RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 08, 2019

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

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-9109
RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

141,037,985 shares of common stock as of February 7, 2019

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

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

in millions, except share amounts	December 31, 2018	September 30, 2018
Assets:		
Cash and cash equivalents	$ 4,322	$ 3,500
Cash segregated pursuant to regulations	2,782	2,441
Securities purchased under agreements to resell	399	373
Securities borrowed	140	255
Financial instruments, at fair value:		
Trading instruments (includes $444 and $465 pledged as collateral)	691	702
Available-for-sale securities (includes $18 and $20 pledged as collateral)	2,797	2,696
Derivative assets	213	180
Private equity investments	154	147
Other investments (includes $25 and $25 pledged as collateral)	259	202
Brokerage client receivables, net	2,863	3,343
Receivables from brokers, dealers and clearing organizations	249	257
Other receivables	611	583
Bank loans, net	19,887	19,518
Loans to financial advisors, net	925	934
Investments in real estate partnerships held by consolidated variable interest entities	103	107
Property and equipment, net	490	486
Deferred income taxes, net	186	203
Goodwill and identifiable intangible assets, net	633	639
Other assets	840	847
Total assets	$ 38,544	$ 37,413
Liabilities and equity:		
Bank deposits	$ 21,673	$ 19,942
Securities sold under agreements to repurchase	156	186
Securities loaned	330	423
Financial instruments sold but not yet purchased, at fair value:		
Trading instruments	279	235
Derivative liabilities	232	247
Brokerage client payables	5,245	5,625
Payables to brokers, dealers and clearing organizations	131	206
Accrued compensation, commissions and benefits	799	1,189
Other payables	726	459
Other borrowings	1,198	899
Senior notes payable	1,550	1,550
Total liabilities	32,319	30,961
Commitments and contingencies (see Note 12)		
Equity		
Preferred stock; $.10 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
	2	2

Common stock; $.01 par value; 350,000,000 shares authorized; 157,645,318 and 156,363,615 shares issued as of December 31, 2018 and September 30, 2018, respectively, and 140,616,735 and 145,642,437 shares outstanding as of December 31, 2018 and September 30, 2018, respectively		
Additional paid-in capital	1,871	1,808
Retained earnings	5,236	5,032
Treasury stock, at cost; 17,028,583 and 10,693,026 common shares as of December 31, 2018 and September 30, 2018, respectively	(927)	(447)
Accumulated other comprehensive loss	(39)	(27)
Total equity attributable to Raymond James Financial, Inc.	6,143	6,368
Noncontrolling interests	82	84
Total equity	6,225	6,452
Total liabilities and equity	$ 38,544	$ 37,413

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

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

	Three months ended December 31,	
in millions, except per share amounts	2018	2017
Revenues:		
Asset management and related administrative fees	$865	$729
Brokerage revenues:		
Securities commissions	388	416
Principal transactions	76	97
Total brokerage revenues	464	513
Account and service fees	185	171
Investment banking	137	88
Interest income	316	232
Other	37	33
Total revenues	2,004	1,766
Interest expense	(73)	(40)
Net revenues	1,931	1,726
Non-interest expenses:		
Compensation, commissions and benefits	1,265	1,153
Communications and information processing	92	80
Occupancy and equipment costs	51	50
Business development	43	34
Investment sub-advisory fees	24	22
Professional fees	22	12
Bank loan loss provision	16	1
Acquisition and disposition-related expenses	15	4
Other	73	59
Total non-interest expenses	1,601	1,415
Income including noncontrolling interests and before provision for income taxes	330	311
Provision for income taxes	83	192
Net income including noncontrolling interests	247	119
Net loss attributable to noncontrolling interests	(2)	—
Net income attributable to Raymond James Financial, Inc.	$249	$119
Earnings per common share – basic	$1.73	$0.82
Earnings per common share – diluted	$1.69	$0.80
Weighted-average common shares outstanding – basic	144.2	144.5
Weighted-average common and common equivalent shares outstanding – diluted	147.3	148.3
Net income attributable to Raymond James Financial, Inc.	$249	$119
Other comprehensive income/(loss), net of tax:		
Net change in unrealized loss on available-for-sale securities	22	(12)
Net change in unrealized loss on currency translations, net of the impact of net investment hedges	(13)	—
Net change in unrealized gain on cash flow hedges	(17)	7
Total comprehensive income	$241	$114

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

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

	Three months ended December 31,	
$ in millions, except per share amounts	2018	2017
Common stock, par value $.01 per share:		
Balance beginning of period	$2	$2
Share issuances	—	—
Balance end of period	2	2
Additional paid-in capital:		
Balance beginning of period	1,808	1,645
Employee stock purchases	8	6
Exercise of stock options and vesting of restricted stock units, net of forfeitures	16	21
Restricted stock, stock option and restricted stock unit expense	39	33
Balance end of period	1,871	1,705
Retained earnings:		
Balance beginning of period	5,032	4,340
Net income attributable to Raymond James Financial, Inc.	249	119
Cash dividends declared (see Note 18)	(50)	(39)
Other	5	—
Balance end of period	5,236	4,420
Treasury stock:		
Balance beginning of period	(447)	(390)
Purchases/surrenders	(464)	(7)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(16)	(13)
Balance end of period	(927)	(410)
Accumulated other comprehensive loss:		
Balance beginning of period	(27)	(15)
Net change in unrealized loss on available-for-sale securities, net of tax	22	(12)
Net change in unrealized loss on currency translations, net of the impact of net investment hedges, net of tax	(13)	—
Net change in unrealized gain on cash flow hedges, net of tax	(17)	7
Other	(4)	—
Balance end of period	(39)	(20)
Total equity attributable to Raymond James Financial, Inc.	$6,143	$5,697
Noncontrolling interests:		
Balance beginning of period	$84	$112
Net loss attributable to noncontrolling interests	(2)	—
Capital contributions	2	—
Distributions	(2)	(6)
Balance end of period	82	106
Total equity	$6,225	$5,803

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

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

	Three months ended December 31,	
$ in millions	2018	2017
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$249	$119
Net loss attributable to noncontrolling interests	(2)	—
Net income including noncontrolling interests	247	119
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	26	23
Deferred income taxes	6	121
Premium and discount amortization on available-for-sale securities and loss on other investments	3	—
Provisions for loan losses, legal and regulatory proceedings and bad debts	32	9
Share-based compensation expense	37	38
Unrealized (gain)/loss on company-owned life insurance policies, net of expenses	58	(17)
Other	11	6
Net change in:		
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	(60)	104
Securities borrowed, net of securities loaned	22	(140)
Loans provided to financial advisors, net of repayments	—	(22)
Brokerage client receivables and other accounts receivable, net	446	124
Trading instruments, net	62	(47)
Derivative instruments, net	(60)	30
Other assets	(22)	(19)
Brokerage client payables and other accounts payable	(242)	467
Accrued compensation, commissions and benefits	(389)	(266)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	48	(108)
Net cash provided by operating activities	225	422
Cash flows from investing activities:		
Additions to property and equipment	(27)	(36)
Increase in bank loans, net	(461)	(645)
Proceeds from sales of loans held for investment	129	22
Purchases of available-for-sale securities	(291)	(340)
Available-for-sale securities maturations, repayments and redemptions	151	114
Business acquisition, net of cash acquired	—	(159)
Other investing activities, net	(34)	(30)
Net cash used in investing activities	(533)	(1,074)

(continued on next page)

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

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

	Three months ended December 31,	
$ in millions	2018	2017
Cash flows from financing activities:		
Proceeds from borrowings on the RJF Credit Facility	300	300
Repayments of short-term borrowings, net	—	(280)
Repayments of Federal Home Loan Bank advances and other borrowed funds	(1)	(1)
Exercise of stock options and employee stock purchases	23	26
Increase in bank deposits	1,731	993
Purchases of treasury stock	(480)	(20)
Dividends on common stock	(47)	(32)
Distributions to noncontrolling interests, net	—	(6)
Net cash provided by financing activities	1,526	980
Currency adjustment:		
Effect of exchange rate changes on cash	(55)	(7)
Net increase in cash, cash equivalents, and cash segregated pursuant to regulations	1,163	321
Cash, cash equivalents, and cash segregated pursuant to regulations at beginning of year	5,941	7,146
Cash, cash equivalents, and cash segregated pursuant to regulations at end of period	$7,104	$7,467
Cash and cash equivalents	$4,322	$3,898
Cash segregated pursuant to regulations	2,782	3,569
Total cash, cash equivalents, and cash segregated pursuant to regulations at end of period	$7,104	$7,467
Supplemental disclosures of cash flow information:		
Cash paid for interest	$62	$28
Cash paid for income taxes, net	$10	$9

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

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 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 19 of this Form 10-Q. 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 unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition, we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 2 of our Annual Report on Form 10-K (the “2018 Form 10-K”) for the year ended September 30, 2018, as filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) and in Note 8 of this Form 10-Q. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting estimates and assumptions

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

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2018 Form 10-K. To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Reclassifications

Effective with the firm’s first fiscal quarter ended December 31, 2018, we have reclassified certain revenues among income statement line items and renamed certain line items. These reclassifications do not affect the Company’s reported total revenues or the total revenues in any of our segments for any of the previously reported periods. Prior period results have been conformed to the current presentation.

In addition to the reclassification discussed above, certain other prior period amounts have been reclassified to conform to the current period’s presentation.

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 of our 2018 Form 10-K. During the three months ended December 31, 2018, there were no significant changes to our significant accounting policies other than the accounting policies adopted or modified as part of our implementation of new or amended accounting guidance, as noted below.

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. We present the outstanding balance of loans to financial advisors on our Condensed Consolidated Statements of Financial Condition, net of the allowance for doubtful accounts. Of the gross balance outstanding, the portion associated with financial advisors who are no longer affiliated with us was $22 million and $20 million at December 31, 2018 and September 30, 2018, respectively. Our allowance for doubtful accounts was $10 million and $8 million at December 31, 2018 and September 30, 2018, respectively.

Recent accounting developments

Accounting guidance recently adopted

Revenue recognition - In May 2014, the FASB issued new guidance regarding revenue recognition (ASU 2014-09). The new guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also provides guidance on accounting for certain contract costs and requires additional disclosures. We adopted this guidance as of October 1, 2018, under a modified retrospective approach for all open contracts as of the date of initial adoption. As such, there was no impact on our prior period results.

The primary impact of this guidance was the change in 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. These presentation changes had no impact on our net earnings. There were no material changes in timing of revenues recognized associated with the adoption. As a result, adoption of this guidance had no material impact on our net results of operations or financial position. See Note 14 for further information.

Financial instruments - In January 2016, the FASB issued new guidance related to the accounting for financial instruments (ASU 2016-01). Among its provisions, this new guidance generally requires equity investments to be measured at fair value with changes in fair value recognized in net income, subject to certain exceptions, and amends certain disclosure requirements associated with the fair value of financial instruments. We adopted this guidance as of October 1, 2018, under a modified retrospective approach. As a result, on a prospective basis beginning as of the date of adoption, we record changes in the fair value of our investments in equity securities that were previously classified as available-for-sale in net income. Previously, such unrealized gains/(losses) were reflected in other comprehensive income/(loss) ("OCI"). The impact of adopting the new guidance resulted in a reclassification from accumulated other comprehensive income/(loss) ("AOCI") to retained earnings of an accumulated gain of approximately $4 million at

October 1, 2018. See Note 4 for further information.

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 provides guidance on disclosure and classification of certain items within the statements of cash flows. We adopted this guidance on October 1, 2018, under a retrospective approach. The adoption did not have a material impact on our consolidated statements of cash flows and did not have an impact on our financial position or 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). The guidance requires an entity to include restricted cash and cash equivalents in its total of cash and cash equivalents on its statement of cash flows and to present a reconciliation of the beginning-of-period and end-of-period total of such amounts on the statement of cash flows. We adopted this guidance on October 1, 2018, under a retrospective approach. Upon adoption, we recorded a decrease of $96 million in net cash provided by operating activities for the three months ended December 31, 2017 related to reclassifying changes in cash segregated pursuant to regulations from operating activities to the cash and cash equivalents balance in the Condensed Consolidated Statements of Cash Flows. The total of cash segregated pursuant to regulations and cash and cash equivalents is included in a separate table in the Condensed Consolidated Statements of Cash Flows. The adoption did not have an impact on our financial position or 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. We adopted this guidance on October 1, 2018, 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. The adoption did not have any impact on our financial position or 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. We adopted the guidance on October 1, 2018, on a prospective basis. We generally do not modify our share-based payments awards. The adoption did not have an impact on our financial position or 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 contractual term to measure the award. We early-adopted this standard on October 1, 2018, using a modified retrospective approach. The adoption did not have a significant impact on our financial position or results of operations.

Accounting guidance not yet adopted as of December 31, 2018

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 continued with our implementation and evaluation efforts, which include a cross-functional team to assess the required changes to our credit loss estimation methodologies and systems, as well as the determination of 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.

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 early-adopted this guidance on January 1, 2019, our 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. Although permitted, we do not plan to early adopt. We are evaluating the impact the adoption of this new guidance will have 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 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.

