempt loan grades and allowance percentages. The allowance for loans within the CRE and CRE construction loan portfolios is based on loan-level probability of default and loss given default estimates in combination with certain adjustments for

a loss emergence period.

The quantitative loss rates for corporate and tax-exempt loans are supplemented by considering qualitative factors that may cause estimated losses to differ from quantitatively calculated amounts. These qualitative factors are intended to address developing trends, and include, but are not limited to: trends in delinquencies, loan growth; loan terms; changes in geographic distribution; changes in the value of the underlying collateral for collateral-dependent loans; lending policies; loan review process; experience, ability and depth of lending management and other relevant staff; local, regional, national and international economic conditions; competition; legal and regulatory requirements; and concentrations of credit risk.

Historical loan loss rates, a quantitative factor, are utilized when assigning the allowance percentages for residential first mortgage loans and residential home equity loans. These estimated loss rates are based on our historical loss data over a period of time. We currently utilize a look back period for residential first mortgage and home equity loans reflecting the current housing cycle that includes the last downturn.

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The SBL portfolio is not yet seasoned enough to exhibit a loss trend; therefore, the allowance is based primarily on peer group allowance information and the qualitative factors noted below.

For residential first mortgage loan, residential home equity loan and SBL classes, the qualitative factors considered to supplement the quantitative analysis include, but are not limited to, loan performance trends, loan product parameters and qualification requirements, borrower credit scores at origination, occupancy (i.e., owner occupied, second home or investment property), documentation level, loan purpose, geographic concentrations, average loan size, loan policy exceptions, loan-to-value (“LTV”) ratios, as well as the factors noted above that are utilized for corporate loans. The allowance for loan losses for SBL is determined judgmentally by management, which utilizes peer benchmarking data as we have historically not experienced losses on this portfolio.

We reserve for losses inherent in its unfunded lending commitments using a methodology similar to that used for loans in the respective portfolio segment, based upon loan grade and expected funding probabilities for fully binding commitments. This will result in some reserve variability over different periods depending upon the mix of the loan portfolio at the time and funding expectations. All classes of impaired loans which have unfunded lending commitments are analyzed in conjunction with the impaired allowance process described above.

Loan charge-off policies - Corporate and tax-exempt loans are monitored on an individual basis, and loan grades are reviewed at least quarterly to ensure they reflect the loan’s current credit risk. When we determine that it is likely that a corporate or tax-exempt loan will not be collected in full, the loan is evaluated for potential impairment. After consideration of the borrower’s ability to restructure the loan, alternative sources of repayment, and other factors affecting the borrower’s ability to repay the debt, the portion of the loan deemed to be a confirmed loss, if any, is charged-off. For collateral-dependent loans secured by real estate, the amount of the loan considered a confirmed loss and charged-off is generally equal to the difference between the recorded investment in the loan and the collateral’s appraised value less estimated costs to sell. For C&I and tax-exempt loans, we evaluate all sources of repayment to arrive at the amount considered to be a loss and charged-off. Corporate banking and credit risk managers also meet regularly to review criticized loans (loans that are rated special mention or worse as defined by bank regulators, see Note 8 for further discussion). Additional charge-offs are taken when the value of the collateral changes or there is an adverse change in the expected cash flows.

The majority of our corporate loan portfolio is comprised of participations in either SNCs or other large syndicated loans in the U.S. and Canada. The SNCs are U.S. loan syndications totaling over \$100 million that are shared between three or more regulated institutions. The agent bank’s regulator reviews a portion of SNC loans on a semi-annual basis, a process in which the other participating banks have no involvement. Once the SNC regulatory review process is complete, we receive a summary of the review of these SNC credits from the Office of the Comptroller of the Currency (“OCC”). This summary includes a synopsis of each loan’s regulatory classification, loans that are designated for nonaccrual status and directed charge-offs. We must be at least as critical with nonaccrual designations, directed charge-offs, and classifications as the OCC. This ensures that each bank participating in a SNC loan rates the loan at least as critical as of the exam date. Any classification changes as a result of the review may impact our allowance for loan losses and charge-offs during the quarter that the SNC information is received from the OCC; however, these differences in the classifications are generally insignificant. The amount of such adjustments depend upon the classification and whether we had the loan classified differently (either more or less critically) than the SNC review findings and, therefore, could result in higher, lower, or no change in loan loss provisions than previously recorded. We incorporate into our ratings process any observed regulatory trends in the semi-annual SNC exam process, but there will inherently be differences of opinion on individual credits due to the high degree of judgment involved. Corporate loans are subject to our internal review procedures and regulatory review by the OCC as part of our regulatory examinations.

