

As filed with the U.S. Securities and Exchange Commission on March 3, 2017

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

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**FORM 10-K**

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(Mark One)

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

For the fiscal year ended December 31, 2016

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 1-12043

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**OPPENHEIMER HOLDINGS INC.**  
(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**85 Broad Street, New York, NY**  
(Address of principal executive offices)

**98-0080034**  
(I.R.S. Employer  
Identification No.)  
**10004**  
(Zip Code)

Registrant's Telephone number, including area code: (212) 668-8000

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A non-voting common stock	New York Stock Exchange

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

Not Applicable  
(Title of class)

[Table of Contents](#)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock of the Company held by non-affiliates of the Company cannot be calculated in a meaningful way because there is only limited trading in the class of voting stock of the Company. The aggregate market value of the Class A non-voting common stock held by non-affiliates of the Company at June 30, 2016 was \$205.0 million based on the per share closing price of the Class A non-voting common stock on the New York Stock Exchange on June 30, 2016 of \$15.46.

The number of shares of the Company's Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on February 28, 2017 was 13,336,346 and 99,665 shares, respectively.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Company's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed by the Company pursuant to Regulation 14A is incorporated into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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**TABLE OF CONTENTS**

Item Number		Page
<a href="#">PART I</a>		
1	<a href="#">Business</a>	<a href="#">2</a>
1A.	<a href="#">Risk Factors</a>	<a href="#">13</a>
1B.	<a href="#">Unresolved Staff Comments</a>	<a href="#">28</a>
2	<a href="#">Properties</a>	<a href="#">28</a>
3	<a href="#">Legal Proceedings</a>	<a href="#">29</a>
4	<a href="#">Mine Safety Disclosures</a>	<a href="#">33</a>
<a href="#">PART II</a>		
5	<a href="#">Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">34</a>
6	<a href="#">Selected Financial Data</a>	<a href="#">37</a>
7	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">38</a>
7A.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">57</a>
8	<a href="#">Financial Statements and Supplementary Data</a>	<a href="#">60</a>
9	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	<a href="#">128</a>
9A.	<a href="#">Controls and Procedures</a>	<a href="#">128</a>
9B.	<a href="#">Other Information</a>	<a href="#">128</a>
<a href="#">PART III</a>		
10	<a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">129</a>
11	<a href="#">Executive Compensation</a>	<a href="#">129</a>
12	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">129</a>
13	<a href="#">Certain Relationships and Related Transactions and Director Independence</a>	<a href="#">129</a>
14	<a href="#">Principal Accountant Fees and Services</a>	<a href="#">129</a>
<a href="#">PART IV</a>		
15	<a href="#">Exhibits and Financial Statement Schedules</a>	<a href="#">130</a>
	<a href="#">Signatures</a>	<a href="#">131</a>

Throughout this annual report, we refer to Oppenheimer Holdings Inc., collectively with its subsidiaries, as the "Company." We refer to the directly and indirectly owned subsidiaries of Oppenheimer Holdings Inc. collectively as the "Operating Subsidiaries."

## PART I

### Item 1. BUSINESS

#### OVERVIEW

Oppenheimer Holdings Inc., through its Operating Subsidiaries, is a leading middle-market investment bank and full service broker-dealer. With roots tracing back to 1881, the Company is engaged in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services and investment advisory and asset management services. The Company owns, directly or through subsidiaries, Oppenheimer & Co. Inc. ("Oppenheimer"), a New York-based securities broker-dealer, Oppenheimer Asset Management Inc. ("OAM"), a New York-based investment adviser, Freedom Investments, Inc. ("Freedom"), a discount securities broker-dealer based in New Jersey, Oppenheimer Trust Company ("Oppenheimer Trust"), a Delaware limited purpose bank, OPY Credit Corp., a New York corporation organized to trade and clear syndicated corporate loans, and Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF"), a Federal Housing Administration ("FHA")-approved mortgage company based in Pennsylvania. During 2016, the Company sold substantially all of the assets of OMHHF and ceased its operations. The Company's international businesses are carried on through Oppenheimer Europe Ltd. (United Kingdom), Oppenheimer Investments Asia Limited (Hong Kong), and Oppenheimer Israel (OPCO) Ltd. (Israel).

Oppenheimer Holdings Inc. was originally incorporated under the laws of British Columbia. Pursuant to its Certificate and Articles of Incorporation, effective on May 11, 2005, the Company's legal existence was continued under the Canada Business Corporations Act. Effective May 11, 2009, the Company changed its jurisdiction of incorporation from the federal jurisdiction of Canada to the State of Delaware in the United States with the approval of its shareholders.

#### PRIVATE CLIENT

Through its Private Client Division, Oppenheimer provides a comprehensive array of financial services through a network of approximately 1,158 financial advisers in 93 offices located throughout the United States. Clients include high-net-worth individuals and families, corporate executives, and small and mid-sized businesses. Clients may choose a variety of ways to establish a relationship and conduct business including brokerage accounts with transaction-based pricing and/or investment advisory accounts with asset-based fee pricing. As of December 31, 2016, the Company held client assets under administration of approximately \$77.2 billion. Oppenheimer provides the following private client services:

**Full-Service Brokerage** – Oppenheimer offers full-service brokerage covering a broad array of investment alternatives including exchange-traded and over-the-counter corporate equity and debt securities, money market instruments, exchange-traded options and futures contracts, municipal bonds, mutual funds, and unit investment trusts. A substantial portion of Oppenheimer's revenue is derived from commissions from private clients through accounts with transaction-based pricing. Brokerage commissions are charged on investment products in accordance with a schedule which Oppenheimer has formulated. Discounts are available to and can be negotiated with customers based on transaction size and volume as well as a number of other factors. In recent years, an increasing number of clients have chosen to do business through fee-based accounts.

**Wealth Planning** – Oppenheimer also offers financial and wealth planning services which include asset management, individual and corporate retirement solutions, including insurance and annuity products, IRAs and 401(k) plans, U.S. stock plan services to corporate executives and businesses, education savings programs, and trust and fiduciary services to individual and corporate clients.

**Margin Lending** – Oppenheimer extends credit to its customers, collateralized by securities and cash in the customer's account, for a portion of the purchase price, and receives income from interest charged on such extensions of credit. The customer is charged for such margin financing at interest rates derived from Oppenheimer's rate.

## ASSET MANAGEMENT

OAM, an investment advisory affiliate of Oppenheimer, manages the Company's advisory programs and alternative investments business. The business includes discretionary and non-discretionary fee-based programs sponsored by Oppenheimer, OAM, Oppenheimer Investment Advisers ("OIA") and Oppenheimer Investment Management LLC ("OIM"), as well as alternative investments sponsored through Advantage Advisers Multi Manager LLC and Oppenheimer Alternative Investment Management LLC.

OAM offers a wide range of tailored investment management solutions and services to high net worth private clients, institutions and investment advisers. These include, but are not limited to, portfolio management, manager research and due diligence, asset allocation advice and financial planning. Proprietary and third party investment management capabilities are offered through separately managed accounts, alternative investments and discretionary and non-discretionary portfolio management programs. Platform support functions include sales and marketing along with administrative services such as trade execution, client services, records management and client reporting.

At December 31, 2016, the Company had \$24.8 billion of client assets under management ("AUM") in fee-based programs. Revenues for OAM are generated by investment advisory and transactional fees for advisory services along with revenue sharing arrangements with registered and private alternative investment vehicles. Investment advisory fees are earned on all assets held in discretionary and non-discretionary asset-based programs. These fees are typically billed quarterly, in advance, and are calculated based on AUM balances at the end of the prior quarter. Revenue sharing arrangements for management and incentive fees in alternative investments are calculated on a pre-determined basis with registered and private investment companies. AUM will be impacted by market movement, as well as gross sales and withdrawals from advisory programs and/or alternative investments.

The Company's asset management services include:

***Separately Managed Accounts*** – The Company provides clients with two fee-based programs: (i) Unified Managed Account which allows multiple investment managers, mutual funds and ETFs to be combined in a single custodial account; and (ii) Strategic Asset Review dual contract program through which clients may select among those managers available.

***Mutual Fund Managed Accounts*** – The Company offers two fee-based mutual fund managed account programs through Portfolio Advisory Services (PAS); (i) PAS, a non-discretionary advisory program where clients choose mutual funds approved by the Company to create strategic asset allocations; and (ii) PAS Directed, a discretionary advisory program where an Oppenheimer adviser chooses the mutual funds to create the asset allocation and portfolio construction.

***Discretionary Advisory Accounts*** – Oppenheimer offers three discretionary portfolio management programs. Through its Omega and Fahnstock Asset Management (FAM) programs, Oppenheimer offers client-focused discretionary fee-based investment programs managed by Oppenheimer advisers. FAM also offers a fee plus commission option. The Alpha program offers similar services on a commission-based program.

***Non-Discretionary Advisory Accounts*** – Under Oppenheimer's Preference Program, Oppenheimer provides fee-based non-discretionary investment advisory services and consultation to clients.

***Alternative Investments*** – The Company offers high-net-worth and institutional investors the opportunity to participate in a wide range of non-traditional investment strategies. Strategies include single manager hedge funds, fund of funds and private equity funds. For proprietary funds, the Company, through its subsidiaries, acts as a general partner.

***Portfolio Enhancement Program*** – The Company offers qualified option investors the opportunity to participate in the program which sells uncovered, out-of-the-money puts and calls on the S&P 500 Index. The program uses special memorandum accounts released from a collateral account owned by the investor.

***Oppenheimer Investment Advisers*** – OIA provides taxable and non-taxable fixed income portfolios and strategies managed by internal portfolio managers.

***Oppenheimer Investment Management LLC*** – OIM provides institutional taxable fixed income portfolio management strategies and solutions to Taft-Hartley funds, public pension funds, corporate pension funds, insurance companies, foundations and endowments.

## CAPITAL MARKETS

### Investment Banking

Oppenheimer employs approximately 100 investment banking professionals throughout the United States, the United Kingdom and Israel. Oppenheimer's investment banking division provides strategic advisory services and capital markets products to emerging growth and middle market businesses as well as financial sponsors. The investment banking industry coverage groups focus on certain sectors including consumer and business services, energy, financial institutions and real estate, healthcare, industrial growth and services, and technology, media and communications. Oppenheimer's industry coverage teams partner with Oppenheimer's Mergers and Acquisitions practice as well as Equities, Leveraged Finance and Fixed Income platforms to provide its clients with tailored advice and recommendations.

***Mergers and Acquisitions*** – Oppenheimer advises buyers and sellers on sales, divestitures, mergers, acquisitions, tender offers, privatizations, restructurings, spin-offs and joint ventures. Oppenheimer provides dedicated senior banker focus to clients throughout the financial advisory process, which combines our structuring and negotiating expertise with our industry knowledge, extensive relationships, and capital markets capabilities.

***Equities*** – Oppenheimer provides capital raising solutions for corporate clients through initial public offerings, follow-on offerings, equity-linked offerings, private investments in public entities, and private placements. Oppenheimer focuses on emerging companies in growth industries, including consumer and business services, energy, financial institutions and real estate, healthcare, industrial growth and services, and technology, media and communications.

***Leverage Finance and Fixed Income*** – Oppenheimer offers a full range of debt financing for emerging growth and middle market companies and financial sponsors. Oppenheimer focuses on structuring and distributing public and private debt in leveraged finance transactions, including leveraged buyouts, acquisitions, growth capital financings, recapitalizations and Chapter 11 exit financings. Oppenheimer also participates in high yield debt and fixed and floating-rate senior and subordinated debt offerings. In addition, Oppenheimer advises on and acts as underwriter or placement agent on bond financings for both sovereign and corporate emerging market issuers.

### Equities Division

***Institutional Equity Sales and Trading*** – Oppenheimer employs over 100 dedicated equity sales and trading professionals. Oppenheimer provides execution services and access to all major U.S. equity exchanges and alternative execution venues, in addition to capital markets/origination, various arbitrage strategies, portfolio and electronic trading. Oppenheimer offers a suite of quantitative and algorithmic trading solutions to access liquidity in global markets. Oppenheimer's clients include domestic and international investors such as investment advisers, banks, mutual funds, insurance companies, hedge funds, and pension and profit sharing plans, attracted by the insights and market intelligence provided by sales and trading staff as well as by the quality of execution (measured by volume, timing and price), and competitive negotiated commission rates.

***Equity Research*** – Oppenheimer employs 32 senior analysts covering over 500 equity securities worldwide. Oppenheimer provides regular research reports, notes and earnings updates and also sponsors numerous research conferences where the management of covered companies can meet with investors in a group format as well as in one-on-one meetings. Oppenheimer also arranges for company managements to meet with interested investors through arranged meetings wherein management representatives travel to various sites to meet with Oppenheimer representatives and with investors. Oppenheimer's analysts use a variety of quantitative and qualitative tools, integrating field analysis, proprietary channel checks and ongoing dialogue with the managements of the companies they cover in order to produce reports and studies on individual companies and industry developments.

***Equity Derivatives and Index Options*** – Oppenheimer offers extensive equity and index options strategies for investors seeking to manage risk and optimize returns within the equities market. Oppenheimer's experienced professionals have expertise in many listed derivative products designed to serve the diverse needs of its institutional, corporate and private client base.

***Convertible Bonds*** – Oppenheimer offers expertise in the sales, trading and analysis of U.S. domestic convertible bonds, convertible preferred shares and warrants, with a focus on minimizing transaction costs and maximizing liquidity. In addition Oppenheimer offers hedged (typically long convertible bonds and short equities) positions to its clients on an integrated trade basis.

**Event Driven Sales and Trading** – Oppenheimer has a dedicated team focused on providing specialized advice and trade execution expertise to institutional clients with an interest in investment strategies such as: risk / merger arbitrage, Dutch tender offers, splits and spin-offs, recapitalizations, corporate reorganizations, and other event-driven trading strategies.

### **Debt Capital Markets**

**Fixed Income** – Oppenheimer offers trading and a high degree of sales support in highly rated ("high grade") corporate bonds, mortgage-backed securities, government and agency bonds and the sovereign and corporate debt of industrialized and emerging market countries, which may be denominated in currencies other than U.S. dollars. Oppenheimer also participates in auctions for U.S. government securities conducted by the Federal Reserve Bank of New York on behalf of the U.S. Treasury. Oppenheimer trades non-investment grade public and private debt securities, mortgage-backed securities, sovereign and corporate debt of industrialized and emerging market countries and distressed securities for institutional clients qualified to sustain the risks associated with such securities. Oppenheimer also publishes research with respect to a number of such securities. Risk of loss upon default by the borrower is significantly greater with respect to unrated or less than investment grade corporate debt securities than with other corporate debt securities. These securities are generally unsecured and are often subordinated to other creditors of the issuer. These issuers usually have high levels of indebtedness and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than are investment grade issuers. There is a limited market for some of these securities and market quotes are available only from a small number of dealers.

**Fixed Income Research** – Oppenheimer has a total of eight fixed income research professionals. There are three dedicated research analysts covering companies that have issued high yield bonds in the United States. Oppenheimer's high yield corporate bond research effort is designed to identify debt issues that provide a combination of high yield plus capital appreciation over the short to medium term. There is one mortgage backed securities analyst focused on the detailed analysis of individual agency and non-agency mortgage backed securities. There are two professionals covering emerging market fixed income issuers, including a publishing research analyst focused exclusively on sovereign bonds and a strategist providing commentary on emerging market corporate bond issuers. The Firm also has a municipal bond research analyst publishing reports on the tax-exempt municipal bond market.

**Public Finance** – Oppenheimer's public finance department advises and raises capital for state and local governments, public agencies, private developers and other borrowers. The group assists its clients by developing and executing capital financing plans that meet our clients' objectives and by maintaining strong national institutional and retail securities distribution capabilities. Public finance bankers have expertise in specific areas, including local governments and municipalities, primary and secondary schools, post-secondary and private schools, state and local transportation entities, health care institutions, senior-living facilities, public utility providers and project financing. In addition to underwriting longer-term municipal securities, Oppenheimer also provides advice to municipal issuers with respect to the timing and issuance of short-term municipal notes, which Oppenheimer then underwrites and distributes as well as short-term notes for bridge financing of real estate projects.

**Municipal Trading** – Oppenheimer has regionally based municipal bond trading desks serving retail financial advisers and clients within their regions. These desks serve Oppenheimer's financial advisers in supporting their high-net-worth clients' needs for taxable and non-taxable municipal securities. The Firm also maintains a dedicated institutional municipal bond sales and trading effort focused on serving mid-tier and national institutional accounts. The Institutional desks assist in underwriting municipal securities originated by its Public Finance Department. These desks serve Oppenheimer's financial advisers in supporting their high-net-worth clients' needs for taxable and non-taxable municipal securities.

### **Proprietary Trading**

In the regular course of its business, Oppenheimer takes securities positions as a market maker and/or principal to facilitate customer transactions and for investment purposes. In making markets and when trading for its own account, Oppenheimer exposes its own capital to the risk of fluctuations in market value. In 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that proposes to prohibit proprietary trading by certain financial institutions (the "Volcker Rule") except where facilitating customer trades. The Volcker Rule went into effect in July 2015 and does not impact the Company's business or operations as it applies to banks and other subsidiaries of bank holding companies only.

**Equities** – Oppenheimer acts as both principal and agent in the execution of its customers' orders. Oppenheimer buys, sells and maintains an inventory of a security in order to "make a market" in that security. In executing customer orders for securities in which it does not make a market, Oppenheimer generally charges a commission and acts as agent, or will act as principal by marking the security up or down in a riskless transaction. However, when an order is in a security in which Oppenheimer makes a market, Oppenheimer normally acts as principal and purchases from or sells to its brokerage customers at a price

which is approximately equal to the current inter-dealer market price plus or minus a mark-up or mark-down. The stocks in which Oppenheimer makes a market may also include those of issuers which are followed by Oppenheimer's research department.

**Fixed Income** – Oppenheimer trades and holds positions in public and private debt securities, including non-investment grade and distressed corporate securities as well as municipal securities. There may be a limited market for some of these securities and market quotes may be available from only a small number of dealers or inter-dealer brokers. While Oppenheimer normally holds such securities for a short period of time in order to facilitate client transactions, there is a risk of loss upon default by the borrower or from a change in interest rates affecting the value of the security. These issuers may have high levels of indebtedness and be sensitive to adverse economic conditions, such as recession or increasing interest rates.

Through the use of securities sold under agreements to repurchase ("repurchase agreements") and securities purchased under agreements to resell ("reverse repurchase agreements"), the Company acts as an intermediary between borrowers and lenders of short-term funds and provides funding for various inventory positions.

**Proprietary Trading and Investment Activities** – Oppenheimer holds positions in its trading accounts in securities in which it does not make a market and may engage from time to time in other types of principal transactions in securities. Oppenheimer has several trading departments including a convertible bond department, a risk arbitrage department, a corporate bond department, a municipal bond department, a government/mortgage backed securities department, and a department that underwrites and trades U.S. government agency issues, taxable corporate bonds, preferred shares, unit investment trusts and short term debt instruments. These departments continually purchase and sell securities and make markets in order to make a profit on the inter-dealer spread or to profit from investment. Although Oppenheimer from time to time holds an inventory of securities, more typically, it seeks to match customer buy and sell orders. In addition, Oppenheimer holds proprietary positions in equity or fixed income securities in which it may not act as a dealer.

The size of its securities positions vary substantially based upon economic and market conditions, allocations of capital, underwriting commitments and trading volume. Also, the aggregate value of inventories of securities which Oppenheimer may carry is limited by the Net Capital Rule. See "Regulatory Capital Requirements," below and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

The Company, through its subsidiaries, holds investments as general partner in a range of investment partnerships (hedge funds, fund of funds, private equity partnerships and real estate partnerships) which are offered to Oppenheimer hedge fund-qualified clients and on a limited basis to qualified clients of other broker-dealers.

### **Securities Lending**

In connection with both its trading and brokerage activities, Oppenheimer borrows securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date and lends securities to other brokers and dealers for similar purposes. Oppenheimer earns interest on its cash collateral provided and pays interest on the cash collateral received less a rebate earned for lending securities.

## **CONSOLIDATED SUBSIDIARIES**

### **Oppenheimer & Co. Inc.**

Oppenheimer is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and transacts business on various exchanges. Oppenheimer engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), underwritings, research, market-making, and investment advisory and asset management services. Oppenheimer provides its services from offices located throughout the United States.

### **Oppenheimer Asset Management Inc.**

OAM is registered as an investment adviser with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). OAM provides investment advice to clients through separate accounts and wrap fee programs.



### **OPY Credit Corp.**

The Company reached an agreement with RBS Citizens, NA, now Citizens Bank, NA, including its broker-dealer affiliates ("Citizens"), that was announced in July 2012, whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also, in certain circumstances, assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk based formulas. Neither the Company nor Citizens is obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. At December 31, 2016, there were no outstanding loans in place.

### **Oppenheimer Trust Company of Delaware Inc.**

Oppenheimer Trust offers a wide variety of trust services to clients of Oppenheimer. This includes custody services, advisory services and specialized servicing options for clients. At December 31, 2016, Oppenheimer Trust held custodial assets of approximately \$662.2 million. See "Other Requirements," below.

### **Oppenheimer Multifamily Housing & Healthcare Finance, Inc.**

OMHHF was formerly engaged in the business of originating and servicing Federal Housing Administration ("FHA")-insured multifamily and healthcare facility loans and securitizing these loans into Ginnie Mae ("GNMA") mortgage backed securities. During 2016, the Company sold substantially all of the assets of OMHHF and ceased its operations.

## **ADMINISTRATION AND OPERATIONS**

Administration and operations personnel are responsible for the processing of securities transactions; the receipt, identification and delivery of funds and securities; the maintenance of internal financial controls; accounting functions; custody of customers' securities; the handling of margin accounts for Oppenheimer and its correspondents; and general office services.

Oppenheimer executes its own and certain of its correspondents' securities transactions on all United States exchanges as well as many non-U.S. exchanges and in the over-the-counter market. Oppenheimer clears all of its securities transactions (i.e., it delivers securities that it has sold, receives securities that it has purchased and transfers related funds) through its own facilities and through memberships in various clearing corporations and custodian banks in the United States as well as non-U.S. securities through EuroClear. The Company began clearing its non-U.S. international equities business in securities traded on European exchanges, carried on by Oppenheimer Europe Ltd. through BNP Paribas Securities Services. Oppenheimer has a multi-currency platform which enables it to facilitate client trades in securities denominated in foreign currencies. Oppenheimer operates as an Introducing Broker and introduces its client commodities transactions through a correspondent firm on a fully disclosed basis. Through this arrangement, Oppenheimer offers full commodity services on all exchanges.

## **EMPLOYEES**

At December 31, 2016, the Company employed 3,098 employees (3,043 full-time and 55 part-time), of whom approximately 1,158 were financial advisers.

## **COMPETITION**

Oppenheimer encounters intense competition in all aspects of the securities business and competes directly with other securities firms, a significant number of which have substantially greater resources and offer a wider range of financial services. In addition, there has been increasing competition from other sources, such as commercial banks, insurance companies, private equity and financial sponsors and certain major corporations that have entered the securities industry through acquisition, and from other entities. Additionally, foreign-based securities firms and commercial banks regularly offer their services in performing a variety of investment banking functions including mergers and acquisitions advice, leveraged buy-out financing, merchant banking, and bridge financing, all in direct competition with U.S. broker-dealers.

In recent years, several key market events drastically altered the landscape for financial institutions. Voluntary and involuntary consolidations as well as government assistance provided to U.S. financial institutions has led to a greater concentration of capital and market share among large financial institutions. This, coupled with the ability of these financial institutions to finance their securities businesses with capital from other businesses, such as commercial banking deposits, as well as such institutions deriving an aura of stability in the mind of the public ("too big to fail"), may put the Company at a significant competitive disadvantage.

We also compete with companies that offer web-based financial services and discount brokerage services, usually with lower levels of service, to individual clients. We also compete with advisers holding themselves out as "independent" and who are registered as RIA's (Registered Investment Advisers). We compete principally on the basis of the quality of our advisers, services, product selection, location and reputation in local markets. Our ability to compete effectively in these businesses is substantially dependent on our continuing ability to attract, retain and motivate qualified advisers, including successful financial advisers, investment bankers, trading professionals, portfolio managers and other revenue producing or specialized personnel.

The Company believes that the principal factors affecting competition in the securities and investment banking industries are the quality and ability of professional personnel and relative prices of services and products offered. In some instances, competition within the industry can be impacted by the credit ratings assigned to the firm offering services when potential clients are making a determination of acceptable counterparties. The ability of securities industry participants to offer credit facilities to potential investment banking clients may affect the assignment of individual transactions. The Company's ability to compete depends substantially on its ability to attract and retain qualified employees while managing compensation and other costs. Oppenheimer and its competitors employ advertising and direct solicitation of potential customers in order to increase business and furnish investment research publications in an effort to retain existing and attract potential clients. Many of Oppenheimer's competitors engage in these programs more extensively than Oppenheimer. Increasingly, securities firms are providing automated investment advisory services that employ algorithms to determine recommended portfolio allocations at a much lower price point. It is early and not yet clear whether this type of investment advisory service will provide meaningful competition to the full service investment model.

## **BUSINESS CONTINUITY PLAN**

The Company has a business continuity plan in place which is designed to enable it to continue to operate and provide services to its clients under a variety of circumstances in which one or more events may make one or more firm operating locations unavailable due to a local, regional or national emergency, or due to the failure of one or more systems that the Company relies upon to provide the services that it routinely provides to its clients, employees and various business partners and counterparties. The plan covers all business areas of the Company and provides contingency plans for technology, staffing, equipment, and communication to employees, clients and counterparties. While the plan is intended to address many types of business continuity issues, there could be certain occurrences which, by their very nature are unpredictable, and can occur in a manner that is outside of our planning guidelines and could render the Company's estimates of timing for recovery inaccurate. Under all circumstances, it is the Company's intention to remain in business and to provide ongoing investment services as if no disruption had occurred.

Oppenheimer maintains its headquarters and principal operating locations in New York City. In order to provide continuity for these services, the Company operates a primary data center as well as maintains back-up facilities (information technology, operations and data processing) in sites with requisite communications back-up systems. These facilities are maintained in multiple locations and, in addition, the Company occupies significant office facilities in locations around the United States which could, in an emergency, house dislocated staff members for a short or intermediate time frame. Oppenheimer relies on public utilities for power and phone services, industry specific entities for ultimate custody of client securities and market operations, and various industry vendors for services that are significant and important to its business for the execution, clearance and custody of client holdings, for the pricing and valuing of client holdings, and for permitting our Company's employees to communicate on an efficient basis. The Company's headquarters and the primary location for its technology infrastructure are both supported by emergency electric generator back-up. All of these service providers have assured the Company that they have made plans for providing continued service in the case of an unexpected event that might disrupt their services.

The fourth quarter of 2012 was impacted by Superstorm Sandy which occurred on October 29th causing the Company to vacate its two principal offices in downtown Manhattan and displaced 800 of the Company's employees including substantially all of its capital markets, operations and headquarters staff for in excess of 30 days. During the displacement period, the Company successfully implemented its business continuity plan by relocating personnel from both of its downtown Manhattan locations into other branch offices and back-up facilities in the region. Other than the closure of the financial markets for two business days, the Company was able to successfully clear and settle open trades that took place prior to the storm and to get its trading, operations, technology, and other support functions mobilized to process business once the financial markets reopened. The Company was able to return to its headquarters facilities beginning in December 2012 and the locations returned to full utility power in March 2013.

## **CYBERSECURITY**

Cybersecurity presents significant challenges to the business community in general, as well as to the financial services industry. Increasingly, actors, both domestically and internationally, attempt to steal personal data and/or interrupt the normal functioning of businesses through accessing individuals' and companies' files and equipment connected to the internet. Recent incidents have reflected the increasing sophistication of intruders and their intent to steal information as well as funds and securities through instructions seemingly from authorized parties but in fact from parties intent on attempting to steal. Regulators are increasingly requiring companies to provide increased levels of sophisticated defenses. The Company maintains vigilance and ongoing planning and systems to prevent any such attack from disrupting its services to clients as well as to prevent any loss of data concerning our clients, their financial affairs, as well as Company privileged information. The Company has implemented new systems to detect and defend from such attacks and has appointed a Corporate Information Security Officer and put in place a department of dedicated staff to provide ongoing development and oversight of the Company's systems and defenses. See Item 1A under the caption "Risk Factors - The Company may be exposed to damage to its business or its reputation by Cybersecurity incidents."

## **REGULATION**

*Self-Regulatory Organization Membership* – Oppenheimer is a member firm of the following self-regulatory organizations ("SROs"): the Financial Industry Regulatory Authority ("FINRA"), the Intercontinental Exchange, Inc., known as ICE Futures U.S., the Commodities Futures Trading Commission ("CFTC") and the National Futures Association ("NFA"). In addition, Oppenheimer has satisfied the requirements of the Municipal Securities Rulemaking Board ("MSRB") for effecting customer transactions in municipal securities. Freedom is also a member of FINRA. Oppenheimer Europe Ltd. is regulated by the Financial Conduct Authority ("FCA") in the United Kingdom and the Jersey Financial Services Commission ("JFSC") in the Isle of Jersey. Oppenheimer Investments Asia Limited is regulated by the Securities and Futures Commission ("SFC") in Hong Kong. Oppenheimer is also a member of the Securities Industry and Financial Markets Association ("SIFMA"), a non-profit organization that represents the shared interests of participants in the global financial markets. The Company has access to a number of regional and national markets and is required to adhere to their applicable rules and regulations.

*Securities Regulation* – The securities industry in the United States is subject to extensive regulation under both federal and state laws. The SEC is the Federal agency charged with administration of the Federal securities laws. Much of the regulation of broker-dealers has been delegated to SROs such as FINRA and the NFA. FINRA has been designated as the primary regulator of Oppenheimer and Freedom with respect to securities and option trading activities and the NFA has been designated as Oppenheimer's primary regulator with respect to commodities activities. SROs adopt rules (subject to approval by the SEC or the CFTC, as the case may be) governing the industry and conduct periodic examinations of Oppenheimer's and Freedom's operations. In recent years, the SEC has increased its programs for examinations of registrants, even where such examinations overlap with examinations conducted by other entities. Securities firms are also subject to regulation by state securities commissions in the states in which they do business. Oppenheimer and Freedom are each registered as a broker-dealer in the 50 states and the District of Columbia and Puerto Rico.

*Broker-dealer Regulation* – The regulations to which broker-dealers are subject cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, the use and safekeeping of customers' funds and securities, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. The SEC has adopted rules requiring underwriters to ensure that municipal securities issuers provide current financial information and imposing limitations on political contributions to municipal issuers by brokers, dealers and other municipal finance professionals. Additional legislation, changes in rules promulgated by the SEC, the CFTC and by SROs, or changes in the interpretation or enforcement of existing laws and rules may directly affect the method of operation and profitability of broker-dealers. The SEC, SROs (including FINRA) and state securities commissions may conduct administrative proceedings which can result in censure, fine, issuance of cease and desist orders or suspension or expulsion of a broker-dealer, its officers, or employees. These administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures of time and money and can have an adverse impact on the reputation of a broker-dealer. The principal purpose of regulating and disciplining broker-dealers is to protect customers and the securities markets rather than to protect creditors and shareholders.

Regulation NMS and Regulation SHO have substantially affected the trading of equity securities. These regulations were intended to increase transparency in the markets and have acted to further reduce spreads and, with competition from electronic marketplaces, to reduce commission rates paid by institutional investors. These rules have also reduced liquidity in some markets under some circumstances.

Oppenheimer and certain of its affiliates are also subject to regulation by the SEC and under certain state laws in connection with its business as an investment adviser. The SEC has announced its intention to place additional oversight and scrutiny over dual registrants such as the Company, where the registrant conducts business as a broker-dealer and investment adviser.

Margin lending by Oppenheimer is subject to the margin rules of the Board of Governors of the Federal Reserve System and FINRA. Under such rules, Oppenheimer is limited in the amount it may lend in connection with certain purchases of securities and is also required to impose certain maintenance requirements on the amount of securities and cash held in margin accounts. In addition, Oppenheimer may (and currently does) impose more restrictive margin requirements than required by such rules.

*The Sarbanes-Oxley Act of 2002* – The Sarbanes-Oxley Act effected significant changes to corporate governance, auditing requirements and corporate reporting. This law generally applies to all companies, including the Company, with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has taken numerous actions, and incurred substantial expenses, since the passage of the legislation to comply with the Sarbanes-Oxley Act, related regulations promulgated by the SEC and other corporate governance requirements of the NYSE. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its Internal Control - Integrated Framework (the "2013 Framework"), which supersedes the original framework that was developed in 1992. The Company adopted the 2013 Framework on December 15, 2014 as a basis for their compliance with the Sarbanes-Oxley Act of 2002. Management has determined that the Company's internal control over financial reporting as of December 31, 2016 was effective. See Item 8 under the caption "Management's Report on Internal Control over Financial Reporting."

*Wall Street Reform & Consumer Protection Act (the "Dodd-Frank Act")* – In July 2010, Congress enacted extensive legislation entitled the Dodd-Frank Act in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the 2008-9 financial crisis. This effort has extensively impacted the regulation and practices of financial institutions including the Company. The changes have significantly reduced leverage available to financial institutions and increased transparency to regulators and investors of risks taken by such institutions. It continues to be impossible to predict the nature and impact of such rulemaking. In addition, new rules have been adopted to regulate and/or prohibit proprietary trading for certain deposit taking institutions, control the amount and timing of compensation to "highly paid" employees, create new regulations around financial transactions with retirement plans due to the adoption of a uniform fiduciary standard of care of broker-dealers and investment advisers providing personalized investment advice about securities to such plans, increase the disclosures provided to clients, and in some European jurisdictions create a tax on securities transactions. The Consumer Financial Protection Bureau has stated its intention to implement new rules affecting the interaction between financial institutions and consumers.

Effective July 1, 2014, certain final rules issued by the SEC regarding the mandatory registration of municipal advisers became effective. These rules specify which activities will be covered by the fiduciary duty of a municipal adviser to its government client imposed by the Dodd-Frank Act, may result in the need for new written representations by issuers, and may limit the manner in which we, in our capacity as an underwriter or in our other professional roles, interact with municipal issuers. Oppenheimer registered as a municipal adviser and by virtue of such registration is now subject to additional regulation and oversight in respect of its municipal finance business. The SEC recently announced that it will undertake a two-year review of municipal advisers. Additionally, forthcoming rulemaking by the Municipal Securities Rulemaking Board may cause further changes to the manner in which a state or local government is able to interact with outside finance professionals. These new rules impact the nature of Oppenheimer's interactions with public finance clients, and may have a negative short-term impact on the volume of public finance transactions, while the industry adapts to the new rules. It is difficult to predict the nature of the final regulations and their impact on the business of the Company. The impact of any of, or more than one of, the foregoing could have a material adverse effect on our business, financial condition and results of operations. Certain of the rule-making described above remains under consideration and has been subject to numerous changes and postponements in both the requirements of such rules and the implementation date(s).

Section 956 of the Dodd-Frank Act required the SEC, Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Housing Finance Agency and National Credit Union Administration (the "agencies") to jointly prescribing regulations or guidelines related to the prohibition of incentive-based compensation arrangements that encourage inappropriate risks at certain financial institutions. The agencies have released a proposed rule that would prohibit certain forms of incentive-based compensation arrangements for financial institutions with greater than \$1 billion in total assets (the "Incentive-Based Compensation Proposal"). Much of the Incentive-Based Compensation Proposal would apply to financial institutions categorized as either "Level 1" institutions (assets of \$250 billion or more) or "Level 2" institutions (assets of \$50 billion to \$250 billion), while "Level 3" institutions (assets of \$1 billion to \$50 billion) would be subject to less extensive obligations. All covered financial institutions would be required to, among other requirements: (i) annually document the structure of their incentive-based compensation arrangements; (ii) retain records of such annual documentation for at least seven years; and (iii) comply with general prohibitions on incentive-based compensation arrangements that could encourage inappropriate risk-taking. Should the Incentive-Based Compensation Proposal be adopted, we would be subject to the rule's

requirements as a "Level 3" financial institution, which would require us to incur additional legal and compliance costs, as well as subject us to increased legal risks.

*Fiduciary Standard – Rulemaking by U.S. Department of Labor ("DOL")* – In April 2016, the DOL finalized its definition of fiduciary under the Employee Retirement Income Security Act (ERISA) through the release of new rules and changes to interpretations of six prohibited transaction exemptions which together set a new standard for the treatment and effects of advice given to retirement investors. Under this new rule, investment advice given to an employee benefit plan or an individual retirement account (IRA) is considered fiduciary advice. As a result, financial service providers and advisers who provide investment advice will need to meet greater "conflict of interest" standards which is likely to limit commission-based compensation in favor of flat-fee compensation plans. The rules will also limit the ability to render advice which encourages the transfer of retirement assets from 401(k) and similar plans as well as pension plans to rollover IRA plans sponsored by financial service providers.

The DOL rules provide for a Best Interest Contract ("BIC") exemption, which would, under some circumstances, allow advisers to continue to receive commissions under a contract with a retirement investor. However, there is no exemption available for sophisticated investors and a financial institution's failure to maintain and comply with the required anti-conflict of interest policies and procedures will result in a loss of the relief afforded by the BIC exemption and potential legal and regulatory sanctions. The new fiduciary standard definitions for investment advice were effective on June 7, 2016 but compliance with the new rules under most circumstances is postponed until April 10, 2017 and full compliance with the BIC and other exemptions is delayed until January 1, 2018. It appears increasingly likely that these effective dates will be extended.

Various sections of the Dodd-Frank Act and DOL rules are currently under review by the Trump administration. These rules are subject to proposed changes and/or elimination.

*Money Market Funds* – In July 2014, the SEC adopted amendments to the rules that govern money market mutual funds. The amendments make structural and operational reforms to address risks of excessive withdrawals over relatively short time frames by investors from money market funds, while preserving the benefits of the funds. Oppenheimer does not sponsor any money market funds. Oppenheimer utilizes such funds to a small extent for its own investment purposes and, as a result of the new rules, has extensively limited the availability of money market funds to its clients. Instead the Company now offers FDIC short-term bank deposits alternatives as cash sweep investments.

*Trust Company Regulation* – Oppenheimer Trust is a limited purpose trust company organized under the laws of Delaware and is regulated by the Office of the State Banking Commissioner.

## **REGULATORY CAPITAL REQUIREMENTS**

As registered broker-dealers and member firms regulated by FINRA, Oppenheimer and Freedom are subject to certain net capital requirements pursuant to Rule 15c3-1 (the "Net Capital Rule") promulgated under the Exchange Act. The Net Capital Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the general financial integrity and liquidity of a broker-dealer and requires that at least a minimum part of its assets be kept in liquid form.

Oppenheimer elects to compute net capital under the alternative method of calculation permitted by the Net Capital Rule. (Freedom computes net capital under the basic formula as provided by the Net Capital Rule.) Under the alternative method, Oppenheimer is required to maintain a minimum "net capital", as defined in the Net Capital Rule, at least equal to 2% of the amount of its "aggregate debit items" computed in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers (Exhibit A to Rule 15c3-3 under the Exchange Act) or \$1.5 million, whichever is greater. "Aggregate debit items" are assets that have as their source transactions with customers, primarily margin loans. Failure to maintain the required net capital may subject a firm to suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require its liquidation. The Net Capital Rule also prohibits payments of dividends, redemption of stock and the prepayment of subordinated indebtedness if net capital thereafter would be less than 5% of aggregate debit items (or 7% of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder, if greater) and payments in respect of principal of subordinated indebtedness if net capital thereafter would be less than 5% of aggregate debit items (or 6% of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder, if greater). The Net Capital Rule also provides that the total outstanding principal amounts of a broker-dealer's indebtedness under certain subordination agreements (the proceeds of which are included in its net capital) may not exceed 70% of the sum of the outstanding principal amounts of all subordinated indebtedness included in net capital, par or stated value of capital stock, paid-in capital in excess of par, retained earnings and other capital accounts for a period in excess of 90 days.

Net capital is essentially defined in the Net Capital Rule as net worth (assets minus liabilities), plus qualifying subordinated borrowings minus certain mandatory deductions that result from excluding assets that are not readily convertible into cash and deductions for certain operating charges. The Net Capital Rule values certain other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments (referred to as "haircuts") in the market value of securities to reflect the possibility of a market decline prior to disposition.

Compliance with the Net Capital Rule could limit those operations of the brokerage subsidiaries of the Company that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances, and also could restrict the Company's ability to withdraw capital from its brokerage subsidiaries, which in turn could limit the Company's ability to pay dividends, repay debt and redeem or purchase shares of its outstanding capital stock. Under the Net Capital Rule, broker-dealers are required to maintain certain records and provide the SEC with quarterly reports with respect to, among other things, significant movements of capital, including transfers to a holding company parent or other affiliate. The SEC and/or SROs may in certain circumstances restrict the Company's brokerage subsidiaries' ability to withdraw excess net capital and transfer it to the Company or to other Operating Subsidiaries or to expand the Company's business.

Oppenheimer Europe Ltd. is authorized by the FCA of the United Kingdom to provide investment services under the Markets of Financial Instruments Directive ("MiFID"). New Basel III requirements being implemented in the European Union have changed how capital adequacy is reported under the Capital Requirements Directive ("CRD IV"), effective January 1, 2014, for Oppenheimer Europe Ltd. There are three capital ratios Oppenheimer Europe Ltd. must meet: 1) Common Equity Tier 1 ratio of 4.5%; 2) Tier 1 Capital ratio of 6.0%; and 3) Total Capital ratio of 8.0%.