Derivatives and hedging (interest rate) - In October 2018, the FASB issued guidance amending Derivatives and Hedging (Topic 815) to add the overnight index swap (OIS rate) rate based on the Secured Overnight Financing Rate (SOFR) to the list of US benchmark interest rates that are eligible to be hedged (ASU 2018-16). This guidance is first effective for our fiscal year beginning on October 1, 2019. 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.

Consolidation (decision making fees) - In October 2018, the FASB issued guidance on how all entities evaluate decision-making fees under the variable interest entity guidance (ASU 2018-17). Under the new guidance, to determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportionate basis, rather than in their entirety. This guidance is first effective for our fiscal year beginning on October 1, 2020. 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.

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

NOTE 3 – FAIR VALUE

Our “Financial instruments owned” and “Financial instruments sold but not yet purchased” on our Condensed Consolidated Statements of Financial Condition are recorded at fair value under GAAP. For further information about such instruments and our significant accounting policies related to fair value, see Note 2 and Note 4 of our 2018 Form 10-K. 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 on our Condensed Consolidated Statements of Financial Condition. See Note 5 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 millions	Level 1	Level 2	Level 3	Netting adjustments	Balance as of December 31, 2018
Assets at fair value on a recurring basis:					
Trading instruments					
Municipal and provincial obligations	$—	$163	$—	$ —	$ 163
Corporate obligations	10	76	—	—	86
Government and agency obligations	11	78	—	—	89
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	2	226	—	—	228
Non-agency CMOs and asset-backed securities (“ABS”)	—	101	—	—	101
Total debt securities	23	644	—	—	667
Equity securities	14	—	—	—	14
Brokered certificates of deposit	—	5	—	—	5
Other	—	2	3	—	5
Total trading instruments	37	651	3	—	691
Available-for-sale securities	—	2,797	—	—	2,797
Derivative assets					
Interest rate contracts - Matched book	—	188	—	—	188
Interest rate contracts - Other	—	64	—	(39)	25
Total derivative assets	—	252	—	(39)	213
Private equity investments - not measured at net asset value (“NAV”)	—	—	59	—	59
Other investments	190	2	67	—	259
Subtotal	227	3,702	129	(39)	4,019
Private equity investments - measured at NAV					95
Total assets at fair value on a recurring basis	$227	$3,702	$129	$ (39)	$ 4,114
Assets at fair value on a nonrecurring basis:					
Bank loans, net - Impaired loans	$—	$8	$37	$ —	$ 45
Bank loans, net - Loans held for sale	—	49	—	—	49
Total assets at fair value on a nonrecurring basis	$—	$57	$37	$ —	$ 94
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased					

Corporate obligations	$2	$31	$—	$ —	$ 33
Government obligations	235	—	—	—	235
Agency MBS and CMOs	3	—	—	—	3
Total debt securities	240	31	—	—	271
Equity securities	4	—	—	—	4
Other	—	—	4	—	4
Total trading instruments sold but not yet purchased	244	31	4	—	279
Derivative liabilities					
Interest rate contracts - Matched book	—	188	—	—	188
Interest rate contracts - Other	—	85	—	(54)	31
Foreign exchange contracts	—	2	—	—	2
Deutsche Bank restricted stock unit (“DBRSU”) obligation (equity)	—	11	—	—	11
Total derivative liabilities	—	286	—	(54)	232
Total liabilities at fair value on a recurring basis	$244	$317	$4	$ (54)	$ 511

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

$ in millions	Level 1	Level 2	Level 3	Netting adjustments	Balance as of September 30, 2018
Assets at fair value on a recurring basis:					
Trading instruments					
Municipal and provincial obligations	$1	$247	$—	$ —	$ 248
Corporate obligations	10	100	—	—	110
Government and agency obligations	19	72	—	—	91
Agency MBS and CMOs	3	124	—	—	127
Non-agency CMOs and ABS	—	69	—	—	69
Total debt securities	33	612	—	—	645
Equity securities	15	—	—	—	15
Brokered certificates of deposit	—	39	—	—	39
Other	—	2	1	—	3
Total trading instruments	48	653	1	—	702
Available-for-sale securities					
Agency MBS and CMOs	—	2,628	—	—	2,628
Other securities	1	—	—	—	1
Auction rate securities (“ARS”) preferred	—	—	67	—	67
Total available-for-sale securities	1	2,628	67	—	2,696
Derivative assets					
Interest rate contracts - Matched book	—	160	—	—	160
Interest rate contracts - Other	—	74	—	(55)	19
Foreign exchange contracts	—	1	—	—	1
Total derivative assets	—	235	—	(55)	180
Private equity investments - not measured at NAV	—	—	56	—	56
Other investments	201	1	—	—	202
Subtotal	250	3,517	124	(55)	3,836
Private equity investments measured at NAV					91
Total assets at fair value on a recurring basis	$250	$3,517	$124	$ (55)	$ 3,927
Assets at fair value on a nonrecurring basis:					
Bank loans, net - Impaired loans	$—	$10	$18	$ —	$ 28
Bank loans, net - Loans held for sale	—	41	—	—	41
Total assets at fair value on a nonrecurring basis	$—	$51	$18	$ —	$ 69
Liabilities at fair value on a recurring basis					
Trading instruments sold but not yet purchased					
Municipal and provincial obligations	$—	$1	$—	$ —	$ 1
Corporate obligations	2	25	—	—	27
Government obligations	194	—	—	—	194
Non-agency MBS and CMOs	—	1	—	—	1
Total debt securities	196	27	—	—	223

Equity securities	5	—	—	—	5
Other	—	—	7	—	7
Total trading instruments sold but not yet purchased	201	27	7	—	235
Derivative liabilities					
Interest rate contracts - Matched book	—	160	—	—	160
Interest rate contracts - Other	—	114	—	(47)	67
Foreign exchange contracts	—	4	—	—	4
DBRSU obligation (equity)	—	16	—	—	16
Total derivative liabilities	—	294	—	(47)	247
Total liabilities at fair value on a recurring basis	$201	$321	$7	$ (47)	$ 482

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

Level 3 recurring fair value measurements

The following tables present the changes in fair value for Level 3 assets and liabilities measured at fair value on a recurring basis. The realized and unrealized gains and losses in the tables may include changes in fair value that were attributable to both observable and unobservable inputs. In the following tables, gains/(losses) on trading instruments are reported in "Net trading profit," gains/(losses) on private equity and other investments are reported in "Other" revenues, and gains/(losses) on available-for-sale securities are reported in either "Other" revenues (when included in earnings) or "Other comprehensive income" in our Condensed Consolidated Statements of Income and Comprehensive Income.

Three months ended December 31, 2018
Level 3 instruments at fair value

	Financial assets			Financial liabilities
	Trading instruments	Private equity and other investments		Trading instruments
$ in millions	Other	Private equity investments	Other investments (1)	Other
Fair value beginning of period	$ 1	$ 56	$ 67	$ (7)
Total gains/(losses) for the period:				
Included in earnings	1	—	—	2
Purchases and contributions	38	3	—	5
Sales	(37)	—	—	(4)
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Fair value end of period	$ 3	$ 59	$ 67	$ (4)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$ 1	$ —	$ —	$ —

(1) Beginning of period balance includes $67 million of preferred ARS, which were reclassified from available-for-sale securities in connection with adoption of ASU 2016-01. See Note 2 for additional information.

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

	Financial assets			Financial liabilities
	Trading instruments	Available-for-sale securities	Private equity and other investments	Trading instruments
$ in millions	Other	ARS - preferred	Private equity investments	Other

Fair value beginning of period	$6	$ 106	$ 89	$ —
Total gains/(losses) for the period:				
Included in earnings	(1)	—	—	(1)
Included in other comprehensive income	—	1	—	—
Purchases and contributions	20	—	—	—
Sales	(22)	—	—	—
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Fair value end of period	$3	$ 107	$ 89	$ (1)
Unrealized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	$—	$ —	$ —	$ (1)
Unrealized gains/(losses) for the period included in other comprehensive income for instruments held at the end of the reporting period	$—	$ 1	$ —	$ —

As of December 31, 2018, 11% of our assets and 2% of our liabilities were measured at fair value on a recurring basis. In comparison as of September 30, 2018, 10% of our assets and 2% of our liabilities were measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 represented 3% of our assets measured at fair value as of both December 31, 2018 and September 30, 2018.

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

Quantitative information about level 3 fair value measurements

The following tables present the valuation techniques and significant unobservable inputs used in the valuation of a significant majority of our financial instruments classified as level 3. These inputs represent those that a market participant would take into account when pricing these instruments. Weighted averages are calculated by weighting each input by the relative fair values of the related financial instrument.

Level 3 financial instrument $ in millions	Fair value at December 31, 2018	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements				
Other investments - ARS preferred	$ 67	Discounted cash flow	Average discount rate	6.14% - 7.76% (6.86%)
			Average interest rates applicable to future interest income on the securities (1)	3.54% - 4.71% (3.83%)
			Prepayment year (2)	2019 - 2021 (2021)
Private equity investments (not measured at NAV)	$ 46	Income approach - discounted cash flow	Discount rate	25 %
			Terminal EBITDA multiple	10.0x
			Terminal year	2022 - 2042 (2023)
	$ 13	Transaction price or other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)
Nonrecurring measurements				
Bank loans: impaired loans - residential	$ 16	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.5 yrs.)
Bank loans: impaired loans - corporate	$ 21	Collateral or discounted cash flow value (4)	Not meaningful (4)	Not meaningful (4)

Level 3 financial instrument $ in millions	Fair value at September 30, 2018	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements				
ARS preferred	$ 67	Discounted cash flow	Average discount rate	6.50% - 7.85% (7.13%)
			Average interest rates applicable to future interest income on the securities (1)	4.13% - 5.51% (4.47%)

				Prepayment year (2)	2018 - 2021 (2021)	
Private equity investments (not measured at NAV)	$	43	Income approach - discounted cash flow	Discount rate	25	%
				Terminal EBITDA multiple	10.0x	
				Terminal year	2022 - 2042 (2023)	
	$	13	Transaction price or other investment-specific events (3)	Not meaningful (3)	Not meaningful (3)	
Nonrecurring measurements						
Bank loans: impaired loans - residential	$	17	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.5 yrs.)	
Bank loans: impaired loans - corporate	$	2	Collateral or discounted cash flow value (4)	Not meaningful (4)	Not meaningful (4)	

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

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

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

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

Qualitative disclosure about unobservable inputs

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

Other investments - ARS preferred

The future interest rate and prepayment assumptions impacting the valuation of the auction rate securities are directly related. As short-term interest rates rise, the penalty interest rates, which are embedded in most of these securities in the event auctions fail to set the security's interest rate, also increase. As penalty interest rates rise, we estimate that issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. As such, increases in the interest rate, which would generally result in an earlier prepayment assumption, would have increased the fair value of the security. Increases in the discount rate would have resulted in a lower fair value of the securities.

Private equity investments

The significant unobservable inputs used in the fair value measurement of private equity investments generally relate to the financial performance of the investment entity and the market's required return on investments from entities in industries in which we hold investments. Increases in the discount rate and/or a later terminal year would have resulted in a lower fair value measurement. Increases in the terminal EBITDA multiple would have resulted in a higher fair value measurement.

Investments in private equity measured at net asset value per share

As more fully described in Note 2 of our 2018 Form 10-K, as a practical expedient, we utilize NAV or its equivalent to determine the recorded value of a portion of our private equity investments portfolio. We utilize NAV when the fund investment does not have a readily determinable fair value and the NAV of the fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the investments at fair value.

Our private equity portfolio as of December 31, 2018 included various direct investments, as well as investments in third-party private equity funds and various private equity funds which we sponsor. The portfolio is primarily invested in a broad range of industries including leveraged buyouts, growth capital, distressed capital, venture capital and mezzanine capital. Due to the closed-end nature of certain of our fund investments, such investments cannot be redeemed directly with the funds. Our investment is monetized by distributions received through the liquidation of the underlying assets of those funds, the timing of which is uncertain.

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

$ in millions	Recorded value	Unfunded commitment
December 31, 2018		
Private equity investments measured at NAV	$ 95	$ 18

Private equity investments not measured at NAV	59	
Total private equity investments	$ 154	
September 30, 2018		
Private equity investments measured at NAV	$ 91	$ 18
Private equity investments not measured at NAV	56	
Total private equity investments	$ 147	

Of the total private equity investments, the portions we owned were $108 million and $103 million as of December 31, 2018 and September 30, 2018, respectively. The portions of the private equity investments we did not own were $46 million and $44 million as of December 31, 2018 and September 30, 2018, respectively, and were included as a component of noncontrolling interests on our Condensed Consolidated Statements of Financial Condition.

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

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

Financial instruments not measured at fair value

The following table presents the estimated fair value and fair value hierarchy of financial assets and liabilities that are not recorded at fair value on the Condensed Consolidated Statements of Financial Condition. This table excludes financial instruments that are carried at amounts which approximate fair value. Refer to Note 4 of our 2018 Form 10-K for discussion of the fair value hierarchy classification of our financial instruments that are not recorded at fair value.

Effective October 1, 2018, we adopted new accounting guidance (ASU 2016-01), which requires the fair value of financial instruments not carried at fair value on our statement of financial condition to be estimated utilizing an exit price and eliminates certain disclosure requirements related to these instruments, including exempting certain financial instruments from disclosure (e.g., demand deposits). Prior periods have not been updated to reflect this new accounting guidance.