Every residential mortgage loan over 60 days past due is reviewed regularly and documented in a written report detailing delinquency information, balances, collection status, current valuation estimate and other data points. RJ Bank senior management meets regularly to discuss the status, collection strategy and charge-off recommendations on every residential mortgage loan over 60 days past due with charge-offs considered on residential mortgage loans once the loans are delinquent 90 days or more and then generally taken before the loan is 120 days past due. A charge-off is taken against the allowance for loan losses for the difference between the loan amount and the amount that we estimate will ultimately be collected, based on the value of the underlying collateral less estimated costs to sell. We predominantly use broker price opinions (“BPO”) for these valuations as access to the property is restricted during the collection and foreclosure process and there is insufficient data available for a full appraisal to be performed. BPOs contain relevant and timely sale comparisons and listings in the marketplace and, therefore, we have found these BPOs to be reasonable determinants of market value in lieu of appraisals and more reliable than an automated valuation tool or the use of tax assessed values. A full appraisal is obtained post-foreclosure. We take further charge-offs against the owned asset if an appraisal has a lower valuation than the original BPO, but do not reverse previously charged-off amounts if the appraisal is higher than the original BPO. If a loan remains in pre-foreclosure status for more than nine months, an updated valuation is obtained and further charge-offs are taken against the allowance for loan losses, if necessary.



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Loans to financial advisors, net

We offer loans to financial advisors and certain other key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. These loans are generally repaid over a five to eight year period with interest recognized as earned. There is no fee income associated with these loans. In the event that the financial advisor is no longer affiliated with us, any unpaid balance of such loan becomes immediately due and payable to us. In determining the allowance for doubtful accounts related to former employees or independent contractors, management primarily considers our historical collection experience as well as other factors including amounts due at termination, the reasons for the terminated relationship, and the former financial advisor's overall financial position. When the review of these factors indicates that further collection activity is highly unlikely, the outstanding balance of such loan is written-off and the corresponding allowance is reduced. Based upon the nature of these financing receivables, we do not analyze this asset on a portfolio segment or class basis. Further, the aging of this receivable balance is not a determinative factor in computing our allowance for doubtful accounts, as concerns regarding the recoverability of these loans primarily arise in the event that the financial advisor is no longer affiliated with us. We present the outstanding balance of loans to financial advisors on our 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 \$20 million and \$22 million at September 30, 2018 and 2017, respectively. Our allowance for doubtful accounts was approximately \$8 million at both September 30, 2018 and 2017.

Other assets

We carry investments in stock of the FHLB and the Federal Reserve Bank (the "FRB") at cost. These investments are held in accordance with certain membership requirements, are restricted, and lack a market. FHLB and FRB stock can only be sold to the issuer or another member institution at its par value. We annually evaluate our holdings in FHLB and FRB stock for potential impairment based upon its assessment of the ultimate recoverability of the par value of the stock. This annual evaluation is comprised of a review of the capital adequacy, liquidity position and the overall financial condition of the FHLB and FRB to determine the impact these factors have on the ultimate recoverability of the par value of the respective stock. Impairment evaluations are performed more frequently if events or circumstances indicate there may be impairment. Any cash dividends received from these investments are recognized as "Interest income" in our Consolidated Statements of Income and Comprehensive Income.

We also maintain investments in a significant number of company-owned life insurance policies utilized to fund certain non-qualified deferred compensation plans and other employee benefit plans (see Note 20 for information on the non-qualified deferred compensation plans). The life insurance policies are carried at cash surrender value as determined by the insurer. See Note 9 for additional information.