Oppenheimer Investments Asia Limited was approved by the SFC to place securities of U.S. listed companies with institutional clients and to provide corporate finance advisory services to Hong Kong institutional clients. Oppenheimer Investments Asia Limited is required to maintain Required Liquid Capital of the greater of HKD 3.0 million or 5% of Adjusted Liabilities as defined by the Hong Kong Securities and Futures Financial Resources Rules.

See Note 17 to the consolidated financial statements for the year ended December 31, 2016 appearing in Item 8 for further information on the Company's regulatory capital requirements.

## **OTHER REQUIREMENTS**

### *Senior Secured Notes*

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75% Senior Secured Notes due April 15, 2018 (the "Notes") at par. The interest on the Notes is payable semi-annually on April 15th and October 15th. On April 15, 2014, the Company partially retired and redeemed the Notes and \$150.0 million aggregate principal amount of the Notes remains outstanding.

The indenture for the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company's obligations under the Notes are guaranteed, subject to certain limitations. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future. At December 31, 2016, the Company was in compliance with all of its covenants. On July 5, 2016, S&P affirmed the Company's 'B' Corporate Family rating and 'B' rating on the Notes and revised its outlook to positive from stable. On December 12, 2016, Moody's Corporation affirmed the Company's 'B2' Corporate Family rating and 'B2' rating on the Notes and affirmed its positive outlook.

### *Securities Investor Protection Corporation ("SIPC")*

Oppenheimer and Freedom are each members of the SIPC, which provides, in the event of the liquidation of a broker-dealer, protection for customers' accounts (including the customer accounts of other securities firms when it acts on their behalf as a clearing broker) held by the firm of up to \$500,000 for each customer, subject to a limitation of \$250,000 for claims for cash balances. SIPC is funded through assessments on registered broker-dealers. In addition, Oppenheimer has purchased additional "excess of SIPC" policy protection from certain underwriters at Lloyd's of London of an additional \$99.5 million (and \$900,000 for claims for cash balances) per customer. The "excess of SIPC" policy has an overall aggregate limit of liability of \$400.0 million. The Company has entered into an indemnity agreement with Lloyd's of London pursuant to which the Company has agreed to indemnify Lloyd's of London for losses incurred by Lloyd's under the policy.

## AVAILABLE INFORMATION

The Company's principal place of business is at 85 Broad Street, New York, NY 10004 and its telephone number is (212) 668-8000. The Company's internet address is <http://www.opco.com>. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other SEC filings and all amendments to those reports within 24 hours of such material being electronically filed with or furnished to the SEC.

You may read and copy this Annual Report on Form 10-K for the year ended December 31, 2016 at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies by mail from the Public Reference Room of the SEC at prescribed rates. To obtain information on the operation of the Public Reference Room, you can call the SEC at 1-800-SEC-0330. The SEC also maintains an internet website that contains reports, proxy and information statements and other information regarding issuers, including Oppenheimer Holdings Inc., that file electronically with the SEC. The address of the SEC's internet website is <http://www.sec.gov>.

## Item 1A. RISK FACTORS

The Company's business and operations are subject to numerous risks. The material risks and uncertainties that management believes affect the Company are described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations. If any of the following risks actually occur, the Company's financial condition and results of operations may be materially and adversely affected.

### **The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market.**

In February 2008, the market for auction rate securities ("ARS") began experiencing disruptions due to the failure of auctions for preferred stocks issued to leverage closed end funds, municipal bonds backed by tax exempt issuers, and student loans backed by pools of student loans guaranteed by U.S. government agencies. This failure followed an earlier failure of a smaller market of ARS that were backed by mortgage and other forms of derivatives in the summer of 2007. These auction failures developed as a result of auction managers or dealers, typically large commercial or investment banks, deciding not to commit their own capital when there was insufficient demand from bidders to meet the supply of sales from sellers. The failure of the ARS market has prevented clients of the Company from liquidating holdings in these positions or, in many cases, posting these securities as collateral for loans. The Company had operated in an agency capacity in this market and held and continues to hold ARS in its proprietary accounts and, as a result of this and the Company's ongoing repurchases from customers discussed below, is exposed to these liquidity issues as well. The Company believes that, although issuer redemptions of ARS have occurred, less than 10% of the overall ARS issued into the ARS market remained outstanding at December 31, 2016. There is no guarantee that further ARS issuer redemptions will occur and, if so, that the Company's clients' ARS will be redeemed.

Regulators have concluded, in many cases, that firms that operate in the securities industry, initially those that underwrote and supported the auctions for ARS, should be compelled to purchase them from retail customers. Underwriters and broker-dealers in such securities have settled with various regulators and have purchased ARS from their retail clients. The Company may be at a competitive disadvantage to those of its competitors that have already completed purchases of ARS from their clients.

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. The ultimate amount of ARS to be repurchased by the Company under the settlements with the Regulators or legal settlements and awards cannot be predicted with any certainty and will be impacted by redemptions by issuers and legal and other actions by clients during the relevant period which cannot be predicted. See Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" and "Off-Balance Sheet Arrangements" for additional details.

If the ARS market remains frozen, the Company may likely be further subject to claims by its clients. There can be no guarantee that the Company will be successful in defending any future actions against it. Any such failure could have a material adverse effect on the results of operations and financial condition of the Company, including its cash position.

See "Legal Proceedings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters."

The Company's customers held at Oppenheimer approximately \$76.5 million of ARS at December 31, 2016, exclusive of amounts that were owned by Qualified Institutional Buyers ("QIBs"), transferred to the Company or purchased by customers after February 2008, or transferred from the Company to other securities firms after February 2008. The Company does not presently have the capacity to purchase all of the ARS held by all of its former or current clients who purchased such securities prior to the market's failure in February 2008 over a short period of time. If the Company was to be required to purchase all of the ARS held by all former or current clients who purchased such securities prior to the market's failure in February 2008 over a short period of time, these purchases would have a material adverse effect on the Company's results of operations and financial condition including its cash position. Neither of the settlements with the Regulators requires the Company to do so. The Company does not currently believe that it is legally obligated to make any such purchases except for those purchases it has agreed with the Regulators to make as previously disclosed. If Oppenheimer defaults on either agreement with the Regulators, the Regulators may terminate their agreements and may reinstitute the previously pending administrative proceedings. In addition, there can be no guarantee that other regulators won't seek to compel the Company to repurchase a greater amount of ARS than called for by the settlements with the Regulators. See "Legal Proceedings."

The Company has sought, with very limited success, financing from a number of sources to try to find a means for all its clients to find liquidity from their ARS holdings and will continue to do so. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients' ARS holdings.

**Damage to our reputation could damage our businesses.**

Maintaining our reputation is critical to our attracting and maintaining customers, investors and employees. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues include, but are not limited to, any of the risks discussed in this Item 1A, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record keeping, sales and trading practices, failure to sell securities we have underwritten at the anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. A failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects. Increasingly, the internet, through investor blogs or other sites, is being used to publish information that is untrue, significantly skewed or in some cases slanderous about companies and individuals that are published anonymously and are difficult to refute. Such stories can negatively impact the reputation of companies that are the subject of such attacks. See "The precautions the Company takes to prevent and detect employee misconduct may not be effective and the Company could be exposed to unknown and unmanaged risks or losses."

**Developments in market and economic conditions have adversely affected, and may in the future adversely affect, the Company's business and profitability.**

Performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity, which generally have a direct and material impact on the Company's results of operations and financial condition. These conditions are a product of many factors, which are mostly unpredictable and beyond the Company's control, and may affect the decisions made by financial market participants.

Changes in economic and political conditions, including economic output levels, interest and inflation rates, employment levels, prices of commodities including oil and gas, consumer confidence levels, and fiscal and monetary policy can affect market conditions. For example, the Federal Reserve's policies determine, in large part, the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies also can decrease materially the value of certain of our financial assets, most notably debt securities. Changes in the Federal Reserve's policies are beyond our control and, consequently, the impact of these changes on our activities and results of our operations are difficult to predict. At times over the last several years we have experienced operating cycles during weak and uncertain U.S. and global economic conditions, including low economic output levels, historically low interest rates, high unemployment rates, and uncertainty with respect to domestic and international fiscal and monetary policy. These conditions led to changes in the global financial markets that from time to time negatively impacted our revenue and profitability. While global financial markets have shown signs of improvement, uncertainty remains. A period of sustained downturns and/or volatility in the securities markets, prolonged continuation of low levels of short-term interest rates, a return to increased credit market dislocations, reductions in the value of real estate, and other negative market factors could significantly impair our revenues and profitability. U.S. markets may also be impacted by political and civil unrest occurring in the Middle East and in Eastern Europe and Russia. Concerns about the



European Union (“EU”), including Britain’s June 23, 2016 referendum to exit the EU (“Brexit”), and the stability of the EU’s sovereign debt, has caused uncertainty and disruption for financial markets globally. Continued uncertainties loom over the outcome of the EU’s financial support programs. It is possible that other EU member states may choose to follow Britain’s lead and leave the EU. Any negative impact on economic conditions and global markets from these developments could adversely affect our business, financial condition and liquidity.

Uncertain or unfavorable market or economic conditions could result in reduced transaction volumes, reduced revenue and reduced profitability in any or all of the Company's principal businesses. For example:

- The Company's investment banking revenue, in the form of underwriting, placement and financial advisory fees, is directly related to the volume and value of transactions as well as the Company's role in these transactions. In an environment of uncertain or unfavorable market or economic conditions such as we have observed in recent years, the volume and size of capital-raising transactions and acquisitions and dispositions typically decrease, thereby reducing the demand for the Company's investment banking services and increasing price competition among financial services companies seeking such engagements. The completion of anticipated investment banking transactions in the Company's pipeline is uncertain and beyond its control, and its investment banking revenue is typically earned upon the successful completion of a transaction. In most cases, the Company receives little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which the Company is advising or an offering in which it is participating, the Company will earn little or no revenue from the transaction but may incur expenses including but not limited to legal fees. The Company may perform services subject to an engagement agreement and the client may refuse to pay fees due under such agreement, requiring the Company to re-negotiate fees or commence legal action for collection of such earned fees. Accordingly, the Company's business is highly dependent on market conditions, the decisions and actions of its clients and interested third parties. The number of engagements the Company has at any given time is subject to change and may not necessarily result in future revenues.
- A portion of the Company's revenues are derived from fees generated from its asset management business segment. Asset management fees often are primarily comprised of base management and performance (or incentive) fees. Management fees are primarily based on assets under management. Assets under management balances are impacted by net inflow/outflow of client assets and changes in market values. Poor investment performance by the Company's funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impact the Company's business and financial condition. If the Company experiences losses of managed accounts, fee revenue will decline. In addition, in periods of declining market values, the values under management may ultimately decline, which would negatively impact fee revenues.
- A downturn in the financial markets may result in a decline in the volume and value of trading transactions and, therefore, may lead to a decline in the revenue the Company generates from commissions on the execution of trading transactions and, in respect of its market-making activities, a reduction in the value of its trading positions and commissions and spreads. A further downturn could negatively impact the Company's ability to generate revenue.
- Financial markets are susceptible to severe events such as dislocations which may lead to reduced liquidity. Under these extreme conditions, the Company's risk management strategies may not be as effective as they might otherwise be under normal market conditions.
- Liquidity is essential to the Company's businesses. The Company's liquidity could be negatively affected by an inability to obtain funding on a regular basis either in the short term market through bank borrowing or in the long term market through senior and subordinated borrowings. Such illiquidity could arise through a lowering of the Company's credit rating or through market disruptions unrelated to the Company. The availability of unsecured financing is largely dependent on our credit rating which is largely determined by factors such as the level and quality of our earnings, capital adequacy, risk management, asset quality and business mix. As noted above, the Company has purchased, and will continue to purchase, auction rate securities from its clients which will reduce liquidity available to the Company for other purposes. The failure to secure the liquidity necessary for the Company to operate and grow could have a material adverse effect on the Company's financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," under Item 7.

- Changes in interest rates (especially if such changes are rapid), high interest rates or uncertainty regarding the future direction of interest rates, may create a less favorable environment for certain of the Company's businesses, particularly its fixed income business, resulting in reduced business volume and reduced revenue.
- The reduction of interest rates to all-time record lows has substantially reduced the interest profits available to the Company through its margin lending and has also reduced profit contributions from cash sweep products such as the FDIC-insured Bank Deposit program. If interest rates remain at low levels, despite an initial move upward by the Federal Reserve, the Company's profitability will continue to be significantly negatively impacted.
- The Company expects to continue to commit its own capital to engage in proprietary trading, investing and similar activities, and uncertain or unfavorable market or economic conditions may reduce the value of its positions, resulting in reduced revenue.

The cyclical nature of the economy and the financial services industry leads to volatility in the Company's operating margins, due to the fixed nature of a portion of compensation expenses and many non-compensation expenses, as well as the possibility that the Company will be unable to scale back other costs at an appropriate time to match any decreases in revenue relating to changes in market and economic conditions. As a result, the Company's financial performance may vary significantly from quarter to quarter and year to year.

**Markets have experienced, and may continue to experience, periods of high volatility accompanied by reduced liquidity.**

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be effective. Severe market events have historically been difficult to predict, and significant losses could be realized in the wake of such events. The "Flash Crash" on May 6, 2010 was driven not by external economic events but by internal market dynamics and automated systems. Such events cannot be predicted nor can anyone, including the Company, predict the effectiveness of controls put in place to prevent such incidents. Increasingly, threats of terrorism and terrorist acts have disrupted markets and increased the perception of risk to the worldwide economy. Any such act or threat may impact markets, and consequently the Company's business, in an adverse manner.

**The Company has experienced significant pricing pressure in areas of its business, which may impair its revenues and profitability.**

In recent years the Company has experienced, and continues to experience, significant pricing pressures on trading margins and commissions in debt and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, the Company has experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic and direct market access trading, which has created additional downward pressure on trading margins. The trend toward using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce the Company's participation in the trading markets and its ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter "soft dollar" practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or "unbundle") payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value the Company's clients place on high-quality research. Moreover, the Company's inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce the level of institutional commissions. The Company believes that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins. Additional pressure on sales and trading revenue may impair the profitability of the Company's business.

**The ability to attract, develop and retain highly skilled and productive employees is critical to the success of the Company's business.**

The Company faces intense competition for qualified employees from other businesses in the financial services industry, and the performance of its business may suffer to the extent it is unable to attract and retain employees effectively, particularly given the relatively small size of the Company and its employee base compared to some of its competitors. The primary sources of revenue in each of the Company's business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by its employees, who are regularly recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Experienced employees are regularly offered financial

inducements by larger competitors to change employers, and thus competitors can de-stabilize the Company's relationship with valued employees. Some specialized areas of the Company's business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Turnover in the financial services industry is high. The cost of retaining skilled professionals in the financial services industry has escalated considerably. Financial industry employers are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as in a prospective employee's decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. To the extent we have compensation targets, we may not be able to retain our employees, which could result in increased recruiting expense or result in our recruiting additional employees at compensation levels that are not within our target range. In particular, our financial results may be adversely affected by the costs we incur in connection with any upfront loans or other incentives we may offer to newly recruited financial advisors and other key personnel. If we were to lose the services of any of our investment bankers, senior equity research, sales and trading professionals, asset managers, or executive officers to a competitor or otherwise, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our senior professionals or recruit additional professionals, our reputation, business, results of operations and financial condition could be adversely affected. Further, new business initiatives and efforts to expand existing businesses generally require that we incur compensation and benefits expense before generating additional revenues. Moreover, companies in our industry whose employees accept positions with competitors frequently claim that those competitors have engaged in unfair hiring practices. We have been subject to such claims and may be subject to additional claims in the future as we seek to hire qualified personnel, some of whom may work for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending against these claims, regardless of their merits. Such claims could also discourage potential employees who work for our competitors from joining us.

**The Company depends on its senior employees and the loss of their services could harm its business.**

The Company's success is dependent in large part upon the services of its senior executives and employees. Any loss of service of the CEO may adversely affect the business and operations of the Company. The Company maintains key man insurance on the life of its CEO. If the Company's senior executives or employees terminate their employment and the Company is unable to find suitable replacements in relatively short periods of time, its operations may be materially and adversely affected.

**Underwriting and market-making activities may place capital at risk.**

The Company may incur losses and be subject to reputational harm to the extent that, for any reason, it is unable to sell securities it purchased as an underwriter at the anticipated price levels. As an underwriter, the Company is subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings it underwrites. Any such misstatement or omission could subject the Company to enforcement action by the SEC and claims of investors, either of which could have a material adverse impact on the Company's results of operations, financial condition and reputation. As a market maker, the Company may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if the Company's holdings were more diversified.

**Increases in capital commitments in our proprietary trading, investing and similar activities increase the potential for significant losses.**

The Company's results of operations for a given period may be affected by the nature and scope of these activities and such activities will subject the Company to market fluctuations and volatility that may adversely affect the value of its positions, which could result in significant losses and reduce its revenues and profits. In addition, increased commitment of capital will expose the Company to the risk that a counter-party will be unable to meet its obligations, which could lead to financial losses that could adversely affect the Company's results of operations. These activities may lead to a greater concentration of risk, which may cause the Company to suffer losses even when business conditions are generally favorable for others in the industry.

**If the Company is unable to repay its outstanding indebtedness when due, its operations would be materially adversely affected.**

At December 31, 2016, the Company had liabilities of approximately \$1.7 billion, a significant portion of which is collateralized by highly liquid and marketable government securities as well as marketable securities owned by customers. The Company cannot assure that its operations or the liquidation of collateral supporting such borrowings will generate funds sufficient to repay its existing debt obligations as they come due. The Company's failure to repay its indebtedness and make interest payments as required by its debt obligations would most likely have a material adverse effect on its results of operations and financial condition.

**The Company may make strategic acquisitions of businesses, engage in joint ventures or divest or exit existing businesses, which could result in unforeseen expenses or disruptive effects on its business.**

From time to time, the Company may consider acquisitions of other businesses or joint ventures with other businesses. Any acquisition or joint venture that the Company determines to pursue will be accompanied by a number of risks. After the announcement or completion of an acquisition or joint venture, the Company's share price could decline if investors view the transaction as too costly or unlikely to improve the Company's competitive position. Costs or difficulties relating to such a transaction, including integration of products, employees, offices, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing the Company's estimates to differ from actual results. The Company may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. In addition, the Company may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects, including the loss of earnings of the divested business or operation. These difficulties could disrupt the Company's ongoing business, increase its expenses and adversely affect its operating results and financial condition.

**The Company is subject to extensive securities regulation and the failure to comply with these regulations could subject it to monetary penalties or sanctions.**

The securities industry and the Company's business are subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. The Company is also regulated by industry self-regulatory organizations, including FINRA, NFA, and the MSRB. The Company may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. The regulatory environment is subject to change and the Company may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other federal or state governmental regulatory authorities, or self-regulatory organizations. In response to the financial crisis of 2008-2009, the regulatory environment to which the Company is subjected is expected to further intensify as additional rules and regulations are adopted by the Company's regulators. These new regulations will likely increase costs related to compliance and may in other ways adversely affect the performance of the Company.

Market and economic conditions over the past several years have directly led to a demand by the public for changes in the way the financial services industry is regulated, including a call for more stringent legislation and regulation in the United States and abroad. The Dodd-Frank Act enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see Item 1, "Regulation," in this report for a discussion of such changes). The ultimate impact that the Dodd-Frank Act and implementing regulations will have on us, the financial industry and the economy at large cannot be quantified until all of the implementing regulations called for under the legislation have been finalized and fully implemented. We are evaluating the impact of the U.S. Department of Labor ("DOL") rule on our business. However, because qualified accounts, particularly IRA accounts, comprise a significant portion of our business, we expect that implementation of the DOL Rule will negatively impact our results including the impact of increased costs related to compliance, legal and information technology. In addition, we expect that our legal risks will increase, in part, as a result of the new contractual rights required to be given to IRA and non-ERISA plan clients under the Best Interest Contract exemption and principal transactions exemption.

Oppenheimer is a broker-dealer and investment adviser registered with the SEC and is primarily regulated by FINRA. Broker-dealers are subject to regulations which cover all aspects of the securities business, including:

- sales methods and supervision;
- trading practices among broker-dealers;
- emerging standards concerning fees and charges imposed on clients for fee-based programs;
- use and safekeeping of customers' funds and securities;
- anti-money laundering and Patriot Act compliance;
- capital structure of securities firms;
- cybersecurity;
- pricing of services;
- compliance with lending practices (Regulation T);
- record keeping; and
- the conduct of directors, officers and employees.

Compliance with many of the regulations applicable to the Company involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. The requirements imposed by these regulations are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the Company. New regulations may result in enhanced standards of duty on broker dealers in their dealings with their clients (fiduciary standards). Consequently, these regulations often serve to limit the Company's activities, including through net capital, customer protection and market conduct requirements, including those relating to principal trading. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally FINRA, which is the Company's primary regulatory agency. FINRA adopts rules, subject to approval by the SEC, which govern its members and conducts periodic examinations of member firms' operations. However, recently the SEC has significantly increased its direct oversight of registrants in areas that directly overlap with FINRA thereby increasing the Company's costs of compliance and increasing the risks associated with compliance with emerging standards.

The SEC has passed a requirement for custodians of securities on behalf of investment advisers, such as the Company, to conduct an annual "surprise audit", in addition to the annual audit, and to issue an annual controls report to its clients, issued by a qualified accounting firm, describing its processes and controls affecting custody operations. A failure to conduct such an audit or issue the report with favorable findings could adversely affect a sizable portion of the Company's businesses.

If the Company is found to have violated any applicable regulations, formal administrative or judicial proceedings may be initiated against it that may result in:

- censure;
- fine;
- civil penalties, including treble damages in the case of insider trading violations;
- the issuance of cease-and-desist orders;
- the deregistration or suspension of our broker-dealer activities;
- the suspension or disqualification of our officers or employees; or
- other adverse consequences.

The imposition of any of these or other penalties could have a material adverse effect on our operating results and financial condition. For a more detailed description of the regulatory scheme under which the Company operates, see Item 1 under the caption "Regulation" and Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulation."

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

Firms in the financial services industry have been operating in an onerous regulatory environment, which will become even more stringent in light of recent well-publicized fraud or "Ponzi" schemes. The industry has experienced increased scrutiny from a variety of regulators, including the SEC and FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and SROs. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many different aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to continue operating particular businesses. For example, the failure to comply with the obligations imposed by the Exchange Act on broker-dealers and the Investment Advisers Act of 1940 on investment advisers, including recordkeeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940 (the "1940 Act"), could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or SROs (e.g., FINRA) that supervise the financial markets. Substantial legal liability or significant regulatory action taken against us could have a material adverse effect on our business prospects including our cash position.

**Changes in regulations resulting from either the Dodd-Frank Act or any new regulations or laws may affect our businesses.**

The market and economic conditions over the past several years have directly led to a demand by the public for changes in the way the financial services industry is regulated, including a call for more stringent legislation and regulation in the United States and abroad. The Dodd-Frank Act enacted sweeping changes and an unprecedented increase in the supervision and regulation of the financial services industry (see Item 1 under the caption "Regulation" for a discussion of such changes, including the Volcker Rule). The ultimate impact that the Dodd-Frank Act will have on us, the financial industry and the economy at large cannot be specifically ascertained until all of the implementing regulations called for under the legislation have been finalized and fully implemented. Nevertheless, it is apparent that these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of our assets, require us to alter at least some of our business practices, impose additional costs, and otherwise adversely affect our businesses. The Dodd-Frank Act impacts the manner in which we market our products and services, manage our business and operations, and interact with regulators, all of which could materially impact our results of operations, financial condition and liquidity. Certain provisions of the Dodd-Frank Act that have or may impact our businesses include: the establishment of a fiduciary standard for broker-dealers; regulatory oversight of incentive compensation; the imposition of capital requirements on financial holding companies and to a lesser extent, greater oversight over derivatives trading; and restrictions on proprietary trading. To the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us.

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

The SEC has proposed certain measures that would establish a new framework to replace the requirements of Rule 12b-1 under the 1940 Act with respect to how mutual funds pay fees to cover the costs of selling and marketing their shares. The staff of the SEC's Office of Compliance, Inspections and Examinations has indicated that it is reviewing the use of fund assets to pay for fees to sub-transfer agents and sub-administrators for services that may be deemed to be distribution-related. Any adoption of such measures would be phased in over a number of years. As these measures are neither final nor undergoing implementation throughout the financial services industry, their impact cannot be fully ascertained at this time. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results. Asset management businesses have experienced a number of highly publicized regulatory inquiries, which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. As some of our wholly owned subsidiaries are registered as investment advisors with the SEC, increased regulatory scrutiny and rulemaking initiatives may result in augmented operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. It is not possible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. For example, pursuant to the Dodd-Frank Act, the SEC was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to registered investment advisors. It is not clear whether the SEC will determine that a heightened standard of conduct is appropriate for broker-dealers; however, any such standard, if mandated, would likely require us to review our product and service offerings and implement certain changes, as well as require that we incur additional regulatory costs in order to ensure compliance. In addition, U.S. and foreign governments have recently taken regulatory actions impacting the investment management industry, and may continue to take further actions, including expanding current (or enacting new) standards, requirements and rules that may be applicable to us and our subsidiaries. For example, several states and municipalities in the United States have adopted "pay-to-play" rules, which could limit our ability to charge advisory fees. Such "pay-to-play" rules could affect the profitability of that portion of our business. Additionally, the use of "soft dollars," where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, is periodically reexamined and may be limited or modified in the future. Furthermore, new regulations regarding the management of hedge funds and the use of certain investment products may impact our investment management business and result in increased costs. For example, many regulators around the world adopted disclosure and reporting requirements relating to the hedge fund business.

**Legislation has and may continue to result in changes to rules and regulations applicable to our business, which may negatively impact our business and financial results.**

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

The DOL has adopted regulations that change the definition of who is an investment advice fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA) and how such advice can be provided to account holders in retirement accounts such as pension plans, 401(k) plans and IRAs. In addition, the SEC is also pursuing its own rules around a uniform fiduciary standard which could conflict with the DOL's rulemaking. Additional rulemaking or legislative action could negatively impact the Company's business and financial results. As the DOL regulations are not yet in effect, it is difficult to determine what impact this will have on our compliance costs, business, operations and profitability.

**Failure to comply with capital requirements could subject the Company to suspension or revocation by the SEC or suspension or expulsion by FINRA, the FCA and the SFC.**

Oppenheimer and Freedom are subject to the SEC's Net Capital Rule which requires the maintenance of minimum net capital. For a more detailed description of the regulatory scheme under which the Company operates, see Item 1 under the caption "Net Capital Requirements." Failure to comply with net capital requirements could subject the Company to suspension or revocation by the SEC or suspension or expulsion by FINRA.

In addition, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited are regulated by the FCA of the United Kingdom and the SFC in Hong Kong, respectively. Failure of these entities to comply with capital requirements could subject those entities to suspension or expulsion by their respective regulators.

**If the Company violates the securities laws, or is involved in litigation in connection with a violation, the Company's reputation and results of operations may be adversely affected.**

Many aspects of the Company's business involve substantial risks of liability. An underwriter is exposed to substantial liability under federal and state securities laws, other federal and state laws, and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for statements made by its securities analysts or other personnel. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that seek substantial damages. The Company's underwriting activities will usually involve offerings of the securities of smaller companies, which often involve a higher degree of risk and are more volatile than the securities of more established companies. In comparison with more established companies, smaller companies are also more likely to be the subject of securities class actions, to carry directors and officers liability insurance policies with lower limits or not at all, and to become insolvent. In addition, in market downturns, claims tend to increase. Each of these factors increases the likelihood that an underwriter may be required to contribute to an adverse judgment or settlement of a securities lawsuit.

In the normal course of business, the Operating Subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In turbulent times such as in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have historically escalated. The Company has experienced an increase in such claims as a result of the recent worldwide credit disruptions, including the disruptions in the auction rate securities market in 2008. If the Company misjudged the amount of damages that may be assessed against it from pending or threatened claims, or if the Company is unable to adequately estimate the amount of damages that will be assessed against it from claims that arise in the future and reserve accordingly, its financial condition and results of operations may be materially adversely affected. See Item 1A under the caption "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market," as well as Item 3 under the caption "Legal Proceedings" and Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory Environment – Other Regulatory Matters."

**The preparation of the consolidated financial statements requires the use of estimates that may vary from actual results.**

If actual experience differs from management's estimates used in the preparation of financial statements, the Company's consolidated results of operations or financial condition could be adversely affected. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the application of accounting policies that often involve a significant degree of judgment. Such estimates and assumptions may require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. The Company's accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed by the Company as critical accounting estimates, are those described in Note 2 to the consolidated financial statements for the year ended December 31, 2016 appearing in Item 8. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates, by their nature, are based on judgment and current facts and circumstances. Accordingly, actual results could differ from these estimates, possibly in the near term, and could have a material adverse effect on the consolidated financial statements.

**The value of the Company's goodwill and intangible assets may become impaired.**

A substantial portion of the Company's assets arise from goodwill and intangibles recorded as a result of business acquisitions it has made. The Company is required to perform a test for impairment of such goodwill and intangible assets, at least annually. To the extent that there are continued declines in the markets and general economy, impairment may become more likely. If the test resulted in a write-down of goodwill and/or intangible assets, the Company would incur a significant loss. For further discussion of this risk, see Note 18 to the consolidated financial statements for the year ended December 31, 2016 appearing in Item 8.

**The Company's risk management policies and procedures may leave it exposed to unidentified risks or an unanticipated level of risk.**

The policies and procedures the Company employs to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible. This information may not be accurate, complete or up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. The Company cannot give assurances that its policies and procedures will effectively and accurately record and verify this information. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

The Company seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. The Company believes that it effectively evaluates and manages the market, credit and other risks to which it is exposed. Nonetheless, the effectiveness of the Company's ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on the Company's financial condition and results of operations. The consequences of these developments can include losses due to adverse changes in securities values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in the Company's credit risk to customers as well as to third parties and increases in general systemic risk. The Company over the past several years has increased its systems of surveillance over the various risks facing its business and has instituted standing committees to regularly review both the risks themselves as well as the adequacy of the systems providing information. Certain of the Company's risk management systems are subject to regulatory review and may be found to be insufficient by the Company's regulators potentially leading to regulatory sanctions.

**Credit risk may expose the Company to losses caused by the inability of borrowers or other third parties to satisfy their obligations.**

The Company is exposed to the risk that third parties that owe it money, securities or other assets will not perform their obligations. These parties include:

- trading counterparties;
- customers;
- clearing agents;
- exchanges;
- clearing houses; and



- other financial intermediaries as well as issuers whose securities we hold.

These parties may default on their obligations owed to the Company due to bankruptcy, lack of liquidity, operational failure or other reasons. This default risk may arise, for example, from:

- holding securities of third parties;
- executing securities trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and
- extending credit to clients through bridge or margin loans or other arrangements.

Significant failures by third parties to perform their obligations owed to the Company could adversely affect the Company's revenue and its ability to borrow in the credit markets.

### **Risks related to insurance programs.**

The Company's operations and financial results are subject to risks and uncertainties related to the use of a combination of insurance, self-insured retention and self-insurance for a number of risks, including most significantly property and casualty, general liability, workers' compensation, and the portion of employee-related health care benefits plans funded by the Company, and certain errors and omissions liability, among others.

While the Company endeavors to purchase insurance coverage that is appropriate to its assessment of risk, it is unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. The Company's business may be negatively affected if in the future its insurance proves to be inadequate or unavailable. In addition, insurance claims may divert management resources away from operating the business.

### **The precautions the Company takes to prevent and detect employee misconduct may not be effective and the Company could be exposed to unknown and unmanaged risks or losses.**

The Company runs the risk that employee misconduct could occur. Misconduct by employees could include:

- employees binding the Company to transactions that exceed authorized limits or present unacceptable risks to the Company (rogue trading);
- employee theft and improper use of Company or client property;
- employees conspiring with third parties to defraud the Company;
- employees hiding unauthorized or unsuccessful activities from the Company, including outside business activities that are undisclosed and may result in liability to the Company;
- the improper use of confidential information; or
- employee conduct outside of acceptable norms including harassment.

These types of misconduct could result in unknown and unmanaged risks or losses to the Company including regulatory sanctions and serious harm to its reputation. The precautions the Company takes to prevent and detect these activities may not be effective. If employee misconduct does occur, the Company's business operations could be materially adversely affected.

There have been a number of highly-publicized cases involving fraud or other misconduct by employees in the financial services industry, and there is a risk that our employees could engage in misconduct that adversely affects our business. The Company has experienced employee misconduct which has led to regulatory sanctions and legal liability that has adversely affected our results. We remain subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. In addition, our financial advisors may act in a fiduciary capacity, providing financial planning, investment advice and discretionary asset management. The violation of these obligations and standards by any of our employees could adversely affect our clients and us. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If our employees engage in misconduct, our business could be materially adversely affected including our cash position.

**Defaults by another large financial institution could adversely affect financial markets generally.**

In the fourth quarter of 2008, Lehman Brothers filed for bankruptcy protection and financial institutions including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, Citigroup Inc., Bank of America Corporation, and American International Group, Inc. needed to accept substantial funding from the Federal government. In the fourth quarter of 2011, MF Global Holding Ltd. filed for bankruptcy protection. In August 2012, Peregrine Financial Group, Inc. was declared bankrupt and placed in receivership. The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing, or other relationships between these institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses, or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Company interacts on a daily basis, and therefore could adversely affect the Company.

**The failure of guarantors could adversely affect the pricing of securities and their trading markets.**

Monoline insurance companies, commercial banks and other insurers regularly issue credit enhancements to issuers in order to permit them to receive higher credit ratings than would otherwise be available to them. As a result, the failure of any of these guarantors could and would suddenly and immediately result in the depreciation in the price of the securities that have been guaranteed or enhanced by such entity. This failure could adversely affect the markets in general and the liquidity of the securities that are so affected. This disruption could create losses for holders of affected securities including the Company. In addition, rating agency downgrades of the debt or deposit or claims-paying ability of these guarantors could result in a reduction in the prices of securities held by the Company which are guaranteed by such guarantors.

**The Company's information systems may experience an interruption or breach in security.**

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Recent disclosures of such incursions by foreign and domestic unauthorized agents aimed at large financial institutions reflect higher risks for all such institutions. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

Our businesses rely extensively on data processing and communications systems. In addition to better serving clients, the effective use of technology increases efficiency and enables us to reduce costs. Adapting or developing our technology systems to meet new regulatory requirements, client needs, and competitive demands is critical for our business. Introduction of new technology presents challenges on a regular basis. There are significant technical and financial costs and risks in the development of new or enhanced applications, including the risk that we might be unable to effectively use new technologies or adapt our applications to emerging industry standards. Our continued success depends, in part, upon our ability to: (i) successfully maintain and upgrade the capability of our technology systems; (ii) address the needs of our clients by using technology to provide products and services that satisfy their demands; and (iii) retain skilled information technology employees. Failure of our technology systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients, violations of applicable privacy and other applicable laws and regulatory sanctions.

**Security breaches of our technology systems, or those of our clients or other third-party vendors we rely on, could subject us to significant liability and harm our reputation.**

The expectations of sound operational and informational security practices have risen among our clients and vendors, the public at large and regulators. Our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, cyber-attacks and breakdowns. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although cyber security incidents among financial services firms are on the rise, we have not experienced any material losses relating to cyber-attacks or other information security breaches. However, there can be no assurance that we will not suffer such losses in the future. Despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code and other events that could have an impact on the security and stability of our operations. Notwithstanding the precautions we take, if one or more of these events were to

occur, this could jeopardize the information we confidentially maintain, including that of our clients and counterparties, which is processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our clients and counterparties. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications. We may also be subject to litigation and financial losses that are neither insured nor covered under any of our current insurance policies. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators. In providing services to clients, we may manage, utilize and store sensitive or confidential client or employee data, including personal data. As a result, we may be subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws governing the protection of personally identifiable information and international laws. These laws and regulations are increasing in complexity and number. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to client or employee data, or otherwise mismanages or misappropriates such data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients and related revenue. Potential liability in the event of a security breach of client data could be significant. Depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit or an exclusion of consequential or indirect damages.

**The Company may be exposed to damage to its business or its reputation by Cybersecurity incidents.**

As the world becomes more interconnected through the use of the internet and users rely more extensively on the internet for the transmission and storage of data, such information becomes more susceptible to incursion by hackers and other parties intent on stealing or destroying data on which the Company or our clients rely. These cybersecurity incidents have increased in number and severity and it is expected that these trends will continue. Should the Company be affected by such an incident, we would be exposed to legal liability, loss of reputation as well as increased costs related to protection of systems and providing relief to clients.

The Company has and continues to introduce systems and software to prevent any such incidents and increasingly reviews and increases its defenses to such issues through the use of various services, programs and outside vendors. It is impossible for the Company to know when or if such incidents may arise or the business impact of any such incident.

**The Company continually encounters technological change.**

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

**The business operations that are conducted outside of the United States subject the Company to unique risks and potential loss.**

To the extent the Company conducts business outside the United States, it is subject to risks including, without limitation, the risk that it will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, the general economic and political conditions in countries where it conducts business and currency fluctuations. The Company operates in Israel, the United Kingdom, the Isle of Jersey, Switzerland and Hong Kong. If the Company is unable to manage these risks relating to its foreign operations effectively, its reputation and results of operations could be harmed.

**We may face exposure for environmental liabilities in British Columbia, Canada.**

The Company has received notice from the current owner of rural mountainous properties in Canada that the Company may be liable for environmental claims with respect to such properties and that designate it a potentially responsible party in remedial activities for the cleanup of waste sites under applicable statutes. The Company is believed to have held title to various properties near Panorama, British Columbia, Canada from October 1942 through August 1969 and to have engaged in mining and milling operations for some part of that period. The Company was originally incorporated in British Columbia, Canada in 1933, under the name Sheep Creek Gold Mines Limited. The Company underwent a series of name changes and continuances,

including from British Columbia to Ontario, from Ontario to Canadian federal jurisdiction and then, in May 2009, from Canada to Delaware.

The Company currently believes that future environmental claims, if any, that may be asserted will not be material and that its potential liability for known environmental matters is not material. However, environmental and related remediation costs are difficult to quantify. Applicable law may impose joint and several liability on each potentially responsible party for the cleanup.

**Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.**

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Although management has established a disaster recovery plan, there is no guarantee that such plan will allow the Company to operate without disruption if such an event was to occur and the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations. The Company maintains disaster recovery sites to aid it in reacting to circumstances such as those described above. The fourth quarter of 2012 was impacted by Superstorm Sandy which occurred on October 29th causing the Company to vacate its two principal offices in downtown Manhattan and displaced 800 of the Company's employees including substantially all of its capital markets, operations and headquarters staff for in excess of 30 days. During the displacement period the Company successfully implemented its business continuity plan by relocating personnel from both of its downtown Manhattan locations into other branch offices and back-up facilities in the region. Other than the closure of the financial markets for two business days, the Company was able to successfully clear and settle open trades that took place prior to the storm and to get its trading, operations, technology, and other support functions mobilized to process business once the financial markets reopened. The plans and preparations for such eventualities, including the sites themselves, may not be adequate or effective for their intended purpose.

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

We seek to manage, monitor and control our operational, legal and regulatory risk through operational and compliance reporting systems, internal controls, management review processes and other mechanisms; however, there can be no assurance that our procedures will be effective. Our banking and trading processes seek to balance our ability to profit from banking and trading positions with our exposure to potential losses. While we use limits and other risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate unforeseen economic and financial outcomes or the specifics and timing of such outcomes. Our risk management methods may not predict future risk exposures effectively. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients and other matters that are based on assumptions that may no longer be accurate. A failure to manage our growth adequately, or to manage our risk effectively, could materially and adversely affect our business and financial condition. Financial services firms are subject to numerous actual or perceived conflicts of interest, which are under growing scrutiny by U.S. federal and state regulators. Our risk management processes include addressing potential conflicts of interest that arise in our business. Management of potential conflicts of interest has become increasingly complex as we expand our business activities. A perceived or actual failure to address conflicts of interest adequately could affect our reputation, the willingness of clients to transact business with us or give rise to litigation or regulatory actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause result in material harm to our business and financial condition.

**The effect of climate changes on the Company cannot be predicted with certainty.**

The Company is not directly affected by environmental legislation, regulation or international treaties. The Company is not involved in an industry which is significantly impacted by climate changes except as such changes may affect the general economy of the United States and the rest of the world. Severe weather conditions such as storms, snowfall, and other climatic events may affect one or more offices of the Company. In October 2012, Superstorm Sandy caused dislocation and disruption of the Company's operations. Any such event may materially impact the operations or finances of the Company. The Company maintains Disaster Recovery Plans and property insurance for such emergencies. A significant change in the climate of the world could affect the general growth in the economy, and population growth and create other issues which will over time affect returns on financial instruments and thus the financial markets in general. It is impossible to predict such effects on the Company's business and operations.

**The downgrade of U.S. long term sovereign debt obligations and issues affecting the sovereign debt of European nations may adversely affect markets and other business.**

On August 5, 2011, Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+. Credit agencies have also reduced the credit ratings of various sovereign nations, including Greece, Italy and France. While the ultimate impact of such actions is inherently unpredictable, these downgrades could have a material adverse impact on financial markets and economic conditions throughout the world, including, specifically, the United States. Moreover, the market's anticipation of these impacts could have a material adverse effect on our business, financial condition and liquidity. Various types of financial markets, including, but not limited to, money markets, long-term or short-term fixed income markets, foreign exchange markets, commodities markets and equity markets may be adversely affected by these impacts. In addition, the cost and availability of funding and certain impacts, such as increased spreads in money market and other short term rates, have been experienced already as the market anticipated the downgrade.