$ in millions	Level 1	Level 2	Level 3	Total estimated fair value	Carrying amount
December 31, 2018					
Financial assets:					
Bank loans, net	$ —	$61	$19,578	$ 19,639	$19,793
Financial liabilities:					
Bank deposits - Certificates of deposit	$ —	$—	$489	$ 489	$490
Senior notes payable	$ —	$1,512	$—	$ 1,512	$1,550
September 30, 2018					
Financial assets:					
Bank loans, net	$ —	$124	$19,116	$ 19,240	$19,449
Financial liabilities:					
Bank deposits	$ —	$19,496	$439	$ 19,935	$19,942
Senior notes payable	$ —	$1,558	$—	$ 1,558	$1,550

NOTE 4 – AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities are comprised of agency MBS and CMOs owned by Raymond James Bank, N.A. ("RJ Bank"). Refer to the discussion of our available-for-sale securities accounting policies, including the fair value determination process, in Note 2 of our 2018 Form 10-K. As of October 1, 2018, we adopted new accounting guidance related to the classification and measurement of financial instruments (ASU 2016-01), which requires changes in the fair value of equity securities to be recorded in net income. See Note 2 for further information. As a result, on a prospective basis beginning October 1, 2018, unrealized gains/(losses) on our equity securities previously classified and accounted for as available-for-sale are recorded in net income instead of OCI. Accordingly, we reclassified approximately $68 million, substantially all of which consisted of preferred ARS, from "Available-for-sale securities" to "Other investments" on our Condensed Consolidated Statements of Financial Condition.

The following table details the amortized cost and fair values of our available-for-sale securities.

$ in millions	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2018				
Agency MBS and CMOs	$2,834	$ 4	$ (41)	$2,797
September 30, 2018				
Agency MBS and CMOs	$2,698	$ —	$ (70)	$2,628
Other securities	2	—	(1)	1
Total RJ Bank available-for-sale securities	2,700	—	(71)	2,629
ARS preferred	61	6	—	67
Total available-for-sale securities	$2,761	$ 6	$ (71)	$2,696

See Note 3 for additional information regarding the fair value of available-for-sale securities.

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

The following table details the contractual maturities, amortized cost, carrying values and current yields for our available-for-sale securities. Since RJ Bank's MBS and CMO available-for-sale securities are backed by mortgages, actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

	December 31, 2018				
$ in millions	Within one year	After one but within five years	After five but within ten years	After ten years	Total
Agency MBS and CMOs:					
Amortized cost	$—	$254	$986	$1,594	$2,834
Carrying value	$—	$251	$975	$1,571	$2,797
Weighted-average yield	—	2.32 %	2.39 %	2.49 %	2.44 %

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

	Less than 12 months		12 months or more		Total	
$ in millions	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
December 31, 2018						
Agency MBS and CMOs	$348	$ (2)	$1,829	$ (39)	$2,177	$ (41)
September 30, 2018						
Agency MBS and CMOs	$1,103	$ (20)	$1,425	$ (50)	$2,528	$ (70)
Other securities	—	—	1	(1)	1	(1)
Total	$1,103	$ (20)	$1,426	$ (51)	$2,529	$ (71)

U.S. government agencies guarantee the contractual cash flows of the agency MBS and CMOs. At December 31, 2018, of the 226 agency MBS and CMOs in an unrealized loss position, 27 were in a continuous unrealized loss position for less than 12 months and 199 were for 12 months or more. We do not consider these securities to be other-than-temporarily impaired 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. At December 31, 2018, debt securities we held in excess of ten percent of our equity included Federal National Home Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") which had an amortized cost of $1.86 billion and $738 million, respectively, and a fair value of $1.84 billion and $728 million, respectively.

During each of the three months ended December 31, 2018 and 2017, there were no sales of agency MBS or CMO available-for-sale securities.

NOTE 5 – 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” on our Condensed Consolidated Statements of Financial Condition. Cash flows related to our derivative contracts are included within operating activities in the Condensed Consolidated Statements of Cash Flows. The significant accounting policies governing our derivative financial instruments, including our methodologies for determining fair value, are described in Note 2 of our 2018 Form 10-K.

Derivatives arising from our fixed income business operations

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

We also facilitate matched book derivative transactions in which Raymond James Financial Products, Inc. (“RJFP”), a wholly owned subsidiary, enters into interest rate derivative transactions with clients. For every derivative transaction RJFP enters into with a client, it also enters into an offsetting derivative on terms that mirror the client transaction with a credit support provider, which is a third-party financial institution. Any collateral required to be exchanged under these derivative contracts is administered directly between the client and the third-party financial institution. Due to this pass-through transaction structure, RJFP has completely mitigated the market and credit risk on these derivative contracts. As a result, derivatives for which the fair value is in an asset position have an equal and offsetting derivative liability. RJFP only has credit risk on its uncollected derivative transaction fee revenues. The receivable for uncollected derivative transaction fee revenues of RJFP was insignificant at both December 31, 2018 and September 30, 2018.

Derivatives arising from RJ Bank’s business operations

We enter into forward foreign exchange contracts and interest rate swaps to hedge certain exposures arising out of RJ Bank’s business operations. Each of these activities is described in Note 2 of our 2018 Form 10-K and in the following paragraphs.

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

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

Derivative arising from our acquisition of Alex. Brown

As part of our acquisition of Alex. Brown (see Note 3 of our 2018 Form 10-K for additional information regarding the acquisition), we assumed certain DBRSU awards, which will ultimately be settled in Deutsche Bank AG (“DB”) common shares, provided certain performance metrics are achieved. The DBRSU obligation results in a derivative, the fair value and notional of which is measured by multiplying the number of outstanding DBRSU awards to be settled in DB common shares as of the end of the reporting period by the end of reporting period DB share price, as traded on the New York Stock Exchange.

Counterparty netting and collateral related to derivative contracts

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

We are also required to maintain deposits with the clearing organizations we utilize to clear certain of our interest rate derivative transactions. This initial margin is included as a component of “Other investments” or “Available-for-sale securities” on our Condensed Consolidated Statements of Financial Condition. On a daily basis, we also pay cash to or receive cash from these clearing organizations due to changes in the fair value of the derivatives which they clear.

Such payments are referred to as “variation margin” and are considered to be settlement of the related derivatives.

Due to the short-term nature of forward foreign exchange contracts, RJ Bank is generally not required to post collateral with and does not generally receive collateral from its respective counterparties.

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

Derivative balances included in our financial statements

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

$ in millions	December 31, 2018			September 30, 2018		
	Derivative assets	Derivative liabilities	Notional amount	Derivative assets	Derivative liabilities	Notional amount
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Matched book	$188	$ 188	$2,401	$160	$ 160	$2,416
Other [1]	64	83	6,190	74	113	6,155
Foreign exchange contracts	—	1	517	1	1	549
DBRSU obligation (equity) [2]	—	11	11	—	16	16
Subtotal	252	283	9,119	235	290	9,136
Derivatives designated as hedging instruments						
Interest rate contracts	—	2	850	—	1	850
Foreign exchange contracts	—	1	813	—	3	892
Subtotal	—	3	1,663	—	4	1,742
Total gross fair value/notional amount	252	286	$10,782	235	294	$10,878
Offset on the Condensed Consolidated Statements of Financial Condition						
Counterparty netting	(19)	(19)		(26)	(26)	
Cash collateral netting	(20)	(35)		(29)	(21)	
Total amounts offset	(39)	(54)		(55)	(47)	
Net amounts presented on the Condensed Consolidated Statements of Financial Condition	213	232		180	247	
Gross amounts not offset on the Condensed Consolidated Statements of Financial Condition						
Financial instruments [3]	(191)	(188)		(162)	(160)	
Total	$22	$ 44		$18	$ 87	

(1) Substantially all relates to interest rate derivatives entered into as part of our fixed income business operations.

(2) The DBRSU obligation is not subject to an enforceable master netting arrangement or other similar arrangement. However, we held shares of DB as an economic hedge against this obligation with a fair value of $9 million and $12 million as of December 31, 2018 and September 30, 2018, respectively, which are a component of “Other investments” on our Condensed Consolidated Statements of Financial Condition.

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

The following table details the gains/(losses) included in AOCI, net of income taxes, on derivatives designated as hedging instruments. These gains/(losses) include any amounts reclassified from AOCI to income during the period. See Note 13 for additional information.

	Three months ended December 31,	
$ in millions	2018	2017
Interest rate contracts (cash flow hedges)	$(17)	$ 7
Foreign exchange contracts (net investment hedges)	37	6
Total gains/(losses) recognized in AOCI, net of taxes	$20	$ 13

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness for each of the three months ended December 31, 2018 and 2017. We expect to reclassify an estimated $6 million of interest income out of AOCI and into earnings within the next 12 months. The maximum length of time over which forecasted transactions are or will be hedged is 9 years.

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

The following table details the gains/(losses) on derivatives not designated as hedging instruments recognized in the Condensed Consolidated Statements of Income and Comprehensive Income.

$ in millions	Location of gain/(loss) included in the Condensed Consolidated Statements of Income and Comprehensive Income	Gain/(loss) recognized during the three months ended December 31,	
		2018	2017
Interest rate contracts	Principal transactions/other revenues	$ 2	$ 2
Foreign exchange contracts	Other revenues	$ 26	$ (1)
DBRSU obligation (equity)	Compensation, commissions and benefits expense	$ 5	$ (3)

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

Credit risk

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

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

Interest rate and foreign exchange risk

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

Derivatives with credit-risk-related contingent features

Certain of our derivative contracts contain provisions that require our debt to maintain an investment-grade rating from one or more of the major credit rating agencies. If our debt were to fall below investment-grade, the counterparties to the derivative instruments could terminate and request immediate payment or demand immediate and ongoing overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position was insignificant as of December 31, 2018 and September 30, 2018.

NOTE 6 – COLLATERALIZED AGREEMENTS AND FINANCINGS

Collateralized agreements are securities purchased under agreements to resell ("reverse repurchase agreements") and securities borrowed. Collateralized financings are securities sold under agreements to repurchase ("repurchase agreements") and securities loaned. We enter into these transactions in order to facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. The significant accounting policies governing our collateralized agreements and financings are described in Note 2 of our 2018 Form 10-K.

For financial statement purposes, we do not offset our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions because the conditions for netting as specified by GAAP are not met. Our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions are governed by master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course, as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the parties to the transaction. Although not offset on the Condensed Consolidated Statements of Financial Condition, these transactions are included in the following table.

$ in millions	Assets		Liabilities	
	Reverse repurchase agreements	Securities borrowed	Repurchase agreements	Securities loaned
December 31, 2018				
Gross amounts of recognized assets/liabilities	$399	$ 140	$156	$ 330
Gross amounts offset on the Condensed Consolidated Statements of Financial Condition	—	—	—	—
Net amounts presented on the Condensed Consolidated Statements of Financial Condition	399	140	156	330
Gross amounts not offset on the Condensed Consolidated Statements of Financial Condition	(399)	(136)	(156)	(321)
Net amounts	$—	$ 4	$—	$ 9
September 30, 2018				
Gross amounts of recognized assets/liabilities	$373	$ 255	$186	$ 423
Gross amounts offset on the Condensed Consolidated Statements of Financial Condition	—	—	—	—
Net amounts presented on the Condensed Consolidated Statements of Financial Condition	373	255	186	423
Gross amounts not offset on the Condensed Consolidated Statements of Financial Condition	(373)	(248)	(186)	(408)
Net amounts	$—	$ 7	$—	$ 15

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

Collateral received and pledged

We receive cash and securities as collateral, primarily in connection with reverse repurchase agreements, securities borrowed, derivative transactions and client margin loans. The collateral we receive reduces our credit exposure to individual counterparties.

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

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

$ in millions	December 31, 2018	September 30, 2018
Collateral we received that was available to be delivered or repledged	$ 3,051	$ 3,165
Collateral that we delivered or repledged	$ 1,303	$ 1,389

Encumbered assets

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

$ in millions	December 31, 2018	September 30, 2018
Financial instruments owned, at fair value, pledged to counterparties that:		
Had the right to deliver or repledge	$ 487	$ 510
Did not have the right to deliver or repledge	$ 65	$ 65
Bank loans, net pledged at FHLB and the Federal Reserve Bank	$ 4,402	$ 4,075

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

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

$ in millions	Overnight and continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
December 31, 2018					
Repurchase agreements:					
Government and agency obligations	$ 90	$ —	$ —	$ —	$ 90
Agency MBS and CMOs	66	—	—	—	66
Total repurchase agreements	156	—	—	—	156
Securities loaned:					
Equity securities	330	—	—	—	330
Total	$ 486	$ —	$ —	$ —	$ 486
September 30, 2018					
Repurchase agreements:					
Government and agency obligations	$ 102	$ —	$ —	$ —	$ 102
Agency MBS and CMOs	84	—	—	—	84
Total repurchase agreements	186	—	—	—	186
Securities loaned:					
Equity securities	423	—	—	—	423
Total	$ 609	$ —	$ —	$ —	$ 609

As of both December 31, 2018 and September 30, 2018, we did not have any “repurchase-to-maturity” agreements, which are repurchase agreements where a security is transferred under an agreement to repurchase and the maturity date of the repurchase agreement matches the maturity date of the underlying security.