Investments in real estate partnerships held by consolidated variable interest entities

Raymond James Tax Credit Funds, Inc. ("RJTCF"), a wholly owned subsidiary of RJF, or one of its affiliates, is the managing member or general partner in Low-Income Housing Tax Credit ("LIHTC") funds, some of which require consolidation. Refer to the separate discussion that follows of our policies regarding the evaluation of VIEs to determine if consolidation is required. These funds invest in housing project limited partnerships or limited liability companies ("LLCs") which purchase and develop affordable housing properties qualifying for federal and state low-income housing tax credits. The balance presented is the investment in project partnership balance of all of the LIHTC fund VIEs which require consolidation. Additional information is presented in Note 10.

Property and equipment, net

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of assets (other than land) is primarily calculated using the straight-line method over the estimated useful lives of the assets outlined in the following table.

| Asset type   | Estimated useful life               |
|--|-------------------------------------|
| Buildings, buildings & land improvements and building components | 10 to 31 years                      |
| Furniture, fixtures and equipment                                | 3 to 5 years                        |
| Software   | 2 to 10 years                       |
| Leasehold improvements   | Lesser of useful life or lease term |

Depreciation expense associated with property, equipment and leasehold improvements is included in “Occupancy and equipment costs” in our Consolidated Statements of Income and Comprehensive Income. Amortization expense associated with computer software is included in “Communications and information processing” expense in our Consolidated Statements of Income and Comprehensive Income.

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Additions, improvements and expenditures that extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations in the period incurred. Gains and losses on disposals of property and equipment are reflected in our Consolidated Statements of Income and Comprehensive Income in the period realized.

#### Intangible assets, net

Certain identifiable intangible assets we acquire such as customer relationships, trade names, developed technology, intellectual property, and non-compete agreements, are amortized over their estimated useful lives on a straight-line method, and are evaluated for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable. Amortization expense associated with such intangible assets is included in "Other" expenses in our Consolidated Statements of Income and Comprehensive Income.

We also hold indefinite-lived intangible assets, which are not amortized under GAAP. Rather, these assets are subject to an evaluation of potential impairment on an annual basis to determine whether the estimated fair value is in excess of its carrying value, or more often if events or circumstances indicate there may be impairment. In the course of our evaluation of the potential impairment of such indefinite-lived assets, we may perform either a qualitative or a quantitative assessment. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value is greater than its carrying amount, we are not required to perform a quantitative analysis. However, if we conclude otherwise, we then perform a quantitative impairment analysis. We have elected January 1 as our annual impairment evaluation date, evaluating balances as of December 31. See Note 12 for additional information regarding the outcome of our impairment assessment.

#### Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. Indefinite-life intangible assets such as goodwill are not amortized under GAAP. Rather, these assets are subject to an evaluation of potential impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit, which is generally at the level of or one level below our business segments, with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. However, if the estimated fair value is below carrying value, further analysis is required to determine the amount of the impairment. This further analysis involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount.

In the course of our evaluation of the potential impairment of goodwill, we may perform either a qualitative or a quantitative assessment. Our qualitative assessment of potential impairment may result in the determination that a quantitative impairment analysis is not necessary. Under this elective process, we assess qualitative factors to determine whether the existence of events or circumstances leads us to determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing a quantitative analysis is not required. However, if we conclude otherwise, then we perform a quantitative impairment analysis.

If we either choose not to perform a qualitative assessment, or we choose to perform a qualitative assessment but are unable to qualitatively conclude that no impairment has occurred, then we perform a quantitative evaluation. In the case of a quantitative assessment, we estimate the fair value of the reporting unit with which the goodwill is associated and compare it to the carrying value. If the estimated fair value of a reporting unit is less than its carrying value, we

estimate the fair value of all assets and liabilities of the reporting unit, including goodwill. If the carrying value of the reporting unit's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess.

We have elected January 1 as our annual goodwill impairment evaluation date, evaluating balances as of December 31. See Note 12 for additional information regarding the outcome of our goodwill impairment assessments.

