

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has published long- and short-term IDRs of 'BBB-' and 'F3' for Stifel Financial Corp. (Stifel). The Rating Outlook on the long-term IDR is Stable. Fitch has also assigned a 'BBB-' rating to Stifel's existing senior unsecured debt and an expected 'BBB-' rating to Stifel's proposed senior unsecured note issuance. A full list of ratings is provided at the end of this release.

KEY RATING DRIVERS

Stifel's ratings and Stable Outlook are supported by the company's conservative business profile, well-established wealth management platform, increased deposit funding and solid capital levels. Stifel's revenues have become more diverse as a result of recent acquisitions as well as some organic growth, though they remain sensitive to overall market conditions. Key rating constraints include the firm's acquisitive growth strategy, a nascent lending platform, key man risk and high compensation ratios.

Stifel has completed numerous successful acquisitions. However, Fitch believes the firm remains vulnerable to potential integration, retention and execution risk related to future material acquisitions. Key man risk with the firm's CEO and the potential for lack of Board independence given the large number of insider Directors are also rating constraints.

Similar to peers, Stifel's profitability is subject to some variability given its sensitivity to market conditions, particularly domestic equity and fixed income markets. Despite this sensitivity, the business has been consistently profitable over several cycles while many larger peers experienced significant losses in the aftermath of the credit crisis. Stifel's compensation ratio tends to average in the mid-60% range, which is higher than most peers. There have been frequent one-time non-GAAP expenses in Stifel's reported earnings due to significant acquisition-related expenses. Fitch views some of these 'non-recurring' charges as more ongoing in nature given the acquisitive strategy.

The institutional business provides securities brokerage, trading, research, underwriting and corporate advisory services. Some of these businesses (fixed income in particular) utilize Stifel's balance sheet, though Fitch views the risks as relatively modest. There is virtually no proprietary trading or prime brokerage activity in the broker-dealers.

Fitch Publishes 'BBB-/F3' Ratings for Stifel Financial; Outlook Stable

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Additionally, position taking is primarily limited to residual exposures from investment banking underwriting and market-making activities. Market risk appears manageable, as inventory is limited in size, comprised of highly liquid securities with relatively high turnover rates.

The acquisition of KBW has increased the net revenue contribution from the institutional segment, which represented just under half of the firm's revenues at year-end 2013. Fitch recognizes that there is some benefit to having a more diversified earnings stream. However, the institutional business introduces additional risk and earnings volatility.

In Fitch's view, Stifel's wealth management business has demonstrated more stable revenues and margins, which offsets the more volatile institutional segment to some extent. Wealth management, which currently represents over half of the firm's net revenues, has exhibited steady growth over several cycles. The business has grown both organically and through numerous acquisitions.

Stifel Bank, which operates under the global wealth management segment, has experienced considerable growth, with total assets increasing to \$5 billion as of March 31, 2014 from just \$1.8 billion at year-end 2010. Both the loan and securities portfolio have increased roughly three-fold over this period, with the securities portfolio comprising approximately 62% of Stifel Bank & Trust's balance sheet at March 31, 2014. Stifel is moving towards a 50/50 mix between loans and securities by growing commercial and industrial (C&I) loans more aggressively and shrinking the investment portfolio. The rapid loan growth in a very competitive environment could lead to credit quality deterioration as the book seasons.

Acquisitions have been a significant component of Stifel's growth strategy over many years. Stifel has demonstrated the ability to successfully identify and integrate these acquisitions, which Fitch considers this one of its core competencies. However, an acquisitive strategy generally creates more operational risks than organic growth. Stifel has acquired entire companies (such as KBW and Acacia Bank), as well as buy-outs of teams from other firms (such as Knight Capital's Fixed Income business).

In February 2013, Stifel completed its acquisition of KBW for \$550 million, the largest transaction in its history. KBW continues to be run as a separate subsidiary of Stifel, though

some of the risk management functions and funding have been centralized. Most acquisitions have been financed primarily with equity issuance and/or cash from operations.

Fitch views Stifel's current capitalization as robust and believes there is some room for modestly higher leverage at the current rating level. However, Fitch would expect Stifel's long-term capitalization to remain more conservative than peers because of its growth-oriented and acquisitive strategy. As of March 31, 2014, Stifel reported Tier 1 risk-based capital of 25.7%. This is down slightly from the prior year but remains well above peers. Leverage at the broker-dealer subsidiaries is also conservative. Stifel Bank's Tier 1 risk-based capital ratio of 13.1% is slightly above the average of 12.4% for mid-tier commercial banks rated 'BBB-' by Fitch, despite its low-risk balance sheet.

The majority of Stifel's balance sheet is funded with cash, deposits and secured funding sources. Excess liquidity is generally maintained at the main operating subsidiaries. Deposits at Stifel Bank have grown considerably over the past several years, and represent roughly half of consolidated total assets. The deposit growth largely stems from wealth management clients, and is expected to continue.

While Fitch believes the firm is well managed, there are some concerns regarding key man risk with the firm's CEO. Stifel's Board has a large number of insider Directors, which creates the potential for a lack of Board independence. The number of Directors is also unusually large at 18, which is mainly the result of acquisitions Stifel has completed over the years.

RATING SENSITIVITIES

Upward rating momentum is limited in the near- to intermediate-term given Stifel's growth profile, competitive position and key man risk. However, longer-term upward momentum could potentially be achieved through:

--More measured growth;

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--Demonstrated seasoning of the expanded lending platform; and

--More robust succession planning and Board profile.

The rating could be negatively impacted by any of the following factors:

-- An increased appetite for acquisitions, either in terms of riskier acquisition targets or more aggressive funding (i.e. issuance of new debt);

-- Material deterioration in capitalization, either for the overall firm or at the subsidiary level, particularly if such reduction is not accompanied by a commensurate reduction in Stifel's growth profile;

-- Significant integration issues with any recent or future acquisitions;

-- Large-scale management departures and/or lack of long-term succession planning to address key man risk.

Stifel is a full-service middle market regional brokerage and investment bank based in St. Louis, MO. Stifel is the holding company for Stifel, Nicolaus & Company, Inc. (its primary broker-dealer subsidiary) and other subsidiaries. Stifel is the successor organization to a partnership founded in 1890 and has been organized in its current form since 1983. Stifel provides retail brokerage, securities trading, equity and fixed income capital markets, investment banking and advisory, and retail and commercial banking services to its clients. Much of Stifel's growth has been fueled by acquisitions that have increased the company's size and scope of operations.

Fitch has published the following ratings:

Stifel Financial Corporation

-- Long-term IDR 'BBB-', Rating Outlook Stable;

-- Short-term IDR 'F3';

-- Viability Rating 'bbb-';

-- Support '5';

-- Support Floor 'NF';

Fitch has also assigned the following ratings:

Stifel Financial Corporation

-- Senior unsecured debt at 'BBB-';

-- Proposed senior unsecured debt issuance at 'BBB-(EXP)'.

Additional information is available on www.fitchratings.com.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014);

--'Securities Firms Criteria' (Jan. 31, 2014).

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Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

Securities Firms Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732556

Additional Disclosure

Solicitation Status

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