NOTE 7 – BANK LOANS, NET

Bank client receivables are comprised of loans originated or purchased by RJ Bank and include commercial and industrial (“C&I”) loans, tax-exempt loans, securities based loans (“SBL”), and commercial and residential real estate loans. These receivables are collateralized by first and, to a lesser extent, second mortgages on residential or other real property, other assets of the borrower, a pledge of revenue or are unsecured. See Note 2 of our 2018 Form 10-K for a discussion of accounting policies related to bank loans and allowances for losses.

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

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

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

$ in millions	December 31, 2018 Balance	%	September 30, 2018 Balance	%
Loans held for investment:				
C&I loans	$8,041	40 %	$7,786	40 %
CRE construction loans	176	1 %	151	1 %
CRE loans	3,436	17 %	3,624	18 %
Tax-exempt loans	1,289	6 %	1,227	6 %
Residential mortgage loans	3,912	19 %	3,757	19 %
SBL	3,162	16 %	3,033	15 %
Total loans held for investment	20,016		19,578	
Net unearned income and deferred expenses	(20)		(21)	
Total loans held for investment, net	19,996		19,557	
Loans held for sale, net	110	1 %	164	1 %
Total loans held for sale and investment	20,106	100%	19,721	100%
Allowance for loan losses	(219)		(203)	
Bank loans, net	$19,887		$19,518	

At December 31, 2018, the FHLB had a blanket lien on RJ Bank's residential mortgage loan portfolio as security for the repayment of certain borrowings. See Note 10 for more information regarding borrowings from the FHLB.

Loans held for sale

RJ Bank originated or purchased $792 million and $358 million of loans held for sale during the three months ended December 31, 2018, and 2017, respectively. Proceeds from the sale of these held for sale loans amounted to $257 million and $92 million during the three months ended December 31, 2018 and 2017, respectively. Net gains resulting from such sales were insignificant during the three months ended December 31, 2018 and 2017.

Purchases and sales of loans held for investment

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

$ in millions	C&I loans	CRE loans	Residential mortgage loans	Total
Three months ended December 31, 2018				
Purchases	$262	$ —	$ 76	$338
Sales	$135	$ —	$ —	$135
Three months ended December 31, 2017				
Purchases	$148	$ 20	$ 45	$213
Sales	$31	$ —	$ —	$31

Sales in the preceding table represent the recorded investment of loans held for investment that were transferred to loans held for sale and subsequently sold to a third party during the respective period. As more fully described in Note 2 of our 2018 Form 10-K, corporate loan (C&I, CRE and CRE construction) sales generally occur as part of a loan workout situation.

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

Aging analysis of loans held for investment

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

$ in millions	30-89 days and accruing	90 days or more and accruing	Total past due and accruing	Nonaccrual	Current and accruing	Total loans held for investment
December 31, 2018						
C&I loans	$ —	$ —	$ —	$ 28	$ 8,013	$ 8,041
CRE construction loans	—	—	—	—	176	176
CRE loans	—	—	—	—	3,436	3,436
Tax-exempt loans	—	—	—	—	1,289	1,289
Residential mortgage loans:						
First mortgage loans	3	—	3	20	3,862	3,885
Home equity loans/lines	—	—	—	—	27	27
SBL	—	—	—	—	3,162	3,162
Total loans held for investment, net	$ 3	$ —	$ 3	$ 48	$ 19,965	$ 20,016
September 30, 2018						
C&I loans	$ —	$ —	$ —	$ 2	$ 7,784	$ 7,786
CRE construction loans	—	—	—	—	151	151
CRE loans	—	—	—	—	3,624	3,624
Tax-exempt loans	—	—	—	—	1,227	1,227
Residential mortgage loans:						
First mortgage loans	1	—	1	23	3,707	3,731
Home equity loans/lines	—	—	—	—	26	26
SBL	—	—	—	—	3,033	3,033
Total loans held for investment, net	$ 1	$ —	$ 1	$ 25	$ 19,552	$ 19,578

The preceding table above includes $35 million and $11 million at December 31, 2018 and September 30, 2018, respectively, of nonaccrual loans which were current pursuant to their contractual terms.

Other real estate owned, included in "Other assets" on our Condensed Consolidated Statements of Financial Condition, was $4 million and $3 million at December 31, 2018 and September 30, 2018, respectively. The recorded investment in mortgage loans secured by one-to-four family residential properties for which formal foreclosure proceedings were in process was $9 million and $12 million at December 31, 2018 and September 30, 2018, respectively.

Impaired loans and troubled debt restructurings

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

$ in millions	December 31, 2018			September 30, 2018		
	Gross recorded	Unpaid principal	Allowance for losses	Gross recorded	Unpaid principal	Allowance for losses

	investment	balance		investment	balance	
Impaired loans with allowance for loan losses:						
C&I loans	$ 26	$ 26	$ 7	$ —	$ —	$ —
Residential - first mortgage loans	13	17	1	15	20	2
Total	39	43	8	15	20	2
Impaired loans without allowance for loan losses:						
C&I loans	2	2	—	2	2	—
Residential - first mortgage loans	12	19	—	13	20	—
Total	14	21	—	15	22	—
Total impaired loans	$ 53	$ 64	$ 8	$ 30	$ 42	$ 2

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

25

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

The preceding table includes residential first mortgage TDR's of $20 million and $21 million at December 31, 2018 and September 30, 2018, respectively.

The average balance of the total impaired loans was as follows.

	Three months ended December 31,	
$ in millions	2018	2017
Average impaired loan balance:		
C&I loans	$ 10	$ 5
Residential - first mortgage loans	27	40
Total	$ 37	$ 45

Credit quality indicators

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

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

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

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

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

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

26

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

The following table presents the credit quality of RJ Bank's held for investment loan portfolio.

$ in millions	Pass	Special mention	Substandard	Doubtful	Total
December 31, 2018					
C&I loans	$7,912	$ 70	$ 59	$ —	$8,041
CRE construction loans	176	—	—	—	176
CRE loans	3,374	34	28	—	3,436
Tax-exempt loans	1,289	—	—	—	1,289
Residential mortgage loans:					
First mortgage loans	3,849	9	27	—	3,885
Home equity loans/lines	27	—	—	—	27
SBL	3,162	—	—	—	3,162
Total	$19,789	$ 113	$ 114	$ —	$20,016
September 30, 2018					
C&I loans	$7,679	$ 48	$ 59	$ —	$7,786
CRE construction loans	140	11	—	—	151
CRE loans	3,547	44	33	—	3,624
Tax-exempt loans	1,227	—	—	—	1,227
Residential mortgage loans:					
First mortgage loans	3,693	8	30	—	3,731
Home equity loans/lines	26	—	—	—	26
SBL	3,033	—	—	—	3,033
Total	$19,345	$ 111	$ 122	$ —	$19,578

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

Allowance for loan losses and reserve for unfunded lending commitments

The following table presents changes in the allowance for loan losses of RJ Bank by portfolio segment.

	Loans held for investment						
$ in millions	C&I loans	CRE construction loans	CRE loans	Tax-exempt loans	Residential mortgage loans	SBL	Total
Three months ended December 31, 2018							
Balance at beginning of period	$123	$ 3	$47	$ 9	$ 17	$ 4	$203
Provision/(benefit) for loan losses	15	—	(1)	—	1	1	16
Net (charge-offs)/recoveries:							
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	1	—	1
Net recoveries	—	—	—	—	1	—	1
Foreign exchange translation adjustment	(1)	—	—	—	—	—	(1)
Balance at end of period	$137	$ 3	$46	$ 9	$ 19	$ 5	$219

Three months ended December 31, 2017							
Balance at beginning of period	$ 120	$ 1	$ 42	$ 6	$ 17	$ 4	$ 190
Provision/(benefit) for loan losses	2	1	(1)	1	(2)	—	1
Net (charge-offs)/recoveries:							
Charge-offs	(1)	—	—	—	—	—	(1)
Recoveries	—	—	—	—	1	—	1
Net (charge-offs)/recoveries	(1)	—	—	—	1	—	—
Foreign exchange translation adjustment	—	—	—	—	—	—	—
Balance at end of period	$ 121	$ 2	$ 41	$ 7	$ 16	$ 4	$ 191

27

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

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

	Loans held for investment					
	Allowance for loan losses			Recorded investment		
$ in millions	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2018						
C&I loans	$7	$ 130	$137	$28	$ 8,013	$8,041
CRE construction loans	—	3	3	—	176	176
CRE loans	—	46	46	—	3,436	3,436
Tax-exempt loans	—	9	9	—	1,289	1,289
Residential mortgage loans	1	18	19	31	3,881	3,912
SBL	—	5	5	—	3,162	3,162
Total	$8	$ 211	$219	$59	$ 19,957	$20,016
September 30, 2018						
C&I loans	$—	$ 123	$123	$2	$ 7,784	$7,786
CRE construction loans	—	3	3	—	151	151
CRE loans	—	47	47	—	3,624	3,624
Tax-exempt loans	—	9	9	—	1,227	1,227
Residential mortgage loans	2	15	17	35	3,722	3,757
SBL	—	4	4	—	3,033	3,033
Total	$2	$ 201	$203	$37	$ 19,541	$19,578

The reserve for unfunded lending commitments, which is included in “Other payables” on our Condensed Consolidated Statements of Financial Condition, was $10 million at both December 31, 2018 and September 30, 2018.

NOTE 8 – VARIABLE INTEREST ENTITIES

A VIE requires consolidation by the entity's primary beneficiary. 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. Refer to Note 2 of our 2018 Form 10-K for a discussion of our principal involvement with VIEs and the accounting policies regarding determination of whether we are deemed to be the primary beneficiary of VIEs.

VIEs where we are the primary beneficiary

Of the VIEs in which we hold an interest, we have determined that certain limited partnerships which are part of our private equity investments portfolio ("Private Equity Interests"), a Low-Income Housing Tax Credit fund ("LIHTC fund") in which RJ Bank is an investor and an affiliate of Raymond James Tax Credit Funds, Inc. ("RJTCF") is the managing member, a multi-investor LIHTC fund where RJTCF provides an investor member with a guaranteed return on their investment ("Guaranteed LIHTC Fund"), certain other LIHTC funds and the trust we utilize in connection with restricted stock unit ("RSU") awards granted to certain employees of one of our Canadian subsidiaries (the "Restricted Stock Trust Fund") require consolidation in our financial statements, as we are deemed the primary beneficiary of such VIEs. The aggregate assets and liabilities of the VIEs we consolidate are provided in the following table. Aggregate assets and aggregate liabilities may differ from the consolidated carrying value of assets and liabilities due to the elimination of intercompany assets and liabilities held by the consolidated VIE.

$ in millions	Aggregate assets	Aggregate liabilities
December 31, 2018		
Private Equity Interests	$ 71	$ 6
LIHTC fund in which RJ Bank is an investor member	56	—
Guaranteed LIHTC Fund	39	3
Other LIHTC funds	18	19
Restricted Stock Trust Fund	18	18
Total	$ 202	$ 46
September 30, 2018		
Private Equity Interests	$ 67	$ 5
LIHTC fund in which RJ Bank is an investor member	53	—
Guaranteed LIHTC Fund	40	3
Other LIHTC funds	18	18
Restricted Stock Trust Fund	14	14
Total	$ 192	$ 40

See Note 12 of this Form 10-Q for additional information regarding the commitment related to the Guaranteed LIHTC Fund and Note 9 of our 2018 Form 10-K for information regarding the financing asset associated with this fund.

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

The following table presents information about the carrying value of the assets, liabilities and equity of the VIEs which we consolidate and which are included on our Condensed Consolidated Statements of Financial Condition. The noncontrolling interests presented in this table represent the portion of these net assets which are not ours.

$ in millions	December 31, 2018	September 30, 2018
Assets:		
Cash, cash equivalents and cash segregated pursuant to regulations	$ 15	$ 7
Intercompany and other receivables	2	1
Private equity investments	64	63
Investments in real estate partnerships held by consolidated variable interest entities	103	107
Trust fund investment in RJF common stock	18	14
Total assets	$ 202	$ 192
Liabilities and equity:		
Other payables	$ 30	$ 27
Intercompany payables	22	17
Total liabilities	52	44
RJF equity	74	70
Noncontrolling interests	76	78
Total equity	150	148
Total liabilities and equity	$ 202	$ 192

The trust fund investment in RJF common stock in the preceding table is the Restricted Stock Trust Fund, which is included in “Treasury stock” on our Condensed Consolidated Statements of Financial Condition.

VIEs where we hold a variable interest but are not the primary beneficiary

As discussed in Note 2 of our 2018 Form 10-K, we have concluded that for certain VIEs we are not the primary beneficiary and therefore do not consolidate these VIEs. Such VIEs include certain Private Equity Interests, certain LIHTC funds, and other limited partnerships. Our risk of loss for these VIEs is limited to our investments in, advances to, and/or receivables due from these VIEs.

Aggregate assets, liabilities and risk of loss

The aggregate assets, liabilities, and our exposure to loss from those VIEs in which we hold a variable interest, but as to which we have concluded we are not the primary beneficiary, are provided in the following table.