#### Contingent liabilities

We recognize liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Whether a loss is probable, and if so, the estimated range of possible loss, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and uncertainties. When a range of possible loss can be estimated, we accrue the most likely amount within that range; if the most likely amount of possible loss within that range is not determinable, we accrue a minimum based on the range of possible loss. No

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liability is recognized for those matters which, in management's judgment, the determination of a reasonable estimate of loss is not possible.

We record liabilities related to legal and regulatory proceedings in "Other payables" on our Consolidated Statements of Financial Condition. The determination of these liability amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client's account; the basis and validity of the claim; the possibility of wrongdoing on the part of one of our employees or financial advisors; previous results in similar cases; and legal precedents and case law. Each legal proceeding or significant regulatory matter is reviewed with counsel in each accounting period and the liability balance is adjusted as deemed appropriate by management. Any change in the liability amount is recorded in our consolidated financial statements and is recognized as either a charge, or a credit, to net income in that period. The actual costs of resolving legal matters or regulatory proceedings may be substantially higher or lower than the recorded liability amounts for such matters. We expense our cost of defense related to such matters in the period they are incurred.

#### Share-based compensation

We account for share-based awards through the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The compensation cost is recognized over the requisite service period of the awards and is calculated as the market value of the awards on the date of the grant. In addition, we account for share-based awards to our independent contractor financial advisors in accordance with guidance applicable to accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services and guidance applicable to accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock. Share-based awards granted to our independent contractor financial advisors are measured at their fair value estimated at reporting dates until vesting, with changes in the fair value included in compensation expense. Further, we classify certain of these non-employee awards as liabilities at fair value upon vesting, with changes in fair value reported in earnings until these awards are exercised or forfeited. Compensation expense is recognized for all share-based compensation with future service requirements over the requisite service period using the straight-line method, and in certain instances, the graded attribution method. As discussed above, we assumed certain DBRSU awards as part of our acquisition of Alex. Brown that will ultimately be settled in DB common shares provided that certain performance metrics are achieved. The portion of these awards that related to services performed by the award recipients before the acquisition of Alex. Brown represented consideration transferred in the business combination. The portion of these awards which related to compensation for future services were treated as a prepaid compensation asset which had a corresponding derivative liability. The prepaid compensation asset is amortized over the remaining requisite service period of the recipient using the straight-line method while the derivative liability is recorded at fair value at the end of each reporting period until it is settled. Refer to the derivative assets and derivative liabilities subsection of the financial instruments owned, financial instruments sold but not yet purchased and fair value section of this footnote for information regarding the determination of the fair value of this derivative. The amortization of the prepaid asset and the change in fair value of the derivative liability is recorded in "Compensation, commissions and benefits" expense in our Consolidated Statements of Income and Comprehensive Income. See Note 20 for additional information on this share-based compensation plan.

#### Deferred compensation plans

We maintain various deferred compensation plans for the benefit of certain employees and independent contractors that provide a return to the participant based upon the performance of various referenced investments. For certain of these plans, we directly hold investments related to our obligations to perform under the deferred compensation plans.

See the other investments discussion within the financial instruments owned, financial instruments sold but not yet purchased and fair value section of this note for further discussion of these assets. For other such plans, including our Long Term Incentive Plan (“LTIP”) and our Wealth Accumulation Plan (“WAP”), we purchase and hold company-owned life insurance policies on the lives of certain current and former participants to earn a competitive rate of return for participants and to provide a source of funds available to satisfy our obligations under the plan. See Note 9 for information regarding the carrying value of such policies. Compensation expense is recognized for all awards made under such plans with future service requirements over the requisite service period using the straight-line method. Changes in the value of the company-owned life insurance policies and other investments, as well as the expenses associated with the related deferred compensation plans, are recorded in “Compensation, commissions and benefits” expense on our Consolidated Statements of Income and Comprehensive Income. See Note 20 for additional information.