The negative impact that may result from this downgrade or any future downgrade could adversely affect our credit ratings, as well as those of our clients and/or counterparties, and could require us to post additional collateral on loans collateralized by U.S. Treasury securities. The unprecedented nature of this and any future negative credit rating actions with respect to U.S. government obligations will make any impact on our business, financial condition and liquidity unpredictable. In addition any such impact may not be immediately apparent.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain European Union ("EU") member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets and may negatively impact our business, financial condition and liquidity.

**The Company's stock price can be volatile.**

Stock price volatility may make it difficult for an investor to resell shares of the Company's Class A non-voting common stock (the "Class A Stock") at the times and at the prices desired. The price of the Class A Stock can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;
- regulatory issues involving the Company or its competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- a downturn in the overall economy or the equity markets in particular;
- failure to effectively integrate acquisitions or realize anticipated benefits from acquisitions; and
- the occurrence of any of the other events described in these Risk Factors.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results.

**The trading volume in the Company's Class A Stock is less than that of larger financial services companies.**

Although the Company's Class A Stock is listed for trading on the NYSE, the trading volume in its Class A Stock is less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's Class A Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's Class A Stock, significant sales of shares of the Company's Class A Stock, or the expectation of these sales, could cause the Company's stock price to fall and increase the volatility of the Class A Stock generally.

**The holders of Class A Stock do not have the ability to vote on most corporate matters which limits the influence that these holders have over the Company.**

The Company issues two classes of shares, Class A Stock and Class B voting common stock (the "Class B Stock"). At December 31, 2016, there were 99,665 shares of Class B Stock outstanding compared to 13,261,095 shares of Class A Stock. The voting power associated with the Class B Stock allows holders of Class B Stock to effectively exercise control over all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions, and other matters affecting the Company. Over 96% of the Class B voting shares are held by an entity controlled by Mr. Albert Lowenthal, the Chairman and CEO of the Company. Due to the lack of voting power, the Class A Stockholders have limited influence on corporate matters.

**The Company's Chairman and CEO owns a significant portion of the Company's Class B Stock and therefore can exercise significant control over the corporate governance and affairs of the Company, which may result in him taking actions with which other stockholders do not agree.**

An entity controlled by the Company's Chairman and CEO, Mr. Albert Lowenthal, owns over 96% of the Class B voting stock. As a result, Mr. Lowenthal can exercise substantial influence over the outcome of most, if not of all corporate actions requiring approval of our stockholders, including the election of directors and approval of significant corporate transactions, which may result in corporate action with which other stockholders do not agree. This Class B voting power may have the effect of delaying or preventing a change in control of the Company or may result in the receipt of a "control premium" by the controlling stockholder which premium would not be received by the holders of the Class A Stock. The controlling stockholder may have potential conflicts of interest with other stockholders including the ability to determine the impact of "say on pay" provisions at the Company.

**Possible additional issuances of the Company's stock will cause dilution.**

At December 31, 2016, the Company had 13,261,095 shares of Class A Stock outstanding, outstanding employee stock options to purchase a total of 13,601 shares of Class A Stock, as well as outstanding unvested restricted stock awards granted for an additional 1,223,533 shares of Class A Stock. The Company is further authorized to issue up to 537,841 shares of Class A Stock under share-based compensation plans for which stockholder approval has already been obtained. As the Company issues additional shares, stockholders' holdings will be diluted, perhaps significantly. The issuance of any additional shares of Class A Stock or securities convertible into or exchangeable for Class A Stock or that represent the right to receive Class A Stock, or the exercise of such securities, could be substantially dilutive to holders of our Class A Stock. Holders of our Class A Stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to the Company's stockholders. The market price of the Company's Class A Stock could decline as a result of sales or issuance of shares of Class A Stock or securities convertible into or exchangeable for Class A Stock.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

The Company and Oppenheimer maintain offices at their headquarters at 85 Broad Street, New York, New York which houses their executive management team and many administrative functions for the firm as well as their research, trading, investment banking, and asset management divisions. Generally, the offices outside of 85 Broad Street serve as bases for sales representatives who process trades and provide other brokerage services in co-operation with Oppenheimer's New York offices using the data processing facilities located there. The Company maintains an office in Troy, Michigan, which among other things, houses its payroll and human resources departments. Oppenheimer Trust is based in Wilmington, Delaware. Freedom conducts its business from its offices located in Edison, New Jersey. Management believes that its present facilities are adequate for the purposes for which they are used and have adequate capacity to provide for presently contemplated future uses. In addition, the Company has offices in London, England, St. Helier, Jersey, Geneva, Switzerland, Tel Aviv, Israel and Hong Kong, China.

The Company and its subsidiaries own no real property but, at December 31, 2016, occupied office space in 103 locations under standard commercial terms expiring between 2017 and 2028. If any leases are not renewed, the Company believes it could obtain comparable space elsewhere on commercially reasonable rental terms.

### **Item 3. LEGAL PROCEEDINGS**

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been the subject of customer complaints and has been named as a defendant or co-defendant in various lawsuits or arbitrations creating substantial exposure. The incidences of these types of claims have increased since the onset of the credit crisis in 2008 and the resulting market disruptions. The Company is also involved from time to time in certain governmental and self-regulatory agency investigations and proceedings. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. There has been an increased incidence of regulatory investigations in the financial services industry in recent years, including customer claims, including investigations by multiple regulators of matters involving the same or similar underlying facts, which seek substantial penalties, fines or other monetary relief. The SEC, amongst other regulators, has announced its intention to bring more regulatory cases seeking substantial penalties in the future.

While the ultimate resolution of routine pending litigation, regulatory and other matters cannot be currently determined, in the opinion of management, after consultation with legal counsel, the Company does not believe that the resolution of these matters will have a material adverse effect on its consolidated financial condition and statement of cash flow. However, the Company's results of operations could be materially affected during any period if liabilities in that period differ from prior estimates.

Notwithstanding the foregoing, an adverse result in any of the matters set forth below or multiple adverse results in arbitrations, litigations or regulatory proceedings currently filed or to be filed against the Company, could have a material adverse effect on the Company's results of operations and financial condition, including its cash position.

The materiality of legal and regulatory matters to the Company's future operating results depends on the level of future results of operations as well as the timing and ultimate outcome of such legal and regulatory matters. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters " as well as "Factors Affecting 'Forward-Looking Statements'" in Item 7.

In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Company does not establish reserves. In some of the matters described below, loss contingencies are not probable and reasonably estimable in the view of management and, accordingly, reserves have not been established for those matters. For legal or regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to approximately \$47.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

#### *Auction Rate Securities Matters*

For a number of years, the Company offered auction rate securities ("ARS") to its clients. A significant portion of the market in ARS 'failed' in February 2008 due to credit market conditions, and dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. Oppenheimer offered ARS to its clients in the same manner as dozens of other "downstream" firms in the ARS marketplace – as an available cash management option for clients seeking to increase their yields on short-term investments similar to a money market fund. The Company believes that Oppenheimer's participation therefore differed dramatically from that of the larger broker-dealers who underwrote and provided supporting bids in the auctions, actions Oppenheimer never undertook. Oppenheimer played no role in any decision by the lead underwriters or broker-dealers to discontinue entering support bids and allowing auctions to fail. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" in Item 7 for additional details.

As previously disclosed, Oppenheimer, without admitting or denying liability, entered into a Consent Order (the "Order") with the Massachusetts Securities Division (the "MSD") pursuant to the Massachusetts Securities Act on February 26, 2010 settling a pending administrative proceeding against the respondents related to Oppenheimer's sales of ARS to retail and other investors in the Commonwealth of Massachusetts.

As previously disclosed, on February 23, 2010, the New York Attorney General ("NYAG" and together with the MSD, the "Regulators") accepted Oppenheimer's offer of settlement and entered an Assurance of Discontinuance ("AOD") pursuant to New York State Executive Law Section 63(15) in connection with Oppenheimer's marketing and sale of ARS. Oppenheimer did not admit or deny any of the findings or allegations contained in the AOD and no fine was imposed.

Pursuant to the terms of the Order, Oppenheimer commenced and closed three offers to purchase Eligible ARS (as defined in the Order) from Customer Accounts (as defined in the Order) during 2010 and 2011 with the final offer closing on April 7, 2011. In addition, pursuant to the terms of the AOD, the Company has made twelve offers to purchase ARS from Eligible Investors between the periods May 21, 2010 and April 25, 2016. The Company's latest offer to purchase commenced on January 3, 2017 and will terminate on March 20, 2017. The Company's purchases of ARS from clients have continued and will, subject to the terms and conditions of the AOD, continue on a periodic basis. Accounts were, and will continue to be, aggregated on a "household" basis for purposes of these offers. As of December 31, 2016, the Company had purchased and holds (net of redemptions) approximately \$88.1 million of ARS pursuant to the settlements with the Regulators and legal settlements and awards.

Oppenheimer has agreed with the NYAG that it will offer to purchase Eligible ARS from Eligible Investors who did not receive an initial purchase offer, periodically, as excess funds become available to Oppenheimer after giving effect to the financial and regulatory capital constraints applicable to Oppenheimer, until Oppenheimer has extended a purchase offer to all Eligible Investors. Such offers will remain open for a period of 75 days from the date on which each such offer to purchase is sent. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and client actions during the period, which also cannot be predicted.

In addition, Oppenheimer has agreed to work with issuers and other interested parties, including regulatory and other authorities and industry participants, to provide liquidity solutions for other Massachusetts clients not covered by the offers to purchase. In that regard, on May 21, 2010, Oppenheimer offered such clients a margin loan against marginable collateral with respect to such account holders' holdings of Eligible ARS. As of December 31, 2016, Oppenheimer had extended margin loans to five holders of Eligible ARS from Massachusetts.

Further, Oppenheimer has agreed to (1) no later than 75 days after Oppenheimer has completed extending a purchase offer to all Eligible Investors (as defined in the AOD), use its best efforts to identify any Eligible Investor who purchased Eligible ARS (as defined in the AOD) and subsequently sold those securities below par between February 13, 2008 and February 23, 2010 and pay the investor the difference between par and the price at which the Eligible Investor sold the Eligible ARS, plus reasonable interest thereon (the "ARS Losses"); (2) no later than 75 days after Oppenheimer has completed extending a Purchase Offer to all Eligible Investors, use its best efforts to identify Eligible Investors who took out loans from Oppenheimer after February 13, 2008 that were secured by Eligible ARS that were not successfully auctioning at the time the loan was taken out from Oppenheimer and who paid interest associated with the ARS-based portion of those loans in excess of the total interest and dividends received on the Eligible ARS during the duration of the loan (the "Loan Cost Excess") and reimburse such investors for the Loan Cost Excess plus reasonable interest thereon; (3) upon providing liquidity to all Eligible Investors, participate in a special arbitration process for the exclusive purpose of arbitrating any Eligible Investor's claim for consequential damages against Oppenheimer related to the investor's inability to sell Eligible ARS; and (4) work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not within the definition of Small Businesses and Institutions (as defined in the AOD) that held ARS in Oppenheimer brokerage accounts on February 13, 2008. Oppenheimer believes that because Items (1) through (3) above will occur only after it has provided liquidity to all Eligible Investors, it will take an extended period of time before the requirements of Items (1) through (3) will take effect.

Each of the AOD and the Order provides that in the event that Oppenheimer enters into another agreement that provides any form of benefit to any Oppenheimer ARS customer on terms more favorable than those set forth in the AOD or the Order, Oppenheimer will immediately extend the more favorable terms contained in such other agreement to all eligible investors. The AOD further provides that if Oppenheimer pays (or makes any pledge or commitment to pay) to any governmental entity or regulator pursuant to any other agreement costs or a fine or penalty or any other monetary amount, then an equivalent payment, pledge or commitment will become immediately owed to the State of New York for the benefit of New York residents.

If Oppenheimer fails to comply with any of the terms set forth in the Order, the MSD may institute an action to have the Order declared null and void and reinstate the previously pending administrative proceedings. If Oppenheimer defaults on any obligation under the AOD, the NYAG may terminate the AOD, at his sole discretion, upon 10 days written notice to Oppenheimer.



Reference is made to the Order and the AOD, each as described in Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and attached thereto as Exhibits 10.24 and 10.22 respectively, as well as the subsequent disclosures related thereto in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 through September 30, 2016 and in the Company's Annual Reports on Form 10-K for the years ended December 31, 2010 through and including 2015, for additional details of the agreements with the MSD and NYAG. The Company is continuing to cooperate with investigating entities from states other than Massachusetts and New York.

As of December 31, 2016, there were no pending ARS-related cases against Oppenheimer. As of December 31, 2016, eleven ARS matters were concluded in either court or arbitration with Oppenheimer prevailing in four of those matters and the claimants prevailing in seven of those matters. The Company has purchased approximately \$7.6 million in ARS from the prevailing claimants in those seven actions. In addition, the Company has made cash payments of approximately \$12.7 million as a result of legal settlements with clients. It is possible, however, that other individuals or entities that purchased ARS from Oppenheimer may bring additional claims against Oppenheimer in the future for repurchase or rescission.

See "Risk Factors - The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory and Legal Environment - Other Regulatory Matters" and "Off-Balance Sheet Arrangements" in Item 7.

#### *Other Pending Matters*

On or about March 13, 2008, Oppenheimer was served in a matter pending in the United States Bankruptcy Court, Northern District of Georgia, captioned *William Perkins, Trustee for International Management Associates v. Lehman Brothers, Oppenheimer & Co. Inc., JB Oxford & Co., Bank of America Securities LLC and TD Ameritrade Inc.* The Trustee seeks to set aside as fraudulent transfers in excess of \$25.0 million in funds embezzled by the sole portfolio manager for International Management Associates, a hedge fund. The portfolio manager purportedly used the broker dealer defendants, including Oppenheimer, as conduits for his embezzlement. Oppenheimer filed its answer to the complaint on June 18, 2010. Oppenheimer filed a motion for summary judgment, which was argued on March 31, 2011. Immediately thereafter, the Bankruptcy Court dismissed all of the Trustee's claims against all defendants including Oppenheimer. In June 2011, the Trustee filed an appeal with the United States District Court for the Northern District of Georgia (U.S.N.D. GA). In addition, on June 10, 2011, the Trustee filed a petition for permission to appeal the dismissal to the United States Court of Appeals for the Eleventh Circuit. On July 27, 2011, the Court of Appeals for the Eleventh Circuit denied the Trustee's Petition. The Trustee then appealed to the U.S.N.D. GA. On March 30, 2012, the U.S.N.D. GA affirmed in part and reversed in part the ruling from the Bankruptcy Court and remanded the matter to the Bankruptcy Court. Discovery has closed and Oppenheimer filed a motion for summary judgment at the end of February 2014. On January 10, 2017, Oppenheimer's motion for summary judgment was granted in full dismissing the case. On January 24, 2017, the Trustee appealed the dismissal to the U.S.N.D. GA. Oppenheimer intends to defend itself vigorously in this matter.

On June 24, 2011, Oppenheimer was served with a petition in a matter pending in state court in Collin County, Texas captioned *Jerry Lancaster, Providence Holdings, Inc., Falcon Holdings, LLC and Derek Lancaster v. Oppenheimer & Co., Inc., Oppenheimer Trust Company, Charles Antonuicci, Alan Reichman, John Carley, Park Avenue Insurance, LLC and Park Avenue Bank.* The action requests unspecified damages, including exemplary damages, for Oppenheimer's alleged breach of fiduciary duty, negligent hiring, fraud, conversion, conspiracy, breach of contract, unjust enrichment and violation of the Texas Business and Commerce Code. The first amended petition alleges that Oppenheimer held itself out as having expertise in the insurance industry generally and managing insurance companies' investment portfolios but inappropriately allowed plaintiffs' bond portfolios to be used by Park Avenue Insurance Company to secure the sale of Providence Property and Casualty Insurance Company to Park Avenue Insurance Company. On July 22, 2011, defendants removed the case to the United States District Court for the Eastern District of Texas, Sherman Division, and subsequently, on October 3, 2012, Providence Holdings, Inc. filed a new action in the United States District Court for the Eastern Division of Texas against Oppenheimer, Oppenheimer Trust Company, and two individuals, re-asserting basically the same claims as above. On December 18, 2012, Oppenheimer and Oppenheimer Trust Company filed motions (i) to dismiss the new complaint and (ii) to stay the action pending resolution of all claims among the parties in the action pending in Oklahoma styled *State of Oklahoma ex rel. Holland v. Providence Holdings, Inc.* described below. On March 18, 2013, the Texas court issued an order formally approving the parties' stipulation to stay the action. On April 15, 2011, in an action styled *State of Oklahoma ex rel. Holland v. Providence Holdings, Inc., et al.* in the Oklahoma County District Court, Providence Holdings, Inc. and Jerry Lancaster asserted cross-claims against Oppenheimer and Oppenheimer Trust Company Inc. related to the same facts at issue in the Texas litigation discussed above. These cross-claims included claims for breach of fiduciary duty, various theories of fraud, violation of Texas commercial statutes, breach of contract, interference with prospective business advantage, and loss of business opportunity and sought undisclosed damages. That case is in document discovery, pending the resolution of several privilege claims by cross-claim plaintiffs that implicate receivership proceedings pending before several courts in Oklahoma. On September 24, 2015,

Providence Holdings filed a motion for summary judgment as to some but not all of Oppenheimer's cross-claims against it. The Court has deferred Oppenheimer's obligation to respond to that motion indefinitely until discovery has taken place. Oppenheimer believes it has meritorious defenses to the claims raised and intends to defend against these claims vigorously including pursuing dismissal of the claims against it.

On March 15, 2013, the Company filed in the Supreme Court of the State of New York, County of New York ("New York Court"), a breach of contract action against Canadian Imperial Bank of Commerce ("CIBC") in connection with the Company's acquisition of CIBC's U.S. capital markets businesses for an amount of damages to be proven at trial. On January 31, 2014, the Company filed an amended complaint. On March 13, 2014, CIBC filed a motion to dismiss portions of the Company's amended complaint. In October 2014, the motion to dismiss was granted in part and denied in part by the New York Court. Discovery in the case is proceeding.

In October 2013, JPMorgan Chase Clearing Corp. ("JPMCC"), a division of JPMorgan Chase, filed a FINRA arbitration claim against Oppenheimer ("JPMCC Arbitration") seeking a declaration from the panel ordering that Oppenheimer indemnify it for all damages and costs, including but not limited to attorneys' fees, for litigation in Germany that had begun in 2011 ("German Litigation"). Multiple investors in Germany sought redress from JPMCC for losses associated with a Swiss investment advisory firm, Salomon Investment AG, later renamed SAL Investment AG ("SAL"), that had solicited their business by phone and pooled their funds in an omnibus account at the German offices of Josephthal Lyon & Ross GmbH ("Josephthal GmbH"), and had invested those funds unsuitably and charged the investors excessive commissions and fees from about 1995 to 1998. Josephthal Lyon & Ross Inc. ("Josephthal") was acquired by what is now Oppenheimer in 2001. Bear Stearns, acquired by JPMorgan Chase in 2008, cleared trades for the aforementioned omnibus account. JPMCC based its indemnification claim on agreements with Josephthal executed in 1991 and 2000. No hearing dates have been set in the JPMCC Arbitration. In August 2014, judgments ("Judgments") in favor of seven German plaintiffs grouped in three separate cases were finalized in the German court in Dusseldorf against JPMCC. The German court found that JPMCC was liable to the plaintiffs for damages in amounts totaling (including interest) approximately €1.25 million (approximately U.S. \$1.32 million). These judgments were affirmed by an intermediate level appellate court, and JPMCC and Oppenheimer have requested leave to appeal those decisions to Germany's highest appellate court. In addition, eighteen other plaintiffs have filed statements of claim against JPMCC in Dusseldorf with claimed aggregate damages (excluding claims for interest and attorneys' fees) of approximately €3.2 million (approximately U.S. \$3.38 million). In an agreement executed by JPMCC on October 7, 2016, JPMCC settled the claims asserted by the plaintiffs in the above referenced matters for €3.9 million (approximately U.S. \$4.12 million). Oppenheimer continues to pursue its appeal to Germany's highest appellate court. Oppenheimer believes it has meritorious defenses to the claims and intends to defend itself vigorously.

On October 21, 2015, plaintiff Enrico Vaccaro, individually and on behalf of others similarly situated, filed a putative class action complaint in the Supreme Court of the State of New York, County of New York, on behalf of purchasers of New Source Energy Partners, L.P. ("NSLP") 11% Series A Cumulative Convertible Preferred Units ("NSLP Complaint"). Plaintiff named as defendants NSLP, as well as certain officers and directors of NSLP, and underwriters Oppenheimer, Stifel, Nicolaus & Company, Inc., Robert W. Baird & Co. Inc., Janney Montgomery Scott LLC, and Wunderlich Securities, Inc. Plaintiff alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act pursuant to and/or traceable to NSLP's prospectus supplement and accompanying prospectus, filed with the SEC on May 7, 2015, and the base prospectus and shelf registration statement filed with the SEC and declared effective on April 21, 2014 ("NSLP Offering Documents"). The NSLP Complaint alleged that the NSLP Offering Documents failed to disclose certain cash flow problems facing NSLP and sought damages, equitable relief, and attorneys' fees and costs. On or around November 13, 2015, the defendants removed the state court action to the United States District Court for the Southern District of New York ("SDNY"). On or around March 30, 2016, NSLP filed with the SDNY notice of its March 15, 2016 voluntary petition for relief under chapter 7 title 11 of the United States Bankruptcy Code, which operates as an automatic stay of the claims as to NSLP. On June 20, 2016, Plaintiffs filed an amended class action complaint ("NSLP Amended Complaint"), which seeks unspecified damages, including interest, punitive and exemplary damages, as well as rescission. On December 19, 2016, the SDNY dismissed the NSLP Amended Complaint without prejudice.

In October 2015, a claimant filed a FINRA Arbitration (No. 15-02841) against Oppenheimer captioned *Board of Bernalillo County Commissioners vs. BOSC, Inc., Oppenheimer & Co. Inc., Thomas Wayne Hayes and Royce Owen Simpson*. The statement of claim alleges that Oppenheimer and its former employee, Simpson, as well as BOSC, Inc. and its former employee, Hayes, violated the New Mexico Securities Act by recommending a concentrated portfolio of fixed income securities with a longer than appropriate average maturity which resulted in the portfolio being exposed to significant interest rate risk that was unsuitable for one of the county's investment objectives of preserving capital. The county has alleged damages against all respondents in excess of \$16.0 million. The arbitration hearing has been scheduled to commence in June of 2017. Oppenheimer believes it has meritorious defenses to the claims made against it and intends to defend itself vigorously.

In June 2012, a claim was filed in the Circuit Court, 11<sup>th</sup> Judicial Circuit in Miami-Dade County Florida, Probate Division (which was subsequently transferred in 2014 to the Civil Division where it remains), a matter captioned *Estate of Idelle Stern, by and through the court ordered limited ad litem, Rochelle Kevelson, Tikvah Lyons, and Joyce Genauer v. Oppenheimer Trust Company, Oppenheimer & Co. Inc., Oppenheimer Asset Management Inc., Eli Molallen, James P. Carley Jr., and Theron Hunting Worth Defendants*. The plaintiffs' pleading has been dismissed multiple times pursuant to defendants' motions to dismiss. Plaintiffs are now on their sixth amended complaint. Plaintiffs allege that defendants failed to properly communicate with certain beneficiaries of the Stern Survivors Trust, Stern Marital Trust, and Stern Credit Shelter Trust (collectively, the "Stern Trusts") established by Idelle Stern, prior to her death; that defendants failed to adequately communicate with Ms. Stern, who was the co-trustee of the Stern Trusts, during her lifetime; and that defendants failed to provide trust accountings to all qualified beneficiaries. There are other causes of action based on alleged Florida Blue Sky violations, elder abuse, breach of trust, constructive fraud and conspiracy. Plaintiffs seek damages of approximately \$8 million, as well as treble damages under the applicable Florida elder abuse statute. On November 30, 2016, defendants filed a motion for summary judgment seeking to dismiss all of plaintiffs' claims. The scheduled trial date in January 2017 has been canceled and no new trial date has been scheduled. Hearings on the defendants' motion for summary judgment are scheduled for March 2017. Defendants believe they have meritorious defenses and intend to defend themselves vigorously.

See also "Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulatory and Legal Environment – Other Regulatory Matters" in Item 7.

#### **Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) The Company's Class A Stock is listed and traded on the NYSE (trading symbol "OPY"). The Class B Stock is not traded on any stock exchange and, as a consequence, there is only limited trading in the Class B Stock. The Company does not presently contemplate listing the Class B Stock in the United States on any national or regional stock exchange or on NASDAQ.

The following tables set forth the high and low sales prices of the Class A Stock on the NYSE for the 2016 and 2015 fiscal years. Prices provided are based on data provided by the NYSE.

Class A Stock	NYSE	
	High	Low
2016 1st Quarter	\$ 16.98	\$ 13.58
2nd Quarter	16.66	13.63
3rd Quarter	16.49	13.74
4th Quarter	19.65	13.65
2015 1st Quarter	24.41	19.04
2nd Quarter	27.99	22.30
3rd Quarter	26.80	17.40
4th Quarter	20.98	15.60

As of December 31, 2016, there were 1,237,134 shares of Class A Stock underlying outstanding options and restricted share awards. Class A Stock underlying all vested options, if exercised, and restricted shares could be sold pursuant to Rule 144 or effective registration statements on Form S-8.

(b) The following table sets forth information about the stockholders of the Company as of February 28, 2017 as set forth in the records of the Company's transfer agent and registrar:

	Number of Shares	Number of Stockholders of Record
Class A Stock	13,336,346	89
Class B Stock	99,665	44

**(c) Dividends**

The following table sets forth the frequency and amount of any cash dividends declared on the Company's Class A Stock and Class B Stock for the fiscal years ended December 31, 2015 and 2016 and the first quarter of 2017:

Type	Declaration Date	Record Date	Payment Date	Amount Per Share
Quarterly	January 27, 2017	February 10, 2017	February 24, 2017	\$ 0.11
Quarterly	October 28, 2016	November 11, 2016	November 25, 2016	0.11
Quarterly	July 29, 2016	August 12, 2016	August 26, 2016	0.11
Quarterly	April 29, 2016	May 13, 2016	May 27, 2016	0.11
Quarterly	January 29, 2016	February 12, 2016	February 26, 2016	0.11
Quarterly	October 30, 2015	November 13, 2015	November 27, 2015	0.11
Quarterly	July 31, 2015	August 14, 2015	August 28, 2015	0.11
Quarterly	May 1, 2015	May 15, 2015	May 29, 2015	0.11
Quarterly	January 30, 2015	February 13, 2015	February 27, 2015	0.11

Future dividend policy will depend upon the earnings and financial condition of the Operating Subsidiaries, the Company's need for funds and other factors. Dividends may be paid to holders of Class A Stock and Class B Stock (pari passu), as and when declared by the Company's Board of Directors, from funds legally available therefore.

**(d) Share-Based Compensation Plans**

The Company has a 2006 Equity Incentive Plan, adopted December 11, 2006 and amended in December 2011, and had a 1996 Equity Incentive Plan, as amended March 10, 2005, which expired on April 18, 2006 (together "EIP"), under which the Compensation Committee of the Board of Directors of the Company has granted options to purchase Class A Stock, restricted Class A Stock awards and Class A Stock awards to officers and key employees of the Company and its subsidiaries. From 2011 through 2013, restricted Class A Stock awards were granted to the Company's non-employee directors as approved by a committee formed for that purpose. With the adoption of the OIP (as defined below), the amount and terms of such grants are determined by the Compensation Committee of the Company's Board of Directors.

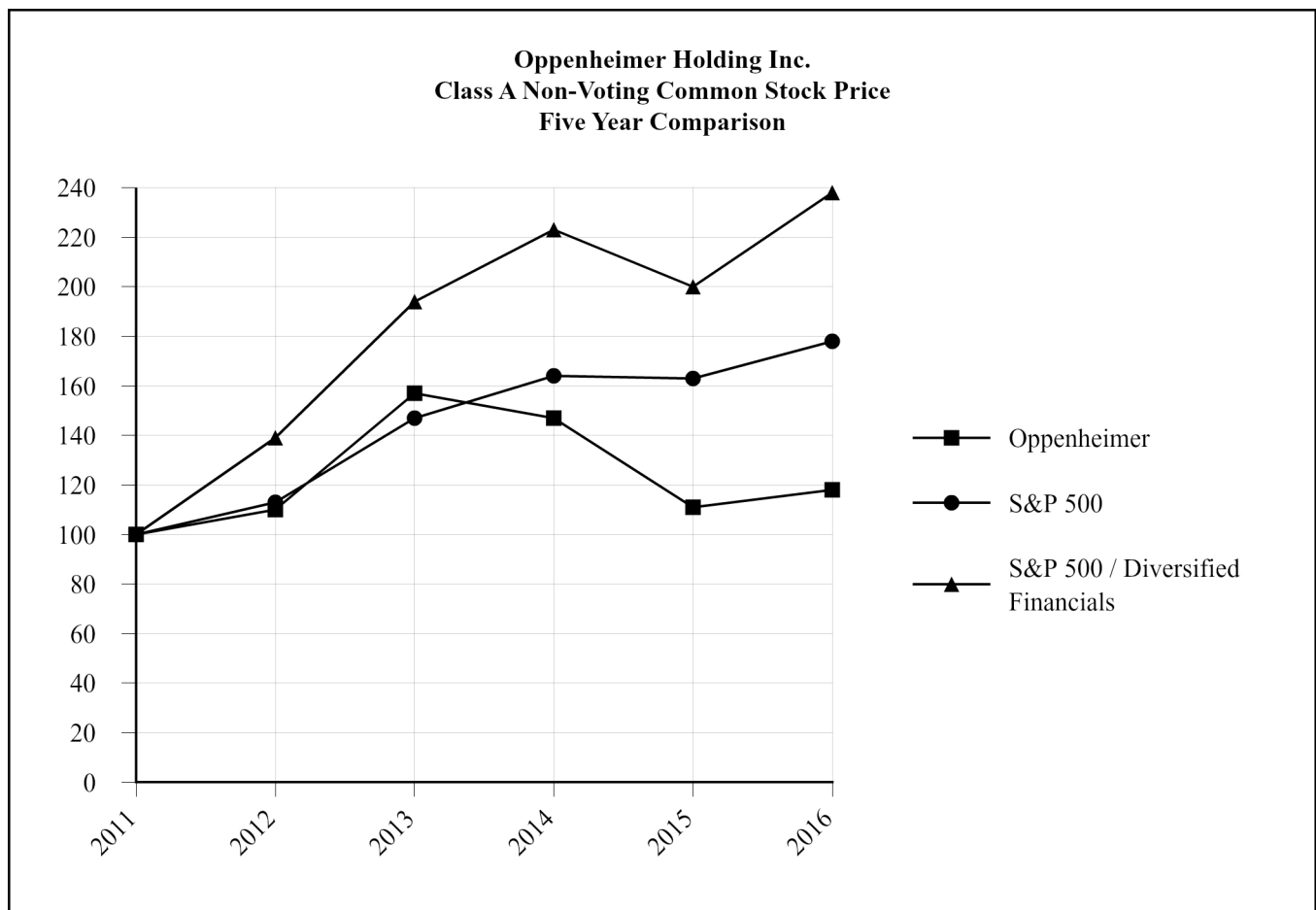
Oppenheimer has an Employee Share Plan ("ESP") under which the Compensation Committee of the Board of Directors of the Company has granted stock awards and restricted stock awards to key management employees of the Company and its subsidiaries.

On February 26, 2014, the Company adopted the Oppenheimer Holdings Inc. 2014 Incentive Plan (the "OIP") which pursuant to its terms amends and restates each of the EIP and ESP and incorporates each of the EIP and ESP into the OIP.

The Company's share-based compensation plans are described in Note 15 to the Company's consolidated financial statements appearing in Item 8.

**(e) Share Performance Graph**

The following graph shows changes over the past five year period of U.S. \$100 invested in (1) the Company's Class A Stock, (2) the Standard & Poor's 500 Index (S&P 500), and (3) the Standard & Poor's 500 Diversified Financial Index (S&P 500 / Diversified Financials – S5DIVF):



<u>As of December 31,</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Oppenheimer Class A Stock	100	110	157	147	111	118
S&P 500	100	113	147	164	163	178
S&P 500 / Diversified Financials	100	139	194	223	200	238

### **Stock Buy-Back**

On September 15, 2015, the Company announced that its board of directors approved a share repurchase program that authorizes the Company to purchase up to 665,000 shares of the Company's Class A Stock, representing approximately 5% of its 13,348,369 then issued and outstanding shares of Class A Stock ("New Program"). This authorization replaces the share repurchase program covering up to 675,000 shares of the Company's Class A Stock, which was announced on October 7, 2011 ("Previous Program"), pursuant to which 322,177 shares of the Company's Class A Stock were repurchased and canceled prior to December 31, 2014. During the nine months ended September 30, 2015, the Company purchased and canceled an additional 328,844 shares of Class A Stock for a total consideration of \$6.6 million (\$20.12 per share) under the Previous Program. The 23,979 remaining shares available under the Previous Program have been replaced by the shares available under the New Program. During the fourth quarter of 2015, the Company purchased and canceled an aggregate of 94,882 shares of Class A Stock for a total consideration of \$1.6 million (\$17.20 per share) under the New Program.

During the year ended December 31, 2016, the Company purchased and canceled an aggregate of 260,862 shares of Class A Stock for a total consideration of \$3.9 million (\$15.09 per share) under the New Program. As of December 31, 2016, 309,256 shares were available to be purchased under the New Program.

Any such share purchases will be made by the Company from time to time in the open market at the prevailing open market price using cash on hand, in compliance with the applicable rules and regulations of the New York Stock Exchange and federal and state securities laws and the terms of the Company's senior secured debt. All shares purchased will be canceled. The share repurchase program is expected to continue indefinitely. The timing and amounts of any purchases will be based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of Class A Stock. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

**Item 6. SELECTED FINANCIAL DATA**

The following table presents selected financial information derived from the consolidated financial statements of the Company for each of the five years in the period ended December 31, 2016:

*(Expressed in thousands, except number of shares and per share amounts)*

	2016	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>	2012 <sup>(1)</sup>
Revenue	\$ 857,779	\$ 897,801	\$ 981,135	\$ 985,568	\$ 916,931
Net income (loss) from continuing operations	(9,630)	(2,834)	5,056	19,462	(10,327)
Net income from discontinued operations	10,121	5,732	4,505	6,691	9,476
Net income (loss)	491	2,898	9,561	26,153	(851)
Net income attributable to noncontrolling interest, net of tax	1,652	936	735	1,092	2,762
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$ (1,161)	\$ 1,962	\$ 8,826	\$ 25,061	\$ (3,613)
Basic net income (loss) per share attributable to Oppenheimer Holdings Inc. <sup>(2)</sup>					
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.37	\$ 1.44	\$ (0.76)
Discontinued operations	0.63	0.35	0.28	0.41	0.49
Net income (loss) per share	\$ (0.09)	\$ 0.14	\$ 0.65	\$ 1.85	\$ (0.27)
Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc. <sup>(2)</sup>					
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.36	\$ 1.38	\$ (0.76)
Discontinued operations	0.63	0.35	0.26	0.39	0.49
Net income (loss) per share	\$ (0.09)	\$ 0.14	\$ 0.62	\$ 1.77	\$ (0.27)
Total assets	\$ 2,236,930	\$ 2,698,004	\$ 2,791,479	\$ 2,961,197	\$ 2,678,171
Long term debt	\$ 149,352	\$ 148,868	\$ 148,383	\$ 192,265	\$ 191,626
Total liabilities	\$ 1,723,596	\$ 2,172,922	\$ 2,257,747	\$ 2,433,326	\$ 2,173,170
Cash dividends per share of Class A and Class B Stock	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44
Stockholders' equity attributable to Oppenheimer Holdings Inc.	\$ 510,703	\$ 518,058	\$ 527,644	\$ 522,518	\$ 500,740
Book value per share attributable to Oppenheimer Holdings Inc. <sup>(2)</sup>	\$ 38.22	\$ 38.84	\$ 38.71	\$ 38.77	\$ 36.80
Number of shares of capital stock outstanding <sup>(2)</sup>	13,360,760	13,338,166	13,630,368	13,477,647	13,607,998

- (1) Amounts have been recast to reflect discontinued operations. See Note 3 to the consolidated financial statements appearing in Item 8 for details.
- (2) The Class A Stock and Class B Stock are combined because they are of equal rank for purposes of dividends and in the event of a distribution of assets upon liquidation, dissolution or winding up.

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto which appear elsewhere in this annual report.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services and investment advisory and asset management services. Its principal subsidiaries are Oppenheimer & Co. Inc. ("Oppenheimer") and Oppenheimer Asset Management Inc. ("OAM"). As of December 31, 2016, the Company provided its services from 93 offices in 25 states located throughout the United States, offices in Tel Aviv, Israel, Hong Kong, China, London, England, St. Helier, Isle of Jersey and Geneva, Switzerland. Client assets administered by the Company as of December 31, 2016 totaled approximately \$77.2 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management LLC ("OIM") and Oppenheimer's Fahnstock Asset Management, Alpha and OMEGA Group divisions. At December 31, 2016, client assets under management totaled \$24.8 billion. The Company provides trust services and products through Oppenheimer Trust Company of Delaware. The Company provides discount brokerage services through Freedom Investments, Inc. ("Freedom"). Through OPY Credit Corp., the Company offers syndication as well as trading of issued syndicated corporate loans. Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHMF") was formerly engaged in Federal Housing Administration ("FHA")-insured commercial mortgage origination and servicing. During 2016, the Company sold substantially all of the assets of OMHMF and ceased its operations. At December 31, 2016, the Company employed 3,098 employees (3,043 full-time and 55 part-time), of whom approximately 1,158 were financial advisers.

### **Critical Accounting Policies**

The Company's accounting policies are essential to understanding and interpreting the financial results reported on the consolidated financial statements. The significant accounting policies used in the preparation of the Company's consolidated financial statements are summarized in Note 2 to those statements. Certain of those policies are considered to be particularly important to the presentation of the Company's financial results because they require management to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain. The following is a discussion of these policies:

### ***Fair Value Measurements***

The accounting guidance for the fair value measurement of financial assets, which defines fair value, establishes a framework for measuring fair value, establishes a fair value measurement hierarchy, and expands fair value measurement disclosures. Fair value, as defined by the accounting guidance, is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by this accounting guidance prioritizes the inputs used in valuation techniques into the following three categories (highest to lowest priority):

- Level 1:** Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3:** Unobservable inputs that are significant to the overall fair value measurement.

The Company's financial instruments that are recorded at fair value generally are classified within Level 1 or Level 2 within the fair value hierarchy using quoted market prices or quotes from market makers or broker-dealers. Financial instruments classified within Level 1 are valued based on quoted market prices in active markets and consist of U.S. Treasury and Agency securities, corporate equities, and certain money market instruments. Level 2 financial instruments primarily consist of investment grade and high-yield corporate debt, convertible bonds, mortgage and asset-backed securities, and municipal obligations. Financial instruments classified as Level 2 are valued based on quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Some financial instruments are classified within Level 3 within the fair value hierarchy as observable pricing inputs are not available due to limited market activity for the asset or liability. Such financial instruments include investments in hedge funds and private equity funds where the Company, through its subsidiaries, is general partner, certain distressed municipal securities, and auction rate securities.



### ***Legal and Regulatory Reserves***

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters where available information indicates that it is probable a liability had been incurred at the date of the consolidated financial statements and the Company can reasonably estimate the amount of that loss. When loss contingencies are not probable and cannot be reasonably estimated, the Company does not establish reserves.

When determining whether to record a reserve, management considers many factors including, but not limited to, the amount of the claim; the stage and forum of the proceeding, the sophistication of the claimant, the amount of the loss, if any, in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and applicable legal precedents and case law. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded in the results of that period. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal or regulatory proceeding could be greater or less than the reserve amount.

### ***Goodwill***

The Company defines a reporting unit as an operating segment. The Company's goodwill resides in its Private Client Division ("PCD") reporting unit. Goodwill of a reporting unit is subject to at least an annual test for impairment to determine if the estimated fair value of a reporting unit is less than its carrying amount. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the volatility in the financial services sector and equity markets in general, determining whether an impairment of goodwill has occurred is increasingly difficult and requires management to exercise significant judgment. The Company's interim goodwill impairment analysis performed at August 31, 2016 and annual goodwill impairment analysis performed at December 31, 2016 applied the same valuation methodologies with consistent inputs as that performed at December 31, 2015, as follows:

In estimating the fair value of the PCD reporting unit, the Company uses traditional standard valuation methods, including the market comparable approach and income approach. The market comparable approach is based on comparisons of the subject company to public companies whose stocks are actively traded ("Price Multiples") or to similar companies engaged in an actual merger or acquisition ("Precedent Transactions"). As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return ("Discounted Cash Flow" or "DCF"). Each of these standard valuation methodologies requires the use of management estimates and assumptions.