	December 31, 2018			September 30, 2018		
$ in millions	Aggregate assets	Aggregate liabilities	Our risk of loss	Aggregate assets	Aggregate liabilities	Our risk of loss
Private Equity Interests	$6,965	$ 153	$72	$6,908	$ 154	$68
LIHTC funds	5,860	2,040	36	5,692	1,912	93
Other	212	113	4	211	114	4

Total	$13,037	$ 2,306	$112	$12,811	$ 2,180	$165

NOTE 9 – BANK DEPOSITS

Bank deposits include savings and money market accounts, certificates of deposit with RJ Bank, Negotiable Order of Withdrawal ("NOW") accounts and demand deposits. The following table presents a summary of bank deposits including the weighted-average rate, the calculation of which was based on the actual deposit balances at each respective period.

	December 31, 2018			September 30, 2018		
$ in millions	Balance	Weighted-average rate		Balance	Weighted-average rate	
Savings and money market accounts	$21,166	0.67	%	$19,475	0.54	%
Certificates of deposit	490	2.21	%	445	2.03	%
NOW accounts	7	0.01	%	6	0.01	%
Demand deposits (non-interest-bearing)	10	—		16	—	
Total bank deposits	$21,673	0.70	%	$19,942	0.57	%

Total bank deposits in the preceding table exclude affiliate deposits of $236 million at December 31, 2018 and $279 million at September 30, 2018. These affiliate deposits included $233 million at December 31, 2018 and $277 million at September 30, 2018, held in a deposit account at RJ Bank on behalf of RJF.

Savings and money market accounts in the preceding table consist primarily of deposits that are cash balances swept from the client investment accounts maintained at Raymond James & Associates, Inc. ("RJ&A") to RJ Bank. These balances are held in Federal Deposit Insurance Corporation ("FDIC") insured bank accounts through the Raymond James Bank Deposit Program ("RJBDP"). The aggregate amount of time deposit account balances that exceeded the FDIC insurance limit at December 31, 2018 was $25 million.

The following table sets forth the scheduled maturities of certificates of deposit.

	December 31, 2018		September 30, 2018	
$ in millions	Denominations greater than or equal to $100,000	Denominations less than $100,000	Denominations greater than or equal to $100,000	Denominations less than $100,000
Three months or less	$ 33	$ 19	$ 30	$ 17
Over three through six months	23	17	20	13
Over six through twelve months	40	31	38	26
Over one through two years	71	44	65	40
Over two through three years	14	11	21	14
Over three through four years	54	29	44	26
Over four through five years	70	34	63	28
Total	$ 305	$ 185	$ 281	$ 164

Interest expense on deposits, excluding interest expense related to affiliate deposits, is summarized in the following table.

$ in millions	Three months ended December 31, 2018	2017
Savings, money market, and NOW accounts	$ 33	$ 7
Certificates of deposit	2	1
Total interest expense on deposits	$ 35	$ 8

NOTE 10 – OTHER BORROWINGS

The following table details the components of other borrowings.

$ in millions	December 31, 2018	September 30, 2018
FHLB advances	$ 875	$ 875
RJF Credit Facility	300	—
Mortgage notes payable and other	23	24
Total other borrowings	$ 1,198	$ 899

31

Borrowings from the FHLB as of December 31, 2018 and September 30, 2018, were comprised of both floating and fixed-rate advances. As of December 31, 2018 and September 30, 2018, the floating-rate advances, which have interest rates that reset quarterly, totaled $850 million. The floating-rate advances mature in June 2020. We use interest rate swaps to manage the risk of increases in interest rates associated with these floating-rate advances by converting the balances subject to variable interest rates to a fixed interest rate. Refer to Note 5 for information regarding these interest rate swaps, which are accounted for as hedging instruments. As of both December 31, 2018 and September 30, 2018, the fixed-rate advance totaled $25 million and bears interest at a fixed rate of 3.4%. This advance matures in October 2020. All of the advances were secured by a blanket lien granted to the FHLB on our residential mortgage loan portfolio. The weighted average interest rate on these FHLB advances as of December 31, 2018 and September 30, 2018 was 2.84% and 2.41%, respectively.

RJF is a party to a revolving credit facility agreement (the "RJF Credit Facility") with a maturity date of May 2022 in which the lenders are a number of financial institutions. This committed unsecured borrowing facility provides for maximum borrowings of up to $300 million at variable rates of interest. The borrowings outstanding on the RJF Credit Facility bear interest at a rate of 3.96% per annum. The outstanding borrowings at December 31, 2018 were subsequently repaid in January 2019. There is a variable rate commitment fee associated with the RJF Credit Facility, which varies depending upon RJF's credit rating. Based upon RJF's credit rating as of December 31, 2018, the variable rate commitment fee, which would apply to any difference between the daily borrowed amount and the committed amount, was 0.20% per annum.

The interest rates for all of our U.S. and Canadian secured and unsecured financing facilities are variable and are based on the Fed Funds rate, London Inter-bank Offered Rate ("LIBOR"), a lenders prime rate, or the Canadian prime rate, as applicable. Any borrowings on secured lines of credit were day-to-day and were generally utilized to finance certain fixed income securities. In addition, we have other collateralized financings included in "Securities sold under agreements to repurchase" and "Securities loaned" on our Condensed Consolidated Statements of Financial Condition. See Note 6 for information regarding our collateralized financing arrangements.

Mortgage notes payable pertain to mortgage loans on certain of our corporate headquarters offices located in St. Petersburg, Florida. These mortgage loans are secured by land, buildings, and improvements. These mortgage loans bear a fixed interest rate of 5.7% with repayment terms of monthly interest and principal debt service and have a January 2023 maturity.

NOTE 11 – INCOME TAXES

For discussion of income tax accounting policies and other income tax related information, see Note 2 and Note 16 of our 2018 Form 10-K.

The income tax provision for interim periods is comprised of tax on ordinary income provided at the most recent estimated annual effective tax rate, adjusted for the tax effect of discrete items. We estimate the annual effective tax rate quarterly based on the forecasted pretax results of our U.S. and non-U.S. operations. Items unrelated to current year ordinary income are recognized entirely in the period identified as a discrete item of tax. These discrete items generally relate to changes in tax laws, adjustments to the actual liability determined upon filing tax returns, excess tax benefits related to share-based compensation and adjustments to previously recorded reserves for uncertain tax positions.

Effective tax rate

For the three months ended December 31, 2018, our effective income tax rate was 25.2%, which was lower than the 34.8% effective tax rate for fiscal year 2018. The decrease in the current period effective income tax rate compared to fiscal year 2018's effective income tax rate was due to the prior year remeasurement of our deferred tax assets at a lower enacted federal corporate tax rate, which negatively impacted the prior year's effective income tax rate by 8.1%, as well as a decrease in the current year's federal statutory tax rate from 24.5% to 21.0%. Offsetting these items were net valuation losses associated with our company-owned life insurance which unfavorably impacted our effective income tax rate in the current period.

Uncertain tax positions

We anticipate that the uncertain tax position liability balance will decrease by approximately $5 million over the next twelve months primarily due to the resolution of pending audits with the Internal Revenue Service.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments and contingencies

Loan and underwriting commitments

In the normal course of business, we enter into commitments for fixed income and equity underwritings. As of December 31, 2018, we had two such open underwriting commitments, which were subsequently settled in open market transactions and none of which resulted in a significant loss.

As part of our recruiting efforts, we offer loans to prospective financial advisors and certain key revenue producers primarily for recruiting, transitional cost assistance, and retention purposes (see Note 2 of our 2018 Form 10-K for a discussion of our accounting policies governing these transactions). These commitments are contingent upon certain events occurring, including, but not limited to, the individual joining us. As of December 31, 2018, we had made commitments through the extension of formal offers totaling approximately $143 million that had not yet been funded; however, it is possible that not all of our offers will be accepted and therefore, we would not fund the total amount of the offers extended. As of December 31, 2018, $82 million of the total amount extended consisted of unfunded commitments to prospective financial advisors that had accepted our offers, or recently hired producers.

Commitments to extend credit and other credit-related financial instruments

RJ Bank has 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, which then extend over varying periods of time. These arrangements are subject to strict underwriting assessments and each customer's credit worthiness is evaluated on a case-by-case basis. Fixed-rate commitments are also subject to market risk resulting from fluctuations in interest rates and our exposure is limited to the replacement value of those commitments.

The following table presents RJ Bank's commitments to extend credit and other credit-related off-balance sheet financial instruments outstanding.

$ in millions	December 31, 2018	September 30, 2018
Open-end consumer lines of credit (primarily SBL)	$ 7,684	$ 7,332
Commercial lines of credit	$ 1,555	$ 1,643
Unfunded loan commitments	$ 567	$ 541
Standby letters of credit	$ 45	$ 41

Because many of our lending commitments expire without being funded in whole or part, the contractual amounts are not estimates of our actual future credit exposure or future liquidity requirements. We maintain a reserve to provide for potential losses related to the unfunded lending commitments. See Note 7 for further discussion of this reserve for unfunded lending commitments.

RJ&A enters into margin lending arrangements which allow customers to borrow against the value of qualifying securities. Margin loans are collateralized by the securities held in the customer's account at RJ&A. Collateral levels and established credit terms are monitored daily and we require customers to deposit additional collateral or reduce balances as necessary.

Investment commitments

A subsidiary of RJ Bank has committed approximately $80 million as an investor member in a LIHTC fund in which a subsidiary of RJTCF is the managing member (see Note 2 of our 2018 Form 10-K for information regarding the accounting policies governing these investments). As of December 31, 2018, the RJ Bank subsidiary had invested $71 million of the committed amount.

We had unfunded commitments to various private equity investments of $18 million as of December 31, 2018.

Other commitments

RJF has committed an amount of up to $225 million, subject to certain limitations and to annual review and renewal by the RJF Board of Directors, to either lend to, or guarantee obligations of RJTCF in connection with RJTCF's low-income housing development/rehabilitation and syndication activities. At December 31, 2018, RJTCF had $69 million outstanding against this commitment. RJTCF may borrow from RJF in order to make investments in, or fund loans or advances to, either project partnerships that purchase and develop properties qualifying for tax credits or LIHTC funds. Investments in project partnerships are sold to various LIHTC funds, which have third-party investors, and for which RJTCF serves as the managing member or general partner. RJTCF typically sells investments in project partnerships to LIHTC funds within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings from RJF. RJTCF may also make short-term loans or advances to project partnerships and LIHTC funds.

As a part of our fixed income public finance operations, we enter into forward commitments to purchase agency MBS (see the discussion of these activities within Note 2 of our 2018 Form 10-K). At December 31, 2018, we had $287 million principal amount of outstanding forward MBS purchase commitments which were expected to be purchased within 90 days following commitment. In order to hedge the market 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. We may be subject to loss if the timing of, or the actual amount of, the MBS differs significantly from the term and notional amount of the TBA security contract to which we entered. These TBA securities and related purchase commitments are accounted for at fair value. As of December 31, 2018, the fair value of the TBA securities and the estimated fair value of the purchase commitments were insignificant.

Guarantees

Our U.S. broker-dealer subsidiaries are required by federal law to be members of the Securities Investors Protection Corporation ("SIPC"). The SIPC fund provides protection up to $500 thousand per client for securities and cash held in client accounts, including a limitation of $250 thousand on claims for cash balances. We have purchased excess SIPC coverage through various syndicates of Lloyd's of London. For RJ&A, our clearing broker-dealer, the additional protection currently provided has an aggregate firm limit of $750 million for cash and securities, including a sub-limit of $1.9 million per client for cash above basic SIPC. Account protection applies when a SIPC member fails financially and is unable to meet obligations to clients. This coverage does not protect against market fluctuations. RJF has provided an indemnity to Lloyd's of London against any and all losses they may incur associated with the excess SIPC policies.

RJTCF has provided a guaranteed return on investment to a third-party investor in the Guaranteed LIHTC Fund and RJF has guaranteed RJTCF's performance under the arrangement. Under the terms of the performance guarantee, should the underlying LIHTC project partnerships held by the Guaranteed LIHTC Fund fail to deliver a certain amount of tax credits and other tax benefits to this investor over the next four years, RJTCF is obligated to pay the investor an amount that results in the investor achieving a minimum specified return on their investment. A $10 million financing asset was included in "Other assets," and a related $10 million liability was included in "Other payables" on our Condensed Consolidated Statements of Financial Condition as of December 31, 2018 related to this obligation. The maximum exposure to loss under this guarantee was $10 million at December 31, 2018, which represented the undiscounted future payments due the investor.

We guarantee the debt of one of our private equity investments. The amount of such debt, including the undrawn portion of a revolving credit facility, was $13 million as of December 31, 2018. The debt is secured by substantially all of the assets of the borrower.

Legal and regulatory matter contingencies

In addition to any matters that may be specifically described in the following sections, 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.

RJF and certain of its subsidiaries are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations. Reviews can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censures to fines and, in serious cases, temporary or permanent suspension from conducting business, or limitations on certain business activities. In addition, regulatory agencies and self-regulatory organizations institute investigations from time to time into industry practices, which can also result in the imposition of such sanctions.

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. 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 may from time to time include in any descriptions of individual matters herein 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 condensed 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.