#### Leases

We lease office space and equipment under operating leases. We recognize rent expense related to these operating leases on a straight-line basis over the lease term. The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For tenant improvement allowances and rent holidays, we record

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a deferred rent liability in “Other payables” on our Consolidated Statements of Financial Condition and amortize the deferred rent over the lease term as a reduction to rent expense in our Consolidated Statements of Income and Comprehensive Income. In instances where the office space or equipment under an operating lease will be abandoned prior to the expiration of the lease term (these instances primarily result from the effects of acquisitions), we accrue an estimate of any projected loss in our Consolidated Statements of Income and Comprehensive Income at the time such abandonment is known and any loss is estimable.

Foreign currency translation

The statements of financial condition of the foreign subsidiaries we consolidate are translated at exchange rates as of the period end. The statements of income are translated either at an average exchange rate for the period or, in certain cases, at the exchange rate in effect on the date which transactions occur. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars are included in OCI and are thereafter presented in equity as a component of AOCI.

Income taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year. We utilize the asset and liability method to provide income taxes on all transactions recorded in our consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the tax rates that we expect to be in effect when the underlying items of income and expense are realized. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns, including the repatriation of undistributed earnings of foreign subsidiaries. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or liquidity. See Note 16 for further information on our income taxes.

Earnings per share (“EPS”)

Basic EPS is calculated by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Earnings available to common shareholders’ represents “Net income attributable to Raymond James Financial, Inc.” reduced by the allocation of earnings and dividends to participating securities. Diluted EPS is similar to basic EPS, but adjusts for the dilutive effect of outstanding stock options and restricted stock units by application of the treasury stock method.

Evaluation of VIEs to determine whether consolidation is required

A VIE requires consolidation by the entity’s primary beneficiary. Examples of entities that may be VIEs include certain legal entities structured as corporations, partnerships or limited liability companies.

We evaluate all of the entities in which we are involved to determine if the entity is a VIE and if so, whether we hold a variable interest and are the primary beneficiary. We hold variable interests in the following VIEs: certain private equity investments, a trust fund established for employee retention purposes (“Restricted Stock Trust Fund”), certain LIHTC funds and certain new market tax credit funds (“NMTC funds”).

Determination of the primary beneficiary of a VIE - We consolidate VIEs that are subject to assessment when we are deemed to be the primary beneficiary of the VIE. The process for determining whether we are the primary beneficiary

of the VIE is to conclude whether we are a party to the VIE holding a variable interest that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE, and (2) has the obligations to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

Private Equity Interests - As part of our private equity investments, we hold interests in a number of limited partnerships (our "Private Equity Interests"). We have concluded that the Private Equity Interests are VIEs, primarily as a result of the treatment of limited partner kick-out and participation rights as a simple majority of the limited partners cannot initiate an action to kick-out the general partner without cause and the limited partners with equity at-risk lack substantive participating rights.

In our analysis of the criteria to determine whether we are the primary beneficiary of the Private Equity Interests VIEs, we analyze the power and benefits criteria. In a number of these entities, we are a passive limited partner investor, and thus, we do not have the power to make decisions that most significantly affect the economic performance of such VIEs. Accordingly, in such circumstances we have determined we are not the primary beneficiary and therefore, we do not consolidate the VIE. However, in certain of these entities, we have concluded that we are the primary beneficiary as we meet the power and benefits criteria. In such instances, we consolidate the Private Equity Interests VIE.



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**Restricted Stock Trust Fund** - We utilize a trust in connection with certain of our restricted stock unit (“RSU”) awards. This trust fund was established and funded for the purpose of acquiring our common stock in the open market to be used to settle RSUs granted as a retention vehicle for certain employees of our Canadian subsidiaries. We are deemed to be the primary beneficiary and, accordingly, consolidate this trust fund.

**LIHTC funds** - RJTCF is the managing member or general partner in a number of LIHTC funds having one or more investor members or limited partners. These LIHTC funds are organized as LLCs or limited partnerships for the purpose of investing in a number of project partnerships, which are limited partnerships or LLCs that purchase and develop low-income housing properties qualifying for tax credits.