In its Price Multiples valuation analysis, the Company uses various operating metrics of comparable companies, including revenues, after-tax earnings, EBITDA as well as price-to-book value ratios at a point in time. The Company analyzes prices paid in Precedent Transactions that are comparable to the business conducted in the PCD. The DCF analysis includes the Company's assumptions regarding discount rate, growth rates of the PCD's revenues, expenses, EBITDA, and capital expenditures, adjusted for current economic conditions and expectations. The Company weighs each of the three valuation methods equally in its overall valuation. Given the subjectivity involved in selecting which valuation method to use, the corresponding weightings, and the input variables for use in the analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of the PCD reporting unit.

At each interim and annual goodwill impairment testing date, the PCD reporting unit had a fair value that was substantially in excess of its carrying value. See Note 18 to the consolidated financial statements appearing in Item 8 for further discussion.

### ***Intangible Assets***

Indefinite intangible assets are comprised of trademarks and trade names. Trademarks and trade names, carried at \$31.7 million, which are not amortized, are subject to at least an annual test for impairment to determine if the estimated fair value is less than their carrying amount. The fair value of the trademarks and trade names was substantially in excess of its carrying value at December 31, 2016. See Note 18 to the consolidated financial statements appearing in Item 8 for further discussion.

### ***Income Taxes***

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations.

The Company records uncertain tax positions in accordance with the FASB Accounting Standards Codification ("ASC") 740 on the basis of a two-step process whereby it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and, for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company records interest and penalties accruing on unrecognized tax benefits in income (loss) before income taxes as interest expense and other expense, respectively, in its consolidated statement of operations.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated.

### **New Accounting Pronouncements**

Recently adopted and recently issued accounting pronouncements are described in Note 2 to the consolidated financial statements appearing in Item 8.

### **Business Environment**

The securities industry is directly affected by general economic and market conditions, including fluctuations in volume and price levels of securities and changes in interest rates, inflation, political events, investor confidence, investor participation levels, legal and regulatory, accounting, tax and compliance requirements and competition, all of which have an impact on commissions, firm trading, fees from accounts under investment management as well as fees for investment banking services, and investment and interest income as well as on liquidity. Substantial fluctuations can occur in revenue and net income due to these and other factors.

For a number of years, the Company offered auction rate securities ("ARS") to its clients. A significant portion of the market in ARS 'failed' because, in the tight credit market in and subsequent to 2008, dealers were no longer willing or able to purchase the imbalance between supply and demand for ARS. These securities have auctions scheduled on either a 7, 28 or 35 day cycle. Clients of the Company own ARS in their individual accounts. The absence of a liquid market for these securities presents a significant problem to clients continuing to own ARS and, as a result, to the Company. It should be noted that this is a failure of liquidity and not a default. These securities in almost all cases have not failed to pay interest or principal when due. These securities are fully collateralized for the most part and, for the most part, remain good credits. The Company did not act as an auction agent for ARS.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS historically were categorized as Level 1 in the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula defined in their registration statements.

The Company has sought financing from a number of sources, with limited success, in order to try to find a means for all its clients to find liquidity from their ARS holdings. It seems likely that liquidity will ultimately come from issuer redemptions and tender offers which, to date, combined with purchases by the Company have reduced client holdings by approximately 96%. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients' ARS. See "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" appearing in Item 1A and "Factors Affecting 'Forward-Looking Statements'" herein.

The Company is focused on growing its private client and asset management businesses through strategic additions of experienced financial advisers in its existing branch system and employment of experienced money management personnel in its asset management business. In addition, the Company is committed to the improvement of its technology capability to support client service and the expansion of its capital markets capabilities while addressing the issue of managing its expenses.

## **Regulatory and Legal Environment**

The brokerage business is subject to regulation by, among others, the SEC, CFTC, NFA, MSRB and FINRA in the United States, the FCA in the United Kingdom, the JFSC in the Isle of Jersey, the SFC in Hong Kong, and various state securities regulators in the United States. In addition, Oppenheimer Israel (OPCO) Ltd. operates under the supervision of the Israeli Securities Authority. Past events surrounding corporate accounting and other activities leading to investor losses resulted in the enactment of the Sarbanes-Oxley Act and have caused increased regulation of public companies. The financial crisis of 2008-9 accelerated this trend. New regulations and new interpretations and enforcement of existing regulations have created increased costs of compliance and increased investment in systems and procedures to comply with these more complex and onerous requirements. The SEC and FINRA have increased their enforcement activities with an intent to bring more actions against firms and individuals with increased fines and sanctions for violations of existing rules as well as for conduct that stems from violations of new interpretations of existing rules. Certain legislators continue to publicly advocate that the SEC has not taken adequate enforcement action against firms and individuals. Various states are imposing their own regulations that make compliance more difficult and more expensive to monitor.

In July 2010, Congress enacted extensive legislation entitled the Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") in which it mandated that the SEC and other regulators conduct comprehensive studies and issue new regulations based on their findings to control the activities of financial institutions in order to protect the financial system, the investing public and consumers from issues and failures that occurred in the 2008-9 financial crisis. This effort has extensively impacted the regulation and practices of financial institutions including the Company. The changes have significantly reduced leverage available to financial institutions and increased transparency to regulators and investors of risks taken by such institutions. It continues to be impossible to predict the nature and impact of such rulemaking. In addition, new rules have been adopted to regulate and/or prohibit proprietary trading for certain deposit taking institutions, control the amount and timing of compensation to "highly paid" employees, create new regulations around financial transactions with retirement plans due to the adoption of a uniform fiduciary standard of care of broker-dealers and investment advisers providing personalized investment advice about securities to such plans, increase the disclosures provided to clients, and in some European jurisdictions create a tax on securities transactions. The Consumer Financial Protection Bureau has stated its intention to implement new rules affecting the interaction between financial institutions and consumers. It is too early to tell if other rules will become final and the impact of these proposed rules on the Company.

In April 2016, the U.S. Department of Labor ("DOL") finalized its definition of fiduciary under the Employee Retirement Income Security Act (ERISA) through the release of new rules and changes to interpretations of six prohibited transaction exemptions which together set a new standard for the treatment and effects of advice given to retirement investors. Under this new rule, investment advice given to an employee benefit plan or an individual retirement account (IRA) is considered fiduciary advice. As a result, financial service providers and advisers who provide investment advice will need to meet greater "conflict of interest" standards which is likely to limit commission-based compensation in favor of flat-fee compensation plans. The rules will also limit the ability to render advice which encourages the transfer of retirement assets from 401(k) and similar plans as well as pension plans to rollover IRA plans sponsored by financial service providers.

The DOL rules provide for a Best Interest Contract ("BIC") exemption, which would, under some circumstances, allow advisers to continue to receive commissions under a contract with a retirement investor. However, there is no exemption available for sophisticated investors and a financial institution's failure to maintain and comply with the required anti-conflict of interest policies and procedures will result in a loss of the relief afforded by the BIC exemption and potential legal and regulatory sanctions. Some industry participants have announced their intent to not adopt the BIC exemption and prohibit commission based activity with retirement accounts. The Company presently expects to continue such activity.

The new fiduciary standard definitions for investment advice were effective on June 7, 2016 but compliance with the new rules under most circumstances is postponed until April 10, 2017 and full compliance with the BIC and other exemptions is delayed until January 1, 2018. It appears increasingly likely that these effective dates will be extended.

Various sections of the Dodd-Frank Act and DOL rules are currently under review by the Trump administration. These rules are subject to proposed changes and/or elimination.

However, given the breadth of the new definitions and rules, some forms of compensation traditionally associated with the recruiting of financial advisers and the ability of financial advisers to have clients transfer their IRA and retirement accounts may be impacted prior to the dates set forth above. The rule may also have implications for long term incentive programs designed to reward financial advisers for increasing their business and their assets under management and administration. The Company is reviewing its business and operating models in light of these new rules as they are expected to bring significant structural and operational changes to the Company and are likely to have a negative impact on revenues derived from retirement accounts and the desirability of servicing such accounts except when they are participating in fixed fee based programs. Under the new rules, fiduciaries are subject to personal liability for losses resulting from a breach of their duties. On February 3, 2017, President Trump issued an Executive Memorandum to the Acting Secretary of Labor. This Memorandum instructs the DOL to examine the fiduciary rule for potential harm to investor retirement savings, disruptions to the retirement savings industry, and increased litigation costs which would be passed to retirement investors. If it finds appropriate reasons, the DOL is ordered to work on a proposal that either revises or rescinds the fiduciary rule in a manner which is consistent with the law.

The Presidential Memorandum described above was widely expected to result in a delay of the fiduciary rule. However, there is no guarantee that the Presidential Memorandum will result in a delay of the fiduciary rule's effective date of April 10, 2017.

Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (the "Volcker Rule") was published by the U.S. Federal Reserve Board as required by Dodd-Frank in 2011. The Volcker Rule is intended to restrict U.S. banks and other financial institutions that accept deposits from conducting proprietary trading activities, as well as investing in hedge funds and private equity funds for their own account. The intent of the Volcker Rule is to reduce risk to the capital of such institutions through reducing speculation and risk-taking with bank capital. The Volcker Rule became effective on July 21, 2015. There may be additional changes to the requirements of the Volcker Rule and it is impossible to determine the Volcker Rule's long term impact on market liquidity and on the liquidity of issued sovereign debt in Europe and Asia. The Company believes that the Volcker Rule will not directly affect its operations, but indirect effects cannot be predicted with any certainty. Additionally, the Federal Reserve in conjunction with other U.S. regulatory organizations has analyzed the U.S. financial system and the impact that might result from the failure of one or more "Strategically Important Financial Institutions" ("SIFI"). To date, less than 50 such institutions have been identified and will be made subject to special regulations including the requirement to create a plan for their orderly demise in the event of a failure. Oppenheimer has not been identified as a SIFI. There can be no assurance that this list will not grow to include more SIFI institutions. The identification process has not been completed and is subject to appeal by the affected institutions. Recently one SIFI has proposed voluntarily discontinuing significant portions of its business to be relieved of the SIFI designation. Another SIFI appealed its designation and was found by a court to have been incorrectly designated as a SIFI and had the designation removed. The government has proposed appealing this court decision. The Company has no reason to believe that it will be identified as a SIFI. But, this requirement may have broader implications for the capital markets as capital becomes less available in various markets and markets become increasingly volatile.

The adoption of rules under Basel II have resulted in a number of large international banks adopting new business models which has included the abandonment of a variety of securities related businesses deemed to present excessive risks and requiring substantial capital that was not justified by the related returns. In addition, the European Commission recently adopted several acts under the revised Markets in Financial Instruments Directive (known as Mifid II) that would prevent broker-dealers from "bundling" the cost of research together with trading commissions. The long term effects of these changes on the markets and on competition are impossible to predict.

In June 2016, in a referendum to consider the United Kingdom's continued participation in the European Common Market ("EC"), the United Kingdom voted in favor of withdrawing from the EC ("BREXIT"). As a result, the acting Prime Minister resigned in favor of a new government. The British government recently announced its determination to institute Rule 50 in the Spring of 2017 thereby beginning a two-year period during which Great Britain will define its status with the EC but, by all reported accounts, will leave the EC. Upon the announcement of the BREXIT vote, the British Pound currency was extensively impacted declining 14% immediately and followed by continued declines in the ensuing months due to the uncertainty over the impact of BREXIT. The Company has a London-based business and the ability for it to passport its employees into the EU, post-BREXIT is in considerable doubt. In addition, a number of its London-based employees do not hold British passports and

their continued employment in London is also in doubt. Given the lack of clarity on the ultimate impact of the BREXIT vote, the Company cannot determine what, if any, impact this change may make on its operations, both inside and outside the United Kingdom.

Recent revelations concerning the potential manipulation of LIBOR ("London Interbank Offered Rate") during the period from 2008-2010 make it likely that more regulation surrounding the fixing of interest rates on commercial bank loans and reference rates on derivatives can be expected. Similar investigations are underway with respect to the setting of foreign exchange rates over a broad time period and there is no way to predict the outcome of these investigations although recently enforcement has been instituted against a number of international banks as well as employees of such banks with sizable fines being assessed.

The rules and requirements that were created by the passage of the Patriot Act and the anti-money laundering regulations (AML) in the U.S. and similar laws in other countries that are related, have created significant costs of compliance and can be expected to continue to do so. FinCEN ("Financial Crimes Enforcement Network") has heightened their review of activities of broker-dealers where heretofore their focus had been on commercial banks. This increased focus is likely to lead to significantly higher levels of enforcement and higher fines and penalties on broker-dealers. Regulators have expanded their views of the requirements of the Patriot Act, as well as their views of the enforcement of the provisions of the Bank Secrecy Act ("BSA") and the Foreign Corrupt Practices Act ("FCPA") with respect to the amount of diligence and on-going monitoring required by financial institutions of both their foreign and domestic clients and their activities. As a result, the Company has increased staffing, made additional investments in its due diligence systems, upgraded its monitoring systems and significantly revised its AML policies and procedures. In May 2016, FinCEN's proposed rule on customer due diligence was finalized with an effective date of May 11, 2018.

Pursuant to FINRA Rule 3130, the chief executive officers ("CEOs") of regulated broker-dealers (including the CEO of Oppenheimer) are required to certify that their companies have processes in place to establish and test supervisory policies and procedures reasonably designed to achieve compliance with federal securities laws and regulations, including applicable regulations of self-regulatory organizations. The CEO of the Company is required to make such a certification on an annual basis and did so in March 2016.

In September 2015, FINRA released Regulatory Notice 15-33 which provides guidance on effective liquidity risk management strategies. Based on the guidelines, broker-dealers are expected to rigorously evaluate their liquidity needs related to both market wide stress and idiosyncratic stresses, devote sufficient resources to measuring risks applicable to its business and report the results of measurement to senior management. This would include a review for whether those risks might be based on historical events that have affected the firm or other firms and stresses that could occur but have not yet been observed. Additionally, based on the guidelines, every broker-dealer needs to consider developing contingency plans for addressing those risks so that the firm will have sufficient liquidity to operate after the stress occurs while continuing to protect all customer assets, conduct stress tests and other reviews to evaluate the effectiveness of the contingency plans, have a training plan for its staff and have tested processes on which it intends to rely if such stresses occur. The Company has reviewed these guidelines and has enhanced its liquidity risk management practices to better align with the guidance provided in Regulatory Notice 15-33.

### ***Other Regulatory Matters***

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "Order"). Pursuant to the Order, Oppenheimer was ordered to (i) cease and desist from committing or causing any violations of the relevant provisions of the federal securities laws; (ii) be censured; (iii) pay to the SEC \$10.0 million comprised of \$4.2 million in disgorgement, \$753,500 in prejudgment interest and \$5.1 million in civil penalties; and (iv) retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act of 1933.

Oppenheimer made a payment of \$5.0 million to the SEC on February 17, 2015 and agreed to make a second payment of \$5.0 million to the SEC before January 27, 2017 which payment was made to the SEC on January 26, 2017.

On February 19, 2015, the Board of Directors of the Company (the "Board") formed a Special Committee of the Board (the "Special Committee") in order to engage an independent law firm to conduct a review of Oppenheimer and OAM's broker-dealer and investment adviser compliance processes and related internal controls and governance processes and provide recommendations to the Special Committee. On February 19, 2015, the Special Committee agreed to engage an independent law firm to conduct the aforementioned review. On April 22, 2015, the Special Committee agreed to retain Kalorama Partners LLP to act as the independent law firm. In July 2015, the Company created a Compliance Committee made up of independent directors to oversee the Company's compliance with applicable rules and regulations. As part of its engagement of the

independent law firm, the Company agreed that the recommendations of the independent law firm be shared with the SEC. Moreover, Oppenheimer and OAM have agreed to adopt the recommendations made by the independent law firm. The Company has implemented a substantial number of recommendations made by the independent law firm. On December 15, 2016, the Company's agreement with the independent law firm expired by its terms. The Company is currently awaiting receipt of certain reports from the independent law firm.

Since early 2014, Oppenheimer has been responding to information requests from FINRA regarding the supervision of one of its former financial advisers who was indicted by the United States Attorney's Office for the District of New Jersey in March 2014 on allegations of insider trading. In August 2014, Oppenheimer received information requests from the SEC regarding supervision of the same financial adviser. A number of Oppenheimer employees have provided on-the-record testimony in connection with the SEC inquiry. Oppenheimer is continuing to cooperate with both the FINRA and SEC inquiries.

Since January 2016, Oppenheimer has been responding to information requests from FINRA regarding the purchase of Class A, B and C mutual fund shares by not-for-profit organizations and certain qualified retirement plans that were eligible in some cases for lower cost mutual fund alternative share classes. Oppenheimer is continuing to cooperate with FINRA in this inquiry.

In September 2016, Oppenheimer received a "Wells Notice" from FINRA regarding potential violations of (i) FINRA Rule 4530 for failing to make timely filings under certain sub-paragraphs of that Rule, (ii) FINRA Rules 1122 and 2010 for failure to timely file two U/4 amendments timely, (iii) FINRA Rules 3010 and 3110 for failing to maintain a supervisory system and written supervisory procedures reasonably designed to prevent the foregoing and (iv) FINRA Rule 2010 and 2110 for associated violations.

In November 2016, Oppenheimer entered into a settlement with FINRA regarding each of the issues in the preceding two paragraphs pursuant to which Oppenheimer, to settle all four issues, agreed to pay a fine of \$1.6 million and to pay restitution to eligible clients in an amount of approximately \$1.8 million.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2016, the Company purchased and holds (net of redemptions) approximately \$88.1 million in ARS from its clients. As of December 31, 2016, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. In addition, the Company is committed to purchase another \$26.0 million from clients through 2020 under legal settlements and awards.

The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

The Company's clients held at Oppenheimer approximately \$76.5 million of ARS at December 31, 2016 exclusive of amounts that 1) were owned by Qualified Institutional Buyers ("QIBs"), 2) were transferred to the Company after February 2008, 3) were purchased by clients after February 2008, or 4) were transferred from the Company to other securities firms after February 2008. See "Off-Balance Sheet Arrangements" herein for additional details.

### ***Other Matters***

The Company operates in all state jurisdictions in the United States and is thus subject to regulation and enforcement under the laws and regulations of each of these jurisdictions. The Company has been and expects that it will continue to be subject to investigations and some or all of these may result in enforcement proceedings as a result of its business conducted in the various states. In particular, many states have become more aggressive and have imposed larger fines in connection with state registration violations than was heretofore the case.

As part of its ongoing business, the Company records reserves for legal expenses, judgments, fines and/or awards attributable to litigation and regulatory matters. In connection therewith, the Company has maintained its legal reserves at levels it believes will resolve outstanding matters, but may increase or decrease such reserves as matters warrant. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably

estimable, the Company does not establish reserves. See "Legal Proceedings" herein and Note 16 to the consolidated financial statements appearing in Item 8.

### **Business Continuity**

The Company is committed to an on-going investment in its technology and communications infrastructure including extensive business continuity planning and investment. These costs are on-going and the Company believes that current and future costs will exceed historic levels due to business and regulatory requirements. The Company maintains a data center which is housed in a location different from its headquarters. The move to new headquarters in 2012 required additional outlays for business continuity purposes although considerable savings have begun to be realized by the availability of independent electric generating capacity for the entire building which will support the Company's infrastructure and occupancy. The Company continues to review the adequacy of its remote data center and anticipates that, over the next few years, it may make a determination to move the center to a more remote location than where it currently resides.

The fourth quarter of 2012 was impacted by Superstorm Sandy which occurred on October 29, 2012 causing the Company to vacate its two principal offices in downtown Manhattan and displaced 800 of the Company's employees including substantially all of its capital markets, operations and headquarters staff for in excess of 30 days. The Company continues to review both internally and with its landlords and vendors the infrastructure necessary to withstand a similar event in light of the issues that arose in the fall of 2012.

### **Cybersecurity**

The Company has been focused for many years on the issues of maintaining the security of its clients' data, access to its data processing environment, and its data processing facilities. Recent examples of vulnerabilities by other companies and the government which have resulted in loss of client data and fraudulent activities by both domestic and foreign entities have caused the Company to review its security policies and procedures and to take additional actions to protect its network and its information. Such threats are ongoing. Given the importance of protection of client data, there has developed increased regulatory oversight of cybersecurity planning and protections have been put in place by broker-dealers and other financial service providers. This planning is subject to oversight and examination on a periodic or targeted basis by the SEC and FINRA. The Company continues to adopt procedures to address the risks posed by the current environment. The Company has significantly increased the resources dedicated to this effort and believes that further increases will be required in the future, as the sophistication and persistency of such attacks increase.

### **Outlook**

The Company recognizes the increased focus on compliance with the regulatory requirements of our industry, and we must continue to perform a rigorous and ongoing assessment of our compliance and risk management efforts, invest in people and programs, all while continuing to provide a platform with first class investment ideas and services. The Company is committed to improving its technology capabilities to ensure compliance with industry regulations, support client service and expand its capital markets capabilities. The Company's long-term growth plan is to continue to expand existing offices by hiring experienced professionals as well as expand through the purchase of operating branch offices from other broker dealers or the opening of new branch offices in attractive locations, thus maximizing the potential of each office and the development of existing trading, investment banking, investment advisory and other activities. The Company is also reviewing its full service business model to determine the opportunities available for closely related business models in areas where competitors have shown some success. Equally important is the search for viable acquisition candidates. As opportunities are presented, it is the long-term intention of the Company to pursue growth by acquisition where a comfortable match can be found in terms of corporate goals and personnel at a price that would provide the Company's stockholders with incremental value. The Company may review potential acquisition opportunities, and will continue to focus its attention on the management of its existing business and has disposed and may continue, from time to time, to dispose of businesses that are no longer strategic to its business operations or which have limited opportunities for growth.

**Results of Operations**

The Company reported a net loss attributable to Oppenheimer Holdings Inc. of \$1.2 million or \$0.09 basic net loss per share for the year ended December 31, 2016 compared with net income of \$2.0 million or \$0.14 basic net income per share for the year ended December 31, 2015. Loss before income taxes from continuing operations for the year ended December 31, 2016 was \$21.9 million compared with a loss before income taxes from continuing operations of \$2.4 million for the year ended December 31, 2015. Net income from discontinued operations was \$10.1 million for the year ended December 31, 2016 compared with net income from discontinued operations of \$5.7 million for the year ended December 31, 2015. Revenue from continuing operations for the year ended December 31, 2016 was \$857.8 million, a decrease of 4.5% compared with revenue from continuing operations of \$897.8 million for the year ended December 31, 2015. Revenue from discontinued operations for the year ended December 31, 2016 was \$25.3 million compared with revenue from discontinued operations of \$30.6 million for the year ended December 31, 2015.

The following table sets forth the amount and percentage of the Company's revenue from each principal source for each of the following years ended December 31:

*Expressed in thousands)*

	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Commissions	\$ 377,317	44%	\$ 417,559	47%	\$ 469,829	48%
Advisory fees	269,119	31%	280,247	31%	281,680	28%
Investment banking	81,011	10%	102,540	11%	125,598	13%
Interest	47,649	6%	49,032	5%	47,505	5%
Principal transactions, net	20,481	2%	15,180	2%	27,515	3%
Other	62,202	7%	33,243	4%	29,008	3%
<b>Total revenue</b>	<b>\$ 857,779</b>	<b>100%</b>	<b>\$ 897,801</b>	<b>100%</b>	<b>\$ 981,135</b>	<b>100%</b>

The Company derives most of its revenue from the operations of its principal subsidiaries, Oppenheimer and OAM. Although maintained as separate entities, the operations of the Company's brokerage subsidiaries both in the U.S. and other countries are closely related because Oppenheimer acts as clearing broker in transactions initiated by these subsidiaries.



## Table of Contents

The following table and discussion summarizes the changes in the major revenue and expense categories for the past two years:

(Expressed in thousands)

	2016 versus 2015		2015 versus 2014	
	Amount Change	% Change	Amount Change	% Change
<b>Revenue</b>				
Commissions	\$ (40,242)	(9.6)	\$ (52,270)	(11.1)
Advisory fees	(11,128)	(4.0)	(1,433)	(0.5)
Investment banking	(21,529)	(21.0)	(23,058)	(18.4)
Interest	(1,383)	(2.8)	1,527	3.2
Principal transactions, net	5,301	34.9	(12,335)	(44.8)
Other	28,959	87.1	4,235	14.6
Total revenue	<u>(40,022)</u>	<u>(4.5)</u>	<u>(83,334)</u>	<u>(8.5)</u>
<b>Expenses</b>				
Compensation and related expenses	(26,110)	(4.3)	(43,576)	(6.7)
Communications and technology	3,841	5.8	(201)	(0.3)
Occupancy and equipment costs	(2,051)	(3.3)	171	0.3
Clearing and exchange fees	(896)	(3.4)	1,313	5.3
Interest	3,108	19.0	(627)	(3.7)
Other	1,550	1.3	(20,796)	(15.0)
Total expenses	<u>(20,558)</u>	<u>(2.3)</u>	<u>(63,716)</u>	<u>(6.6)</u>
Income (loss) before income taxes from continuing operations	(19,464)	801.6	(19,618)	*
Income taxes	(12,668)	*	(11,728)	(96.7)
<b>Net income (loss) from continuing operations</b>	<u>(6,796)</u>	<u>239.8</u>	<u>(7,890)</u>	<u>*</u>
<b>Discontinued operations</b>				
Income from discontinued operations	8,200	89.7	593	6.9
Income taxes	3,811	111.9	(634)	(15.7)
<b>Net income from discontinued operations</b>	<u>4,389</u>	<u>76.6</u>	<u>1,227</u>	<u>27.2</u>
<b>Net income</b>	(2,407)	*	(6,663)	(69.7)
Less net income attributable to noncontrolling interest, net of tax	716	76.5	201	27.3
<b>Net income (loss) attributable to Oppenheimer Holdings Inc.</b>	<u>\$ (3,123)</u>	<u>*</u>	<u>\$ (6,864)</u>	<u>(77.8)</u>

\* Not comparable

### Fiscal 2016 compared to Fiscal 2015

#### Revenue

Commission revenue was \$377.3 million for the year ended December 31, 2016, a decrease of 9.6% compared with \$417.6 million for the year ended December 31, 2015 due to reduced transaction volumes from retail and institutional investors as well as lower financial adviser headcount during the 2016 year.

Advisory fees were \$269.1 million for the year ended December 31, 2016, a decrease of 4.0% compared with \$280.2 million for the year ended December 31, 2015 due to decreases in advisory and incentive fees on traditional and alternative managed products.

Investment banking revenue was \$81.0 million for the year ended December 31, 2016, a decrease of 21.0% compared with \$102.5 million for the year ended December 31, 2015 due to lower fees from equities underwriting transactions during the 2016 year.

Interest revenue was \$47.6 million for the year ended December 31, 2016, a decrease of 2.8% compared with \$49.0 million in 2015.

Principal transactions revenue was \$20.5 million for the year ended December 31, 2016, an increase of 34.9% compared with \$15.2 million for the year ended December 31, 2015 due primarily to higher trading profits in equities and fixed income during the 2016 year.

Other revenue was \$62.2 million for the year ended December 31, 2016, an increase of 87.1% compared to \$33.2 million for the year ended December 31, 2015 due to increases in interest earned on FDIC-insured bank deposits, cash surrender value of Company-owned life insurance and nontaxable benefits received with respect to Company-owned life insurance during the 2016 year.

### ***Expenses***

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$584.7 million during the year ended December 31, 2016, a decrease of 4.3% compared with the year ended December 31, 2015. The decrease was due to lower salaries, production and incentive compensation expenses partially offset by higher share-based and deferred compensation expenses during the year ended December 31, 2016. Compensation and related expenses as a percentage of revenue was 68.2% during the year ended December 31, 2016 compared with 68.0% during the year ended December 31, 2015, reflecting the inelasticity of some forms of compensation spread over a lower revenue base for the year ended December 31, 2016.

Non-compensation expenses were \$295.0 million during the year ended December 31, 2016, an increase of 1.9% compared with \$289.4 million during for the year ended December 31, 2015 due primarily to elevated legal and compliance costs and increased communications and technology expenses during the year ended December 31, 2016.

The effective income tax rate from continuing operations for the year ended December 31, 2016 was 56.0% (benefit) compared with 16.7% for the year ended December 31, 2015. The effective income tax rate for the year ended December 31, 2016 was positively impacted by income tax provision to tax return true-ups and higher nontaxable benefits received with respect to Company-owned life insurance partially offset by the valuation allowance established on deferred tax assets related to net operating losses of a foreign subsidiary. The effective income tax rate for the year ended December 31, 2015 was negatively impacted by increases in provisions related to positions taken on state income tax returns as well as income tax provision to tax return true-ups that were recorded during the year.

### **Fiscal 2015 compared to Fiscal 2014**

#### ***Revenue***

Commission revenue was \$417.6 million for the year ended December 31, 2015, a decrease of 11.1% compared with \$469.8 million for the year ended December 31, 2014 due to a lower financial adviser headcount and reduced transaction volumes from retail investors during the 2015 year.

Advisory fees were \$280.2 million for the year ended December 31, 2015, a decrease of 0.5% compared with \$281.7 million for the year ended December 31, 2014.

Investment banking revenue was \$102.5 million for the year ended December 31, 2015, a decrease of 18.4% compared with \$125.6 million for the year ended December 31, 2014 due to decreases in equities underwriting fees and fees from mergers and acquisitions activity during the 2015 year.

Interest revenue was \$49.0 million for the year ended December 31, 2015, an increase of 3.2% compared with \$47.5 million in 2014.

Principal transactions revenue was \$15.2 million for the year ended December 31, 2015, a decrease of 44.8% compared with \$27.5 million for the year ended December 31, 2014 due to lower trading profits in equities and fixed income during the 2015 year.

Other revenue was \$33.2 million for the year ended December 31, 2015, an increase of 14.6% compared to \$29.0 million for the year ended December 31, 2014 primarily due to increases in interest earned on FDIC-insured bank deposits offset by decreases in the cash surrender value of Company-owned life insurance during the 2015 year.

**Expenses**

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$610.8 million during the year ended December 31, 2015, a decrease of 6.7% compared with the year ended December 31, 2014. The decrease was due to lower production, incentive, share-based, and deferred compensation expenses during the year ended December 31, 2015. Compensation and related expenses as a percentage of revenue was 68.0% during the year ended December 31, 2015 compared with 66.7% during the year ended December 31, 2014, reflecting the inelasticity of some forms of incentive compensation spread over a lower revenue base for the year ended December 31, 2015.

Non-compensation expenses were \$289.4 million during the year ended December 31, 2015, a decrease of 6.5% compared with \$309.5 million during the year ended December 31, 2014 as lower legal and regulatory costs were offset by higher professional and consulting fees and clearing charges during the year ended December 31, 2015.

The effective income tax rate from continuing operations for the year ended December 31, 2015 was 16.7% compared with 70.6% for the year ended December 31, 2014. The effective income tax rate from continuing operations for the year ended December 31, 2015 was negatively impacted by increases in provisions related to positions taken on state income tax returns as well as income tax provision to tax return true-ups that were recorded during the year.

The table below presents information about the reported revenue and income (loss) before income taxes from continuing operations of the Company's reportable business segments for the years ended December 31, 2016 and 2015:

*(Expressed in thousands)*

	For the Year Ended December 31,		
	2016	2015	% Change
<b>Revenue</b>			
Private Client	\$ 504,192	\$ 521,526	(3.3)
Asset Management	92,852	97,121	(4.4)
Capital Markets	254,933	279,589	(8.8)
Corporate/Other	5,802	(435)	*
	<u>857,779</u>	<u>897,801</u>	<u>(4.5)</u>
<b>Income (Loss) before income taxes</b>			
Private Client	66,072	59,016	12.0
Asset Management	31,412	33,133	(5.2)
Capital Markets	(17,713)	5,167	*
Corporate/Other	(101,663)	(99,744)	1.9
	<u>\$ (21,892)</u>	<u>\$ (2,428)</u>	<u>801.6</u>

\* Not comparable

**Private Client**

Private Client reported revenue of \$504.2 million for the year ended December 31, 2016, 3.3% lower than the year ended December 31, 2015, due to lower levels of transaction-based business, a lower financial adviser headcount, and decreased advisory fee revenues partially offset by an increase in interest earned on FDIC-insured bank deposits during the year ended December 31, 2016. Income before income taxes was \$66.1 million for the year ended December 31, 2016, an increase of 12.0% compared with the year ended December 31, 2015 due to lower salaries, production-related, and incentive compensation costs as well as lower legal and regulatory costs partially offset by higher share-based and deferred compensation costs during the year ended December 31, 2016.

- Retail commissions were \$220.9 million for the year ended December 31, 2016, a decrease of 10.4% from the year ended December 31, 2015.
- Advisory fee revenue on traditional and alternative managed products was \$181.0 million for the year ended December 31, 2016, a decrease of 4.0% from the year ended December 31, 2015.
- Interest earned on FDIC-insured bank deposits was \$36.4 million for the year ended December 31, 2016 versus \$12.3 million for the year ended December 31, 2015 due to higher short-term interest as well as to the discontinued offering

of retail money market funds to clients and the transfer of these balances into the FDIC-insured bank deposit program during the second quarter of 2015. There were no money market fee waivers for the year ended December 31, 2016 compared with waivers of \$6.3 million for the year ended December 31, 2015.

### **Asset Management**

Asset Management reported revenue of \$92.9 million for the year ended December 31, 2016, 4.4% lower than the year ended December 31, 2015 due to decreases in advisory fees on traditional managed products. Income before income taxes was \$31.4 million for the year ended December 31, 2016, a decrease of 5.2% compared with the year ended December 31, 2015.

- Advisory fee revenue on traditional and alternative managed products was \$88.2 million for the year ended December 31, 2016, a decrease of 3.8% from the year ended December 31, 2015.
- AUM increased 2.9% to \$24.8 billion at December 31, 2016, compared with \$24.1 billion at December 31, 2015, which is the basis for advisory fee billings for the first quarter of 2017. The increase in AUM was comprised of asset appreciation of \$0.9 billion and net redemption of assets of \$0.2 billion.

The following table provides a breakdown of the change in assets under management for the year ended December 31, 2016:

*(Expressed in millions)*

Fund Type	For the Year Ended December 31, 2016				
	Beginning Balance	Contributions	Redemptions	Appreciation (Depreciation)	Ending Balance
Traditional <sup>(1)</sup>	\$ 20,129	\$ 2,339	\$ (2,402)	\$ 886	\$ 20,952
Institutional Fixed Income <sup>(2)</sup>	1,198	56	(99)	137	1,292
Alternative Investments:					
Hedge funds <sup>(3)</sup>	2,515	216	(340)	(47)	2,344
Private Equity Funds <sup>(4)</sup>	268			(82)	186
	<u>\$ 24,110</u>	<u>\$ 2,611</u>	<u>\$ (2,841)</u>	<u>\$ 894</u>	<u>\$ 24,774</u>

- (1) Traditional investments include third party advisory programs, Oppenheimer financial adviser managed and advisory programs, and Oppenheimer Asset Management taxable and tax-exempt portfolio management strategies.
- (2) Institutional fixed income provides solutions to institutional investors including: Taft-Hartley Funds, Public Pension Funds, Corporate Pension Funds, and Foundations and Endowments.
- (3) Hedge funds represent single manager hedge fund strategies in areas including hedged equity, technology and financial services, and multi-manager and multi-strategy fund of funds.
- (4) Private equity funds represent private equity fund of funds including portfolios focused on natural resources and related assets.

### **Capital Markets**

Capital Markets reported revenue of \$254.9 million for the year ended December 31, 2016, 8.8% lower than the year ended December 31, 2015 due to lower institutional commissions, fees from equities underwriting transactions, and fees from mergers and acquisitions activity partially offset by higher fees from debt capital market transactions during the fourth quarter of 2016. Loss before income taxes was \$17.7 million for the year ended December 31, 2016 compared with income before income taxes of \$5.2 million for the year ended December 31, 2015.

- Institutional equities commissions decreased 7.6% to \$107.1 million for the year ended December 31, 2016 compared with the year ended December 31, 2015.
- Advisory fees earned from investment banking activities decreased 1.7% to \$41.0 million for the year ended December 31, 2016 compared with the year ended December 31, 2015 due to a decrease in mergers and acquisitions activity during the year ended December 31, 2016.
- Equities underwriting fees decreased 61.6% to \$13.6 million for the year ended December 31, 2016 compared with the year ended December 31, 2015 due to lower capital raising activity during the fourth quarter of 2016.
- Revenue from Taxable Fixed Income increased 8.3% to \$70.7 million for the year ended December 31, 2016 compared with the year ended December 31, 2015.

- Public Finance and Municipal Trading revenue decreased 21.5% to \$17.2 million for the year ended December 31, 2016 compared with the year ended December 31, 2015.

## **Liquidity and Capital Resources**

At December 31, 2016, total assets decreased by 17.1% from December 31, 2015. The Company satisfies its need for short-term financing from internally generated funds and collateralized and uncollateralized borrowings, consisting primarily of bank call loans, stock loans, uncommitted lines of credit, and warehouse facilities. The Company finances its trading in government securities through the use of securities sold under agreements to repurchase ("repurchase agreements"). The Company's longer-term capital needs are met through the issuance of the Notes (see "Refinancing" below). The amount of Oppenheimer's bank borrowings fluctuates in response to changes in the level of the Company's securities inventories and customer margin debt, changes in notes receivable from employees, investment in furniture, equipment and leasehold improvements, and changes in stock loan balances and financing through repurchase agreements. Oppenheimer has arrangements with banks for borrowings on a fully-collateralized basis. At December 31, 2016, the Company had \$145.8 million of such borrowings outstanding compared to outstanding borrowings of \$100.2 million at December 31, 2015. The Company also has some availability of short-term bank financing on an unsecured basis.

Volatility in the financial markets and ongoing concerns about the speed and degree of economic recovery has had an adverse effect on the availability of credit through traditional sources. As a result of concerns around financial markets generally and the strength of counterparties specifically, lenders have reduced and, in some cases, ceased to provide funding on both a secured and unsecured basis to financial service providers.

As discussed in Note 3 to the consolidated financial statements appearing in Item 8, "Discontinued operations", the Company sold substantially all of the assets of its Commercial Mortgage Banking business which operates out of its OMHHF subsidiary for cash consideration of approximately \$45.0 million. Under the indenture for the Senior Secured Notes, OMHHF is a restricted subsidiary and the Company has pledged its equity interests in OMHHF as collateral for the Notes. Net proceeds received by the Company and restricted subsidiaries from asset sales must either be used within twelve months from the date of June 2, 2016 to make an offer to repurchase the Notes or to make an investment in Replacement Assets, as defined in the indenture or, if any such proceeds are not so applied, and the total thereof is at least \$15.0 million, the Company must offer to purchase Notes at par with an aggregate principal amount equal to the amount of such proceeds.

The Company's overseas subsidiaries, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited, are subject to local regulatory capital requirements which restrict the Company's ability to utilize this capital for other purposes. The regulatory capital requirements for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited were \$4.2 million and \$387,000, respectively, at December 31, 2016. See Note 17 to the consolidated financial statements appearing in Item 8 for further details. The liquid assets at Oppenheimer Europe Ltd. are primarily comprised of cash deposits in bank accounts. The liquid assets at Oppenheimer Investments Asia Limited are primarily comprised of investments in U.S. Treasuries and cash deposits in bank accounts. Any restrictions on transfer of these liquid assets from Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited to the Company or its other subsidiaries would be limited by the regulatory capital requirements.

The Company permanently reinvests eligible earnings of its foreign subsidiaries in such subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if these earnings were repatriated. The unrecognized deferred tax liability associated with earnings of foreign subsidiaries, net of associated U.S. foreign tax credits, is estimated at \$2.3 million for those subsidiaries with respect to which the Company would be subject to residual U.S. tax on cumulative earnings through 2016 were those earnings to be repatriated. See Note 14 to the consolidated financial statements appearing in Item 8. The Company intends to continue to reinvest permanently the excess earnings of Oppenheimer Israel (OPCO) Ltd. in its own business and in the businesses in Europe and Asia to support business initiatives in those regions.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings concerning Oppenheimer's marketing and sale of ARS. Pursuant to those settlements and legal settlements and awards, the Company has purchased and will, subject to the terms and conditions of the settlements, continue to purchase ARS on a periodic basis. The ultimate amount of ARS to be repurchased by the Company cannot be predicted with any certainty and will be impacted by redemptions by issuers and legal and other actions by clients during the relevant period which cannot be predicted. See "Off-Balance Sheet Arrangements" herein.

Additional settlements of regulatory matters could have an adverse effect on the Company's liquidity depending on the size and composition of any such settlement.

### ***Refinancing***

On April 12, 2011, the Company completed the private placement of \$200.0 million in aggregate principal amount of 8.75% Senior Secured Notes due April 15, 2018 (the "Notes") at par. Interest on the Notes is payable semi-annually on April 15th and October 15th. On April 15, 2014, the Company retired early a total of \$50.0 million (25%) of the Notes. Upon completion of the redemption and retirement on April 15, 2014, \$150.0 million aggregate principal amount of the Notes remains outstanding. See Note 11 to the consolidated financial statements appearing in Item 8 for further discussion. The Company intends at appropriate times to continue to redeem outstanding Notes if and when funds become available for this purpose.

On July 5, 2016, S&P affirmed the Company's 'B' Corporate Family rating and 'B' rating on the Notes and revised its outlook to positive from stable. On December 12, 2016, Moody's Corporation affirmed the Company's 'B2' Corporate Family rating and 'B2' rating on the Notes and affirmed its positive outlook.