With respect to legal and regulatory matters for which management has been able to estimate a range of reasonably possible loss as of December 31, 2018, we estimated the upper end of the range of reasonably possible aggregate loss to be approximately $125 million in excess of the aggregate reserves for such matters. Refer to Note 2 of our 2018 Form 10-K for a discussion of our criteria for recognizing liabilities for contingencies.

Legal matters

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. On January 18, 2019, the Appellate Court entered an order granting permission to RJ&A to appeal the District Court's class certification order. On January 25, 2019, the District Court issued an order staying trial, calendar call and all remaining pretrial deadlines pending resolution of the appeal. RJ&A's initial appellate brief is due February 27, 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. On January 2, 2019, the District Court denied the motion to dismiss. The matter is currently scheduled for trial commencing September 16, 2019. On January 25, 2019, RJFS and RJFSA filed a motion to stay trial, calendar call and all remaining pretrial deadlines in light of the Appellate Court's order in Brink (described above) granting permission to RJ&A to appeal the class certification order, which motion is pending. 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
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

All of the components of OCI, net of tax, were attributable to RJF. The following table presents the net change in OCI as well as the changes, and the related tax effects, of each component of AOCI.

$ in millions	Net investment hedges	Currency translations	Subtotal: net investment hedges and currency translations	Available-for-sale securities	Cash flow hedges	Total
Three months ended December 31, 2018						
Accumulated other comprehensive income/(loss) as of beginning of period	$ 88	$ (111)	$ (23)	$ (46)	$ 42	$ (27)
Cumulative effect of adoption of ASU 2016-01, net of tax	—	—	—	(4)	—	(4)
Other comprehensive income/(loss):						
Other comprehensive income/(loss) before reclassifications and taxes	49	(50)	(1)	32	(24)	7
Amounts reclassified from accumulated other comprehensive income/(loss), before tax	—	—	—	—	(1)	(1)
Pre-tax net other comprehensive income/(loss)	49	(50)	(1)	32	(25)	6
Income tax effect	(12)	—	(12)	(10)	8	(14)
Other comprehensive income/(loss) for the period, net of tax	37	(50)	(13)	22	(17)	(8)
Accumulated other comprehensive income/(loss) as of end of period	$ 125	$ (161)	$ (36)	$ (28)	$ 25	$ (39)
Three months ended December 31, 2017						
Accumulated other comprehensive income/(loss) as of beginning of period	$ 60	$ (80)	$ (20)	$ (2)	$ 7	$ (15)
Other comprehensive income/(loss):						
Other comprehensive income/(loss) before reclassifications and taxes	8	(6)	2	(16)	7	(7)
Amounts reclassified from accumulated other comprehensive income/(loss), before tax	—	—	—	—	1	1
Pre-tax net other comprehensive income/(loss)	8	(6)	2	(16)	8	(6)
Income tax effect	(2)	—	(2)	4	(1)	1
Other comprehensive income/(loss) for the period, net of tax	6	(6)	—	(12)	7	(5)
Accumulated other comprehensive income/(loss) as of end of period	$ 66	$ (86)	$ (20)	$ (14)	$ 14	$ (20)

As of October 1, 2018, we adopted new accounting guidance related to the classification and measurement of financial instruments (ASU 2016-01), which generally requires changes in the fair value of equity securities to be recorded in net income. As a result, on a prospective basis beginning October 1, 2018, unrealized gains/(losses) on our equity securities previously classified and accounted for as available-for-sale are recorded in net income instead of OCI. Accordingly, we reclassified a cumulative unrealized gain on such securities, net of tax, from AOCI to retained earnings. See Notes 2 and 4 for additional information.

Reclassifications from AOCI to net income, excluding taxes, for both the three months ended December 31, 2018 and 2017 were recorded in “Interest expense” on the Condensed Consolidated Statements of Income and Comprehensive Income.

Our net investment hedges and cash flow hedges relate to our derivatives associated with RJ Bank’s business operations (see Note 5 for additional information on these derivatives).

Our policy is to release tax effects remaining in AOCI on an individual security basis.

NOTE 14 – REVENUES

On October 1, 2018, we adopted the new accounting guidance for revenue from contracts with customers. Under the new guidance, revenue is recognized when promised goods or services are delivered to our customers in an amount we expect to receive in exchange for those goods or services (i.e., the transaction price). Contracts with customers can include multiple services, which are accounted for as separate "performance obligations" if they are determined to be distinct. Our performance obligations to our customers are generally satisfied when we transfer the promised good or service to our customer, either at a point in time or over time. Revenue from a performance obligation transferred at a point in time is recognized at the time that the customer obtains control over the promised good or service. Revenue from our performance obligations satisfied over time are recognized in a manner that depicts our performance in transferring control of the good or service, which is generally measured based on time elapsed, as our customers simultaneously receive and consume the benefit of our services as they are provided.

Payment for the majority of our services is considered to be variable consideration, as the amount of revenues we expect to receive is subject to factors outside of our control, including market conditions. Variable consideration is only included in revenue when amounts are not subject to significant reversal, which is generally when uncertainty around the amount of revenue to be received is resolved.

We involve a third party in providing services to the customer for some of our contracts with customers. Under the new guidance, we are generally deemed to control the promised service before it is transferred to the customer. Accordingly, beginning with adoption of the new guidance, we present the related revenue gross of the related costs.

The following tables present our sources of revenues by segment. See Note 19 for additional information on our segment results.

	Three months ended December 31, 2018						
$ in millions	Private Client Group	Capital Markets	Asset Management	RJ Bank	Other	Intersegment eliminations	Total
Revenues:							
Asset management and related administrative fees	$707	$ 2	$ 161	$—	$ —	$ (5)	$865
Brokerage revenues:							
Securities commissions:							
Mutual and other fund products	157	2	3	—	—	(2)	160
Insurance and annuity products	104	—	—	—	—	—	104
Equities and fixed income products	84	40	—	—	—	—	124
Subtotal securities commissions	345	42	3	—	—	(2)	388
Principal transactions [(1)]	19	57	—	1	—	(1)	76
Total brokerage revenues	364	99	3	1	—	(3)	464
Account and services fees:							
Mutual fund and annuity service fees	83	—	1	—	—	(3)	81
RJBDP fees	109	—	1	—	—	(41)	69
Client account and other fees	33	—	7	—	—	(5)	35
Total account and service fees	225	—	9	—	—	(49)	185

Investment banking:							
Equity underwriting	7	27	—	—	1	—	35
Merger & acquisition and advisory	—	83	—	—	—	—	83
Fixed income investment banking	—	19	—	—	—	—	19
Total investment banking	7	129	—	—	1	—	137
Other:							
Tax credit fund revenues	—	19	—	—	—	—	19
All other [(1)]	7	2	—	5	4	—	18
Total other	7	21	—	5	4	—	37
Total non-interest revenues	1,310	251	173	6	5	(57)	1,688
Interest income [(1)]	56	10	1	239	16	(6)	316
Total revenues	1,366	261	174	245	21	(63)	2,004
Interest expense	(10)	(8)	—	(42)	(19)	6	(73)
Net revenues	$1,356	$ 253	$ 174	$203	$ 2	$ (57)	$1,931

(continued on next page)

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

(continued from previous page)

	Three Months Ended December 31, 2017						
$ in millions	Private Client Group	Capital Markets	Asset Management	RJ Bank	Other	Intersegment eliminations	Total
Revenues:							
Asset management and related administrative fees	$591	$ 2	$ 141	$—	$ —	$ (5)	$729
Brokerage revenues:							
Securities commissions:							
Mutual and other fund products	175	2	3	—	—	(1)	179
Insurance and annuity products	111	—	—	—	—	—	111
Equities and fixed income products	90	38	—	—	—	(2)	126
Subtotal securities commissions	376	40	3	—	—	(3)	416
Principal transactions (1)	20	77	—	—	—	—	97
Total brokerage revenues	396	117	3	—	—	(3)	513
Account and services fees:							
Mutual fund and annuity service fees	81	—	1	—	—	(2)	80
RJBDP fees	82	—	1	—	—	(21)	62
Client account and other fees	29	1	5	—	—	(6)	29
Total account and service fees	192	1	7	—	—	(29)	171
Investment banking:							
Equity underwriting	7	17	—	—	—	—	24
Merger & acquisition and advisory	—	43	—	—	—	—	43
Fixed income investment banking	—	21	—	—	—	—	21
Total investment banking	7	81	—	—	—	—	88
Other:							
Tax credit fund revenues	—	14	—	—	—	—	14
All other (1)	9	1	—	2	8	(1)	19
Total other	9	15	—	2	8	(1)	33
Total non-interest revenues	1,195	216	151	2	8	(38)	1,534
Interest income (1)	43	7	—	176	8	(2)	232
Total revenues	1,238	223	151	178	16	(40)	1,766
Interest expense	(5)	(6)	—	(13)	(19)	3	(40)
Net revenues	$1,233	$ 217	$ 151	$165	$ (3)	$ (37)	$1,726

(1) These revenues are generally not in scope of the new accounting guidance for revenue from contracts with customers.

Asset management and related administrative fees

We earn asset management and administration fees for performing asset management, investment advisory and related administrative services for retail and institutional clients. Such fees are generally calculated as a percentage of the value of assets in fee-based accounts within our Private Client Group ("PCG") segment or the net asset value of institutional accounts or funds that we manage, all of which are impacted by market fluctuations and net inflows or outflows of assets. Fees are generally collected quarterly and are based on balances either at the beginning of the quarter, the end of the quarter, or average daily balances. Asset management and related administrative fees are recognized on a monthly basis (i.e., over time) as the services are performed. Revenues related to fee-based accounts are recorded in both the PCG and Asset Management segments, the amount of which depends on whether clients are invested in assets that are managed by our Asset Management segment and the administrative services being provided.

Brokerage revenues

Securities commissions

Mutual and other fund products and insurance and annuity products

We earn revenues for distribution and related support services performed related to mutual and other funds, fixed and variable annuities and insurance products. Depending on the product sold, we may receive an upfront fee for our services, a trailing commission, or some combination thereof. Upfront commissions received are generally based on a fixed rate applied, as a percentage, to amounts invested

38

or the value of the contract at the time of sale and are recognized at the time of sale (or, in the case of insurance and annuity products, when the policy is accepted by the carrier). Trailing commissions are generally based on a fixed rate applied, as a percentage, to the net asset value of the fund, or the value of the insurance policy or annuity contract. Trailing commissions are generally received monthly or quarterly while our client holds the investment or holds the contract. As these trailing commissions are based on factors outside of our control, including market movements and client behavior (i.e., how long clients hold their investment, insurance policy or annuity contract), such revenue is recognized when it is probable that a significant reversal will not occur.

Equity and fixed income products

We earn commissions for executing and clearing transactions for customers, primarily in listed and OTC equity securities, including exchange-traded funds, and options. Such revenues primarily arise from transactions for retail clients in our PCG segment, as well as services related to sales and trading activities transacted on an agency basis in our Capital Markets segment. Commissions are recognized on trade date, generally received from the customer on settlement date, and we record a receivable between the trade date and the date collected from the customer.

Principal transaction revenues

Principal transactions include revenues from customers' purchases and sales of financial instruments, including fixed income and equity securities and derivatives, in which we transact on a principal basis. To facilitate such transactions, we carry inventories of financial instruments. The gains and losses on such inventories, both realized and unrealized, are reported as principal transactions revenues.

Account and service fees

Mutual fund and annuity service fees

We earn servicing fees for providing sales and marketing support to product partners and for supporting the availability and distribution of their products on our platforms. We also earn servicing fees from such partners for accounting and administrative services. These fees, which are received monthly or quarterly, are generally based on the market value of assets or number of positions in such programs or, in certain cases, are a fixed annual fee, and are recognized over time as the services are performed.

RJBDP fees

We earn servicing fees from various banks for administrative services we provide related to our clients' deposits that are swept to such banks as part of RJBDP, our multi-bank sweep program. The amounts received from third-party banks are variable in nature and fluctuate 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 RJBDP. The fees are earned over time as the related administrative services are performed and are received monthly. Our PCG segment also earns servicing fees from RJ Bank, which are based on the number of accounts that participate in the sweep program. These fees are eliminated in consolidation.

Investment banking revenues

We earn revenue from investment banking transactions, including public and private equity and debt financing, merger & acquisition advisory services, and other advisory services. Underwriting revenues, which are typically deducted from the proceeds remitted to the issuer, are recognized on trade date if there is no uncertainty or contingency related to the amount to be paid. Fees from merger & acquisition and advisory assignments are generally recognized at the time the services related to the transaction are completed under the terms of the engagement. Fees for advisory services are typically received upfront, as non-refundable retainer fees, or as a success fee upon completion of a transaction. Expenses related to investment banking transactions are generally deferred until the related revenue is recognized or the assignment is otherwise concluded. Beginning October 1, 2018, such expenses have been included in “Professional fees” on our Condensed Consolidated Statements of Income and Comprehensive Income.

Impact of adoption

As a result of the adoption of the new accounting guidance, we have changed the presentation of certain costs from a net presentation within revenues to a gross presentation, particularly those related to merger & acquisition, advisory and underwriting transactions and certain administrative costs related to the RJBDP. As a result of this change, “Investment banking” and “Professional fees” were each $6 million higher and “Account and service fees” and “Other” expense were each $2 million higher for the three months ended December 31, 2018. These changes had no impact on pre-tax or net income.