Our determination of the primary beneficiary of each tax credit fund in which RJTCF has a variable interest requires judgment and is based on an analysis of all relevant facts and circumstances, including: (1) an assessment of the characteristics of RJTCF’s variable interest and other involvement it has with the tax credit fund, including involvement of related parties and any de facto agents, as well as the involvement of other variable interest holders, namely, limited partners or investor members, and (2) the tax credit funds’ purpose and design, including the risks that the tax credit fund was designed to create and pass through to its variable interest holders. In the design of tax credit fund VIEs, the overriding premise is that the investor members invest solely for tax attributes associated with the portfolio of low-income housing properties held by the fund, while RJTCF, as the managing member or general partner of the fund, is responsible for overseeing the fund’s operations.

**Non-guaranteed LIHTC funds** - Except for one guaranteed fund discussed below, RJTCF does not provide guarantees related to the delivery or funding of tax credits or other tax attributes to the investor members or limited partners of tax credit funds. The investor member(s) or limited partner(s) of the VIEs bear the risk of loss on their investment. Additionally, under the tax credit funds’ designed structure, the investor member(s) or limited partner(s) receive nearly all of the tax credits and tax-deductible loss benefits designed to be delivered by the fund entity, as well as a majority of any proceeds upon a sale of a project partnership held by a tax credit fund (fund level residuals). RJTCF earns fees from the fund for its services in organizing the fund, identifying and acquiring the project partnership investments, ongoing asset management fees, and a share of any residuals arising from sale of project partnerships upon the termination of the fund.

RJTCF sponsors two general types of non-guaranteed tax credit funds: either non-guaranteed single investor funds, or non-guaranteed multi-investor funds. In single investor funds, RJTCF has concluded that the one single investor member or limited partner in such funds, in nearly all instances, has significant participating rights over the activities that most significantly impact the economics of the fund. Therefore RJTCF, as managing member or general partner of such funds, is not the one party with power over such activities and resultantly is not deemed to be the primary beneficiary of such single investor funds and, in nearly all, these funds are not consolidated.

In non-guaranteed multi-investor funds, RJTCF has concluded that since the participating rights over the activities that most significantly impact the economics of the fund are not held by one single investor member or limited partner, RJTCF is deemed to have the power over such activities. RJTCF then assesses whether its projected benefits to be received from the multi-investor funds, primarily its share of any residuals upon the termination of the fund, are potentially significant to the fund. As such residuals received upon termination are not expected to be significant to the funds, RJTCF does not consolidate non-guaranteed multi-investor funds.

**Guaranteed LIHTC fund** - In conjunction with one of the multi-investor tax credit funds in which RJTCF is the managing member, RJTCF has provided one investor member with a guaranteed return on their investment in the fund (the “Guaranteed LIHTC Fund”). As a result of this guarantee obligation, RJTCF has determined that it is the primary beneficiary of, and accordingly consolidates, this guaranteed multi-investor fund.

Direct investments in LIHTC project partnerships - RJ Bank is also the investor member of a LIHTC fund which we have determined to be a VIE, and in which a subsidiary of RJTCF is the managing member. We have determined that RJ Bank is the primary beneficiary of this VIE and therefore, we consolidate the fund. All LIHTC funds which we consolidate are investor members in certain LIHTC project partnerships. Since unrelated third parties are the managing members of the investee project partnerships, we have determined that consolidation of these project partnerships is not required and the funds account for their project partnership investments under the equity method. The carrying value of the funds' project partnership investments are included in "Investments in real estate partnerships held by consolidated variable interest entities" on our Consolidated Statements of Financial Condition. See Note 10 for additional information.

New market tax credit funds - We are the managing member of a number of NMTC funds. NMTC funds are organized as LLCs for the purpose of investing in eligible projects in qualified low-income areas or that serve qualified targeted populations. In return for making a qualified equity investment into the NMTC funds, the fund's investor member receives tax credits eligible to apply against their federal tax liability. These new market tax credits are taken by the investor member over a seven year period.

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Each of these NMTC funds have one investor member. We have concluded that in each of the NMTC funds, the investor member of such funds has significant participating rights over the activities that most significantly impact the economics of the NMTC funds and, therefore, our affiliate as the managing member of the NMTC funds does not have the power over such activities. Accordingly, we are not deemed to be the primary beneficiary of these NMTC funds and, therefore, they are not consolidated.