### ***Liquidity***

For the most part, the Company's assets consist of cash and cash equivalents and assets which can be readily converted into cash. Receivable from brokers, dealers and clearing organizations represents deposits for securities borrowed transactions, margin deposits or current transactions awaiting settlement. Receivable from customers represents margin balances and amounts due on transactions awaiting settlement. The Company's receivables are, for the most part, collateralized by marketable securities. The Company's collateral maintenance policies and procedures are designed to limit the Company's exposure to credit risk. Securities owned, with the exception of the ARS, are mainly comprised of actively trading, readily marketable securities. The Company advanced \$11.5 million in forgivable notes to employees (which are inherently illiquid) for the year ended December 31, 2016 (\$13.8 million for the year ended December 31, 2015) as upfront or backend inducements. The amount of funds allocated to such inducements will vary with hiring activity.

The Company satisfies its need for short-term liquidity from internally generated funds, collateralized and uncollateralized bank borrowings, stock loans and repurchase agreements and warehouse facilities. Bank borrowings are collateralized by firm and customer securities.

The Company does not repatriate the earnings of its foreign subsidiaries. Foreign earnings are permanently reinvested for the use of the foreign subsidiaries and therefore these foreign earnings are not available to satisfy the domestic liquidity requirements of the Company.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates not exceeding the broker call rate. At December 31, 2016, bank call loans were \$145.8 million (\$100.2 million at December 31, 2015). The average daily bank loan outstanding for the year ended December 31, 2016 was \$106.5 million (\$116.3 million for the year ended December 31, 2015). The largest daily bank loan outstanding for the year ended December 31, 2016 was \$229.2 million (\$246.9 million for the year ended December 31, 2015). The average weighted interest rate on bank call loans applicable on December 31, 2016 was 1.77%.

At December 31, 2016, securities loan balances totaled \$179.9 million (\$130.7 million at December 31, 2015). The average daily securities loan balance for the year ended December 31, 2016 was \$167.7 million (\$177.9 million for the year ended December 31, 2015). The largest daily stock loan balance for the year ended December 31, 2016 was \$241.7 million (\$244.2 million for the year ended December 31, 2015).

The Company finances its government trading operations through the use of securities purchased under agreements to resell ("reverse repurchase agreements") and repurchase agreements. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets

and liabilities. At December 31, 2016, the fair value of the reverse repurchase agreements and repurchase agreements for which the fair value option was elected were \$24.0 million and \$nil, respectively.

At December 31, 2016, the gross balances of reverse repurchase agreements and repurchase agreements were \$24.0 million and \$378.1 million, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the year ended December 31, 2016 was \$351.9 million and \$845.6 million, respectively (\$373.5 million and \$870.3 million, respectively, for the year ended December 31, 2015). The largest amount of reverse repurchase agreements and repurchase agreements outstanding on a gross basis during the year ended December 31, 2016 was \$920.3 million and \$1.5 billion, respectively (\$836.5 million and \$1.4 billion, respectively, for the year ended December 31, 2015).

At December 31, 2016, the gross leverage ratio was 4.4.

OMHHF, which was historically engaged in commercial mortgage origination and servicing, had an uncommitted warehouse facility line through PNC under which OMHHF pledges FHA-guaranteed mortgages for a period averaging 15 business days and PNC table funds the principal payment to the mortgagee. At December 31, 2016, OMHHF did not have an outstanding balance under the warehouse facility line.

### ***Liquidity Management***

The Company manages its need for liquidity on a daily basis to ensure compliance with regulatory requirements. The Company's liquidity needs may be affected by market conditions, increased inventory positions, business expansion and other unanticipated occurrences. In the event that existing financial resources do not satisfy the Company's needs, the Company may have to seek additional external financing. The availability of such additional external financing may depend on market factors outside the Company's control.

The Company regularly reviews its sources of liquidity and financing and conducts internal stress analysis to determine the impact on the Company of events that could remove sources of liquidity or financing and to plan actions the Company could take in the case of such an eventuality. The Company's reviews have resulted in plans that the Company believes would result in a reduction of assets through liquidation that would significantly reduce the Company's need for external financing.

### **Funding Risk**

*(Expressed in thousands)*

	For the Year Ended December 31,	
	2016	2015
Cash used in operating activities	\$ (67,466)	\$ (20,819)
Cash provided by (used in) investing activities	39,717	(5,889)
Cash provided by financing activities	29,298	26,265
Net increase (decrease) in cash and cash equivalents	\$ 1,549	\$ (443)

Management believes that funds from operations, combined with the Company's capital base and available credit facilities, are sufficient for the Company's liquidity needs in the foreseeable future. Changes in capital requirements under international standards that will impact the costs and relative returns on loans may cause banks including those with whom the Company relies to back away from providing funding to the securities industry. Such a development might impact the Company's ability to finance its day to day activities or increase the costs to acquire funding. The Company may or may not be able to pass such increased funding costs on to its clients. (See "Factors Affecting 'Forward-Looking Statements'".)

## **Other Matters**

During the fourth quarter of 2016, the Company purchased and canceled 7,344 shares of Class A Stock for a total consideration of \$103,000 pursuant to its share repurchase program.

On November 25, 2016, the Company paid cash dividends of \$0.11 per share of Class A and Class B Stock totaling approximately \$1.5 million from available cash on hand.

On February 24, 2017, the Company paid cash dividends of \$0.11 per share of Class A and Class B Stock totaling approximately \$1.5 million from available cash on hand.

The book value of the Company's Class A and Class B Stock was \$38.22 at December 31, 2016 compared to \$38.84 at December 31, 2015, based on total outstanding shares of 13,360,760 and 13,338,166, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the year ended December 31, 2016 was 13,368,768 compared to 13,640,610 outstanding on December 31, 2015.

## **Off-Balance Sheet Arrangements**

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of December 31, 2016, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2016, the Company purchased and holds (net of redemptions) approximately \$88.1 million in ARS from its clients. In addition, the Company is committed to purchase another \$26.0 million in ARS from clients through 2020 under legal settlements and awards.

The Company's purchases of ARS from its clients holding ARS eligible for repurchase will, subject to the terms and conditions of the settlements with the Regulators, continue on a periodic basis. Pursuant to these terms and conditions, the Company is required to conduct a financial review every six months, until the Company has extended Purchase Offers to all Eligible Investors (as defined), to determine whether it has funds available, after giving effect to the financial and regulatory capital constraints applicable to the Company, to extend additional Purchase Offers. The financial review is based on the Company's operating results, regulatory net capital, liquidity, and other ARS purchase commitments outstanding under legal settlements and awards (described below). There are no predetermined quantitative thresholds or formulas used for determining the final agreed upon amount for the Purchase Offers. Upon completion of the financial review, the Company first meets with its primary regulator, FINRA, and then with representatives of the NYAG and other regulators to present the results of the review and to finalize the amount of the next Purchase Offer. Various offer scenarios are discussed in terms of which Eligible Investors should receive a Purchase Offer. The primary criteria to date in terms of determining which Eligible Investors should receive a Purchase Offer has been the amount of household account equity each Eligible Investor had with the Company in February 2008. Once various Purchase Offer scenarios have been discussed, the regulators, not the Company, make the final determination of which Purchase Offer scenario to implement. The terms of settlements provide that the amount of ARS to be purchased during any period shall not risk placing the Company in violation of regulatory requirements.

Outside of the settlements with the Regulators, the Company has also reached various legal settlements with clients and received unfavorable legal awards requiring it to purchase ARS. The terms and conditions including the ARS amounts committed to be purchased under legal settlements are based on the specific facts and circumstances of each legal proceeding. In most instances, the purchase commitments are in increments and extend over a period of time. At December 31, 2016, no ARS purchase commitments related to legal settlements extended past 2020. To the extent the Company receives an unfavorable award, the Company usually must purchase the ARS provided for by the award within 30 days of the rendering of the award. The ultimate amount of ARS to be repurchased by the Company under both the settlements with the Regulators and the legal settlements and awards cannot be predicted with any certainty and will be impacted by redemptions by issuers, the Company's financial and regulatory constraints, and legal and other actions by clients during the relevant period, which also cannot be predicted.



The ARS positions that the Company owns and are committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans. At December 31, 2016, the amount of ARS held by the Company that was below investment grade was \$225,000 and the amount of ARS that was unrated was \$25,000.

*(Expressed in thousands)*

Auction Rate Securities Owned and Committed to Purchase at December 31, 2016

Product	Principal	Valuation Adjustment	Fair Value
Auction Rate Securities ("ARS") Owned <sup>(1)</sup>	\$ 88,125	\$ 3,199	\$ 84,926
ARS Commitments to Purchase Pursuant to: <sup>(2)(3)</sup>			
Settlements with the Regulators <sup>(4)</sup>	5,000	209	4,791
Legal Settlements and Awards <sup>(5)</sup>	26,012	(413)	26,425
<b>Total</b>	<b>\$ 119,137</b>	<b>\$ 2,995</b>	<b>\$ 116,142</b>

- (1) Principal amount represents the par value of the ARS and is included in securities owned on the consolidated balance sheet at December 31, 2016. The valuation adjustment amount is included as a reduction to securities owned on the consolidated balance sheet at December 31, 2016.
- (2) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment is included in accounts payable and other liabilities on the consolidated balance sheet at December 31, 2016.
- (3) Specific ARS to be purchased under ARS Purchase Commitments are unknown until the beneficial owner selects the individual ARS to be purchased.
- (4) Commitments to purchase under settlements with the Regulators at December 31, 2016. Eligible Investors for future buybacks under the settlements with the Regulators held approximately \$33.4 million of ARS as of December 31, 2016.
- (5) Commitments to purchase under various legal settlements and awards with clients through 2020.

Per the above table, the Company has recorded a valuation adjustment on its ARS owned and ARS purchase commitments of \$3.0 million as of December 31, 2016. The valuation adjustment is comprised of \$3.2 million (unrealized loss) which represents the difference between the principal value and the fair value of the ARS the Company owns as of December 31, 2016 and \$204,000 (unrealized gain) which represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase under the settlements with the Regulators and legal settlements and awards. At December 31, 2016, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. Eligible Investors for future buybacks under the settlements with the Regulators held approximately \$33.4 million of ARS as of December 31, 2016. Since the Company was not committed to purchase this amount as of December 31, 2016, there were no valuation adjustments booked to recognize the difference between the principal value and the fair value for this remaining amount.

Additional information concerning the Company's off-balance sheet arrangements is included in Note 5 to the consolidated financial statements appearing in Item 8. Such information is hereby incorporated by reference. Also, see "Risk Factors – The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market," as well as Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Environment – Other Regulatory Matters and – Other Matters" for additional details.

**Contractual Obligations**

The following table sets forth the Company's contractual obligations as of December 31, 2016:

(Expressed in millions)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations <sup>(1)</sup>	\$ 263	\$ 41	\$ 73	\$ 49	\$ 100
Committed Capital <sup>(1)</sup>	1	1	—	—	—
Regulatory Settlements <sup>(1)</sup>	10	10	—	—	—
Senior Secured Notes <sup>(2)(3)</sup>	170	13	157	—	—
ARS Purchase Commitments <sup>(1)</sup>	26	—	20	6	—
Total	\$ 470	\$ 65	\$ 250	\$ 55	\$ 100

(1) See Note 16 to the consolidated financial statements appearing in Item 8 for additional information.

(2) See Note 11 to the consolidated financial statements appearing in Item 8 for additional information.

(3) Includes interest payable of \$19.7 million through maturity.

## Inflation

Because the assets of the Company's brokerage subsidiaries are highly liquid, and because securities inventories are carried at current market values, the impact of inflation generally is reflected in the financial statements. However, the rate of inflation affects the Company's costs relating to employee compensation, rent, communications and certain other operating costs, and such costs may not be recoverable in the level of commissions or fees charged. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect the Company's financial position and results of operations.

## Factors Affecting "Forward-Looking Statements"

From time to time, the Company may publish "Forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost and method of doing business and reduce returns, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, including fluctuating oil prices, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions and other participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry and the Company, including developments arising from the failure of the Auction Rate Securities markets, the trading of low-priced securities, stepped up enforcement efforts by the SEC, FinCEN and other regulators and the results of pending litigation and regulatory proceedings involving the Company, (x) changes in foreign, federal and state tax laws which could affect the popularity of products sold by the Company or impose taxes on securities transactions, (xi) the effectiveness of efforts to reduce costs and eliminate overlap, (xii) war and nuclear confrontation as well as political unrest and regime changes, health epidemics and economic crisis in foreign countries, (xiii) the Company's ability to achieve its business plan, (xiv) corporate governance issues, (xv) the impact of the credit crisis and tight credit markets on business operations, (xvi) the effect of bailout, financial reform and related legislation including, without limitation, the Dodd-Frank Act and the Volcker Rule and the rules and regulations thereunder, (xvii) the consolidation of the banking and financial services industry, (xviii) the effects of the economy on the Company's ability to find and maintain financing options and liquidity, (xix) credit, operations, legal and regulatory risks, (xx) risks related to foreign operations, including those in the United Kingdom which may be affected by BREXIT, (xxi) risks related to the downgrade of U.S. long-term sovereign debt obligations and the sovereign debt of European nations, (xxii) risks related to the manipulation of LIBOR and concerns over high speed trading, (xxiii) potential cyber security threats, (xxiv) risks related to the lowering by S&P of its rating on the Company and on the Notes, and (xxv) risks related to elections results, Congressional gridlock, government shutdowns and threats of default by the federal government. There can be no assurance that the Company has correctly or completely identified and assessed all of the factors affecting the Company's business. The Company does not undertake any obligation to publicly update or revise any forward-looking statements. See Item 1A – Risk Factors.

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Risk Management

The Company's principal business activities by their nature involve significant market, credit and other risks. The Company's effectiveness in managing these risks is critical to its success and stability.

As part of its normal business operations, the Company engages in the trading of both fixed income and equity securities in both a proprietary and market-making capacity. The Company makes markets in over-the-counter equities in order to facilitate order flow and accommodate its institutional and retail customers. The Company also makes markets in municipal bonds, mortgage-backed securities, government bonds and high yield bonds and short term fixed income securities and loans issued by various corporations.

*Market Risk.* Market risk generally means the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and currency exchange rates and in equity and commodity prices. Market risk is inherent in all types of financial instruments, including both derivatives and non-derivatives. The Company's exposure to market risk arises from its role as a financial intermediary for its customers' transactions and from its proprietary trading and arbitrage activities.

Oppenheimer monitors market risks through daily profit and loss statements and position reports. Each trading department adheres to internal position limits determined by senior management and regularly reviews the age and composition of its proprietary accounts. Positions and profits and losses for each trading department are reported to senior management on a daily basis.

In its market-making activities, Oppenheimer must provide liquidity in the equities for which it makes markets. As a result of this, Oppenheimer has risk containment policies in place, which limit position size and monitor transactions on a minute-to-minute basis.

*Credit Risk.* Credit risk represents the loss that the Company would incur if a client, counterparty or issuer of securities or other instruments held by the Company fails to perform its contractual obligations. Given the recent issues in the credit markets, there has been an increased focus in the industry about credit risk. The Company follows industry practice to reduce credit risk related to various investing and financing activities by obtaining and maintaining collateral wherever possible. The Company adjusts margin requirements if it believes the risk exposure is not appropriate based on market conditions. When Oppenheimer advances funds or securities to a counterparty in a principal transaction or to a customer in a brokered transaction, it is subject to the risk that the counterparty or customer will not repay such advances. If the market price of the securities purchased or loaned has declined or increased, respectively, Oppenheimer may be unable to recover some or all of the value of the amount advanced. A similar risk is also present where a customer is unable to respond to a margin call and the market price of the collateral has dropped. In addition, Oppenheimer's securities positions are subject to fluctuations in market value and liquidity.

In addition to monitoring the credit-worthiness of its customers, Oppenheimer imposes more conservative margin requirements than those of the NYSE. Generally, Oppenheimer limits customer loans to an amount not greater than 65% of the value of the securities (or 50% if the securities in the account are concentrated in a limited number of issues). Particular attention and more restrictive requirements are placed on more highly volatile securities traded in the NASDAQ market. In comparison, the NYSE permits loans of up to 75% of the value of the equity securities in a customer's account. Further discussion of credit risk appears in Note 6 to the Company's consolidated financial statements appearing in Item 8.

*Operational Risk.* Operational risk generally refers to the risk of loss resulting from the Company's operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in its operating systems, business disruptions and inadequacies or breaches in its internal control processes. The Company operates in diverse markets and it is reliant on the ability of its employees and systems to process high numbers of transactions often within short time frames. In the event of a breakdown or improper operation of systems, human error or improper action by employees, the Company could suffer financial loss, regulatory sanctions or damage to its reputation. In order to mitigate and control operational risk, the Company has developed and continues to enhance policies and procedures (including the maintenance of disaster recovery facilities and procedures related thereto) that are designed to identify and manage operational risk at appropriate levels. With respect to its trading activities, the Company has procedures designed to ensure that all transactions are accurately recorded and properly reflected on the Company's books on a timely basis. With respect to client activities, the Company operates a system of internal controls designed to ensure that transactions and other account activity (new account solicitation, transaction authorization, transaction processing, billing and collection) are properly approved, processed, recorded and reconciled. The Company has procedures designed to assess and monitor counterparty risk. For details of funding risk, see Item 7 under the caption "Liquidity and Capital Resources."

*Legal and Regulatory Risk.* Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements, client claims and the possibility of sizeable adverse legal judgments. The Company is subject to extensive regulation in the different jurisdictions in which it conducts its activities. Regulatory oversight of the securities industry has become increasingly intense over the past few years and the Company, as well as others in the industry, has been directly affected by this increased regulatory scrutiny. Timely and accurate compliance with the increased volume of regulatory requests has become increasingly problematic within the industry, and regulators have tended to bring enforcement proceedings in relation to such matters. See further discussion of these risks in Item 7 under the caption "Regulatory Environment."

The Company has comprehensive procedures for addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds and securities, granting of credit, collection activities, money laundering, and record keeping. The Company has designated Anti-Money Laundering Compliance Officers who monitor compliance with regulations under the U.S. Patriot Act. See further discussion of the Company's reserve policy in Item 7, under the captions "Critical Accounting Policies," Item 3, "Legal Proceedings" and Item 1, "Regulation."

*Off-Balance Sheet Arrangements.* In certain limited instances, the Company utilizes off-balance sheet arrangements to manage risk. See further discussion in Note 5 to the consolidated financial statements appearing in Item 8.

*Value-at-Risk.* Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. In response to the SEC's market risk disclosure requirements, the Company has performed a value-at-risk analysis of its trading of financial instruments and derivatives. The value-at-risk calculation uses standard statistical techniques to measure the potential loss in fair value based upon a one-day holding period and a 95% confidence level. The calculation is based upon a variance-covariance methodology, which assumes a normal distribution of changes in portfolio value. The forecasts of variances and co-variances used to construct the model for the market factors relevant to the portfolio were generated from historical data. Although value-at-risk models are sophisticated tools, their use can be limited as historical data is not always an accurate predictor of future conditions. The Company attempts to manage its market exposure using other methods, including trading authorization limits and concentration limits.

At December 31, 2016 and 2015, the Company's value-at-risk for each component of market risk was as follows:

*(Expressed in thousands)*

	VAR for Fiscal 2016			VAR for Fiscal 2015		
	High	Low	Average	High	Low	Average
Equity price risk	\$ 410	\$ 176	\$ 311	\$ 320	\$ 89	\$ 210
Interest rate risk	1,919	1,294	1,608	1,725	1,053	1,524
Commodity price risk	127	—	76	139	104	123
Diversification benefit	(1,017)	(1,243)	(1,110)	(1,321)	(880)	(1,149)
Total	\$ 1,439	\$ 227	\$ 885	\$ 863	\$ 366	\$ 708

*(Expressed in thousands)*

	VAR at December 31,	
	2016	2015
Equity price risk	\$ 410	\$ 320
Interest rate risk	1,705	1,053
Commodity price risk	90	104
Diversification benefit	(1,243)	(880)
Total	\$ 962	\$ 597

The potential future loss presented by the total value-at-risk generally falls within predetermined levels of loss that should not be material to the Company's results of operations, financial condition or cash flows. The changes in the value-at-risk amounts reported in 2016 from those reported in 2015 reflect changes in the size and composition of the Company's trading portfolio at December 31, 2016 compared to December 31, 2015. The Company's portfolio as of December 31, 2016 includes approximately \$14.3 million (\$14.0 million in 2015) in corporate equities, which are related to deferred compensation liabilities and which do not bear any value-at-risk to the Company. Further discussion of risk management appears in Item 7, "Management's Discussion and Analysis of Financial Condition and the Results of Operations" and Item 1A, "Risk Factors."

The value-at-risk estimate has limitations that should be considered in evaluating the Company's potential future losses based on the year-end portfolio positions. Recent market conditions, including increased volatility, may result in statistical relationships that result in higher value-at-risk than would be estimated from the same portfolio under different market conditions. Likewise, the converse may be true. Critical risk management strategy involves the active management of portfolio levels to reduce market risk. The Company's market risk exposure is continuously monitored as the portfolio risks and market conditions change.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<a href="#">Management's Report on Internal Control over Financial Reporting</a>	<a href="#">61</a>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">62</a>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">63</a>
<a href="#">Consolidated Balance Sheets as of December 31, 2016 and 2015</a>	<a href="#">64</a>
<a href="#">Consolidated Statements of Operations for the three years ended December 31, 2016, 2015 and 2014</a>	<a href="#">65</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2016, 2015 and 2014</a>	<a href="#">66</a>
<a href="#">Consolidated Statements of Changes in Stockholders' Equity for the three years ended December 31, 2016, 2015 and 2014</a>	<a href="#">67</a>
<a href="#">Consolidated Statements of Cash Flows for the three years ended December 31, 2016, 2015 and 2014</a>	<a href="#">68</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">69</a>

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Oppenheimer Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2016, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management has concluded that the Company's internal control over financial reporting as of December 31, 2016 was effective.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets and provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

The Company's internal control over financial reporting as of December 31, 2016 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Oppenheimer Holdings Inc.:

We have audited the internal control over financial reporting of Oppenheimer Holdings Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016 of the Company and our report dated March 3, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP  
New York, NY  
March 3, 2017



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Oppenheimer Holdings Inc.:

We have audited the accompanying consolidated balance sheets of Oppenheimer Holdings Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Oppenheimer Holdings Inc. and subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP  
New York, NY  
March 3, 2017

OPPENHEIMER HOLDINGS INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31,

<i>(Expressed in thousands, except number of shares and per share amounts)</i>	2016	2015 <sup>(1)</sup>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 64,913	\$ 63,364
Deposits with clearing organizations	38,185	49,490
Receivable from brokers, dealers and clearing organizations	214,934	365,791
Receivable from customers, net of allowance for credit losses of \$794 (\$2,545 in 2015)	847,386	840,355
Income tax receivable	5,816	12,231
Securities purchased under agreements to resell, at fair value	24,006	206,499
Securities owned, including amounts pledged of \$438,385 (\$546,334 in 2015), at fair value	707,108	734,831
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$24,826 and \$6,784, respectively (\$54,919 and \$8,444, respectively, in 2015)	30,099	32,849
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$84,073 (\$104,812 in 2015)	27,233	28,285
Assets held for sale	5,188	99,881
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Other assets	102,473	94,839
<b>Total assets</b>	<b>\$ 2,236,930</b>	<b>\$ 2,698,004</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$ 39,228	\$ 48,011
Bank call loans	145,800	100,200
Payable to brokers, dealers and clearing organizations	221,389	164,546
Payable to customers	449,946	594,833
Securities sold under agreements to repurchase	378,084	651,445
Securities sold but not yet purchased, at fair value	85,050	126,493
Liabilities held for sale	1,217	74,680
Accrued compensation	145,053	149,092
Accounts payable and other liabilities	95,340	108,637
Senior secured notes, net of debt issuance costs of \$648 (\$1,132 in 2015)	149,352	148,868
Deferred tax liabilities, net of deferred tax assets of \$59,062 (\$63,481 in 2015)	13,137	6,117
<b>Total liabilities</b>	<b>1,723,596</b>	<b>2,172,922</b>
Commitments and contingencies (Note 16)		
<b>Stockholders' equity</b>		
Share capital		
Class A non-voting common stock, par value \$0.001 per share, 50,000,000 shares authorized, 13,261,095 and 13,238,486 shares issued and outstanding as of December 31, 2016 and 2015, respectively	59,228	57,387
Class B voting common stock, par value \$0.001 per share, 99,665 and 99,680 shares authorized, issued and outstanding as of December 31, 2016 and 2015, respectively	133	133
	59,361	57,520
Contributed capital	41,765	44,438
Retained earnings	410,258	417,001
Accumulated other comprehensive loss	(681)	(901)
<b>Total Oppenheimer Holdings Inc. stockholders' equity</b>	<b>510,703</b>	<b>518,058</b>
Noncontrolling interest	2,631	7,024
<b>Total stockholders' equity</b>	<b>513,334</b>	<b>525,082</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,236,930</b>	<b>\$ 2,698,004</b>

(1) Amounts have been recast to reflect discontinued operations. See Note 3 for details.

The accompanying notes are an integral part of these consolidated financial statements.

OPPENHEIMER HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE YEARS ENDED DECEMBER 31,

<i>(Expressed in thousands, except number of shares and per share amounts)</i>	2016	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
<b>REVENUE</b>			
Commissions	\$ 377,317	\$ 417,559	\$ 469,829
Advisory fees	269,119	280,247	281,680
Investment banking	81,011	102,540	125,598
Interest	47,649	49,032	47,505
Principal transactions, net	20,481	15,180	27,515
Other	62,202	33,243	29,008
Total revenue	<u>857,779</u>	<u>897,801</u>	<u>981,135</u>
<b>EXPENSES</b>			
Compensation and related expenses	584,710	610,820	654,396
Communications and technology	70,390	66,549	66,750
Occupancy and equipment costs	60,791	62,842	62,671
Clearing and exchange fees	25,126	26,022	24,709
Interest	19,437	16,329	16,956
Other	119,217	117,667	138,463
Total expenses	<u>879,671</u>	<u>900,229</u>	<u>963,945</u>
Income (loss) before income taxes from continuing operations	(21,892)	(2,428)	17,190
Income taxes	(12,262)	406	12,134
<b>Net income (loss) from continuing operations</b>	<u>(9,630)</u>	<u>(2,834)</u>	<u>5,056</u>
<b>Discontinued operations</b>			
Income from discontinued operations	17,339	9,139	8,546
Income taxes	7,218	3,407	4,041
<b>Net income from discontinued operations</b>	<u>10,121</u>	<u>5,732</u>	<u>4,505</u>
<b>Net income</b>	491	2,898	9,561
Less net income attributable to noncontrolling interest, net of tax	1,652	936	735
<b>Net income (loss) attributable to Oppenheimer Holdings Inc.</b>	<u>\$ (1,161)</u>	<u>\$ 1,962</u>	<u>\$ 8,826</u>
<b>Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.</b>			
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.37
Discontinued operations	0.63	0.35	0.28
Net income (loss) per share	<u>\$ (0.09)</u>	<u>\$ 0.14</u>	<u>\$ 0.65</u>
<b>Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc.</b>			
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.36
Discontinued operations	0.63	0.35	0.26
Net income (loss) per share	<u>\$ (0.09)</u>	<u>\$ 0.14</u>	<u>\$ 0.62</u>
<b>Weighted average shares</b>			
Basic	13,368,768	13,640,610	13,604,258
Diluted	13,368,768	13,640,610	14,250,663

(1) Amounts have been recast to reflect discontinued operations. See Note 3 for details.

The accompanying notes are an integral part of these consolidated financial statements.

OPPENHEIMER HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE YEARS ENDED DECEMBER 31,

<i>(Expressed in thousands)</i>	2016	2015	2014
Net income	\$ 491	\$ 2,898	\$ 9,561
Other comprehensive income (loss), net of tax <sup>(1)</sup>			
Currency translation adjustment	220	17	(2,627)
Comprehensive income	711	2,915	6,934
Net income attributable to noncontrolling interests	1,652	936	735
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	<u>\$ (941)</u>	<u>\$ 1,979</u>	<u>\$ 6,199</u>

- (1) Total other comprehensive income (loss) is attributable to Oppenheimer Holdings Inc. No other comprehensive income (loss) is attributable to noncontrolling interests.

The accompanying notes are an integral part of these consolidated financial statements.

OPPENHEIMER HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE THREE YEARS ENDED DECEMBER 31,

<i>(Expressed in thousands)</i>	2016	2015	2014
<b>Share capital</b>			
Balance at beginning of year	\$ 57,520	\$ 62,397	\$ 60,198
Issuance of Class A non-voting common stock	5,776	3,373	2,199
Repurchase of Class A non-voting common stock for cancellation	(3,935)	(8,250)	—
Balance at end of year	<u>59,361</u>	<u>57,520</u>	<u>62,397</u>
<b>Contributed capital</b>			
Balance at beginning of year	44,438	45,118	42,407
Excess tax benefit (deficiency) from share-based awards	(740)	(277)	1,194
Share-based expense	5,184	4,653	5,694
Vested employee share plan awards	(7,117)	(5,056)	(4,177)
Balance at end of year	<u>41,765</u>	<u>44,438</u>	<u>45,118</u>
<b>Retained earnings</b>			
Balance at beginning of year	417,001	421,047	418,204
Net income (loss) attributable to Oppenheimer Holdings Inc.	(1,161)	1,962	8,826
Dividends paid (\$0.44 per share)	(5,887)	(6,008)	(5,983)
Dividends received from noncontrolling interest	305	—	—
Balance at end of year	<u>410,258</u>	<u>417,001</u>	<u>421,047</u>
<b>Accumulated other comprehensive income (loss)</b>			
Balance at beginning of year	(901)	(918)	1,709
Currency translation adjustment	220	17	(2,627)
Balance at end of year	<u>(681)</u>	<u>(901)</u>	<u>(918)</u>
<b>Total Oppenheimer Holdings Inc. stockholders' equity</b>	<u>510,703</u>	<u>518,058</u>	<u>527,644</u>
<b>Noncontrolling interest</b>			
Balance at beginning of year	7,024	6,088	5,353
Net income attributable to noncontrolling interest, net of tax	1,652	936	735
Dividends paid to noncontrolling interest	(5,740)	—	—
Dividends paid to parent	(305)	—	—
Balance at end of year	<u>2,631</u>	<u>7,024</u>	<u>6,088</u>
<b>Total stockholders' equity</b>	<u>\$ 513,334</u>	<u>\$ 525,082</u>	<u>\$ 533,732</u>

The accompanying notes are an integral part of these consolidated financial statements.

OPPENHEIMER HOLDINGS INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THREE YEARS ENDED DECEMBER 31,

<i>(Expressed in thousands)</i>	2016	2015	2014
<b>Cash flows from operating activities</b>			
Net income	\$ 491	\$ 2,898	\$ 9,561
Adjustments to reconcile net income to net cash provided by operating activities			
Payments for employee taxes withheld related to vested share-based awards	(1,341)	(1,683)	(2,074)
Non-cash items included in net income:			
Depreciation and amortization of furniture, equipment and leasehold improvements	6,788	7,188	7,748
Deferred income taxes	(2,941)	4,538	6,001
Amortization of notes receivable	12,960	12,708	16,043
Amortization of debt issuance costs	484	485	530
Write-off of debt issuance costs	—	—	588
Amortization of mortgage servicing rights	1,286	727	2,819
Provision for (reversal of) credit losses	(1,751)	118	4
Share-based compensation	6,203	2,860	6,074
Gain on sale of assets	(16,475)	—	—
Decrease (increase) in operating assets:			
Cash and securities segregated for regulatory and other purposes	—	18,594	17,729
Deposits with clearing organizations	11,305	(12,980)	(12,831)
Receivable from brokers, dealers and clearing organizations	145,882	(46,438)	50,398
Receivable from customers	(5,280)	23,716	4,676
Income tax receivable	5,104	(6,697)	2,322
Securities purchased under agreements to resell	182,493	45,107	(66,781)
Securities owned	24,725	107,762	12,933
Notes receivable	(10,210)	(10,625)	(10,224)
Loans held for sale	60,234	(40,991)	56,746
Mortgage servicing rights	(1,300)	1,245	(4,080)
Other assets	2,368	35	53,929
Increase (decrease) in operating liabilities:			
Drafts payable	(8,783)	12,638	(12,825)
Payable to brokers, dealers and clearing organizations	56,843	(92,615)	33,846
Payable to customers	(144,887)	(57,423)	25,692
Securities sold under agreements to repurchase	(273,361)	(35,995)	(70,051)
Securities sold but not yet purchased	(41,443)	33,983	16,196
Accrued compensation	(6,864)	(12,443)	(15,365)
Accounts payable and other liabilities	(69,996)	22,469	(51,289)
Cash (used in) provided by operating activities	(67,466)	(20,819)	78,315
<b>Cash flows from investing activities</b>			
Purchase of furniture, equipment and leasehold improvements	(5,731)	(5,889)	(4,398)
Proceeds from sale of assets	45,448	—	—
Cash provided by (used in) investing activities	39,717	(5,889)	(4,398)
<b>Cash flows from financing activities</b>			
Cash dividends paid on Class A non-voting and Class B voting common stock	(5,887)	(6,008)	(5,983)
Cash dividends paid to noncontrolling interest	(5,740)	—	—
Issuance of Class A non-voting common stock	—	—	185
Repurchase of Class A non-voting common stock for cancellation	(3,935)	(8,250)	—
Excess tax benefit (deficiency) from share-based awards	(740)	(277)	1,194
Redemption of senior secured notes	—	—	(45,000)
Increase (decrease) in bank call loans, net	45,600	40,800	(58,800)
Cash provided by (used in) financing activities	29,298	26,265	(108,404)
Net increase (decrease) in cash and cash equivalents	1,549	(443)	(34,487)
<b>Cash and cash equivalents, beginning of year</b>	63,364	63,807	98,294
<b>Cash and cash equivalents, end of year</b>	<u>\$ 64,913</u>	<u>\$ 63,364</u>	<u>\$ 63,807</u>
<b>Schedule of non-cash financing activities</b>			
Employee share plan issuance	\$ 5,776	\$ 3,373	\$ 2,014
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for interest	\$ 19,705	\$ 17,273	\$ 18,784
Cash (received) paid during the year for income taxes, net	\$ (5,009)	\$ 6,088	\$ 7,590

The accompanying notes are an integral part of these consolidated financial statements.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**1. Organization**

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of the State of Delaware. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the "Company"). The Company engages in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services, and investment advisory and asset management services.

The Company provides its services from 93 offices in 25 states located throughout the United States and in 5 foreign jurisdictions. The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker-dealer in securities and investment adviser under the Investment Advisers Act of 1940, Oppenheimer Asset Management Inc. ("OAM") and its wholly-owned subsidiary, Oppenheimer Investment Management LLC ("OIM"), both registered investment advisers under the Investment Advisers Act of 1940, Oppenheimer Trust Company of Delaware ("Oppenheimer Trust"), a limited purpose trust company that provides fiduciary services such as trust and estate administration and investment management, OPY Credit Corp., which offers syndication as well as trading of issued corporate loans, Oppenheimer Europe Ltd., based in the United Kingdom, with offices in the Isle of Jersey and Switzerland, which provides institutional equities and fixed income brokerage and corporate financial services and is regulated by the Financial Conduct Authority, and Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies, as well as offering fixed income brokerage services to institutional investors, and is regulated by the Securities and Futures Commission. Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHMF") was formerly engaged in Federal Housing Administration ("FHA")-insured commercial mortgage origination and servicing. During 2016, the Company sold substantially all of the assets of OMHMF and ceased its operations.

Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

**2. Summary of significant accounting policies**

***Basis of Presentation***

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Accounting standards require the Company to present noncontrolling interests as a separate component of stockholders' equity on the Company's consolidated balance sheet and statement of operations. As of December 31, 2016, the Company owned 83.68% of OMHMF and the noncontrolling interest recorded on the consolidated balance sheet was \$2.6 million.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods.

In presenting the consolidated financial statements, management makes estimates regarding valuations of financial instruments, loans and allowances for credit losses, the outcome of legal and regulatory matters, goodwill and other intangible assets, stock-based compensation plans, mortgage servicing rights, and income taxes. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be materially different from these estimates. A discussion of certain areas in which estimates are a significant component of the amounts reported on the consolidated financial statements follows.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

***Financial Instruments and Fair Value***

*Financial Instruments*

Securities owned, securities sold but not yet purchased, investments and derivative contracts are carried at fair value with changes in fair value recognized in earnings each period.

*Fair Value Measurements*

Accounting guidance for the fair value measurement of financial assets, which defines fair value, establishes a framework for measuring fair value, establishes a fair value measurement hierarchy, and expands fair value measurement disclosures. Fair value, as defined by the accounting guidance, is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by this accounting guidance prioritizes the inputs used in valuation techniques into the following three categories (highest to lowest priority):

- Level 1:** Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3:** Unobservable inputs that are significant to the overall fair value measurement.

The Company's financial instruments that are recorded at fair value generally are classified within Level 1 or Level 2 within the fair value hierarchy using quoted market prices or quotes from market makers or broker-dealers. Financial instruments classified within Level 1 are valued based on quoted market prices in active markets and consist of U.S. Treasury and Agency securities, corporate equities, and certain money market instruments. Level 2 financial instruments primarily consist of investment grade and high-yield corporate debt, convertible bonds, mortgage and asset-backed securities, and municipal obligations. Financial instruments classified as Level 2 are valued based on quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Some financial instruments are classified within Level 3 within the fair value hierarchy as observable pricing inputs are not available due to limited market activity for the asset or liability. Such financial instruments include certain distressed municipal securities, interest rate lock commitments where OMHHF entered into contractual commitments to originate (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates, and auction rate securities ("ARS").

*Fair Value Option*

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

***Consolidation***

The Company consolidates all subsidiaries in which it has a controlling financial interest, as well as any variable interest entities ("VIEs") where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE. The Company reviews factors, including the rights of the equity holders at risk and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the entity is a VIE. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly or indirectly by the Company. Accounting Standards Update ("ASU") No. 2010-10, "Amendments for Certain Investment Funds," defers the application of the revised consolidation rules for a reporting entity's interest in an entity if certain conditions are met. ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis," eliminates the deferral of the application of the revised consolidation rules and make changes to both the variable interest model and the voting model. Under this ASU, a general partner will not consolidate a partnership or similar entity under the voting interest model. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015. The adoption of this ASU impacted the disclosure of VIEs and did not have a material impact on the Company's consolidated financial statements. See Note 7, Variable interest entities.



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

***Financing Receivables***

The Company's financing receivables include customer margin loans, securities purchased under agreements to resell ("reverse repurchase agreements"), and securities borrowed transactions. The Company uses financing receivables to extend margin loans to customers, meet trade settlement requirements, and facilitate its matched-book arrangements and inventory requirements.

The Company's financing receivables are secured by collateral received from clients and counterparties. In many cases, the Company is permitted to sell or re-pledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending agreements, to cover short positions or fulfill the obligation of fails to deliver. The Company monitors the market value of the collateral received on a daily basis and may require clients and counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Customer receivables, primarily consisting of customer margin loans collateralized by customer-owned securities, are stated net of allowance for credit losses. The Company reviews large customer accounts that do not comply with the Company's margin requirements on a case-by-case basis to determine the likelihood of collection and records an allowance for credit loss following that process. For small customer accounts that do not comply with the Company's margin requirements, the allowance for credit loss is generally recorded as the amount of unsecured or partially secured receivables.

The Company also makes loans to financial advisers as part of its hiring process. These loans are recorded as notes receivable on its consolidated balance sheet. Allowances are established on these loans if the financial adviser is no longer associated with the Company and the loan has not been promptly repaid.

***Legal and Regulatory Reserves***

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters where available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. When loss contingencies are not probable and cannot be reasonably estimated, the Company does not establish reserves.

When determining whether to record a reserve, management considers many factors including, but not limited to, the amount of the claim; the stage and forum of the proceeding, the sophistication of the claimant, the amount of the loss, if any, in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and applicable legal precedents and case law. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded in the results of that period. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal or regulatory proceeding could be greater or less than the reserve amount.

***Goodwill***

The Company defines a reporting unit as an operating segment. The Company's goodwill resides in its Private Client Division ("PCD") reporting unit. Goodwill of a reporting unit is subject to at least an annual test for impairment to determine if the estimated fair value of a reporting unit is less than its carrying amount. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the volatility in the financial services sector and equity markets in general, determining whether an impairment of goodwill has occurred is increasingly difficult and requires management to exercise significant judgment. The Company's interim goodwill impairment analysis performed as of August 31, 2016 and its annual goodwill impairment analysis performed as of December 31, 2016 applied the same valuation methodologies with consistent inputs as that performed as of December 31, 2015, as follows:

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

In estimating the fair value of the PCD, the Company uses traditional standard valuation methods, including the market comparable approach and income approach. The market comparable approach is based on comparisons of the subject company to public companies whose stocks are actively traded ("Price Multiples") or to similar companies engaged in an actual merger or acquisition ("Precedent Transactions"). As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return ("Discounted Cash Flow" or "DCF"). Each of these standard valuation methodologies requires the use of management estimates and assumptions.

In its Price Multiples valuation analysis, the Company uses various operating metrics of comparable companies, including revenues, after-tax earnings, and EBITDA as well as price-to-book value ratios at a point in time. The Company analyzes prices paid in Precedent Transactions that are comparable to the business conducted in the PCD. The DCF analysis includes the Company's assumptions regarding discount rate, growth rates of the PCD's revenues, expenses, EBITDA, and capital expenditures, adjusted for current economic conditions and expectations. The Company weighs each of the three valuation methods equally in its overall valuation. Given the subjectivity involved in selecting which valuation method to use, the corresponding weightings, and the input variables for use in the analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of the PCD reporting unit.