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

Other items

At December 31, 2018 and September 30, 2018, net receivables related to contracts with customers were $326 million and $384 million, respectively.

We record deferred revenue from contracts with customers when payment is received prior to the performance of our obligation to the customer. Deferred revenue balances were not material as of December 31, 2018 and September 30, 2018.

We have elected the practical expedient allowable by the guidance to not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less.

NOTE 15 – INTEREST INCOME AND INTEREST EXPENSE

The following table details the components of interest income and interest expense.

	Three months ended December 31,	
$ in millions	2018	2017
Interest income:		
Cash segregated pursuant to regulations	$14	$12
Trading instruments	7	5
Available-for-sale securities	16	11
Margin loans	32	24
Bank loans, net of unearned income	214	160
Loans to financial advisors	4	4
Corporate cash and all other	29	16
Total interest income	$316	$232
Interest expense:		
Bank deposits	$35	$8
Trading instruments sold but not yet purchased	2	2
Brokerage client payables	6	3
Other borrowings	6	6
Senior notes payable	18	18
Other	6	3
Total interest expense	73	40
Net interest income	243	192
Bank loan loss provision	(16)	(1)
Net interest income after bank loan loss provision	$227	$191

Interest expense related to bank deposits in the preceding table for the three months ended December 31, 2018 and 2017 excludes interest expense associated with affiliate deposits, which has been eliminated in consolidation.

NOTE 16 – SHARE-BASED COMPENSATION

We have one share-based compensation plan for our employees, Board of Directors and non-employees (comprised of independent contractor financial advisors). We generally issue new shares under The Amended and Restated 2012 Stock Incentive Plan; however, we are also permitted to reissue our treasury shares. Annual share-based compensation awards are generally issued during the first fiscal quarter of each year. Our share-based compensation accounting policies are described in Note 2 of our 2018 Form 10-K. Other information related to our share-based awards is presented in Note 20 of our 2018 Form 10-K.

During the three months ended December 31, 2018, we granted 1.4 million RSUs to employees and outside members of our Board of Directors with a weighted-average grant-date fair value of $76.22. For the three months ended December 31, 2018, total compensation expense for restricted equity awards granted to our employees and members of our Board of Directors was $38 million, compared with $30 million for the three months ended December 31, 2017.

As of December 31, 2018, there were $199 million of total pre-tax compensation costs not yet recognized, net of estimated forfeitures, related to restricted equity awards granted to employees and members of our Board of Directors. These costs are expected to be recognized over a weighted-average period of 3.3 years.

NOTE 17 – REGULATORY CAPITAL REQUIREMENTS

RJF, as a bank holding company and financial holding company, RJ Bank, and our broker-dealer subsidiaries are subject to capital requirements by various regulatory authorities. Capital levels of each entity are monitored to ensure compliance with our various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial results.

As a bank holding company, RJF is subject to the risk-based capital requirements of the Fed. These risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets, which involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting guidelines. RJF's and RJ Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

RJF and RJ Bank are required to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Tier 1 capital to average assets (as defined), and under rules defined under the Basel III standardized approach, Common equity Tier 1 capital ("CET1") to risk-weighted assets. RJF and RJ Bank each calculate these ratios in order to assess compliance with both regulatory requirements and their internal capital policies. The minimum CET1, Tier 1 capital, and Total capital ratios of RJF and RJ Bank are supplemented by an incremental capital conservation buffer, consisting entirely of capital that qualifies as CET1, that began phasing in on January 1, 2016 in increments of 0.625% per year until it reaches 2.5% of risk-weighted assets on January 1, 2019. Failure to maintain the capital conservation buffer could limit our ability to take certain capital actions, including dividends and common equity repurchases, and to make discretionary bonus payments. As of December 31, 2018, both RJF's and RJ Bank's capital levels exceeded the fully-phased in capital conservation buffer requirement, and are each categorized as "well capitalized."

For further discussion of regulatory capital requirements applicable to certain of our businesses and subsidiaries, see Note 21 of our 2018 Form 10-K.

To meet requirements for capital adequacy purposes or to be categorized as "well capitalized," RJF must maintain minimum CET1, Tier 1 capital, Total capital and Tier 1 leverage amounts and ratios as set forth in the following table.

	Actual		Requirement for capital adequacy purposes		To be well capitalized under regulatory provisions	
$ in millions	Amount	Ratio	Amount	Ratio	Amount	Ratio
RJF as of December 31, 2018:						
CET1	$5,499	23.6%	$1,047	4.5%	$1,513	6.5 %

Tier 1 capital	$5,499	23.6%	$1,397	6.0%	$1,862	8.0 %
Total capital	$5,738	24.7%	$1,862	8.0%	$2,328	10.0%
Tier 1 leverage	$5,499	14.6%	$1,508	4.0%	$1,885	5.0 %
RJF as of September 30, 2018:						
CET1	$5,718	24.3%	$1,057	4.5%	$1,527	6.5 %
Tier 1 capital	$5,718	24.3%	$1,410	6.0%	$1,880	8.0 %
Total capital	$5,941	25.3%	$1,880	8.0%	$2,350	10.0%
Tier 1 leverage	$5,718	15.8%	$1,451	4.0%	$1,814	5.0 %

The decrease in RJF's Tier 1 capital and Total capital ratios at December 31, 2018 compared to September 30, 2018 was primarily due to lower equity as a result of share repurchases during the three months ended December 31, 2018, partially offset by the impact of positive earnings during the current period.

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

To meet the requirements for capital adequacy or to be categorized as "well capitalized," RJ Bank must maintain CET1, Tier 1 capital, Total capital and Tier 1 leverage amounts and ratios as set forth in the following table.

	Actual		Requirement for capital adequacy purposes		To be well capitalized under regulatory provisions	
$ in millions	Amount	Ratio	Amount	Ratio	Amount	Ratio
RJ Bank as of December 31, 2018:						
CET1	$2,076	12.7%	$736	4.5%	$1,064	6.5 %
Tier 1 capital	$2,076	12.7%	$982	6.0%	$1,309	8.0 %
Total capital	$2,280	13.9%	$1,309	8.0%	$1,637	10.0%
Tier 1 leverage	$2,076	8.5 %	$974	4.0%	$1,217	5.0 %
RJ Bank as of September 30, 2018:						
CET1	$2,029	12.7%	$721	4.5%	$1,042	6.5 %
Tier 1 capital	$2,029	12.7%	$961	6.0%	$1,282	8.0 %
Total capital	$2,229	13.9%	$1,282	8.0%	$1,602	10.0%
Tier 1 leverage	$2,029	8.8 %	$926	4.0%	$1,158	5.0 %

RJ Bank's Tier 1 and Total capital ratios at December 31, 2018 were essentially unchanged compared to September 30, 2018, as the impact of positive earnings was offset by the impact of growth in bank loans.

Certain of our broker-dealer subsidiaries are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. The following table presents the net capital position of RJ&A.

$ in millions	December 31, 2018	September 30, 2018
Raymond James & Associates, Inc.:		
(Alternative Method elected)		
Net capital as a percent of aggregate debit items	36.69 %	28.22 %
Net capital	$ 1,052	$ 934
Less: required net capital	(57)	(66)
Excess net capital	$ 995	$ 868

As of December 31, 2018, all of our other active regulated domestic and international subsidiaries were in compliance with and exceeded all applicable capital requirements.

NOTE 18 – EARNINGS PER SHARE

The following table presents the computation of basic and diluted earnings per common share.

	Three months ended December 31,	
in millions, except per share amounts	2018	2017
Income for basic earnings per common share:		
Net income attributable to RJF	$249	$119
Less allocation of earnings and dividends to participating securities	—	—
Net income attributable to RJF common shareholders	$249	$119
Income for diluted earnings per common share:		
Net income attributable to RJF	$249	$119
Less allocation of earnings and dividends to participating securities	—	—
Net income attributable to RJF common shareholders	$249	$119
Common shares:		
Average common shares in basic computation	144.2	144.5
Dilutive effect of outstanding stock options and certain RSUs	3.1	3.8
Average common shares used in diluted computation	147.3	148.3
Earnings per common share:		
Basic	$1.73	$0.82
Diluted	$1.69	$0.80
Stock options and certain RSUs excluded from weighted-average diluted common shares because their effect would be antidilutive	1.8	1.4

The allocation of earnings and dividends to participating securities in the preceding table represents dividends paid during the period to participating securities plus an allocation of undistributed earnings to participating securities. Participating securities represent unvested restricted stock and certain RSUs and were insignificant for the three months ended December 31, 2018 and 2017. Dividends paid on these participating securities were insignificant for the three months ended December 31, 2018 and 2017. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Dividends per common share declared and paid are detailed in the following table for each respective period.

	Three months ended December 31,	
	2018	2017
Dividends per common share - declared	$0.34	$0.25
Dividends per common share - paid	$0.30	$0.22

NOTE 19 – SEGMENT INFORMATION

We currently operate through the following five business segments: PCG; Capital Markets; Asset Management; RJ Bank; and Other.

The business segments are determined based upon factors such as the services provided and the distribution channels served and are consistent with how we assess performance and determine how to allocate our resources throughout our subsidiaries. For a further discussion of our business segments, see Note 23 of our 2018 Form 10-K.

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

The following tables present information concerning operations in these segments of business.

$ in millions	Three months ended December 31, 2018	2017
Revenues:		
Private Client Group	$1,366	$1,238
Capital Markets	261	223
Asset Management	174	151
RJ Bank	245	178
Other	21	16
Intersegment eliminations	(63)	(40)
Total revenues	$2,004	$1,766
Income/(loss) excluding noncontrolling interests and before provision for income taxes:		
Private Client Group	$164	$155
Capital Markets	12	5
Asset Management	64	57
RJ Bank	110	114
Other	(18)	(20)
Pre-tax income excluding noncontrolling interests	332	311
Net loss attributable to noncontrolling interests	(2)	—
Income including noncontrolling interests and before provision for income taxes	$330	$311

No individual client accounted for more than ten percent of total revenues in any of the periods presented.

$ in millions	Three months ended December 31, 2018	2017
Net interest income/(expense):		
Private Client Group	$46	$38
Capital Markets	2	1
Asset Management	1	—
RJ Bank	197	163
Other and intersegment eliminations	(3)	(10)
Net interest income	$243	$192

The following table presents our total assets on a segment basis.

$ in millions	December 31, 2018	September 30, 2018
Total assets:		
Private Client Group	$ 9,751	$ 10,173
Capital Markets	2,202	2,279
Asset Management	389	387

RJ Bank	24,901	22,922
Other	1,301	1,652
Total	$ 38,544	$ 37,413

The following table presents goodwill, which was included in our total assets on a segment basis.

$ in millions	December 31, 2018	September 30, 2018
Goodwill:		
Private Client Group	$ 275	$ 276
Capital Markets	132	133
Asset Management	69	69
Total	$ 476	$ 478

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

We have operations in the U.S., Canada and Europe. Substantially all long-lived assets are located in the U.S. The following table presents our revenues and income before provision for income taxes and excluding noncontrolling interests, classified by major geographic area in which they were earned.

$ in millions	Three months ended December 31, 2018	2017
Revenues:		
U.S.	$1,857	$1,634
Canada	111	99
Europe	36	33
Total	$2,004	$1,766
Pre-tax income/(loss) excluding noncontrolling interests:		
U.S.	$330	$305
Canada	16	9
Europe [(1)]	(14)	(3)
Total	$332	$311

(1) The pre-tax loss in Europe for the three months ended December 31, 2018 reflects a $15 million loss on the sale of our operations related to research, sales and trading of European equities.

The following table presents our total assets by major geographic area in which they were held.

$ in millions	December 31, 2018	September 30, 2018
Total assets:		
U.S.	$ 35,806	$ 34,651
Canada	2,653	2,673
Europe	85	89
Total	$ 38,544	$ 37,413

The following table presents goodwill, which was included in our total assets, classified by major geographic area in which it was held.

$ in millions	December 31, 2018	September 30, 2018
Goodwill:		
U.S.	$ 426	$ 426
Canada	41	43
Europe	9	9
Total	$ 476	$ 478

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INDEX

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Management's Discussion and Analysis

Factors affecting “forward-looking statements”

Certain statements made in this Quarterly Report on Form 10-Q 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 suc “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 our filings with the SEC from time to time, including our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, which are available at www.raymondjames.com and the SEC’s website at www.sec.gov. 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.

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 condensed consolidated financial statements and accompanying notes to condensed consolidated financial statements. Where “NM” is used in various percentage change computations, the computed percentage change has been determined to be not meaningful.

We operate as a financial holding company and a 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 and asset valuations, which ultimately affect our business results.

Executive overview

Three months ended December 31, 2018 compared with the three months ended December 31, 2017

We achieved strong net revenues of $1.93 billion, an increase of $205 million, or 12%. Pre-tax income of $332 million increased $21 million, or 7%. Our net income of $249 million increased $130 million, or 109%, compared with the prior year period, which included a loss of $117 million related to the Tax Cuts and Jobs Act (“Tax Act”), and our earnings per diluted share were $1.69, reflecting a 111% increase. We achieved an annualized return on equity for the first fiscal quarter of 2019 of 15.9%, compared with 8.4% for the prior year period. During the quarter, we repurchased 6.1 million shares of common stock for $458 million at an average price of approximately $75.70 per share.