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 Securities and Exchange Commission (“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 16 for more information.

**Reclassification of certain tax effects from 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.

**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.

**Fair Value** - In August 2018, the FASB issued guidance (ASU No. 2018-13), which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. We early adopted this amended guidance as of September 30, 2018. See Note 4 for more information.

Accounting guidance not yet adopted as of September 30, 2018

**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, will be

effective for us beginning October 1, 2018 and will be adopted using a modified retrospective approach. Adoption will have no effect on our net results of operations or financial position. Beginning with our 2019 fiscal year, we will change the presentation of certain costs from a net presentation within revenues to a gross presentation, particularly related to merger & acquisitions advisory and underwriting transactions and certain administrative costs related to our multi-bank sweep program. The income statement gross up as a result of these changes will depend on activity after adoption but will have no impact on our net earnings. We believe there will be no material changes in timing of revenues recognized associated with the adoption. We will make changes to certain disclosures related to revenues as required by the new guidance. In addition, we have re-evaluated our classifications of revenue by financial statement line item and will be reclassifying certain revenues between income statement line items and renaming certain line items. We believe that these reclassifications will better align with the performance obligations identified under the new guidance and will make our financial statements more comparable with others in our industry. These reclassifications have no impact on the amount of revenue recognized.

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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. 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 OCI. Upon adoption on October 1, 2018 we do not expect this new guidance 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, 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.

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Upon adoption on October 1, 2018, 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. Upon adoption on October 1, 2018, this new guidance will impact our Consolidated Statement of Cash Flows but 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. The impact of the adoption of this amended guidance is dependent upon acquisition and disposal activities subsequent to the date of adoption.

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 plan to early-adopt this guidance on January 1, 2019, our next goodwill impairment test date.

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. We generally do not modify our share-based payments awards. Upon adoption on October 1, 2018, we do not expect this new guidance to have a material impact 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. We plan to early adopt this new standard on October 1, 2018. We do not expect this new guidance to have a material impact on our financial position and results of operations.

Internal use software (cloud computing) - In August 2018, the FASB issued guidance on the accounting for implementation costs incurred by customers in cloud computing arrangements (ASU 2018-15). This guidance requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the non-cancellable term of the cloud computing



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arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. This amended guidance is first effective for our fiscal year beginning on October 1, 2020 with early adoption permitted. The guidance may be adopted either using the prospective or retrospective approach. We are currently evaluating the impact of this new guidance 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 consolidated financial statements. The Scout Group’s results of operations have been included in our results prospectively from November 17, 2017.

Acquisitions completed in prior fiscal years

Mummert & Company Corporate Finance GmbH (“Mummert”)

In June 2016, we completed our acquisition of all of the outstanding shares of Mummert, a middle market M&A advisory firm, headquartered in Munich, Germany, that was focused primarily on the technology, industrial, healthcare, consumer and business services sectors. Mummert expanded our investment banking capabilities in Europe, and is included in our Capital Markets segment. For purposes of certain acquisition-related financial reporting requirements, the Mummert acquisition was not considered a material acquisition. Mummert’s results of operations have been included in our results prospectively from June 1, 2016.

MacDougall, MacDougall & MacTier Inc. (“3Macs”)

In August 2016, we completed our acquisition of all of the outstanding shares of 3Macs, an independent investment firm founded in 1849 and headquartered in Montreal, Quebec, Canada. 3Macs is included in our Private Client Group (“PCG”) segment. For purposes of certain acquisition-related financial reporting requirements, the 3Macs acquisition was not considered a material acquisition. 3Macs results of operations have been included in our results prospectively from August 31, 2016.

U.S. Private Client Services unit of Deutsche Bank (“Alex. Brown”)

In September 2016, we completed our acquisition of certain specified assets and the assumption of certain specified liabilities of Alex. Brown from Deutsche Bank Securities, Inc. Alex. Brown is included in our PCG segment. For purposes of certain acquisition-related financial reporting requirements, the Alex. Brown acquisition was not considered a material acquisition. Alex. Brown’s results of operations have been included in our results of operations prospectively from September 6, 2016.