***Intangible Assets***

Indefinite intangible assets are comprised of trademarks and trade names. Trademarks and trade names, carried at \$31.7 million, which are not amortized, are subject to at least an annual test for impairment to determine if the estimated fair value is less than their carrying amount. The fair value of the trademarks and trade names was substantially in excess of its carrying value as of December 31, 2016.

***Share-Based Compensation Plans***

As part of the compensation to employees and directors, the Company uses stock-based compensation, consisting of restricted stock, stock options and stock appreciation rights. In accordance with ASC Topic 718, "Compensation - Stock Compensation," the Company classifies the stock options and restricted stock awards as equity awards, which requires the compensation cost to be recognized in the consolidated statement of operations over the requisite service period of the award at grant date fair value and adjust for expected forfeitures. The fair value of restricted stock awards is determined based on the grant date closing price of the Company's Class A non-voting common stock ("Class A Stock") adjusted for the present value of the dividend to be received upon vesting. The fair value of stock options is determined using the Black-Scholes model. Key assumptions used to estimate the fair value include the expected term and the expected volatility of the Company's Class A Stock over the term of the award, the risk-free interest rate over the expected term, and the Company's expected annual dividend yield. The Company classifies stock appreciation rights ("OARs") as liability awards, which requires the fair value to be remeasured at each reporting period until the award vests. The fair value of OARs is also determined using the Black-Scholes model at the end of each reporting period. The compensation cost is adjusted each reporting period for changes in fair value prorated for the portion of the requisite service period rendered.

***Mortgage Servicing Rights***

The Company's Mortgage Servicing Rights ("MSRs") assets, held at OMHHF, are initially measured and recorded at fair value based on the present value of future net servicing income adjusted for factors such as discount rate and prepayment speeds. After initial measurement, MSRs are amortized over a ten year period. The Company assesses the capitalized MSRs for impairment quarterly by comparing the aggregate carrying value of the MSR portfolio to the aggregate estimated fair value of the portfolio.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Revenue Recognition**

*Brokerage*

Customers' securities and commodities transactions are reported on a settlement date basis, which is generally three business days after trade date for securities transactions and one day for commodities transactions. Related commission income and expense is recorded on a trade date basis.

*Principal Transactions*

Transactions in proprietary securities and related revenue and expenses are recorded on a trade date basis. Securities owned and securities sold but not yet purchased, are reported at fair value generally based upon quoted prices. Realized and unrealized changes in fair value are recognized in principal transactions, net in the period in which the change occurs.

*Investment Banking Fees*

Underwriting revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are completed and income is reasonably determinable, generally as set forth under the terms of the engagement. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. Underwriting revenues are presented net of related expenses. Non-reimbursable expenses associated with advisory transactions are recorded within other expenses.

*Interest*

Interest revenue represents interest earned on margin debit balances, securities borrowed transactions, reverse repurchase agreements, fixed income securities, firm investments, and cash and cash equivalents. Interest revenue is recognized in the period earned based upon average or daily asset balances, contractual cash flows, and interest rates.

*Asset Management*

Asset management fees are generally recognized over the period the related service is provided based on the account value at the valuation date per the respective asset management agreements. In certain circumstances, OAM is entitled to receive performance (or incentive) fees when the return on assets under management ("AUM") exceeds certain benchmark returns or other performance targets. Performance fees are generally based on investment performance over a 12-month period and are not subject to adjustment once the measurement period ends. Such fees are computed as of the fund's year-end when the measurement period ends and generally are recorded as earned in the fourth quarter of the Company's fiscal year. Asset management fees and performance fees are included in advisory fees in the consolidated statement of operations. Assets under management are not included as assets of the Company.

*Cash Sweep Income*

Cash sweep income consists of revenues earned from the Advantage Bank Deposit Program. Under this program, client funds are swept into deposit accounts at participating banks and are eligible for FDIC deposit insurance up to FDIC standard maximum deposit insurance amounts. The Company earns the net interest paid on these deposits after administrative fees are paid to the administrator of the program and a portion of interest is credited to clients. The net interest income earned in the period is recorded in other revenue in the consolidated statement of operations.

**Balance Sheet**

*Cash and Cash Equivalents*

The Company defines cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Receivables from / Payables to Brokers, Dealers and Clearing Organizations*

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company receives cash or collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis and may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Securities failed to deliver and receive represent the contract value of securities which have not been received or delivered by settlement date.

*Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase*

Reverse repurchase agreements and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. The resulting interest income and expense for these arrangements are included in interest income and interest expense in the consolidated statement of operations. Additionally, the Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company can present the reverse repurchase and repurchase transactions on a net-by-counterparty basis when the specific offsetting requirements are satisfied.

*Notes Receivable*

Notes receivable represent recruiting and retention payments generally in the form of upfront loans to financial advisers and key revenue producers as part of the Company's overall growth strategy. These notes amortize over a service period of 3 to 5 years from the initial date of the note or based on productivity levels of employees. All such notes are contingent on the employees' continued employment with the Company. The unforgiven portion of the notes becomes due on demand in the event the employee departs during the service period. Amortization of notes receivable is included in the consolidated statement of operations in compensation and related expenses.

*Furniture, Equipment and Leasehold Improvements*

Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation of furniture, fixtures, and equipment is provided on a straight-line basis generally over 3-7 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the improvement or the remaining term of the lease. Leases with escalating rents are expensed on a straight-line basis over the life of the lease. Landlord incentives are recorded as deferred rent and amortized, as reductions to lease expense, on a straight-line basis over the life of the applicable lease. Deferred rent is included in accounts payable and other liabilities on the consolidated balance sheet.

*Drafts Payable*

Drafts payable represent amounts drawn by the Company against a bank.

*Foreign Currency Translations*

Foreign currency balances have been translated into U.S. dollars as follows: monetary assets and liabilities at exchange rates prevailing at period end; revenue and expenses at average rates for the period; and non-monetary assets and stockholders' equity at historical rates. The functional currency of the overseas operations is the local currency in each location except for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited which have the U.S. dollar as their functional currency.

*Income Taxes*

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company records interest and penalties accruing on unrecognized tax benefits in income (loss) before income taxes as interest expense and other expense, respectively, in its consolidated statement of operations.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated.

### **New Accounting Pronouncements**

#### ***Recently Adopted***

In January 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items," to simplify income statement classification by removing the concept of extraordinary items. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. However, the existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The ASU became effective for the interim and annual reporting periods in the fiscal year that began after December 15, 2015. The adoption of the ASU did not have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis," to eliminate the deferral of the application of the revised consolidation rules and make changes to both the variable interest model and the voting model. Under this ASU, a general partner will not consolidate a partnership or similar entity under the voting model. The ASU became effective for the interim and annual reporting periods in the fiscal year that began after December 15, 2015. The adoption of the ASU impacted the disclosure of VIEs but did not have a material impact on the Company's consolidated financial statements. See Note 7, Variable interest entities, below.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying value of the associated debt liability. The ASU became effective for the interim and annual reporting periods in the fiscal year that began after December 15, 2015. The adoption of the ASU did not have a material impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient and related disclosures. The ASU became effective for the interim and annual reporting periods in the fiscal year that began after December 15, 2015. The adoption of the ASU impacted the Company's fair value disclosures but did not have a material impact on the Company's consolidated financial statements. See Note 5, Fair value measurements, below.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The ASU requires management of an entity to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and also provide disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for the annual reporting period in the fiscal year ending after December 15, 2016. The adoption of the ASU did not have an impact to the disclosure of the Company's consolidated financial statements.

***Recently Issued***

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU was originally effective for the annual reporting period in the fiscal year that begins after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date," which provides amendments that defer the effective date of ASU 2014-09 by one year. In 2016, the FASB additionally issued ASU No. 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," and ASU 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients." The amendments in these updates are effective either retrospectively to each prior reporting period presented, or as a cumulative-effect adjustment as of the date of adoption, during interim and annual periods beginning after December 15, 2017, with early adoption permitted beginning after December 15, 2016. The Company is currently assessing the impact of the adoption of this update on its financial condition, results of operations and cash flows, and disclosures related thereto. Based on the Company's preliminary assessment, it has determined that the adoption of this update may defer the timing of the recognition of upfront investment banking advisory fees (e.g., retainer and engagement fees) until completion of the engagement. These upfront fees are currently recognized ratably over the service period. The new guidance may also require underwriting expenses to be recorded on a gross basis while the current guidance requires recognizing underwriting revenues net of related underwriting expenses. In addition, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The Company is continuing its assessment and may identify other revenue streams that are impacted.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which revises an entity's accounting related to the classification and measurement of investments in equity securities, changes the presentation of certain fair value changes relating to instrument specific credit risk for financial liabilities and amends certain disclosure requirements associated with the fair value of financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017. The adoption of the ASU will not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." The ASU requires the recognition of a right-of use asset and lease liability on the balance sheet by lessees for those leases classified as operating leases under previous guidance. The ASU is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this ASU which it expects will have a material impact on its consolidated financial statements. Since the Company has operating leases in over 100 locations, the Company expects to recognize a significant right-of use asset and lease liability on its consolidated balance sheet upon adoption of this ASU.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and minimum statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the prior guidance, the tax effects of deductions in excess of compensation expense ("windfalls"), as well as the tax effect of any deficiencies ("shortfalls") were recorded in equity to the extent of previously recognized windfalls, with any remaining shortfall recorded in income tax expense. Under the new guidance, all tax effects related to share-based payments are recorded through tax expense in the periods during which the awards are exercised or vest, as applicable. Additionally, under the new guidance, entities will be permitted to make an accounting policy election to either estimate forfeitures each period or to account for forfeitures as they occur. The ASU is effective for the fiscal year beginning after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company evaluated the

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

ASU and the adoption of the ASU is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model ("current expected credit loss model"). Under this new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The ASU is effective for the fiscal year beginning after December 15, 2019. The Company is currently evaluating the impact, if any, that the ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flow. The ASU is effective for the fiscal year beginning after December 15, 2017 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact of the ASU and the adoption of the ASU is not expected to have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, "Consolidation - Interests Held Through Related Parties that are under Common Control," which amends the guidance on related parties that are under common control. The ASU requires that a single decision maker consider indirect interests held by related parties under common control on a proportionate basis in a manner consistent with its evaluation of indirect interests held through other related parties. The ASU is effective for the fiscal year beginning after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company evaluated the impact of the ASU and the adoption of the ASU is not expected to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flow - Restricted Cash," which adds or clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The ASU is effective for the fiscal year beginning after December 15, 2017 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact of the ASU and the adoption of the ASU is not expected to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other, Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill. The Company is no longer required to perform its Step 2 goodwill impairment test, instead, the Company should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The ASU is effective for the fiscal year beginning after December 15, 2019 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact of the ASU and the adoption of the ASU is not expected to have a material impact on its consolidated financial statements.

### **3. Discontinued operations**

OMHMF historically was engaged in the business of originating and servicing FHA-insured multifamily and healthcare facility loans and securitizing these loans into GNMA mortgage backed securities. OMHMF offered mortgage services to developers of commercial properties including apartments, elderly housing and nursing homes that satisfy FHA criteria. OMHMF maintained a mortgage servicing portfolio for which it provided a full array of services, including the collection of mortgage payments from mortgagors which were passed on to the mortgage holders, construction loan management and asset management.

The Company owns an 83.68% controlling interest in OMHMF. The 16.32% noncontrolling interest belongs to one related party who is the President and Chief Executive Officer of OMHMF.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

On June 2, 2016, OMHMF entered into a definitive agreement to sell OMHMF's entire portfolio of permanent mortgage loans (consisting of over 480 permanent loans insured by the U.S. Department of Housing and Urban Development), including the associated mortgage servicing rights. On June 20, 2016, OMHMF completed the transaction for cash consideration of approximately \$45.0 million. An amount equal to \$1.4 million was withheld from the purchase price until such time as one loan in the mortgage loan portfolio becomes current or is modified. The Company recorded a net gain of \$14.9 million related to this transaction which was included in discontinued operations in the consolidated statement of operations during the second quarter of 2016. During the second quarter of 2016, OMHMF also sold its business pipeline of mortgage loans for approximately \$1.5 million.

During the third quarter of 2016, the Company recognized the \$1.4 million that was withheld from the purchase price of the permanent mortgage loans as a result of the loan being modified as a gain. Also, OMHMF sold its construction loan portfolio and the associated mortgage servicing rights for approximately \$3.8 million.

OMHMF made a dividend distribution to the noncontrolling interest in the amount of \$5.7 million during the three month period ended September 30, 2016.

The Company determined that the sale of the assets of OMHMF met the criteria to be classified within discontinued operations, and the results of OMHMF are reported as discontinued operations in the consolidated statement of operations. Prior-period amounts have been recast for discontinued operations.

The following is a summary of the assets and liabilities held for sale of OMHMF as of December 31, 2016 and December 31, 2015:

*(Expressed in thousands)*

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
Securities owned	\$ 3,560	\$ 562
Loans held for sale	—	60,234
Mortgage servicing rights	—	28,168
Other assets	1,628	10,917
Total assets	<u>\$ 5,188</u>	<u>\$ 99,881</u>
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 1,217	\$ 64,124
Deferred tax liability	—	10,556
Total liabilities	<u>\$ 1,217</u>	<u>\$ 74,680</u>



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The following is a summary of revenue and expenses of OMHHF for the years ended December 31, 2016, 2015 and 2014:

(Expressed in thousands)

	For the Years Ended December 31,		
	2016	2015	2014
<b>REVENUE</b>			
Interest	\$ 943	\$ 1,999	\$ 1,739
Principal transactions, net	(9,022)	5,323	2,184
Gain on sale of assets	16,475	—	—
Other	16,917	23,262	19,406
Total revenue	25,313	30,584	23,329
<b>EXPENSES</b>			
Compensation and related expenses	4,311	12,406	10,245
Communications and technology	221	361	420
Occupancy and equipment costs	415	302	341
Interest	408	994	845
Other	2,619	7,382	2,932
Total expenses	7,974	21,445	14,783
<b>Income before income taxes</b>	<b>\$ 17,339</b>	<b>\$ 9,139</b>	<b>\$ 8,546</b>
Income attributable to noncontrolling interest before income taxes	\$ 2,830	\$ 1,491	\$ 1,395

The following is a summary of cash flows of OMHHF for the years ended December 31, 2016, 2015 and 2014:

(Expressed in thousands)

	For the Years Ended December 31,		
	2016	2015	2014
Cash (used in) provided by operating activities	\$ (14,097)	\$ 3,322	\$ 6,877
Cash provided by investing activities	45,448	—	—
Cash used in financing activities <sup>(1)</sup>	(35,421)	(249)	(251)
Net (decrease) increase in cash and cash equivalents	\$ (4,070)	\$ 3,073	\$ 6,626

(1) Includes cash dividends paid to its parent (E.A. Viner International Co.) and noncontrolling interest of \$29.4 million and \$5.7 million, respectively, for the year ended December 31, 2016.

Intraperiod U.S. GAAP tax allocation rules require that the Company allocates its provision for income taxes between continuing operations and other categories of earnings, such as discontinued operations. The tax effect related to categories other than continuing operations is generally their incremental tax effect. As a result, since the Company has a loss before income taxes from continuing operations and income from discontinued operations, the Company must first allocate an income tax benefit for the loss in continuing operations and then the incremental tax effect in discontinued operations.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

#### 4. Receivable from and payable to brokers, dealers and clearing organizations

(Expressed in thousands)

	As of December 31,	
	2016	2015
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	\$ 154,090	\$ 224,672
Receivable from brokers	25,768	49,458
Securities failed to deliver	6,172	7,799
Clearing organizations	26,081	25,030
Other	2,823	58,832
<b>Total</b>	<b>\$ 214,934</b>	<b>\$ 365,791</b>
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	\$ 179,875	\$ 130,658
Payable to brokers	610	3,316
Securities failed to receive	11,523	21,513
Other	29,381	9,059
<b>Total</b>	<b>\$ 221,389</b>	<b>\$ 164,546</b>

#### 5. Fair value measurements

Securities owned, securities sold but not yet purchased, investments and derivative contracts are carried at fair value with changes in fair value recognized in earnings each period.

##### **Securities Owned and Securities Sold But Not Yet Purchased at Fair Value**

(Expressed in thousands)

	As of December 31,			
	2016		2015	
	Owned <sup>(1)</sup>	Sold	Owned <sup>(1)</sup>	Sold
U.S. treasury, agency and sovereign obligations	\$ 459,051	\$ 28,674	\$ 509,614	\$ 77,485
Corporate debt and other obligations	17,074	2,536	16,138	1,652
Mortgage and other asset-backed securities	5,024	31	3,504	27
Municipal obligations	56,750	516	30,132	—
Convertible bonds	56,480	11,604	54,693	5,951
Corporate equities	31,174	41,689	34,475	41,378
Money markets	189	—	35	—
Auction rate securities	84,926	—	86,802	—
<b>Total</b>	<b>\$ 710,668</b>	<b>\$ 85,050</b>	<b>\$ 735,393</b>	<b>\$ 126,493</b>

- (1) \$3.6 million and \$562,000 is included in assets held for sale on the consolidated balance sheet as of December 31, 2016 and 2015, respectively. See Note 3 for details.

Securities owned and securities sold but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned as of December 31, 2016 are corporate equities with estimated fair values of approximately \$14.3 million (\$14.0 million as of December 31, 2015), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the consolidated balance sheet.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Valuation Techniques**

A description of the valuation techniques applied and inputs used in measuring the fair value of the Company's financial instruments is as follows:

*U.S. Government Obligations*

U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers.

*U.S. Agency Obligations*

U.S. agency securities consist of agency issued debt securities and mortgage pass-through securities. Non-callable agency issued debt securities are generally valued using quoted market prices. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of mortgage pass-through securities are model driven with respect to spreads of the comparable to-be-announced ("TBA") security.

*Sovereign Obligations*

The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs.

*Corporate Debt and Other Obligations*

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information.

*Mortgage and Other Asset-Backed Securities*

The Company holds non-agency securities collateralized by home equity and various other types of collateral which are valued based on external pricing and spread data provided by independent pricing services. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds.

*Municipal Obligations*

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information.

*Convertible Bonds*

The fair value of convertible bonds is estimated using recently executed transactions and dollar-neutral price quotations, where observable. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves and bond spreads as key inputs.

*Corporate Equities*

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads.

*Loans Held for Sale*

The Company elected the fair value option for loans held for sale and determines the fair value using both a discounted cash flow model (see key assumptions used in determining mortgage servicing rights below) and quoted observable prices from market participants.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Interest Rate Lock Commitments*

OMHHF records an interest rate lock commitment upon the commitment to originate a loan with a borrower. This commitment, which can be an asset or liability, is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan. The interest rate lock commitments are valued using a discounted cash flow model developed based on U.S. Treasury rate changes and other observable market data. The fair value is determined after considering the potential impact of collateralization.

*To-Be-Announced Sale Contracts*

TBA sale contracts of permanent loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. TBA sale contracts of construction loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases.

*Mortgage Servicing Rights*

The Company's MSR's are measured at fair value on a nonrecurring basis. The MSR's are initially measured at fair value on the loan securitization date and subsequently measured on the amortized cost basis subject to quarterly impairment testing. MSR's do not trade in active open markets with readily observable pricing. Therefore, the Company uses a discounted cash flow model to estimate the fair value of MSR's. The discounted cash flow model calculates the present value of estimated future net servicing income using inputs such as contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the model to reflect observable and unobservable market conditions and assumptions that a market participant would consider in valuing a MSR asset. MSR's are carried at the lower of amortized cost or estimated fair value.

The following key assumptions were used in determining the initial fair value of MSR's:

Discount Rate – The discount rate used for originated permanent and construction loans averaged approximately 12%.

Estimated Life – The estimated life of the MSR's is derived using a continuous prepayment rate ("CPR") assumption which estimates projected prepayments of the loan portfolio by considering factors such as note rates, lockouts, and prepayment penalties at the loan level. The CPR rates used are 0% until such time that a loan's prepayment penalty rate hits 4% of the unpaid principal balance of the loan with the vast majority of CPR speeds ranging from 10% to 15% thereafter, with an average of 12%.

Servicing Costs – The estimated future cost to service the loans on an annual basis per loan averages approximately \$1,250 for a permanent loan, with a considerably higher cost to service during the construction phase.

The Company does not anticipate any credit losses on the commercial mortgages it services since all of the mortgages are insured for and guaranteed against credit losses by the FHA and the Government National Mortgage Association ("GNMA") and are thus guaranteed by the U.S. government.

*Auction Rate Securities*

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of December 31, 2016, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2016, the Company purchased and holds (net of redemptions) approximately \$88.1 million in ARS from its clients. In addition, the Company is committed to purchase another \$26.0 million in ARS from clients through 2020 under legal settlements and awards.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 of the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula. For example, an auction rate preferred security maximum rate may be set at 200% of a short-term index such as LIBOR or U.S. Treasury yield. For fair value purposes, the Company has determined that the maximum spread would be an adequate risk premium to account for illiquidity in the market. Accordingly, the Company applies a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index. The risk of non-performance is typically reflected in the prices of ARS positions where the fair value is derived from recent trades in the secondary market.

The ARS purchase commitment, or derivative asset or liability, arises from both the settlements with the Regulators and legal settlements and awards. The ARS purchase commitment represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The Company utilizes the same valuation methodology for the ARS purchase commitment as it does for the ARS it owns. Additionally, the present value of the future principal value of ARS purchase commitments under legal settlements and awards is used in the discounted valuation model to reflect the time value of money over the period of time that the commitments are outstanding. The amount of the ARS purchase commitment only becomes determinable once the Company has met with its primary regulator and the NYAG and agreed upon a buyback amount, commenced the ARS buyback offer to clients, and received notice from its clients which ARS they are tendering. As a result, it is not possible to observe the current yields actually paid on the ARS until all of these events have happened which is typically very close to the time that the Company actually purchases the ARS. For ARS purchase commitments pursuant to legal settlements and awards, the criteria for purchasing ARS from clients is based on the nature of the settlement or award which will stipulate a time period and amount for each repurchase. The Company will not know which ARS will be tendered by the client until the stipulated time for repurchase is reached. Therefore, the Company uses the current yields of ARS owned in its discounted valuation model to determine a fair value of ARS purchase commitments. The Company also uses these current yields by asset class (i.e., auction rate preferred securities, municipal auction rate securities, and student loan auction rate securities) in its discounted valuation model to determine the fair value of ARS purchase commitments. In addition, the Company uses the discount rate and duration of ARS owned, by asset class, as a proxy for the duration of ARS purchase commitments.

Additional information regarding the valuation technique and inputs for ARS used is as follows:

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

(Expressed in thousands)

**Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2016**

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
<b><i>Auction Rate Securities Owned</i><sup>(1)</sup></b>							
Auction Rate Preferred Securities	\$ 87,800	\$ 3,171	\$ 84,629	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	1.86% to 2.53%	2.18%
					Duration	4.0 Years	4.0 Years
					Current Yield <sup>(3)</sup>	1.18% to 1.27%	1.23%
Municipal Auction Rate Securities	25	1	24	Discounted Cash Flow	Discount Rate <sup>(4)</sup>	3.16%	3.16%
					Duration	4.5 Years	4.5 Years
					Current Yield <sup>(3)</sup>	2.05%	2.05%
Student Loan Auction Rate Securities	300	27	273	Discounted Cash Flow	Discount Rate <sup>(5)</sup>	3.45%	3.45%
					Duration	7.0 Years	7.0 Years
					Current Yield <sup>(3)</sup>	1.98%	1.98%
	<u>\$ 88,125</u>	<u>\$ 3,199</u>	<u>\$ 84,926</u>				
<b><i>Auction Rate Securities Commitments to Purchase</i><sup>(6)</sup></b>							
Auction Rate Preferred Securities	\$ 6,654	\$ (849)	\$ 7,503	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	1.86% to 2.53%	2.18%
					Duration	4.0 Years	4.0 Years
					Current Yield <sup>(3)</sup>	1.18% to 1.27%	1.23%
Auction Rate Preferred Securities	24,329	643	23,686	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	1.86% to 2.53%	2.18%
					Duration	4.0 Years	4.0 Years
					Current Yield <sup>(3)</sup>	1.18% to 1.27%	1.23%
Municipal Auction Rate Securities	2	—	2	Discounted Cash Flow	Discount Rate <sup>(4)</sup>	3.16%	3.16%
					Duration	4.5 Years	4.5 Years
					Current Yield <sup>(3)</sup>	2.05%	2.05%
Student Loan Auction Rate Securities	27	2	25	Discounted Cash Flow	Discount Rate <sup>(5)</sup>	3.45%	3.45%
					Duration	7.0 Years	7.0 Years
					Current Yield <sup>(3)</sup>	1.98%	1.98%
	<u>\$ 31,012</u>	<u>\$ (204)</u>	<u>\$ 31,216</u>				
<b>Total</b>	<u>\$ 119,137</u>	<u>\$ 2,995</u>	<u>\$ 116,142</u>				

- (1) Principal amount represents the par value of the ARS and is included in securities owned on the consolidated balance sheet as of December 31, 2016. The valuation adjustment amount is included as a reduction to securities owned on the consolidated balance sheet as of December 31, 2016.
- (2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.69%.
- (3) Based on current yields for ARS positions owned.
- (4) Derived by applying a multiple to the spread of 175% to the U.S. Treasury rate of 1.81%.
- (5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.25%.
- (6) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amounts, unrealized gains and losses, are included in other assets and accounts payable and other liabilities, respectively, on the consolidated balance sheet as of December 31, 2016.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The fair value of ARS and ARS purchase commitments is particularly sensitive to movements in interest rates. Increases in short-term interest rates would increase the discount rate input used in the ARS valuation and thus reduce the fair value of the ARS (increase the valuation adjustment). Conversely, decreases in short-term interest rates would decrease the discount rate and thus increase the fair value of ARS (decrease the valuation adjustment). However, an increase (decrease) in the discount rate input would be partially mitigated by an increase (decrease) in the current yield earned on the underlying ARS asset increasing the cash flows and thus the fair value. Furthermore, movements in short term interest rates would likely impact the ARS duration (i.e., sensitivity of the price to a change in interest rates), which would also have a mitigating effect on interest rate movements. For example, as interest rates increase, issuers of ARS have an incentive to redeem outstanding securities as servicing the interest payments gets prohibitively expensive which would lower the duration assumption thereby increasing the ARS fair value. Alternatively, ARS issuers are less likely to redeem ARS in a lower interest rate environment as it is a relatively inexpensive source of financing which would increase the duration assumption thereby decreasing the ARS fair value. For example, see the following sensitivities:

- The impact of a 25 basis point increase in the discount rate at December 31, 2016 would result in a decrease in the fair value of \$1.1 million (does not consider a corresponding reduction in duration as discussed above).
- The impact of a 50 basis point increase in the discount rate at December 31, 2016 would result in a decrease in the fair value of \$2.2 million (does not consider a corresponding reduction in duration as discussed above).

These sensitivities are hypothetical and are based on scenarios where they are "stressed" and should be used with caution. These estimates do not include all of the interplay among assumptions and are estimated as a portfolio rather than as individual assets.

Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of December 31, 2016, the Company had a valuation adjustment (unrealized loss) of \$3.2 million for ARS owned which is included as a reduction to securities owned on the consolidated balance sheet. As of December 31, 2016, the Company also had a net valuation adjustment (unrealized gain) of \$204,000 on ARS purchase commitments from settlements with the Regulators and legal settlements and awards, comprised of unrealized gains of \$849,000 and unrealized losses of \$645,000, which are included in other assets and accounts payable and other liabilities, respectively, on the consolidated balance sheet. The total valuation adjustment was \$3.0 million as of December 31, 2016. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

*Investments*

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment.

The following table provides information about the Company's investments in Company-sponsored funds as of December 31, 2016:

*(Expressed in thousands)*

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds <sup>(1)</sup>	\$ 2,423	\$ —	Quarterly - Annually	30 - 120 Days
Private equity funds <sup>(2)</sup>	4,425	1,251	N/A	N/A
	<u>\$ 6,848</u>	<u>\$ 1,251</u>		

(1) Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist strategies. Each hedge fund has various restrictions regarding redemption; no investment is locked-up for a period greater than one year.

(2) Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and global natural resources. Due to the illiquid nature of these funds, investors are not permitted to make withdrawals without the consent of the general partner. The lock-up period of the private equity funds can extend to 10 years.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Valuation Process**

The Company's Finance & Accounting ("F&A") group is responsible for the Company's fair value policies, processes and procedures. F&A is independent from the business units and trading desks and is headed by the Company's Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. The Finance Control Group ("FCG") within F&A is responsible for daily profit and loss reporting, front-end trading system position reconciliations, monthly profit and loss reporting, and independent price verification procedures.

For financial instruments categorized in Levels 1 and 2 of the fair value hierarchy, the FCG performs a monthly independent price verification to determine the reasonableness of the prices provided by the Company's independent pricing vendor. The FCG uses its third-party pricing vendor, executed transactions, and broker-dealer quotes for validating the fair values of financial instruments.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and an Operations Director are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed to purchase to ARS that are trading in the secondary market.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a non-recurring basis, primarily for MSRs, the OMHHF Valuation Committee, which was comprised of the OMHHF President & Chief Executive Officer and OMHHF Chief Operating Officer, was responsible for the MSR model and resulting fair valuations prior to the dissolution of OMHHF. The OMHHF Valuation Committee performed its review of the model and assumptions and its impairment analysis on a quarterly basis. On an annual basis, the Company utilized an external valuation consultant to validate that the internal MSR model is functioning appropriately. The OMHHF Valuation Committee compared assumptions used for unobservable inputs, such as for discount rates, estimated life, and costs of servicing, to that used by the external valuation consultant for reasonableness. The model output and resulting valuation multiples were reviewed for reasonableness and consistency. Where available, comparisons were performed to recent MSR sales in the secondary market. The Company's management reviewed the results of both the quarterly reviews and annual impairment analysis.

**Assets and Liabilities Measured at Fair Value**

The Company's assets and liabilities, recorded at fair value on a recurring basis as of December 31, 2016 and 2015, have been categorized based upon the above fair value hierarchy as follows:



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016*

(Expressed in thousands)

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 16,242	\$ —	\$ —	\$ 16,242
Deposits with clearing organizations	26,437	—	—	26,437
Securities owned:				
U.S. Treasury securities <sup>(1)</sup>	418,888	—	—	418,888
U.S. Agency securities	5,878	32,391	—	38,269
Sovereign obligations	—	1,894	—	1,894
Corporate debt and other obligations	—	17,074	—	17,074
Mortgage and other asset-backed securities	—	5,024	—	5,024
Municipal obligations	—	56,706	44	56,750
Convertible bonds	—	56,480	—	56,480
Corporate equities	31,174	—	—	31,174
Money markets	189	—	—	189
Auction rate securities	—	—	84,926	84,926
Securities owned, at fair value	456,129	169,569	84,970	710,668
Investments <sup>(2)</sup>	—	—	158	158
Securities purchased under agreements to resell <sup>(3)</sup>	—	24,006	—	24,006
Derivative contracts:				
TBAs	—	814	—	814
ARS purchase commitments	—	—	849	849
Derivative contracts, total	—	814	849	1,663
Total	\$ 498,808	\$ 194,389	\$ 85,977	\$ 779,174
<b>Liabilities</b>				
Securities sold but not yet purchased:				
U.S. Treasury securities	\$ 28,662	\$ —	\$ —	\$ 28,662
U.S. Agency securities	—	12	—	12
Corporate debt and other obligations	—	2,536	—	2,536
Mortgage and other asset-backed securities	—	31	—	31
Municipal obligations	—	516	—	516
Convertible bonds	—	11,604	—	11,604
Corporate equities	41,689	—	—	41,689
Securities sold but not yet purchased, at fair value	70,351	14,699	—	85,050
Derivative contracts:				
Futures	166	—	—	166
Foreign exchange forward contracts	1	—	—	1
TBAs	—	1,212	—	1,212
ARS purchase commitments	—	—	645	645
Derivative contracts, total	167	1,212	645	2,024
Total	\$ 70,518	\$ 15,911	\$ 645	\$ 87,074

(1) \$3.6 million is included in assets held for sale on the consolidated balance sheet. See Note 3 for details.

(2) Included in other assets on the consolidated balance sheet.

(3) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015**

(Expressed in thousands)

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 13,000	\$ —	\$ —	\$ 13,000
Deposits with clearing organizations	31,456	—	—	31,456
Securities owned:				
U.S. Treasury securities <sup>(1)</sup>	436,533	—	—	436,533
U.S. Agency securities	25,240	46,176	—	71,416
Sovereign obligations	—	1,665	—	1,665
Corporate debt and other obligations	—	16,138	—	16,138
Mortgage and other asset-backed securities	—	3,504	—	3,504
Municipal obligations	—	30,051	81	30,132
Convertible bonds	—	54,693	—	54,693
Corporate equities	34,475	—	—	34,475
Money markets	35	—	—	35
Auction rate securities	—	—	86,802	86,802
Securities owned, at fair value	496,283	152,227	86,883	735,393
Investments <sup>(2)</sup>	—	—	157	157
Loans held for sale <sup>(3)</sup>	—	60,234	—	60,234
Securities purchased under agreements to resell <sup>(4)</sup>	—	206,499	—	206,499
Derivative contracts:				
TBAs	—	6,448	—	6,448
Interest rate lock commitments	—	—	9,161	9,161
Derivative contracts, total	—	6,448	9,161	15,609
<b>Total</b>	<b>\$ 540,739</b>	<b>\$ 425,408</b>	<b>\$ 96,201</b>	<b>\$ 1,062,348</b>
<b>Liabilities</b>				
Securities sold but not yet purchased:				
U.S. Treasury securities	\$ 75,653	\$ —	\$ —	\$ 75,653
U.S. Agency securities	—	15	—	15
Sovereign Obligations	—	1,817	—	1,817
Corporate debt and other obligations	—	1,652	—	1,652
Mortgage and other asset-backed securities	—	27	—	27
Convertible bonds	—	5,951	—	5,951
Corporate equities	41,378	—	—	41,378
Securities sold but not yet purchased, at fair value	117,031	9,462	—	126,493
Derivative contracts:				
Futures	249	—	—	249
Foreign exchange forward contracts	2	—	—	2
TBAs	—	11,619	—	11,619
Interest rate lock commitments	—	—	923	923
ARS purchase commitments	—	—	1,369	1,369
Derivative contracts, total	251	11,619	2,292	14,162
<b>Total</b>	<b>\$ 117,282</b>	<b>\$ 21,081</b>	<b>\$ 2,292</b>	<b>\$ 140,655</b>

- (1) \$562,000 is included in assets held for sale on the consolidated balance sheet. See Note 3 for details.
- (2) Included in other assets on the consolidated balance sheet.
- (3) Included in assets held for sale on the consolidated balance sheet. See Note 3 for details.
- (4) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

There were no transfers between any of the levels in the years ended December 31, 2016 and 2015.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015:

*(Expressed in thousands)*

	Level 3 Assets and Liabilities					
	For the Year Ended December 31, 2016					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(4)(5)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipal obligations	\$ 81	\$ 25	\$ —	\$ (62)	\$ —	\$ 44
Auction rate securities <sup>(1)(6)(7)</sup>	86,802	1,974	13,775	(17,625)	—	84,926
Interest rate lock commitments <sup>(2)</sup>	9,161	4,345	—	(13,506)	—	—
Investments	157	1	—	—	—	158
ARS purchase commitments <sup>(3)</sup>	—	849	—	—	—	849
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	923	923	—	—	—	—
ARS purchase commitments <sup>(3)</sup>	1,369	724	—	—	—	645

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination-related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (4) Included in principal transactions in the consolidated statement of operations, except for investments which are included in other income in the consolidated statement of operations.
- (5) Unrealized gains are attributable to assets or liabilities that are still held at the reporting date.
- (6) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (7) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

(Expressed in thousands)

Level 3 Assets and Liabilities  
For the Year Ended December 31, 2015

	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(4)(5)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipal obligations	\$ 164	\$ (63)	\$ —	\$ (20)	\$ —	\$ 81
Auction rate securities <sup>(1)(6)(7)</sup>	91,422	1,955	17,950	(24,525)	—	86,802
Interest rate lock commitments <sup>(2)</sup>	7,576	1,585	—	—	—	9,161
Investments	193	(36)	—	—	—	157
<b>Liabilities</b>						
Interest rate lock commitments <sup>(2)</sup>	1,222	299	—	—	—	923
ARS purchase commitments <sup>(3)</sup>	902	(467)	—	—	—	1,369

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination-related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.
- (3) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (4) Included in principal transactions in the consolidated statement of operations, except for investments which are included in other income in the consolidated statement of operations.
- (5) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (6) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.
- (7) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

#### Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value on the consolidated balance sheets. The table below excludes non-financial assets and liabilities (e.g., furniture, equipment and leasehold improvements and accrued compensation).

The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 or Level 2 (e.g., cash and receivables from customers) approximates fair value because of the relatively short term nature of the underlying assets. The fair value of the Company's 8.75% Senior Secured Notes, categorized in Level 2 of the fair value hierarchy, is based on quoted prices from the market in which the Notes trade.

The fair value of MSRs is based on observable and unobservable inputs and thus categorized as Level 3 in the fair value hierarchy. See valuation techniques above for key assumptions used.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Assets and liabilities not measured at fair value as of December 31, 2016**

(Expressed in thousands)

	As of December 31, 2016		Fair Value Measurement: Assets			
	Carrying Value	Fair Value	As of December 31, 2016			Total
			Level 1	Level 2	Level 3	
Cash	\$ 48,671	\$ 48,671	\$ 48,671	\$ —	\$ —	\$ 48,671
Deposits with clearing organization	11,748	11,748	11,748	—	—	11,748
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	154,090	154,090	—	154,090	—	154,090
Receivables from brokers	25,768	25,768	—	25,768	—	25,768
Securities failed to deliver	6,172	6,172	—	6,172	—	6,172
Clearing organizations	26,081	26,081	—	26,081	—	26,081
Other	2,823	2,823	—	2,823	—	2,823
	214,934	214,934	—	214,934	—	214,934
Receivable from customers	847,386	847,386	—	847,386	—	847,386
Investments <sup>(1)</sup>	56,300	56,300	—	56,300	—	56,300

(1) Included in other assets on the consolidated balance sheet.

(Expressed in thousands)

	As of December 31, 2016		Fair Value Measurement: Liabilities			
	Carrying Value	Fair Value	As of December 31, 2016			Total
			Level 1	Level 2	Level 3	
Drafts payable	\$ 39,228	\$ 39,228	\$ 39,228	\$ —	\$ —	\$ 39,228
Bank call loans	145,800	145,800	—	145,800	—	145,800
Payables to brokers, dealers and clearing organizations:						
Securities loaned	179,875	179,875	—	179,875	—	179,875
Payable to brokers	610	610	—	610	—	610
Securities failed to receive	11,523	11,523	—	11,523	—	11,523
Other	29,381	29,381	—	29,381	—	29,381
	221,389	221,389	—	221,389	—	221,389
Payables to customers	449,946	449,946	—	449,946	—	449,946
Securities sold under agreements to repurchase	378,084	378,084	—	378,084	—	378,084
Senior secured notes	150,000	151,782	—	151,782	—	151,782

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Assets and liabilities not measured at fair value as of December 31, 2015**

(Expressed in thousands)

	As of December 31, 2015		Fair Value Measurement: Assets			
			As of December 31, 2015			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	\$ 50,364	\$ 50,364	\$ 50,364	\$ —	\$ —	\$ 50,364
Deposits with clearing organization	18,034	18,034	18,034	—	—	18,034
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	224,672	224,672	—	224,672	—	224,672
Receivables from brokers	49,458	49,458	—	49,458	—	49,458
Securities failed to deliver	7,799	7,799	—	7,799	—	7,799
Clearing organizations	25,030	25,030	—	25,030	—	25,030
Other	58,832	58,832	—	58,832	—	58,832
	<u>365,791</u>	<u>365,791</u>	<u>—</u>	<u>365,791</u>	<u>—</u>	<u>365,791</u>
Receivable from customers	840,355	840,355	—	840,355	—	840,355
Mortgage servicing rights <sup>(1)</sup>	28,168	41,838	—	—	41,838	41,838
Investments <sup>(2)</sup>	53,286	53,286	—	53,286	—	53,286

(1) Included in assets held for sale on the consolidated balance sheet. See Note 3 for details.

(2) Included in other assets on the consolidated balance sheet.

(Expressed in thousands)

	As of December 31, 2015		Fair Value Measurement: Liabilities			
			As of December 31, 2015			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	\$ 48,011	\$ 48,011	\$ 48,011	\$ —	\$ —	\$ 48,011
Bank call loans	100,200	100,200	—	100,200	—	100,200
Payables to brokers, dealers and clearing organizations:						
Securities loaned	130,658	130,658	—	130,658	—	130,658
Payable to brokers	3,316	3,316	—	3,316	—	3,316
Securities failed to receive	21,513	21,513	—	21,513	—	21,513
Other	9,059	9,059	—	9,059	—	9,059
	<u>164,546</u>	<u>164,546</u>	<u>—</u>	<u>164,546</u>	<u>—</u>	<u>164,546</u>
Payables to customers	594,833	594,833	—	594,833	—	594,833
Securities sold under agreements to repurchase	651,445	651,445	—	651,445	—	651,445
Warehouse payable <sup>(1)</sup>	54,341	54,341	—	54,341	—	54,341
Senior secured notes	150,000	154,568	—	154,568	—	154,568

(1) Included in liabilities held for sale on the consolidated balance sheet. See Note 3 for details.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**Fair Value Option**

The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the loan trading portfolio is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio as of December 31, 2016 or 2015.

The Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential mismatch in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. As of December 31, 2016, the fair value of the reverse repurchase agreements and repurchase agreements for which the fair value option was elected were \$24.0 million and \$nil, respectively.

The Company also elected the fair value option for loans held for sale which resided in OMHHF and are included in assets held for sale on the consolidated balance sheet. Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. As of December 31, 2016, the Company did not carry any loans held for sale.

**Derivative Instruments and Hedging Activities**

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the consolidated balance sheet.

*Cash flow hedges used for asset and liability management*

For derivative instruments that were designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. For the years ended December 31, 2016 and 2015, there were no derivative instruments that were designated and qualified as a cash flow hedge.

*Foreign exchange hedges*

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli Shekel. Such hedges have not been designated as accounting hedges. Unrealized gains and losses on foreign exchange forward contracts are recorded in other assets on the consolidated balance sheet and other income in the consolidated statement of operations.

*Derivatives used for trading and investment purposes*

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds, General Collateral futures and Eurodollar contracts which are used primarily as an economic hedge of interest rate risk associated with government trading activities. Unrealized gains and losses on futures contracts are recorded on the consolidated balance sheet in payable to brokers, dealers and clearing organizations and in the consolidated statement of operations as principal transactions revenue, net.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Derivatives used for commercial mortgage banking*

The Commercial Mortgage Banking segment, which operates out of OMHHF, became a discontinued operation during the second quarter of 2016. See Note 3 for further details.

In the normal course of business, OMHHF enters into contractual commitments to originate (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by OMHHF. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, OMHHF's policy is to enter into a TBA sale contract with the investor simultaneously with the rate lock commitment with the borrower. The TBA sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. TBA sale contracts with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the TBA sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through earnings. Unrealized gains and losses on rate lock commitments are recorded in other assets on the consolidated balance sheet and other income in the consolidated statement of operations. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

- the assumed gain/loss of the expected resultant loan sale to the buyer;
- the expected net future cash flows associated with servicing the loan;
- the effects of interest rate movements between the date of the rate lock and the balance sheet date; and
- the nonperformance risk of both the counterparty and the Company.

The fair value of the Company's TBA sale contracts to investors considers effects of interest rate movements between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon securitization of the loan. The fair value of the expected net future cash flows associated with servicing the loan is calculated pursuant to the valuation techniques described previously for MSRs.

To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount.

The fair value of the Company's TBA sale contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The fair value of the Company's interest rate lock commitments and TBA sale contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company's exposure to nonperformance in rate lock and TBA sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and TBA sale contracts, and the Company's historical experience with the agreements, the risk of nonperformance by the Company's counterparties is not significant.

*To-be-announced securities*

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the TBA market as economic hedges against mortgage-backed securities that it owns or has sold but not yet purchased. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

TBAs are recorded on the consolidated balance sheet in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, and in the consolidated statement of operations as principal transactions revenue, net.

The notional amounts and fair values of the Company's derivatives as of December 31, 2016 and 2015 by product were as follows:

*(Expressed in thousands)*

	Fair Value of Derivative Instruments as of December 31, 2016		
	Description	Notional	Fair Value
<b>Assets:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 169,500	\$ 332
	TBA sale contracts	121,573	482
	ARS purchase commitments	6,654	849
		<u>\$ 297,727</u>	<u>\$ 1,663</u>
<b>Liabilities:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts	Futures	\$ 4,059,000	\$ 166
Other contracts	Foreign exchange forward contracts	200	1
	TBAs	169,500	289
	TBA purchase contracts	121,573	923
	Forward start repurchase agreements	382,000	—
	ARS purchase commitments	24,358	645
		<u>\$ 4,756,631</u>	<u>\$ 2,024</u>

- (1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

*(Expressed in thousands)*

	Fair Value of Derivative Instruments as of December 31, 2015		
	Description	Notional	Fair Value
<b>Assets:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 35,650	\$ 4
	TBA sale contracts	83,810	6,444
	Interest rate lock commitments	203,648	9,161
		<u>\$ 323,108</u>	<u>\$ 15,609</u>
<b>Liabilities:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts	Futures	\$ 2,943,000	\$ 249
Other contracts	Foreign exchange forward contracts	400	2
	TBAs	24,350	5
	TBA sale contracts	223,846	11,614
	Interest rate lock commitments	48,638	923
	ARS purchase commitments	27,813	1,369
		<u>\$ 3,268,047</u>	<u>\$ 14,162</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

- (1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect in the consolidated statements of operations for the years ended December 31, 2016 and 2015:

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Operations			
For the Year Ended December 31, 2016			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (702)
Other contracts	Foreign exchange forward contracts	Other revenue	13
	TBAs	Principal transactions revenue	43
	TBA sale contracts	Other revenue	(8,650)
	TBA purchase contracts	Other revenue	924
	Interest rate lock commitments	Other revenue	5,268
	ARS purchase commitments	Principal transactions revenue	1,573
			<u>\$ (1,531)</u>

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Operations			
For the Year Ended December 31, 2015			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (1,472)
Other contracts	Foreign exchange forward contracts	Other revenue	25
	TBAs	Principal transactions revenue	(9)
	TBA sale contracts	Other revenue	440
	Interest rate lock commitments	Other revenue	1,884
	ARS purchase commitments	Principal transactions revenue	(467)
			<u>\$ 401</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

## 6. Collateralized transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions. Under these transactions, the Company either receives or provides collateral, including U.S. Government and Agency, asset-backed, corporate debt, equity, and non-U.S. Government and Agency securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. As of December 31, 2016, bank call loans were \$145.8 million (\$100.2 million as of December 31, 2015). As of December 31, 2016, such loans were collateralized by firm and customer securities with market values of approximately \$138.6 million and \$288.1 million, respectively, with commercial banks.

As of December 31, 2016, the Company had approximately \$1.2 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately \$136.2 million under securities loan agreements.

As of December 31, 2016, the Company had pledged \$284.0 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

As of December 31, 2016, the Company had no outstanding letters of credit.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

The following table presents a disaggregation of the gross obligation by the class of collateral pledged and the remaining contractual maturity of the repurchase agreements and securities loaned transactions as of December 31, 2016:

*(Expressed in thousands)*

	Overnight and Open
Repurchase agreements:	
U.S. Treasury and Agency securities	\$ 378,084
Securities loaned:	
Equity securities	179,875
Gross amount of recognized liabilities for repurchase agreements and securities loaned	<u>\$ 557,959</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The following tables present the gross amounts and the offsetting amounts of reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions as of December 31, 2016 and 2015:

As of December 31, 2016

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Reverse repurchase agreements	\$ 24,006	\$ —	\$ 24,006	\$ (23,972)	\$ —	\$ 34
Securities borrowed <sup>(1)</sup>	154,090	—	154,090	(150,510)	—	3,580
<b>Total</b>	<b>\$ 178,096</b>	<b>\$ —</b>	<b>\$ 178,096</b>	<b>\$ (174,482)</b>	<b>\$ —</b>	<b>\$ 3,614</b>

(1) Included in receivable from brokers, dealers and clearing organizations on the consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase agreements	\$ 378,084	\$ —	\$ 378,084	\$ (376,273)	\$ —	\$ 1,811
Securities loaned <sup>(2)</sup>	179,875	—	179,875	(171,991)	—	7,884
<b>Total</b>	<b>\$ 557,959</b>	<b>\$ —</b>	<b>\$ 557,959</b>	<b>\$ (548,264)</b>	<b>\$ —</b>	<b>\$ 9,695</b>

(2) Included in payable to brokers, dealers and clearing organizations on the consolidated balance sheet.

As of December 31, 2015

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Reverse repurchase agreements	\$ 282,042	\$ (75,543)	\$ 206,499	\$ (203,266)	\$ —	\$ 3,233
Securities borrowed <sup>(1)</sup>	224,672	—	224,672	(219,099)	—	5,573
<b>Total</b>	<b>\$ 506,714</b>	<b>\$ (75,543)</b>	<b>\$ 431,171</b>	<b>\$ (422,365)</b>	<b>\$ —</b>	<b>\$ 8,806</b>

(1) Included in receivable from brokers, dealers and clearing organizations on the consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase agreements	\$ 726,988	\$ (75,543)	\$ 651,445	\$ (645,498)	\$ —	\$ 5,947
Securities loaned <sup>(2)</sup>	130,658	—	130,658	(122,650)	—	8,008
<b>Total</b>	<b>\$ 857,646</b>	<b>\$ (75,543)</b>	<b>\$ 782,103</b>	<b>\$ (768,148)</b>	<b>\$ —</b>	<b>\$ 13,955</b>

(2) Included in payable to brokers, dealers and clearing organizations on the consolidated balance sheet.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. As of December 31, 2016, the fair value of the reverse repurchase agreements and repurchase agreements for which the fair value option was elected were \$24.0 million and \$nil, respectively.

The Company receives collateral in connection with securities borrowed and reverse repurchase agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or re-pledge the securities received (e.g., use the securities to enter into securities lending transactions, or deliver to counterparties to cover short positions). As of December 31, 2016, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$148.7 million (\$217.0 million as of December 31, 2015) and \$24.0 million (\$278.8 million as of December 31, 2015), respectively, of which the Company has sold and re-pledged approximately \$37.4 million (\$36.0 million as of December 31, 2015) under securities loaned transactions and \$24.0 million under repurchase agreements (\$278.8 million as of December 31, 2015).

The Company pledges certain of its securities owned for securities lending and repurchase agreements and to collateralize bank call loan transactions. The carrying value of pledged securities owned that can be sold or re-pledged by the counterparty was \$438.4 million, as presented on the face of the consolidated balance sheet as of December 31, 2016 (\$546.3 million as of December 31, 2015). The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or re-pledge the collateral was \$138.6 million as of December 31, 2016 (\$142.7 million as of December 31, 2015).

The Company manages credit exposure arising from repurchase and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate securities and the right to offset a counterparty's rights and obligations. The Company manages market risk of repurchase agreements and securities loaned by monitoring the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

### **Credit Concentrations**

Credit concentrations may arise from trading, investing, underwriting and financing activities and may be impacted by changes in economic, industry or political factors. In the normal course of business, the Company may be exposed to risk in the event customers, counterparties including other brokers and dealers, issuers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations. The Company seeks to mitigate these risks by actively monitoring exposures and obtaining collateral as deemed appropriate. Included in receivable from brokers, dealers and clearing organizations as of December 31, 2016 are receivables from two major U.S. broker-dealers totaling approximately \$55.0 million.

### *Warehouse Facilities*

The Company reached an agreement with RBS Citizens, NA ("Citizens") that was announced in July 2012, whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also in certain circumstances assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk-based formulas. Neither the Company nor Citizens is obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. As of December 31, 2016, there were no loans in place.

The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on the settlement date, generally one to three business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has clearing/participating arrangements with the National Securities Clearing Corporation ("NSCC"), the Fixed

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

Income Clearing Corporation ("FICC"), R.J. O'Brien & Associates (commodities transactions), Mortgage-Backed Securities and Clearing Corporation (a division of FICC) and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts as of December 31, 2016 are with the FICC. In addition, the Company clears its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through BNP Paribas Securities Services. The clearing organizations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. As of December 31, 2016, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

OMHHF, which historically was engaged in commercial mortgage origination and servicing, obtained an uncommitted warehouse facility line through PNC Bank ("PNC") under which OMHHF pledged FHA-guaranteed mortgages for a period averaging 15 business days and PNC provided a facility that allowed OMHHF to fund the loan at the closing table. Warehouse payable represents the warehouse line amount outstanding with PNC and is included in liabilities held for sale on the consolidated balance sheet and cash flows from operating activities in the consolidated statement of cash flows. OMHHF repays PNC upon the securitization of the mortgage by GNMA and the delivery of the security to the counter-party for payment pursuant to a contemporaneous sale on the date the mortgage is securitized. As of December 31, 2016, OMHHF had \$nil (\$54.3 million as of December 31, 2015) outstanding under the warehouse facility line at a variable interest rate of one month LIBOR plus a spread. The Company earns a spread between the interest earned on the loans originated by the Company and the interest incurred on amounts drawn from the warehouse facility. Interest expense for the year ended December 31, 2016 was \$387,000 (\$928,500 in 2015 and \$570,700 in 2014).

As discussed in Note 5, Fair value measurements, the Company enters into TBA sale contracts to offset exposures related to commitments to provide funding for FHA loans at OMHHF. In the normal course of business, the Company may be exposed to the risk that counterparties to these TBA sale contracts are unable to fulfill their contractual obligations.

## **7. Variable interest entities**

The Company's policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE.

For funds that the Company has concluded are not VIEs, the Company then evaluates whether the fund is a partnership or similar entity. If the fund is a partnership or similar entity, the Company evaluates the fund under the partnership consolidation guidance. Pursuant to that guidance, the Company consolidates funds in which it is the general partner, unless presumption of control by the Company can be overcome. This presumption is overcome only when unrelated investors in the fund have the substantive ability to liquidate the fund or otherwise remove the Company as the general partner without cause, based on a simple majority vote of unaffiliated investors, or have other substantive participating rights. If the presumption of control can be overcome, the Company accounts for its interest in the fund pursuant to the equity method of accounting.

The Company serves as general partner of hedge funds and private equity funds that were established for the purpose of providing investment alternatives to both its institutional and qualified retail clients. The Company holds variable interests in these funds as a result of its right to receive management and incentive fees. The Company's investment in and additional capital commitments to these hedge funds and private equity funds are also considered variable interests. The Company's additional capital commitments are subject to call at a later date and are limited in amount.

The Company assesses whether it is the primary beneficiary of the hedge funds and private equity funds in which it holds a variable interest in the form of general and limited partner interests. In each instance, the Company has determined that it is not the primary beneficiary and therefore need not consolidate the hedge funds or private equity funds. The subsidiaries' general and limited partnership interests, additional capital commitments, and management fees receivable represent its maximum exposure to loss. The subsidiaries' general partnership and limited partnership interests and management fees receivable are included in other assets on the consolidated balance sheet.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests as of December 31, 2016 and 2015:

*(Expressed in thousands)*

	As of December 31, 2016				
	Total VIE Assets <sup>(1)</sup>	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets <sup>(2)</sup>	Liabilities		
Hedge funds	\$ 296,807	\$ 706	\$ —	\$ —	\$ 706
Private equity funds	26,300	15	—	2	17
<b>Total</b>	<b>\$ 323,107</b>	<b>\$ 721</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 723</b>

- (1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.  
(2) Represents the Company's interests in the VIEs and is included in other assets on the consolidated balance sheet.

*(Expressed in thousands)*

	As of December 31, 2015				
	Total VIE Assets <sup>(1)</sup>	Carrying Value of the Company's Variable Interest		Capital Commitments	Maximum Exposure to Loss in Non-consolidated VIEs
		Assets <sup>(2)</sup>	Liabilities		
Hedge funds	\$ 1,775,503	\$ 1,354	\$ —	\$ —	\$ 1,354
Private equity funds	54,800	27	—	2	29
<b>Total</b>	<b>\$ 1,830,303</b>	<b>\$ 1,381</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 1,383</b>

- (1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.  
(2) Represents the Company's interests in the VIEs and is included in other assets on the consolidated balance sheet.

## 8. Commercial mortgage banking

The Commercial Mortgage Banking segment, which operates out of OMHHF, became a discontinued operation during second quarter of 2016. See Note 3 for further details.

### *Loan Origination Fees*

OMHHF recognizes origination fees and other direct origination costs when it enters into a rate lock commitment with the borrower. The origination fees and other direct origination costs are recognized when OMHHF enters into a commitment to sell loans to third parties. In accordance with Housing and Urban Development ("HUD") guidelines, OMHHF will, with HUD's approval and for certain loan programs, apply the premium income towards the payment of prepayment costs that customers will incur on their prior mortgage. These costs are netted with revenues from premium income that are otherwise earned from these loan refinancings or modifications. Prepayment costs recorded as contra-revenue against premium income was \$6.5 million for the year ended December 31, 2016 (\$25.7 million in 2015 and \$9.8 million in 2014).

### *Funding Commitments*

OMHHF provides its clients with commitments to fund FHA-insured permanent or constructions loans. Upon providing these commitments to fund, OMHHF enters into TBA sale contracts directly or indirectly with counterparties to offset its exposures related to these funding commitments. See Note 5, Fair value measurements, for more information.

### *Loans Held For Sale*

OMHHF advances funds from its own cash reserves in addition to obtaining financing through warehouse facilities in order to fund initial loan closing and subsequent construction loan draws. Prior to the GNMA securitization of a loan, a loan held for sale is recorded on the consolidated balance sheet. Loans held for sale are recorded at fair value through earnings.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Escrows Held in Trust*

Custodial escrow accounts relating to loans serviced by OMHHF totaled \$nil as of December 31, 2016 (\$421.5 million as of December 31, 2015). These amounts are not included on the consolidated balance sheets as such amounts are not OMHHF's assets. Certain cash deposits at financial institutions exceeded the FDIC-insured limits or other institutionally provided insurance. The combined uninsured balance with relation to escrow accounts as of December 31, 2016 was \$nil. OMHHF places these deposits with major financial institutions where it believes the risk is minimal and that meet or exceed GNMA required credit ratings.

The total unpaid principal balance of loans the Company was servicing for various institutional investors as of December 31, 2016 and 2015 was as follows:

*(Expressed in thousands)*

	2016	2015
Unpaid principal balance of loans	\$ —	\$ 3,974,292

*Mortgage Servicing Rights*

OMHHF purchases commitments or originates mortgage loans that are sold and securitized into GNMA mortgage backed securities. OMHHF retains the servicing responsibilities for the loans securitized and recognizes either a MSR asset or a MSR liability for that servicing contract. OMHHF receives monthly servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced.

OMHHF estimates the initial fair value of the servicing rights based on the present value of future net servicing income, adjusted for factors such as discount rate and prepayment. OMHHF uses the amortization method for subsequent measurement, subject to annual impairment. See Note 5, Fair value measurements, for more information.

The fair value of the servicing rights on the loan portfolio was \$nil and \$41.8 million as of December 31, 2016 and 2015, respectively (carrying value of \$nil and \$28.2 million as of December 31, 2016 and 2015, respectively). The following tables summarize the changes in carrying value of MSRs for the years ended December 31, 2016 and 2015:

*(Expressed in thousands)*

	For the Years Ended December 31,	
	2016	2015
Balance at beginning of year	\$ 28,168	\$ 30,140
Originations <sup>(1)</sup>	2,575	6,569
Purchases	478	799
Disposals <sup>(1)</sup>	(1,753)	(8,613)
Sale of MSRs	(28,182)	—
Amortization expense	(1,286)	(727)
Balance at end of year	\$ —	\$ 28,168

(1) Includes refinancings.



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The Company receives fees during the course of servicing the mortgage loans. The fees for the years ended December 31, 2016, 2015 and 2014 were as follows:

*(Expressed in thousands)*

	For the Years Ended December 31,		
	2016	2015	2014
Servicing fees	\$ 3,249	\$ 5,848	\$ 5,552
Ancillary fees	162	310	328
Total MSR fees	<u>\$ 3,411</u>	<u>\$ 6,158</u>	<u>\$ 5,880</u>

**9. Furniture, equipment and leasehold improvements**

*(Expressed in thousands)*

	For the Years Ended December 31,	
	2016	2015
Furniture, fixtures and equipment	\$ 55,210	\$ 75,704
Leasehold improvements	56,096	57,393
Total	<u>111,306</u>	<u>133,097</u>
Less accumulated depreciation	(84,073)	(104,812)
Total	<u>\$ 27,233</u>	<u>\$ 28,285</u>

Depreciation and amortization expense, included in occupancy and equipment costs in the consolidated statement of operations, was \$6.8 million, \$7.2 million and \$7.7 million in the years ended December 31, 2016, 2015 and 2014, respectively. In addition, the Company wrote-off fully depreciated furniture, fixtures and equipment that were no longer in use during 2016.

**10. Bank call loans**

Bank call loans, primarily payable on demand, bear interest at various rates but not exceeding the broker call rate, which was 2.50% at December 31, 2016 (2.25% at December 31, 2015). Details of the bank call loans are as follows:

*(Expressed in thousands, except percentages)*

	2016	2015
Year-end balance	\$ 145,800	\$ 100,200
Weighted interest rate (at end of year)	1.77%	1.56%
Maximum balance (at any month-end)	151,900	189,000
Average amount outstanding (during the year)	106,455	116,267
Average interest rate (during the year)	1.52%	1.28%

Interest expense for the year ended December 31, 2016 on bank call loans was \$1.7 million (\$1.5 million in 2015 and \$1.4 million in 2014).

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**11. Long-term debt**

*(Expressed in thousands)*

<b>Issued</b>	<b>Maturity Date</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Senior Secured Notes	4/15/2018	\$ 150,000	\$ 150,000
Unamortized Debt Issuance Cost		(648)	(1,132)
		<u>\$ 149,352</u>	<u>\$ 148,868</u>

On April 12, 2011, the Company completed the placement of \$200.0 million in aggregate principal amount of 8.75% Senior Secured Notes due April 15, 2018 (the "Notes") at par. The interest on the Notes is payable semi-annually on April 15th and October 15th. On April 15, 2014, the Company retired early a total of \$50.0 million (25%) of the Notes.

The indenture for the Notes contains covenants which place restrictions on the incurrence of indebtedness, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Notes provide for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. The Company's obligations under the Notes are guaranteed, subject to certain limitations. These guarantees may be shared, on a senior basis, under certain circumstances, with newly incurred debt outstanding in the future. As of December 31, 2016, the Company was in compliance with all of its covenants.

As discussed in Note 3, "Discontinued operations," during 2016, the Company sold substantially all of the assets of OMHHF and ceased its operations. Under the indenture for the Notes, OMHHF is a restricted subsidiary and the Company has pledged its equity interests in OMHHF as collateral for the Notes. Net proceeds received by the Company and restricted subsidiaries from asset sales must either be used within twelve months from the date of June 2, 2016 to make an offer to repurchase the Notes or to make an investment in Replacement Assets, as defined in the indenture or, if any such proceeds are not so applied, and the total thereof is at least \$15.0 million, the Company must offer to purchase Notes at par with an aggregate principal amount equal to the amount of such proceeds.

Interest expense for the year ended December 31, 2016 on the Notes was \$13.1 million (\$13.1 million in 2015 and \$14.3 million in 2014). Interest paid on the Notes for both the years ended December 31, 2016 and 2015 was \$13.1 million.

**12. Share capital**

The Company's authorized share capital consists of (a) 50,000,000 shares of Preferred Stock, par value \$0.001 per share; (b) 50,000,000 shares of Class A Stock, par value \$0.001 per share; and (c) 99,665 shares of Class B voting common stock ("Class B Stock"), par value \$0.001 per share. No Preferred Stock has been issued. 99,665 shares of Class B Stock have been issued and are outstanding.

The Class A Stock and the Class B Stock are equal in all respects except that the Class A Stock is non-voting.

The following table reflects changes in the number of shares of Class A Stock outstanding for the periods indicated:

	<b>2016</b>	<b>2015</b>
Class A Stock outstanding, beginning of year	13,238,486	13,530,688
Issued pursuant to shared-based compensation plans (Note 15)	283,471	131,524
Repurchased and canceled pursuant to the stock buy-back	(260,862)	(423,726)
Class A Stock outstanding, end of year	<u>13,261,095</u>	<u>13,238,486</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

*Stock buy-back*

On September 15, 2015, the Company announced that its board of directors approved a share repurchase program that authorizes the Company to purchase up to 665,000 shares of the Company's Class A Stock, representing approximately 5% of its 13,348,369 then issued and outstanding shares of Class A Stock ("New Program"). This authorization replaces the share repurchase program covering up to 675,000 shares of the Company's Class A Stock, which was announced on October 7, 2011 ("Previous Program"), pursuant to which 322,177 shares of the Company's Class A Stock were repurchased and canceled prior to December 31, 2014. During the nine months ended September 30, 2015, the Company purchased and canceled an additional 328,844 shares of Class A Stock for a total consideration of \$6.6 million (\$20.12 per share) under the Previous Program. The 23,979 remaining shares available under the Previous Program have been replaced by the shares available under the New Program. During the fourth quarter of 2015, the Company purchased and canceled an aggregate of 94,882 shares of Class A Stock for a total consideration of \$1.6 million (\$17.20 per share) under the New Program.

During the year ended December 31, 2016, the Company purchased and canceled an aggregate of 260,862 shares of Class A Stock for a total consideration of \$3.9 million (\$15.09 per share) under the New Program. As of December 31, 2016, 309,256 shares were available to be purchased under the New Program.

Any such share purchases will be made by the Company from time to time in the open market at the prevailing open market price using cash on hand, in compliance with the applicable rules and regulations of the New York Stock Exchange and federal and state securities laws and the terms of the Company's senior secured debt. All shares purchased will be canceled. The share repurchase program is expected to continue indefinitely. The timing and amounts of any purchases will be based on market conditions and other factors including price, regulatory requirements and capital availability. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of Class A non-voting common shares. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

*Dividends*

The Company paid cash dividends of \$0.44 per share to holders of Class A and Class B Stock in 2016, 2015 and 2014.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**13. Earnings per share**

Basic earnings per share is computed by dividing net income attributable to Oppenheimer Holdings Inc. by the weighted average number of shares of Class A Stock and Class B Stock outstanding. Diluted earnings per share includes the weighted average number of shares of Class A Stock and Class B Stock outstanding and options to purchase the Class A Stock and unvested restricted stock awards of Class A Stock using the treasury stock method.

Earnings per share have been calculated as follows:

*(Expressed in thousands, except number of shares and per share amounts)*

	For the Year Ended December 31,		
	2016	2015	2014
Basic weighted average number of shares outstanding	13,368,768	13,640,610	13,604,258
Net dilutive effect of share-based awards, treasury method <sup>(1)</sup>	—	—	646,405
Diluted weighted average number of shares outstanding	13,368,768	13,640,610	14,250,663
Net income (loss) from continuing operations	\$ (9,630)	\$ (2,834)	\$ 5,056
Net income from discontinued operations	10,121	5,732	4,505
Net income	491	2,898	9,561
Net income attributable to noncontrolling interest, net of tax	1,652	936	735
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$ (1,161)	\$ 1,962	\$ 8,826
Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.			
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.37
Discontinued operations <sup>(2)</sup>	0.63	0.35	0.28
Net income (loss) per share	\$ (0.09)	\$ 0.14	\$ 0.65
Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc.			
Continuing operations	\$ (0.72)	\$ (0.21)	\$ 0.36
Discontinued operations <sup>(2)</sup>	0.63	0.35	0.26
Net income (loss) per share	\$ (0.09)	\$ 0.14	\$ 0.62

- (1) For the year ended December 31, 2016, the diluted earnings per share computation does not include the anti-dilutive effect of 1,237,134 shares of Class A Stock granted under share-based compensation arrangements (1,269,585 and 43,008 shares for the years ended December 31, 2015 and 2014, respectively).
- (2) Represents net income from discontinued operations less net income attributable to noncontrolling interest, net of tax divided by weighted average number of shares outstanding.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

#### 14. Income taxes

The income tax provision from continuing operations shown in the consolidated statements of operations is reconciled to amounts of tax that would have been payable (recoverable) from the application of the federal tax rate to pre-tax profit, as follows:

*(Expressed in thousands)*

	For the Years Ended December 31,					
	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
U.S. federal statutory income tax rate	\$ (7,662)	35.0%	\$ (851)	35.0%	\$ 6,017	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	(1,075)	4.9%	(69)	2.8%	1,432	8.3%
Unrecognized tax benefit	(603)	2.8%	589	-24.3%	6	—%
Valuation allowance	1,208	-5.5%	—	—%	—	—%
Non-taxable income	(1,267)	5.8%	(696)	28.7%	(593)	-3.4%
Non-deductible legal and regulatory expenses	—	—%	—	—%	5,296	30.8%
Provision to return adjustments	(4,167)	19.0%	442	-18.2%	(3)	—%
Change in tax rates	264	-1.2%	305	-12.5%	53	0.3%
Foreign tax rate differentials	143	-0.7%	145	-6.0%	(447)	-2.6%
Other non-deductible expenses	897	-4.1%	541	-22.2%	373	2.2%
<b>Total income tax provision</b>	<b><u><u>\$ (12,262)</u></u></b>	<b><u><u>56.0%</u></u></b>	<b><u><u>\$ 406</u></u></b>	<b><u><u>-16.7%</u></u></b>	<b><u><u>\$ 12,134</u></u></b>	<b><u><u>70.6%</u></u></b>

Income taxes from continuing operations included in the consolidated statements of operations represent the following:

*(Expressed in thousands)*

	For the Years Ended December 31,		
	2016	2015	2014
<b>Current:</b>			
U.S. federal tax (benefit)	\$ (15,433)	\$ (5,751)	\$ 9,294
State and local tax	(4,631)	(74)	817
Non-U.S. operations	46	181	(264)
<b>Total Current</b>	<b><u>(20,018)</u></b>	<b><u>(5,644)</u></b>	<b><u>9,847</u></b>
<b>Deferred:</b>			
U.S. federal tax	5,856	4,198	(529)
State and local tax	617	1,632	1,529
Non-U.S. operations	1,283	220	1,287
<b>Total Deferred</b>	<b><u>7,756</u></b>	<b><u>6,050</u></b>	<b><u>2,287</u></b>
<b>Total</b>	<b><u><u>\$ (12,262)</u></u></b>	<b><u><u>\$ 406</u></u></b>	<b><u><u>\$ 12,134</u></u></b>

Income (loss) before income taxes from continuing operations with respect to Non-U.S. operations was \$(965,000), \$732,000 and \$4.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The effective income tax rate from continuing operations for the year ended December 31, 2016 was 56.0% (benefit) compared with 16.7% for the year ended December 31, 2015. The effective income tax rate for the year ended December 31, 2016 was positively impacted by income tax provision to tax return true-ups and higher nontaxable benefits received with respect to Company-owned life insurance partially offset by the valuation allowance established on deferred tax assets related to net operating losses of a foreign subsidiary. The effective income tax rate for the year ended December 31, 2015 was negatively impacted by increases in provisions related to positions taken on state income tax returns as well as income tax provision to tax return true-ups that were recorded during the year.

U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside the United States. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. The amount of such taxable temporary differences totaled \$20.3 million as of December 31, 2016. The unrecognized deferred tax liability associated with earnings of foreign subsidiaries, net of associated U.S. foreign tax credits, is \$2.3 million for those subsidiaries with respect to which the Company would be subject to residual U.S. tax on cumulative earnings through 2016 were those earnings to be repatriated.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities from continuing operations as of December 31, 2016 and 2015 were as follows:

*(Expressed in thousands)*

	As of December 31,	
	2016	2015
<b>Deferred tax assets:</b>		
Deferred compensation	\$ 26,271	\$ 27,423
Deferred rent and lease incentives	15,354	16,437
Receivable reserves	3,554	4,478
Accrued expenses	1,992	3,350
Auction rate securities reserves	1,194	2,666
Net operating losses and credits	4,917	4,164
Involuntary conversion	2,381	2,245
Depreciation	1,446	—
Other	1,953	2,718
<b>Total deferred tax assets</b>	<b>59,062</b>	<b>63,481</b>
Valuation allowance	1,280	126
<b>Deferred tax assets after valuation allowance</b>	<b>57,782</b>	<b>63,355</b>
<b>Deferred tax liabilities:</b>		
Goodwill	57,117	53,364
Partnership investments	6,042	7,444
Company-owned life insurance	7,478	6,431
Change in accounting method	—	1,313
Depreciation	—	672
Other	282	248
<b>Total deferred tax liabilities</b>	<b>70,919</b>	<b>69,472</b>
<b>Deferred tax liabilities, net</b>	<b>\$ (13,137)</b>	<b>\$ (6,117)</b>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The Company has deferred tax assets at December 31, 2016 of \$1.1 million, \$1.2 million and \$397,000 arising from net operating losses incurred by Oppenheimer Israel (OPCO) Ltd., Oppenheimer Investments Asia Limited, and Oppenheimer Europe Ltd., respectively. The Company believes that realization of the deferred tax assets is more likely than not based on expectations of future taxable income in Israel and Europe. These net operating losses carry forward indefinitely and are not subject to expiration, provided that these subsidiaries and their underlying businesses continue operating normally (as is anticipated). During the year ended December 31, 2016, the Company recorded a valuation allowance of \$1.2 million against the deferred tax asset to the net operating losses incurred by Oppenheimer Investments Asia Limited.

Goodwill arising from the acquisitions of Josephthal Group Inc. and the Oppenheimer Divisions is being amortized for tax purposes on a straight-line basis over 15 years. The difference between book and tax is recorded as a deferred tax liability.

The Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and in various states and foreign jurisdictions. The Company has closed tax years through 2010 in the U.S. federal jurisdiction.

The Company is under examination in various states in which the Company has significant business operations. The Company has closed tax years through 2007 for New York State and has a settlement agreement with the state for the period 2008 to 2010. The Company also has closed tax years through 2008 with New York City and is currently under exam for the 2009 to 2012 tax years. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2010. The Company is currently under examination for the 2013 federal tax return.

The Company has unrecognized tax benefits of \$1.1 million, \$2.5 million and \$1.6 million as of December 31, 2016, 2015 and 2014, respectively from continuing operations (as shown on the table below). Included in the balance of unrecognized tax benefits as of December 31, 2016 and 2015 are \$710,000 and \$1.8 million of tax benefits for either year that, if recognized, would affect the effective tax rate.

During the year ended December 31, 2016, the Company reversed \$652,000 of unrecognized tax benefit when the related statute of limitation expired. The Company reversed \$848,000 of unrecognized tax benefit when the Company entered into a non cash settlement agreement with New York State which resulted in a reduction of deferred tax assets. The Company does not believe any unrecognized tax benefit will significantly increase or decrease within twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefit follows:

*(Expressed in thousands)*

	2016	2015	2014
Balance at beginning of year	\$ 2,490	\$ 1,583	\$ 1,574
Additions for tax positions of prior years	98	907	—
Additions for tax positions of current year	—	—	9
Lapse in statute of limitations	(652)	—	—
Settlements with taxing authorities	(848)	—	—
Balance at end of year	<u>\$ 1,088</u>	<u>\$ 2,490</u>	<u>\$ 1,583</u>

In its consolidated statements of operations, the Company records interest and penalties accruing on unrecognized tax benefits in income (loss) before income taxes as interest expense and other expense, respectively. For the year ended December 31, 2016, the Company reversed income tax interest payable of \$104,000 accrued on unrecognized tax benefits that were reversed during the year. For the year ended December 31, 2015, the Company recorded tax-related interest expense of \$23,000, in its consolidated statement of operations. As of December 31, 2016 and 2015, the Company had an income tax-related interest payable of \$1,000 and \$106,000, respectively, on its consolidated balance sheets.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**15. Employee compensation plans**

The Company maintains various employee compensation plans for the benefits of its employees. The two types of employee compensation are granted under share-based compensation and cash-based compensation plans.

**Share-based Compensation**

***Equity Incentive Plan***

Under the Company's 2006 Equity Incentive Plan, adopted December 11, 2006 and amended December 2011, and its 1996 Equity Incentive Plan, as amended March 10, 2005 (together "EIP"), the Compensation Committee of the Board of Directors of the Company could grant options to purchase Class A Stock, Class A Stock awards and restricted Class A Stock awards to officers and key employees of the Company and its subsidiaries. Options were generally granted for a five-year term and generally vest at the rate of 25% of the amount granted on the second anniversary of the grant, 25% on the third anniversary of the grant, 25% on the fourth anniversary of the grant and 25% six months before expiration. The EIP has been amended, restated and replaced by the OIP, discussed below.

***Employee Share Plan***

On March 10, 2005, the Company approved the Oppenheimer & Co. Inc. Employee Share Plan ("ESP") for employees of the Company and its subsidiaries to attract, retain and provide incentives to key management employees. The Compensation Committee of the Board of Directors of the Company could grant Class A Stock awards and restricted Class A Stock awards pursuant to the ESP. ESP awards were generally awarded for a three or five year term which fully vest at the end of the term. The ESP has been amended, restated and replaced by the OIP, discussed below.

***Oppenheimer Holdings Inc. 2014 Incentive Plan***

On February 26, 2014, the Company adopted the Oppenheimer Holdings Inc. 2014 Incentive Plan (the "OIP"). The OIP amends, restates and replaces two separate plans previously in place, the EIP and ESP (the "Prior Plans"), as described above. The OIP permits the Company to grant options to purchase Class A Stock, Class A Stock awards and restricted Class A Stock to or for the benefit of employees and non-employee directors of the Company and its affiliates as part of their compensation. After February 26, 2014, no additional awards could be made under the Prior Plans, although outstanding awards previously made under the Prior Plans continue to be governed by the terms of the applicable Prior Plan.

***Oppenheimer Holdings Inc. Stock Appreciation Right Plan***

Under the Oppenheimer Holdings Inc. Stock Appreciation Right Plan, the Company awards stock appreciation rights ("OARs") to certain employees as part of their compensation package based on a formula reflecting gross production and length of service. These awards are granted once per year in January with respect to the prior year's production. The OARs vest five years from grant date and settle in cash at vesting.

**Restricted stock** - The Company has granted restricted stock awards pursuant to the EIP, ESP and OIP. The following table summarizes the status of the Company's non-vested restricted Class A Stock awards under the EIP, ESP and OIP for the year ended December 31, 2016:

	Number of Class A Shares Subject to Restricted Stock Awards	Weighted Average Fair Value	Remaining Contractual Life
<b>Nonvested at beginning of year</b>	1,257,558	\$ 19.29	1.7 Years
Granted	408,207	12.63	3.2 Years
Vested	(377,011)	19.38	—
Forfeited	(65,221)	17.99	—
<b>Nonvested at end of year</b>	<b>1,223,533</b>	<b>\$ 17.11</b>	<b>2.1 Years</b>



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

As of December 31, 2016, all outstanding restricted Class A Stock awards were non-vested. The aggregate intrinsic value of restricted Class A Stock awards outstanding as of December 31, 2016 was approximately \$22.8 million. The aggregate intrinsic value of restricted Class A Stock awards that are expected to vest is \$22.0 million as of December 31, 2016. During the year ended December 31, 2016, the Company included approximately \$5.2 million (\$4.6 million in 2015 and \$5.6 million in 2014) of compensation expense in its consolidated statements of operations relating to restricted Class A Stock awards.

As of December 31, 2016, there was approximately \$8.3 million of total unrecognized compensation cost related to unvested restricted Class A Stock awards. The cost is expected to be recognized over a weighted average period of 2.1 years.

As of December 31, 2016, the number of shares of Class A Stock available under the share-based compensation plans, but not yet awarded, was 537,841.

On January 26, 2017, the Company awarded a total of 343,500 restricted shares of Class A Stock to current employees pursuant to the OIP. These restricted shares will cliff vest in three years and will be expensed over the three year vesting period.

On February 23, 2017, the Company awarded 24,500 restricted shares of Class A Stock to its non-employee directors under the OIP. These shares of Class A Stock will vest as follows: 25% on August 22, 2017, 2018, 2019 and 2020.

On February 23, 2017, the Company awarded a total of 64,100 restricted shares of Class A Stock to current employees pursuant to the OIP. These restricted shares will cliff vest in three years and will be expensed over the three year vesting period.

**Stock options** - The Company has granted stock options pursuant to the EIP and OIP. There were 13,601 and 12,027 options outstanding as of December 31, 2016 and 2015, respectively.

In the year ended December 31, 2016, the Company included approximately \$19,900 (\$69,900 in 2015 and \$133,600 in 2014) of compensation expense in its consolidated statement of operations relating to the expensing of stock options.

On February 23, 2017, the Company awarded a total of 3,439 options to purchase Class A Stock to current employees pursuant to the OIP. These options will be expensed over 4.5 years (the vesting period).

**OARs** - The Company has awarded OARs pursuant to the Oppenheimer Holdings Inc. Stock Appreciation Right Plan. The following table summarized the status of the Company's outstanding OARs awards as of December 31, 2016:

Grant Date	Number of OARs Outstanding	Strike Price	Remaining Contractual Life	Fair Value as of December 31, 2016
January 19, 2012	305,660	\$ 18.94	18 Days	\$ 0.25
January 14, 2013	325,700	15.94	1 Year	4.17
January 14, 2014	414,070	23.48	2 Years	2.22
January 9, 2015	467,940	21.94	3 Years	3.08
January 6, 2016	461,240	15.89	4 Years	5.33
	<u>1,974,610</u>			
Total weighted average values		\$ 19.40	2.3 Years	\$ 3.17

As of December 31, 2016, all outstanding OARs were unvested. As of December 31, 2016, the aggregate intrinsic value of OARs outstanding and expected to vest was \$2.1 million. In the year ended December 31, 2016, the Company included approximately \$1.0 million (\$1.8 million of net credit in 2015 and \$380,100 in 2014) in compensation expense in its consolidated statement of operations relating to OARs awards. The liability related to the OARs was approximately \$2.7 million as of December 31, 2016.

As of December 31, 2016, there was approximately \$3.2 million of total unrecognized compensation cost related to unvested OARs. The cost is expected to be recognized over a weighted average period of 2.3 years.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

On January 6, 2017, 443,630 OARs were awarded to Oppenheimer employees related to fiscal 2016 performance. These OARs will be expensed over 5 years (the vesting period).