Excluding a $15 million loss on the sale of our operations related to research, sales and trading of European equities during the three months ended December 31, 2018, adjusted net income was $264 million [(1)], an increase of 10% compared with adjusted net income of $239 million [(1)] for the prior year period. Adjusted earnings per diluted share were $1.79 [(1)], an 11% increase compared with adjusted earnings per diluted share of $1.61 [(1)] for the prior year period. Our adjusted annualized return on equity for the quarter was 16.9% [(1)], compared with adjusted annualized return on equity of 16.8% [(1)] for the prior year period.

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

The $205 million increase in net revenues compared with the prior year period reflected higher asset management and related administrative fees, net interest income and investment banking revenues. Total client assets under administration of $725.4 billion at December 31, 2018 were essentially unchanged compared with the prior year period, as the impacts of equity market appreciation through September 30, 2018 and net inflows since the prior year period were offset by the impact of equity market declines during the first fiscal quarter of 2019. Partially offsetting the aforementioned revenue increases, brokerage revenues declined compared with the prior year period, reflecting the shift to fee-based accounts in our PCG segment and the continuing challenges in the fixed income markets.

Non-interest expenses increased $186 million, or 13%. The increase primarily resulted from increased compensation-related expenses associated with the increase in net revenues, as well as increased staffing levels required to support our continued growth and regulatory compliance requirements. The bank loan loss provision increased primarily as a result of loan growth and provisions related to certain credits downgraded during the quarter. Communications and information processing expenses also increased compared with the prior year period as a result of our continued investment in our technology infrastructure primarily to support our advisors and their clients. Our acquisition and disposition-related expenses in the current year period included the aforementioned $15 million loss on the sale of our European equities research, sales and trading operations.

Our effective tax rate was 25.2% for the three months ended December 31, 2018, reflecting a lower blended federal corporate statutory tax rate of 21% as result of the Tax Act enacted in December 2017. We estimate our effective tax rate to be approximately 25% for the remainder of our fiscal year 2019. 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 and tax-exempt interest), non-deductible expenses (such as meals and entertainment and certain executive compensation) and vesting and exercises of equity compensation.

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

- Our PCG segment generated net revenues of $1.36 billion, a 10% increase, and pre-tax income of $164 million, an increase of 6%. The increase in net revenues was primarily attributable to an increase in asset management and related administrative fees, primarily due to higher assets in fee-based accounts at the beginning of the quarter. The segment also benefited from an increase in account and service fees related to our RJBDP, the majority of which related to an increase in the servicing fee rate from RJ Bank. These increases were partially offset by a decline in brokerage revenues. Non-interest expenses increased $114 million, or 11%, primarily resulting from an increase in compensation-related expenses.

- Capital Markets net revenues of $253 million, increased 17%, and pre-tax income increased to $12 million. The increase in net revenues was primarily due to an increase investment banking revenues, including merger & acquisition and advisory and, to a lesser extent, equity underwriting revenues. Market-driven challenges continued to impact fixed income brokerage revenues, which declined compared with the prior year period. Non-interest expenses increased $30 million, or 14%, primarily due to the aforementioned $15 million loss on the sale of our European equities research, sales and trading operations, as well as an increase in professional fees due to the gross-up of certain investment banking transaction-related expenses, which were previously netted against revenues.

- Our Asset Management segment generated a 15% increase in net revenues to $174 million, and a pre-tax income increase of 12% to $64 million. The increase in net revenues primarily reflected an increase in asset management fees from managed programs, including the impact of a full quarter of revenues from the Scout Group which was acquired in November 2017, and, to a lesser extent, higher asset-based administration fees. Non-interest expenses increased $17 million, or 19%, primarily resulting from increased compensation and benefits expenses and higher expenses related to the Scout Group.

- RJ Bank net revenues increased 23% to $203 million, while pre-tax income declined 4% to $110 million. The increase in net revenues primarily resulted 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 $42 million, or 82%, primarily reflecting an increase in RJBDP servicing fees paid to PCG, primarily due to an increase in the per-account fee effective October 1, 2018, as well as an increase in the loan loss provision.

- Our Other segment reflected a pre-tax loss that was $2 million, or 10%, less than the loss in the prior year period, primarily due to an increase in interest income, which was positively impacted by an increase in interest rates earned on higher corporate cash balances.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Management's Discussion and Analysis

Segments

We currently operate through five segments. Our business segments are Private Client Group, Capital Markets, Asset Management and RJ Bank. Our Other segment captures private equity activities as well as certain corporate overhead costs of RJF that are not allocated to business segments, including the interest costs on our public debt and the acquisition and integration costs associated with certain acquisitions.

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

	Three months ended December 31,		
$ in millions	2018	2017	% change
Total company			
Net revenues	$1,931	$1,726	12 %
Pre-tax income	$332	$311	7 %
Private Client Group			
Net revenues	$1,356	$1,233	10 %
Pre-tax income	$164	$155	6 %
Capital Markets			
Net revenues	$253	$217	17 %
Pre-tax income	$12	$5	140 %
Asset Management			
Net revenues	$174	$151	15 %
Pre-tax income	$64	$57	12 %
RJ Bank			
Net revenues	$203	$165	23 %
Pre-tax income	$110	$114	(4)%
Other			
Net revenues	$2	$(3)	NM
Pre-tax loss	$(18)	$(20)	10 %
Intersegment eliminations			
Net revenues	$(57)	$(37)	

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 period to those in prior and future periods. In the table below, the tax effect of non-GAAP adjustments reflects the statutory rate associated with each non-GAAP item. 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.

	Three Months Ended December 31,	
$ in millions, except per share amounts	2018	2017
Net income	$249	$119
Non-GAAP adjustments:		
Acquisition and disposition-related expenses	15	4
Tax effect of non-GAAP adjustments above	—	(1)
Impact of the Tax Act	—	117
Total non-GAAP adjustments, net of tax	15	120
Adjusted net income	$264	$239
Earnings per common share:		
Basic	$1.73	$0.82
Diluted	$1.69	$0.80
Adjusted basic	$1.83	$1.65
Adjusted diluted	$1.79	$1.61
Average equity	$6,256	$5,639
Return on equity	15.9 %	8.4 %
Adjusted average equity	$6,263	$5,699
Adjusted return on equity	16.9 %	16.8 %

Net income in the preceding table excludes noncontrolling interests.

Return on equity is computed by dividing annualized net income attributable to RJF by average equity for each respective period or, in the case of adjusted return on equity, computed by dividing annualized adjusted net income attributable to RJF by adjusted average equity for each respective period.

Average equity is computed by adding the total equity attributable to RJF as of the date indicated to the prior quarter-end total, and dividing by two. Adjusted average equity is computed by adjusting for the impact on average equity of the non-GAAP adjustments, as applicable for each respective period.

For more information on acquisition and disposition-related expenses, see “Results of Operations - Capital Markets” and “Results of Operations - Other” in this MD&A. For more information on the impact of the Tax Act, see Note 16 of our

2018 Form 10-K.

Net interest analysis

The Federal Reserve Bank announced an increase of 25 basis points in its benchmark short-term interest rate in December 2018, as it did in each of the quarters in fiscal year 2018 and three of the quarters in fiscal year 2017. 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 on 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” of our PCG, RJ Bank, and Other segments.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Management's Discussion and Analysis

The following table presents our consolidated average balances, interest income and expense and the related yields and rates. Average balances are calculated on a daily basis, with the exception of 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.

	Three months ended December 31,					
	2018			2017		
$ in millions	Average balance	Interest inc./exp.	Average yield/cost	Average balance	Interest inc./exp.	Average yield/cost
Interest-earning assets:						
Cash segregated pursuant to regulations	$1,859	$ 14	3.01 %	$2,887	$ 12	1.68 %
Trading instruments	722	7	3.88 %	678	5	2.95 %
Available-for-sale securities	2,717	16	2.32 %	2,275	11	1.88 %
Margin loans	2,726	32	4.70 %	2,484	24	3.88 %
Bank loans:						
Loans held for investment:						
C&I loans	7,763	91	4.58 %	7,414	73	3.89 %
CRE construction loans	171	2	5.62 %	140	2	4.80 %
CRE loans	3,558	41	4.55 %	3,037	29	3.71 %
Tax-exempt loans	1,284	9	2.80 %	1,040	7	2.58 %
Residential mortgage loans	3,891	32	3.32 %	3,245	25	3.06 %
SBL	3,102	36	4.58 %	2,471	23	3.68 %
Loans held for sale	186	3	5.39 %	116	1	3.46 %
Total bank loans, net	19,955	214	4.27 %	17,463	160	3.65 %
Loans to financial advisors, net	923	4	1.73 %	869	4	1.61 %
Corporate cash and all other	5,411	29	2.14 %	4,693	16	1.36 %
Total interest-earning assets	$34,313	$ 316	3.68 %	$31,349	$ 232	2.96 %
Interest-bearing liabilities:						
Bank deposits:						
Certificates of deposit	$462	$ 2	1.98 %	$324	$ 1	1.56 %
Savings, money market and NOW accounts	20,476	33	0.64 %	17,821	7	0.15 %
Trading instruments sold but not yet purchased	297	2	2.69 %	282	2	2.84 %
Brokerage client payables	3,548	6	0.68 %	4,443	3	0.23 %
Other borrowings	931	6	2.58 %	1,033	6	2.26 %
Senior notes payable	1,550	18	4.65 %	1,549	18	4.69 %
Other	390	6	6.15 %	384	3	3.13 %
Total interest-bearing liabilities	$27,654	$ 73	1.06 %	$25,836	$ 40	0.60 %
Net interest income		$ 243			$ 192	

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 residential mortgage nonaccrual loans is recognized on a cash basis.

Fee income on bank loans included in interest income for the three months ended December 31, 2018 and 2017 was $5 million and $9 million, respectively.

Results of Operations – Private Client Group

For an overview of our PCG segment operations as well as a description of the key factors impacting our PCG results of operations, refer to the information presented in “Item 1 - Business” and “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2018 Form 10-K.

Operating results

	Three months ended December 31,		
$ in millions	2018	2017	% change
Revenues:			
Asset management and related administrative fees	$707	$591	20 %
Brokerage revenues:			
Mutual and other fund products	157	175	(10)%
Insurance and annuity products	104	111	(6)%
Equities and fixed income products	103	110	(6)%
Total brokerage revenues	364	396	(8)%
Investment banking	7	7	—
Interest income	56	43	30 %
Account and service fees:			
Mutual fund and annuity service fees	83	81	2 %
RJBDP fees:			
Third-party banks	68	61	11 %
RJ Bank	41	21	95 %
Client account and other fees	33	29	14 %
Total account and service fees	225	192	17 %
All other	7	9	(22)%
Total revenues	1,366	1,238	10 %
Interest expense	(10)	(5)	100 %
Net revenues	1,356	1,233	10 %
Non-interest expenses:			
Financial advisor compensation and benefit costs	803	736	9 %
Administrative compensation and benefit costs	229	199	15 %
Communications and information processing	58	49	18 %
Occupancy and equipment costs	38	38	—
Business development	27	22	23 %
Professional fees	9	7	29 %
All other	28	27	4 %
Total non-interest expenses	1,192	1,078	11 %
Pre-tax income	$164	$155	6 %
Pre-tax margin on net revenues	12.1 %	12.6 %	

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Management's Discussion and Analysis

Selected key metrics

PCG client asset balances:

$ in billions	As of December 31, 2018	September 30, 2018	December 31, 2017	September 30, 2017	% change from September 30, 2018	December 31, 2017	September 30, 2017
Assets under administration	$690.7	$ 755.7	$ 692.1	$ 659.5	(9)%	—	5 %
Assets in fee-based accounts	$338.8	$ 366.3	$ 316.7	$ 294.5	(8)%	7 %	15 %

PCG assets under administration were flat compared to December 31, 2017, as the impacts of equity market appreciation through September 30, 2018 and net inflows since the prior year period were offset by the impact of equity market declines during the first fiscal quarter of 2019. Net inflows 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 49% at December 31, 2018, compared to 48% at September 30, 2018, 46% at December 31, 2017 and 45% at September 30, 2017 due in part to clients moving to fee-based alternatives from traditional transaction-based accounts. As a result of the shift to fee-based accounts, a large portion of our PCG revenues are more directly impacted by market movements. As the majority of our fee-based accounts are billed based on balances at the beginning of the quarter, revenues from fee-based accounts may not be immediately impacted by changes in market conditions throughout the period.

Financial advisors:

	December 31, 2018	September 30, 2018	December 31, 2017
Employees	3,166	3,167	3,038
Independent Contractors	4,649	4,646	4,499
Total advisors	7,815	7,813	7,537

The number of financial advisors was essentially unchanged compared with September 30, 2018 as the impact of recruiting was muted by a significant amount of financial advisor retirements during the December quarter, which is typically the most active period for such activity, as well as advisors leaving the business. We mitigate the revenue impact of such activity through our succession planning. The net increase in financial advisors as of December 31, 2018 compared to December 31, 2017 primarily resulted from strong financial advisor recruiting and high levels of retention.

Clients' domestic cash sweep balances

$ in millions	As of December 31, 2018	September 30, 2018	December 31, 2017
RJBDP			