As part of the acquisition of Alex. Brown, we assumed the liability for certain DBRSU awards, including the associated plan terms and conditions, which will ultimately be settled in DB common shares if the conditions outlined in the plan are met. We hold DB common shares as an economic hedge to the DBRSU liability. See Note 2, Note 6 and Note 20 for further information on the DBRSU obligation assumed as part of this acquisition.

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Acquisition-related expenses

The “Acquisition-related expenses” presented in our Consolidated Statements of Income and Comprehensive Income for the years ended September 30, 2018, 2017 and 2016 pertain to certain incremental expenses incurred in connection with the acquisitions previously described.

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

| \$ in thousands  | Year ended September 30, |          |          |
|--|--------------------------|----------|----------|
|  | 2018                     | 2017     | 2016     |
| Legal and regulatory   | \$2,281                  | \$3,192  | \$8,334  |
| Severance  | 990                      | 5,859    | 866      |
| Information systems integration costs                            | 162                      | 1,380    | 21,752   |
| Acquisition and integration-related incentive compensation costs | —                        | 5,474    | —        |
| Early termination costs of assumed contracts                     | —                        | 1,329    | —        |
| Post-closing purchase price contingency                          | —                        | (3,345 ) | —        |
| DBRSU obligation and related hedge                               | —                        | 770      | 4,837    |
| All other  | 494                      | 3,336    | 4,917    |
| Total acquisition-related expenses                               | \$3,927                  | \$17,995 | \$40,706 |

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## NOTE 4 – FAIR VALUE

Our “Financial instruments owned” and “Financial instruments sold but not yet purchased” on our 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.

The following tables 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 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<br>prices<br>in active<br>markets for<br>identical<br>instruments<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Netting<br>adjustments | Balance as<br>of<br>September<br>30,<br>2018 |
|---|---|---|--|------------------------|--|
| Assets at fair value on a recurring basis:          |   |   |  |                        |  |
| Trading instruments                                 |   |   |  |                        |  |
| Municipal and provincial obligations                | \$ 1,206  | \$ 247,712  | \$ —   | —                      | \$ 248,918                                   |
| Corporate obligations                               | 10,184  | 99,938  | —  | —                      | 110,122                                      |
| Government and agency obligations                   | 18,660  | 71,854  | —  | —                      | 90,514                                       |
| Agency MBS and CMOs                                 | 2,745   | 124,188   | —  | —                      | 126,933                                      |
| Non-agency CMOs and asset-backed securities (“ABS”) | —   | 68,712  | 4  | —                      | 68,716                                       |
| Total debt securities                               | 32,795  | 612,404   | 4  | —                      | 645,203                                      |
| Equity securities                                   | 15,335  | 130   | —  | —                      | 15,465                                       |
| Brokered certificates of deposit                    | —   | 38,616  | —  | —                      | 38,616                                       |
| Other   | 23  | 2,005   | 1,078  | —                      | 3,106  |
| Total trading instruments                           | 48,153  | 653,155   | 1,082  | —                      | 702,390                                      |
| Available-for-sale securities                       |   |   |  |                        |  |
| Agency MBS and CMOs                                 | —   | 2,628,739   | —  | —                      | 2,628,739                                    |
| Other securities                                    | 942   | —   | —  | —                      | 942  |
| ARS preferred                                       | —   | —   | 66,685   | —                      | 66,685                                       |
| Total available-for-sale securities                 | 942   | 2,628,739   | 66,685   | —                      | 2,696,366                                    |
| Derivative assets                                   |   |   |  |                        |  |
| Interest rate contracts                             |   |   |  |                        |  |
| Matched book  | —   | 160,345   | —  | —                      | 160,345                                      |
| Other   | —   | 74,068  | —  | (55,330)               | 18,738                                       |
| Foreign exchange contracts                          | —   | 1,141   | —  | —                      | 1,141  |
| Total derivative assets                             | —   | 235,554   | —  | (55,330)               | 180,224                                      |
| Private equity investments                          |   |   |  |                        |  |
| Not measured at NAV                                 | —   | —   | 55,923   | —                      | —  |