### Cash-based Compensation Plan

#### Defined Contribution Plan

The Company, through its subsidiaries, maintains a defined contribution plan covering substantially all full-time U.S. employees. The Oppenheimer & Co. Inc. 401(k) Plan provides that Oppenheimer may make discretionary contributions. Eligible Oppenheimer employees could make voluntary contributions which could not exceed \$18,000, \$18,000 and \$17,500 per annum in 2016, 2015 and 2014, respectively. The Company made contributions to the 401(k) Plan of \$1.3 million, \$1.6 million and \$1.2 million in 2016, 2015 and 2014, respectively.

#### Deferred Compensation Plans

The Company maintains an Executive Deferred Compensation Plan ("EDCP") and a Deferred Incentive Plan ("DIP") in order to offer certain qualified high-performing financial advisers a bonus based upon a formula reflecting years of service, production, net commissions and a valuation of their clients' assets. The bonus amounts resulted in deferrals in fiscal 2016 of approximately \$7.7 million (\$8.3 million in 2015 and \$8.6 million in 2014). These deferrals normally vest after five years. The liability is being recognized on a straight-line basis over the vesting period. The EDCP also includes voluntary deferrals by senior executives that are not subject to vesting. The Company maintains a Company-owned life insurance policy, which is designed to offset approximately 60% of the EDCP liability. The EDCP liability is being tracked against the value of a benchmark investment portfolio held for this purpose. As of December 31, 2016, the Company's liability with respect to the EDCP and DIP totaled \$49.7 million and is included in accrued compensation on the consolidated balance sheet as of December 31, 2016.

In addition, the Company is maintaining a deferred compensation plan on behalf of certain employees who were formerly employed by CIBC World Markets. The liability is being tracked against the value of an investment portfolio held by the Company for this purpose and, therefore, the liability fluctuates with the fair value of the underlying portfolio. As of December 31, 2016, the Company's liability with respect to this plan totaled \$15.0 million.

The total amount expensed in 2016 for the Company's deferred compensation plans was \$11.8 million (\$8.6 million in 2015 and \$11.4 million in 2014).

## 16. Commitments and contingencies

### Commitments

The Company and its subsidiaries have operating leases for office space, equipment and furniture and fixtures expiring at various dates through 2028. Future minimum rental commitments under such office and equipment leases as of December 31, 2016 are as follows:

*(Expressed in thousands)*

2017	\$	40,751
2018		39,204
2019		34,149
2020		26,150
2021		22,341
2022 and thereafter		100,402
	<u>\$</u>	<u>262,997</u>

The above table includes operating leases which have been signed by the Company's subsidiary, Viner Finance Inc., in which the Company is responsible for rent charges associated with its occupancy.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

Certain of the leases contain provisions for rent increases based on changes in costs incurred by the lessor.

The Company's rent expense for the year ended December 31, 2016 was \$44.4 million (\$45.9 million in 2015 and \$45.6 million in 2014).

As of December 31, 2016, the Company had capital commitments of approximately \$1.3 million with respect to unfunded obligations in private equity funds sponsored by the Company.

As of December 31, 2016, the Company had no collateralized or uncollateralized letters of credit outstanding.

### **Contingencies**

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been named as defendant or co-defendant in various legal actions, including arbitrations, class actions, and other litigation, creating substantial exposure. Certain of the actual or threatened legal matters include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The investigations include, among other things, inquiries from the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority ("FINRA") and various state regulators.

The Company accrues for estimated loss contingencies related to legal and regulatory matters when available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses.

For certain legal and regulatory proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial, indeterminate or special damages. Numerous issues may need to be reviewed, analyzed or resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or range of loss or additional loss can be reasonably estimated for any proceeding. Even after lengthy review and analysis, the Company, in many legal and regulatory proceedings, may not be able to reasonably estimate possible losses or range of loss.

For certain other legal and regulatory proceedings, the Company can estimate possible losses, or range of loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses individually, or in the aggregate, will have a material adverse effect on the Company's consolidated financial statements as a whole.

For legal and regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to \$47.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where an estimate for such losses can be made. For certain cases, the Company does not believe that an estimate can currently be made. The foregoing estimate is based on various factors, including the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

In February 2010, Oppenheimer finalized settlements with the Regulators concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of December 31, 2016, the Company had \$5.0 million of outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of December 31, 2016, the Company purchased and holds (net of redemptions) approximately \$88.1 million in ARS from its clients. In addition, the Company is committed to purchase another \$26.0 million in ARS from clients through 2020 under legal settlements and awards.

The Company's purchases of ARS from its clients holding ARS eligible for repurchase will, subject to the terms and conditions of the settlements with the Regulators, continue on a periodic basis. Pursuant to these terms and conditions, the Company is required to conduct a financial review every six months, until the Company has extended Purchase Offers to all Eligible Investors (as defined), to determine whether it has funds available, after giving effect to the financial and regulatory capital constraints applicable to the Company, to extend additional Purchase Offers. The financial review is based on the Company's operating results, regulatory net capital, liquidity, and other ARS purchase commitments outstanding under legal settlements and awards (described below). There are no predetermined quantitative thresholds or formulas used for determining the final agreed upon amount for the Purchase Offers. Upon completion of the financial review, the Company first meets with its primary regulator, FINRA, and then with representatives of the NYAG and other regulators to present the results of the review and to finalize the amount of the next Purchase Offer. Various offer scenarios are discussed in terms of which Eligible Investors should receive a Purchase Offer. The primary criteria to date in terms of determining which Eligible Investors should receive a Purchase Offer has been the amount of household account equity each Eligible Investor had with the Company in February 2008. Once various Purchase Offer scenarios have been discussed, the regulators, not the Company, make the final determination of which Purchase Offer scenario to implement. The terms of settlements provide that the amount of ARS to be purchased during any period shall not risk placing the Company in violation of regulatory requirements.

Eligible Investors for future buybacks continued to hold approximately \$33.4 million of ARS principal value as of December 31, 2016. It is reasonably possible that some ARS Purchase Offers will need to be extended to Eligible Investors holding ARS prior to redemptions (or tender offers) by issuers of the full amount that remains outstanding. The potential additional losses that may result from entering into ARS purchase commitments with Eligible Investors for future buybacks represents the estimated difference between the principal value and the fair value. It is possible that the Company could sustain a loss of all or substantially all of the principal value of ARS still held by Eligible Investors but such an outcome is highly unlikely. The amount of potential additional losses resulting from entering into these commitments cannot be reasonably estimated due to the uncertainties surrounding the amounts and timing of future buybacks that result from the six-month financial review and the amounts, scope, and timing of future issuer redemptions and tender offers of ARS held by Eligible Investors. The range of potential additional losses related to valuation adjustments is between \$0 and the amount of the estimated differential between the principal value and the fair value of ARS held by Eligible Investors for future buybacks that were not yet purchased or committed to be purchased by the Company at any point in time. The range of potential additional losses described here is not included in the estimated range of aggregate loss in excess of amounts accrued for legal and regulatory proceedings described above.

Outside of the settlements with the Regulators, the Company has also reached various legal settlements with clients and received unfavorable legal awards requiring it to purchase ARS. The terms and conditions including the ARS amounts committed to be purchased under legal settlements and awards are based on the specific facts and circumstances of each legal proceeding. In most instances, the purchase commitments are in increments and extend over a period of time. As of December 31, 2016, there were no ARS purchase commitments related to legal settlements extending past 2020.

The Company has sought, with limited success, financing from a number of sources to try to find a means for all its clients to find liquidity from their ARS holdings and will continue to do so. There can be no assurance that the Company will be successful in finding a liquidity solution for all its clients' ARS.

On January 27, 2015, the SEC approved an Offer of Settlement from Oppenheimer and issued an Order Instituting Administrative and Cease and Desist Proceedings (the "Order"). Pursuant to the Order, Oppenheimer was ordered to (i) cease and desist from committing or causing any violations of the relevant provisions of the federal securities laws; (ii) be censured; (iii) pay to the SEC \$10.0 million comprised of \$4.2 million in disgorgement, \$753,500 in prejudgment interest and \$5.1 million in civil penalties; and (iv) retain an independent consultant to review Oppenheimer's policies and procedures relating to anti-money laundering and Section 5 of the Securities Act of 1933.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

Oppenheimer made a payment of \$5.0 million to the SEC on February 17, 2015 and agreed to make a second payment of \$5.0 million to the SEC before January 27, 2017 which payment was made to the SEC on January 26, 2017.

On the same date the Order was issued, a division of the United States Department of the Treasury ("FinCEN") issued a Civil Monetary Assessment (the "Assessment") against Oppenheimer relating to potential violations of the Bank Secrecy Act ("BSA") and the regulations promulgated thereunder related primarily to, in the Company's view, the SEC matter discussed immediately above. Pursuant to the terms of the Assessment, Oppenheimer admitted that it violated the BSA and consented to the payment of a civil money penalty, which, as a result of the payments to the SEC described above, obligates Oppenheimer to make an aggregate payment of \$10.0 million to FinCEN. On February 9, 2015, Oppenheimer made a payment of \$5.0 million to FinCEN and has agreed to make a second payment of \$5.0 million before January 27, 2017 which payment was made to FinCEN on January 26, 2017.

Since early 2014, Oppenheimer has been responding to information requests from FINRA regarding the supervision of one of its former financial advisers who was indicted by the United States Attorney's Office for the District of New Jersey in March 2014 on allegations of insider trading. In August 2014, Oppenheimer received information requests from the SEC regarding supervision of the same financial adviser. A number of Oppenheimer employees have provided on-the-record testimony in connection with the SEC inquiry. Oppenheimer is continuing to cooperate with both the FINRA and SEC inquiries.

In September 2016, Oppenheimer received a "Wells Notice" from FINRA regarding potential violations of (i) FINRA Rule 4530 for failing to make timely filings under certain sub-paragraphs of that Rule, (ii) FINRA Rules 1122 and 2010 for failure to timely file two U/4 amendments timely, (iii) FINRA Rules 3010 and 3110 for failing to maintain a supervisory system and written supervisory procedures reasonably designed to prevent the foregoing and (iv) FINRA Rule 2010 and 2110 for associated violations.

In November 2016, Oppenheimer entered into a settlement with FINRA regarding each of the issues in the preceding paragraph as well as a FINRA inquiry into the purchase of Class A, B and C mutual fund shares by not-for-profit organizations and certain qualified retirement plans pursuant to which Oppenheimer, to settle all four issues, agreed to pay a fine of \$1.6 million and to pay restitution to eligible clients in an amount of approximately \$1.8 million.

## 17. Regulatory requirements

The Company's U.S. broker dealer subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule") promulgated under the Securities Exchange Act of 1934. Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. As of December 31, 2016, the net capital of Oppenheimer as calculated under the Rule was \$142.5 million or 13.98% of Oppenheimer's aggregate debit items. This was \$122.1 million in excess of the minimum required net capital at that date. Freedom computes its net capital requirement under the basic method provided for in the Rule, which requires that Freedom maintain net capital equal to the greater of \$100,000 or 6-2/3% of aggregate indebtedness, as defined. As of December 31, 2016, Freedom had net capital of \$5.8 million, which was \$5.7 million in excess of the \$100,000 required to be maintained at that date.

New Basel III requirements being implemented in the European Union have changed how capital adequacy is reported under the Capital Requirements Directive (CRD IV), effective January 1, 2014, for Oppenheimer Europe Ltd. As of December 31, 2016, the capital required and held under CRD IV was as follows:

- Common Equity Tier 1 ratio 11.97% (required 4.5%);
- Tier 1 Capital ratio 11.97% (required 6.0%); and
- Total Capital ratio 13.40% (required 8.0%).

As of December 31, 2016, the regulatory capital of Oppenheimer Investments Asia Limited was \$2.4 million, which was \$2.0 million in excess of the \$387,000 required to be maintained on that date. Oppenheimer Investments Asia Limited computes its regulatory capital pursuant to the requirements of the Securities and Futures Commission in Hong Kong.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**18. Goodwill and intangibles**

*Goodwill*

The Company's goodwill of \$137.9 million resides in its PCD reporting unit. Due to a decrease in the Company's stock price, persistently low short-term interest rates, as well as the continued declining trend in transaction-based retail commissions and financial advisers headcount in the PCD, the Company performed an interim goodwill impairment analysis as of August 31, 2016, which did not result in any impairment charges. The PCD reporting unit had an estimated fair value that was in excess of its carrying value.

The Company performed its annual test for goodwill impairment as of December 31, 2016 and 2015, which did not result in any impairment charges. At each annual goodwill impairment testing date, the PCD reporting unit had a fair value that was substantially in excess of its carrying value.

*Intangible Assets*

Indefinite intangible assets are comprised of trademarks and trade names. Trademarks and trade names, carried at \$31.7 million, which are not amortized, are subject to at least an annual test for impairment to determine if the estimated fair value is less than their carrying amount. Trademarks and trade names recorded as of December 31, 2016 and 2015 have been tested for impairment and it has been determined that no impairment has occurred. At each annual intangible assets impairment testing date, the trademarks and trade names had a fair value that was substantially in excess of its carrying value.

**19. Segment information**

The Company has determined its reportable segments based on the Company's method of internal reporting, which disaggregates its retail business by branch and its proprietary and investment banking businesses by product. The Company evaluates the performance of its segments and allocates resources to them based upon profitability.

The Company's reportable segments are:

**Private Client** - includes commissions and a proportionate amount of fee income earned on AUM, net interest earnings on client margin loans and cash balances, fees from money market funds, net contributions from stock loan activities and financing activities, and direct expenses associated with this segment;

**Asset Management** - includes a proportionate amount of fee income earned on AUM from investment management services of Oppenheimer Asset Management Inc. Oppenheimer's asset management divisions employ various programs to professionally manage client assets either in individual accounts or in funds, and includes direct expenses associated with this segment;

**Capital Markets** - includes investment banking, institutional equities sales, trading, and research, taxable fixed income sales, trading, and research, public finance and municipal trading, as well as the Company's operations in the United Kingdom, Hong Kong and Israel, and direct expenses associated with this segment; and

**Corporate/Other** - the Company does not allocate costs associated with certain infrastructure support groups that are centrally managed for its reportable segments. These areas include, but are not limited to, legal, compliance, operations, accounting, and internal audit. Costs associated with these groups are separately reported in a Corporate/Other category and primarily include compensation and benefits.

The Commercial Mortgage Banking segment was discontinued during the second quarter of 2016. See Note 3 for further details.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

The table below presents information about the reported revenue and income (loss) before income taxes from continuing operations of the Company for the years ended December 31, 2016, 2015 and 2014. Asset information by reportable segment is not reported, since the Company does not produce such information for internal use by the chief operating decision maker.

*(Expressed in thousands)*

	For the Year Ended December 31,		
	2016	2015	2014
<b>Revenue</b>			
Private client <sup>(1)</sup>	\$ 504,192	\$ 521,526	\$ 582,364
Asset management <sup>(1)</sup>	92,852	97,121	99,964
Capital markets	254,933	279,589	298,597
Corporate/Other	5,802	(435)	210
Total	<u>\$ 857,779</u>	<u>\$ 897,801</u>	<u>\$ 981,135</u>
<b>Income (loss) before income taxes</b>			
Private client <sup>(1)</sup>	\$ 66,072	\$ 59,016	\$ 60,116
Asset management <sup>(1)</sup>	31,412	33,133	33,707
Capital markets	(17,713)	5,167	17,819
Corporate/Other	(101,663)	(99,744)	(94,452)
Total	<u>\$ (21,892)</u>	<u>\$ (2,428)</u>	<u>\$ 17,190</u>

(1) Asset management fees are allocated 22.5% to the Asset Management and 77.5% to the Private Client segments.

Revenue, classified by the major geographic areas in which it was earned for the years ended December 31, 2016, 2015 and 2014 was as follows:

*(Expressed in thousands)*

	Year Ended December 31,		
	2016	2015	2014
Americas	\$ 815,231	\$ 853,221	\$ 932,032
Europe/Middle East	39,048	40,603	43,087
Asia	3,500	3,977	6,016
Total	<u>\$ 857,779</u>	<u>\$ 897,801</u>	<u>\$ 981,135</u>

**20. Subsequent events**

On January 27, 2017, the Company announced a quarterly dividend in the amount of \$0.11 per share, paid on February 24, 2017 to holders of Class A Stock and Class B Stock of record on February 10, 2017.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

**21. Quarterly information (unaudited)**

*(Expressed in thousands, except per share amounts)*

For the Year Ended December 31, 2016	Fiscal Quarters				Year
	Fourth	Third	Second	First	
Revenue	\$ 218,945	\$ 211,804	\$ 212,074	\$ 214,956	\$ 857,779
Expenses	226,441	213,614	217,320	222,296	879,671
Loss before income taxes from continuing operations	(7,496)	(1,810)	(5,246)	(7,340)	(21,892)
Income taxes	(5,072)	(751)	(2,627)	(3,812)	(12,262)
Net loss from continuing operations	(2,424)	(1,059)	(2,619)	(3,528)	(9,630)
Net income from discontinued operations	759	413	9,330	(381)	10,121
Net income (loss)	(1,665)	(646)	6,711	(3,909)	491
Less net income attributable to noncontrolling interest, net of tax	125	66	1,523	(62)	1,652
Net income (loss) attributable to Oppenheimer Holdings Inc.	<u>\$ (1,790)</u>	<u>\$ (712)</u>	<u>\$ 5,188</u>	<u>\$ (3,847)</u>	<u>\$ (1,161)</u>
Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.					
Continuing operations	\$ (0.28)	\$ (0.08)	\$ (0.20)	\$ (0.27)	\$ (0.72)
Discontinued operations	0.05	0.03	0.59	(0.02)	0.63
Net income (loss) per share	<u>\$ (0.23)</u>	<u>\$ (0.05)</u>	<u>\$ 0.39</u>	<u>\$ (0.29)</u>	<u>\$ (0.09)</u>
Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc.					
Continuing operations	\$ (0.28)	\$ (0.08)	\$ (0.20)	\$ (0.27)	\$ (0.72)
Discontinued operations	0.05	0.03	0.59	(0.02)	0.63
Net income (loss) per share	<u>\$ (0.23)</u>	<u>\$ (0.05)</u>	<u>\$ 0.39</u>	<u>\$ (0.29)</u>	<u>\$ (0.09)</u>
Dividends per share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.44
Market price of Class A Stock <sup>(1)</sup>					
High	19.65	16.49	16.66	16.98	19.65
Low	13.65	13.74	13.63	13.58	13.58

(1) The price quotations above were obtained from the New York Stock Exchange website.



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

(Expressed in thousands, except per share amounts)

For the Year Ended December 31, 2015	Fiscal Quarters				Year
	Fourth	Third	Second	First	
Revenue	\$ 225,189	\$ 207,478	\$ 227,959	\$ 237,175	\$ 897,801
Expenses	229,757	210,051	229,060	231,361	900,229
Income (loss) before income taxes from continuing operations	(4,568)	(2,573)	(1,101)	5,814	(2,428)
Income taxes	(712)	(1,437)	400	2,155	406
Net income (loss) from continuing operations	(3,856)	(1,136)	(1,501)	3,659	(2,834)
Net income from discontinued operations	765	359	2,146	2,462	5,732
Net income (loss)	(3,091)	(777)	645	6,121	2,898
Less net income attributable to noncontrolling interest, net of tax	53	131	350	402	936
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$ (3,144)	\$ (908)	\$ 295	\$ 5,719	\$ 1,962
<b>Basic net income (loss) per share attributable to Oppenheimer Holdings Inc.</b>					
Continuing operations	\$ (0.28)	\$ (0.08)	\$ (0.11)	\$ 0.27	\$ (0.21)
Discontinued operations	0.05	0.01	0.13	0.15	0.35
Net income (loss) per share	\$ (0.23)	\$ (0.07)	\$ 0.02	\$ 0.42	\$ 0.14
<b>Diluted net income (loss) per share attributable to Oppenheimer Holdings Inc.</b>					
Continuing operations	\$ (0.28)	\$ (0.08)	\$ (0.11)	\$ 0.26	\$ (0.21)
Discontinued operations	0.05	0.01	0.13	0.14	0.35
Net income (loss) per share	\$ (0.23)	\$ (0.07)	\$ 0.02	\$ 0.40	\$ 0.14
Dividends per share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.44
<b>Market price of Class A Stock <sup>(1)</sup></b>					
High	20.98	26.80	27.99	24.41	27.99
Low	15.60	17.40	22.30	19.04	15.60

(1) The price quotations above were obtained from the New York Stock Exchange website.

## 22. Condensed consolidating financial information

The Company's Notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by E.A. Viner International Co. and Viner Finance Inc. (together, the "Guarantors"), unless released as described below. Each of the Guarantors is 100% owned by the Company. The indenture for the Notes contains covenants with restrictions which are discussed in Note 11. The following condensed consolidating financial information presents the financial position, results of operations and cash flows of the Company (referred to as "Parent" for purposes of this Note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and elimination entries necessary to consolidate the Company.

Each Guarantor will be automatically and unconditionally released and discharged upon: the sale, exchange or transfer of the capital stock of a Guarantor and the Guarantor ceasing to be a direct or indirect subsidiary of the Company if such sale does not constitute an asset sale under the indenture for the Notes or does not constitute an asset sale effected in compliance with the asset sale and merger covenants of the indenture for the Notes; a Guarantor being dissolved or liquidated; a Guarantor being designated unrestricted in compliance with the applicable provisions of the Notes; or the exercise by the Company of its legal defeasance option or covenant defeasance option or the discharge of the Company's obligations under the indenture for the Notes in accordance with the terms of such indenture.

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2016

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 229	\$ 10,284	\$ 54,400	\$ —	\$ 64,913
Deposits with clearing organizations	—	—	38,185	—	38,185
Receivable from brokers, dealers and clearing organizations	—	—	214,934	—	214,934
Receivable from customers, net of allowance for credit losses of \$794	—	—	847,386	—	847,386
Income tax receivable	41,996	28,289	—	(64,469)	5,816
Securities purchased under agreements to resell	—	—	24,006	—	24,006
Securities owned, including amounts pledged of \$438,385, at fair value	—	23,227	683,881	—	707,108
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$24,826 and \$6,784, respectively	—	—	30,099	—	30,099
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$84,073	—	21,963	5,270	—	27,233
Assets held for sale	—	—	5,188	—	5,188
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Other assets	71	2,598	99,804	—	102,473
Deferred tax assets	394	309	37,961	(38,664)	—
Investment in subsidiaries	584,767	483,623	—	(1,068,390)	—
Intercompany receivables	37,906	37,914	—	(75,820)	—
<b>Total assets</b>	<b>\$ 665,363</b>	<b>\$ 720,765</b>	<b>\$ 2,210,703</b>	<b>\$ (1,359,901)</b>	<b>\$ 2,236,930</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 39,228	\$ —	\$ 39,228
Bank call loans	—	—	145,800	—	145,800
Payable to brokers, dealers and clearing organizations	—	—	221,389	—	221,389
Payable to customers	—	—	449,946	—	449,946
Securities sold under agreements to repurchase	—	—	378,084	—	378,084
Securities sold but not yet purchased, at fair value	—	—	85,050	—	85,050
Liabilities held for sale	—	—	1,217	—	1,217
Accrued compensation	—	—	145,053	—	145,053
Accounts payable and other liabilities	2,868	34,920	57,552	—	95,340
Income tax payable	2,440	22,189	39,840	(64,469)	—
Senior secured notes, net of debt issuance cost of \$648	149,352	—	—	—	149,352
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	7	51,794	(38,664)	13,137
Intercompany payables	—	62,205	13,615	(75,820)	—
<b>Total liabilities</b>	<b>154,660</b>	<b>119,321</b>	<b>1,741,126</b>	<b>(291,511)</b>	<b>1,723,596</b>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	510,703	601,444	466,946	(1,068,390)	510,703
Noncontrolling interest	—	—	2,631	—	2,631
<b>Total stockholders' equity</b>	<b>510,703</b>	<b>601,444</b>	<b>469,577</b>	<b>(1,068,390)</b>	<b>513,334</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 665,363</b>	<b>\$ 720,765</b>	<b>\$ 2,210,703</b>	<b>\$ (1,359,901)</b>	<b>\$ 2,236,930</b>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2015

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 907	\$ 2,586	\$ 59,871	\$ —	\$ 63,364
Deposits with clearing organizations	—	—	49,490	—	49,490
Receivable from brokers, dealers and clearing organizations	—	—	365,791	—	365,791
Receivable from customers, net of allowance for credit losses of \$2,545	—	—	840,355	—	840,355
Income tax receivable	33,801	27,536	—	(49,106)	12,231
Securities purchased under agreements to resell	—	—	206,499	—	206,499
Securities owned, including amounts pledged of \$546,334, at fair value	—	1,183	733,648	—	734,831
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$54,919 and \$8,444, respectively	—	—	32,849	—	32,849
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$104,812	—	20,793	7,492	—	28,285
Assets held for sale	—	—	99,881	—	99,881
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Other assets	69	3,224	91,546	—	94,839
Deferred tax assets	317	330	40,456	(41,103)	—
Investment in subsidiaries	577,320	532,651	—	(1,109,971)	—
Intercompany receivables	60,187	13,185	—	(73,372)	—
<b>Total assets</b>	<b>\$ 672,601</b>	<b>\$ 714,046</b>	<b>\$ 2,697,467</b>	<b>\$ (1,386,110)</b>	<b>\$ 2,698,004</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 48,011	\$ —	\$ 48,011
Bank call loans	—	—	100,200	—	100,200
Payable to brokers, dealers and clearing organizations	—	—	164,546	—	164,546
Payable to customers	—	—	594,833	—	594,833
Securities sold under agreements to repurchase	—	—	651,445	—	651,445
Securities sold but not yet purchased, at fair value	—	—	126,493	—	126,493
Liabilities held for sale	—	—	74,680	—	74,680
Accrued compensation	—	—	149,092	—	149,092
Accounts payable and other liabilities	3,235	35,812	69,590	—	108,637
Income tax payable	2,440	22,189	24,477	(49,106)	—
Senior secured notes, net of debt issuance costs of \$1,132	148,868	—	—	—	148,868
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	—	47,220	(41,103)	6,117
Intercompany payables	—	62,204	11,168	(73,372)	—
<b>Total liabilities</b>	<b>154,543</b>	<b>120,205</b>	<b>2,174,313</b>	<b>(276,139)</b>	<b>2,172,922</b>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	518,058	593,841	516,130	(1,109,971)	518,058
Noncontrolling interest	—	—	7,024	—	7,024
<b>Total stockholders' equity</b>	<b>518,058</b>	<b>593,841</b>	<b>523,154</b>	<b>(1,109,971)</b>	<b>525,082</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 672,601</b>	<b>\$ 714,046</b>	<b>\$ 2,697,467</b>	<b>\$ (1,386,110)</b>	<b>\$ 2,698,004</b>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 377,317	\$ —	\$ 377,317
Advisory fees	—	1,571	271,763	(4,215)	269,119
Investment banking	—	—	81,011	—	81,011
Interest	—	10,242	47,804	(10,397)	47,649
Principal transactions, net	—	16	20,465	—	20,481
Other	—	326	62,201	(325)	62,202
Total revenue	—	12,155	860,561	(14,937)	857,779
<b>EXPENSES</b>					
Compensation and related expenses	1,241	—	583,469	—	584,710
Communications and technology	124	—	70,266	—	70,390
Occupancy and equipment costs	—	—	61,116	(325)	60,791
Clearing and exchange fees	—	—	25,126	—	25,126
Interest	13,125	—	16,709	(10,397)	19,437
Other	1,887	1,284	120,261	(4,215)	119,217
Total expenses	16,377	1,284	876,947	(14,937)	879,671
Income (loss) before income taxes	(16,377)	10,871	(16,386)	—	(21,892)
Income taxes	(8,296)	3,325	(7,291)	—	(12,262)
Net income (loss) from continuing operations	(8,081)	7,546	(9,095)	—	(9,630)
<b>Discontinued operations</b>					
Income from discontinued operations	—	—	17,339	—	17,339
Income taxes	—	—	7,218	—	7,218
Net income from discontinued operations	—	—	10,121	—	10,121
Equity in earnings of subsidiaries	6,920	(626)	—	(6,294)	—
Net income (loss)	(1,161)	6,920	1,026	(6,294)	491
Less net income attributable to noncontrolling interest, net of tax	—	—	1,652	—	1,652
Net income (loss) attributable to Oppenheimer Holdings Inc.	(1,161)	6,920	(626)	(6,294)	(1,161)
Other comprehensive income	—	—	220	—	220
Total comprehensive income (loss)	\$ (1,161)	\$ 6,920	\$ (406)	\$ (6,294)	\$ (941)

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 417,559	\$ —	\$ 417,559
Advisory fees	—	1,296	282,633	(3,682)	280,247
Investment banking	—	—	102,540	—	102,540
Interest	—	10,237	49,056	(10,261)	49,032
Principal transactions, net	—	—	15,244	(64)	15,180
Other	—	370	33,173	(300)	33,243
Total revenue	—	11,903	900,205	(14,307)	897,801
<b>EXPENSES</b>					
Compensation and related expenses	1,185	—	609,635	—	610,820
Communications and technology	142	—	66,407	—	66,549
Occupancy and equipment costs	—	—	63,142	(300)	62,842
Clearing and exchange fees	—	—	26,022	—	26,022
Interest	13,125	—	13,465	(10,261)	16,329
Other	1,663	892	118,858	(3,746)	117,667
Total expenses	16,115	892	897,529	(14,307)	900,229
Income (loss) before income taxes	(16,115)	11,011	2,676	—	(2,428)
Income taxes	(6,030)	5,553	883	—	406
Net income (loss) from continuing operations	(10,085)	5,458	1,793	—	(2,834)
<b>Discontinued operations</b>					
Income from discontinued operations	—	—	9,139	—	9,139
Income taxes	—	—	3,407	—	3,407
Net income from discontinued operations	—	—	5,732	—	5,732
Equity in earnings of subsidiaries	12,047	6,589	—	(18,636)	—
Net income	1,962	12,047	7,525	(18,636)	2,898
Less net income attributable to noncontrolling interest, net of tax	—	—	936	—	936
Net income attributable to Oppenheimer Holdings Inc.	1,962	12,047	6,589	(18,636)	1,962
Other comprehensive income	—	—	17	—	17
Total comprehensive income	\$ 1,962	\$ 12,047	\$ 6,606	\$ (18,636)	\$ 1,979

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2014

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 469,829	\$ —	\$ 469,829
Advisory fees	—	1,139	283,785	(3,244)	281,680
Investment banking	—	—	125,598	—	125,598
Interest	—	10,482	47,454	(10,431)	47,505
Principal transactions, net	—	164	27,351	—	27,515
Other	—	477	28,956	(425)	29,008
Total revenue	<u>—</u>	<u>12,262</u>	<u>982,973</u>	<u>(14,100)</u>	<u>981,135</u>
<b>EXPENSES</b>					
Compensation and related expenses	1,047	—	653,349	—	654,396
Communications and technology	145	—	66,605	—	66,750
Occupancy and equipment costs	—	—	63,096	(425)	62,671
Clearing and exchange fees	—	—	24,709	—	24,709
Interest	14,401	—	12,986	(10,431)	16,956
Other	4,626	733	136,348	(3,244)	138,463
Total expenses	<u>20,219</u>	<u>733</u>	<u>957,093</u>	<u>(14,100)</u>	<u>963,945</u>
Income (loss) before income taxes	(20,219)	11,529	25,880	—	17,190
Income taxes	(7,917)	3,971	16,080	—	12,134
Net income (loss) from continuing operations	<u>(12,302)</u>	<u>7,558</u>	<u>9,800</u>	<u>—</u>	<u>5,056</u>
<b>Discontinued operations</b>					
Income from discontinued operations	—	—	8,546	—	8,546
Income taxes	—	—	4,041	—	4,041
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>4,505</u>	<u>—</u>	<u>4,505</u>
Equity in earnings of subsidiaries	21,128	13,570	—	(34,698)	—
Net income	<u>8,826</u>	<u>21,128</u>	<u>14,305</u>	<u>(34,698)</u>	<u>9,561</u>
Less net income attributable to noncontrolling interest, net of tax	—	—	735	—	735
Net income attributable to Oppenheimer Holdings Inc.	<u>8,826</u>	<u>21,128</u>	<u>13,570</u>	<u>(34,698)</u>	<u>8,826</u>
Other comprehensive loss	—	—	(2,627)	—	(2,627)
Total comprehensive income	<u>\$ 8,826</u>	<u>\$ 21,128</u>	<u>\$ 10,943</u>	<u>\$ (34,698)</u>	<u>\$ 6,199</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Cash provided by (used in) operating activities	\$ 9,884	\$ 7,698	\$ (85,048)	\$ —	\$ (67,466)
<b>Cash flows from investing activities:</b>					
Purchase of furniture, equipment and leasehold improvements	—	—	(5,731)	—	(5,731)
Proceeds from sale of assets	—	—	45,448	—	45,448
Cash provided by investing activities	—	—	39,717	—	39,717
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(5,887)	—	—	—	(5,887)
Cash dividends paid to noncontrolling interest	—	—	(5,740)	—	(5,740)
Repurchase of Class A non-voting common stock for cancellation	(3,935)	—	—	—	(3,935)
Tax deficiency from share-based awards	(740)	—	—	—	(740)
Increase in bank call loans, net	—	—	45,600	—	45,600
Cash provided by (used in) in financing activities	(10,562)	—	39,860	—	29,298
Net increase (decrease) in cash and cash equivalents	(678)	7,698	(5,471)	—	1,549
<b>Cash and cash equivalents, beginning of the year</b>	<b>907</b>	<b>2,586</b>	<b>59,871</b>	<b>—</b>	<b>63,364</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 229</b>	<b>\$ 10,284</b>	<b>\$ 54,400</b>	<b>\$ —</b>	<b>\$ 64,913</b>

OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Cash provided by (used in) operating activities	\$ 15,003	\$ 1,029	\$ (36,851)	\$ —	\$ (20,819)
<b>Cash flows from investing activities:</b>					
Purchase of furniture, equipment and leasehold improvements	—	—	(5,889)	—	(5,889)
Cash used in investing activities	—	—	(5,889)	—	(5,889)
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(6,008)	—	—	—	(6,008)
Repurchase of Class A non-voting common stock for cancellation	(8,250)	—	—	—	(8,250)
Tax deficiency from share-based awards	(277)	—	—	—	(277)
Increase in bank call loans, net	—	—	40,800	—	40,800
Cash provided by (used in) financing activities	(14,535)	—	40,800	—	26,265
Net increase (decrease) in cash and cash equivalents	468	1,029	(1,940)	—	(443)
<b>Cash and cash equivalents, beginning of the year</b>	<b>439</b>	<b>1,557</b>	<b>61,811</b>	<b>—</b>	<b>63,807</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 907</b>	<b>\$ 2,586</b>	<b>\$ 59,871</b>	<b>\$ —</b>	<b>\$ 63,364</b>



OPPENHEIMER HOLDINGS INC.  
Notes to Consolidated Financial Statements

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Cash provided by (used in) operating activities	\$ 49,595	\$ (29,344)	\$ 58,064	\$ —	\$ 78,315
<b>Cash flows from investing activities:</b>					
Purchase of furniture, equipment and leasehold improvements	—	—	(4,398)	—	(4,398)
Cash used in investing activities	—	—	(4,398)	—	(4,398)
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(5,983)	—	—	—	(5,983)
Issuance of Class A non-voting common stock	185	—	—	—	185
Tax benefit from share-based awards	1,194	—	—	—	1,194
Redemption of senior secured notes	(45,000)	—	—	—	(45,000)
Decrease in bank call loans, net	—	—	(58,800)	—	(58,800)
Cash used in financing activities	(49,604)	—	(58,800)	—	(108,404)
Net decrease in cash and cash equivalents	(9)	(29,344)	(5,134)	—	(34,487)
<b>Cash and cash equivalents, beginning of the year</b>	448	30,901	66,945	—	98,294
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 439</u>	<u>\$ 1,557</u>	<u>\$ 61,811</u>	<u>\$ —</u>	<u>\$ 63,807</u>

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) of the Exchange Act. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or omission. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The Company confirms that its management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in its reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

*Changes in Internal Control over Financial Reporting*

No changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting, occurred during the quarter ended December 31, 2016.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Section 303A.12(a) CEO Certification

The Company submitted a Section 12(a) CEO Certification to the New York Stock Exchange on June 6, 2016 with respect to fiscal 2015.

Sarbanes-Oxley Act Section 302 CEO and CFO Certifications

The Company submitted the CEO and CFO Certifications required under Section 302 of the Sarbanes-Oxley Act as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 9B. OTHER INFORMATION**

None.

## PART III

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item will be contained under the caption "Election of Directors" in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders. Information about compliance with Section 16(a) of the Securities Exchange Act of 1934 required by this form will be contained under the caption "Executive Compensation and Related Information - Section 16(a) Beneficial Ownership Reporting Compliance" in that proxy statement. That information is incorporated herein by reference.

#### STATEMENT OF CORPORATE GOVERNANCE PRACTICES, WHISTLEBLOWER POLICY AND COMMITTEE CHARTERS

A copy of the Company's Statement of Corporate Governance Practices and its Whistleblower Policy, as well as copies of the Charters of the Audit Committee, Compensation Committee, Compliance Committee and Nominating/Corporate Governance Committee, are posted on the Company's website at [www.opco.com](http://www.opco.com). These documents are available at no charge and can be requested by writing to the Company at its head office or by making an email request to [info@opco.com](mailto:info@opco.com).

#### CODE OF ETHICS

The Company has adopted a Code of Conduct and Business Ethics for Directors, Officers and Employees, which can be found on its website at [www.opco.com](http://www.opco.com). This document is available at no charge and can be requested by writing to the Company at its head office or by making an email request to [info@opco.com](mailto:info@opco.com).

### **Item 11. EXECUTIVE COMPENSATION**

The information required by this item will be contained under the caption "Executive Compensation and Related Information" in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be contained under the caption "Executive Compensation and Related Information - Security Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item will be contained under the caption "Executive Compensation and Related Information - Certain Relationships and Related Party Transactions" under the sub-heading "Indebtedness of Directors and Executive Officers under (1) Securities Purchase and (2) Other Programs" in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item will be contained under the caption "Appointment of Independent Registered Public Accounting Firm – Principal Accounting Fees and Services" in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) (i) Financial Statements  
See Item 8 (pages 60 to 127)
- (ii) Financial Statement Schedules  
Not Applicable.
- (iii) Listing of Exhibits  
The exhibits which are filed with this Form 10-K or are incorporated herein by reference are set forth in the Exhibit Index (pages 132 to 135)
- (b) Exhibits  
See the Exhibit Index included hereinafter on pages 132 to 135
- (c) Financial Statement Schedules excluded from the annual report to stockholders  
None

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 3rd day of March, 2017.

OPPENHEIMER HOLDINGS INC.

BY: /s/ Jeffrey J. Alfano  
Jeffrey J. Alfano, Chief Financial Officer  
(on behalf of the Registrant)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ J.J. Alfano</u> J.J. Alfano	Chief Financial Officer (Principal Financial and Accounting Officer)	March 3, 2017
<u>/s/ E. Behrens</u> E. Behrens	Director	March 3, 2017
<u>/s/ T. Dwyer</u> T. Dwyer	Director	March 3, 2017
<u>/s/ W. Ehrhardt</u> W. Ehrhardt	Director	March 3, 2017
<u>/s/ P. Friedman</u> P. Friedman	Director	March 3, 2017
<u>/s/ M.A.M. Keehner</u> M.A.M. Keehner	Director	March 3, 2017
<u>/s/ A.G.Lowenthal</u> A.G. Lowenthal	Chairman, Chief Executive Officer (Principal Executive Officer), Director	March 3, 2017
<u>/s/ R.S. Lowenthal</u> R.S. Lowenthal	Director	March 3, 2017
<u>/s/ A.W. Oughtred</u> A.W. Oughtred	Director	March 3, 2017
<u>/s/ E.K. Roberts</u> E.K. Roberts	Director	March 3, 2017

## EXHIBIT INDEX

Unless there is a parenthetical designated by an asterisk indicating that such document has been filed herewith, the Exhibits listed below have been heretofore filed by the Company pursuant to Section 13 or 15(d) of the Exchange Act and are hereby incorporated herein by reference to the pertinent prior filing.

<u>Number</u>	<u>Description</u>	<u>Page</u>
2.1	Asset Purchase Agreement dated as of December 9, 2002 and Amendment No. 1 to the Asset Purchase Agreement dated as of January 2, 2003, by and among Fahnestock Viner Holdings Inc., Viner Finance Inc., Canadian Imperial Bank of Commerce and CIBC World Markets Corp. (previously filed as exhibits to Form 8-K dated January 17, 2003).	
2.2	Asset Management Acquisition Agreement dated as of January 2, 2003, by and among Fahnestock Viner Holdings Inc., Fahnestock & Co. Inc., Canadian Imperial Bank of Commerce and CIBC World Markets Corp. (previously filed as an exhibit to Form 8-K dated January 17, 2003).	
2.3	Amended and Restated Asset Purchase Agreement dated as of January 14, 2008, by and among Oppenheimer Holdings Inc., Oppenheimer & Co. Inc., Canadian Imperial Bank of Commerce, CIBC World Markets Corp. and Certain Other Affiliates of Canadian Imperial Bank of Commerce and Oppenheimer Holdings Inc. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).	
3.1	Certificate of Incorporation of Oppenheimer Holdings Inc., a Delaware corporation (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2009).	
3.2	By-Laws of Oppenheimer Holdings Inc., a Delaware corporation (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2009).	
3.3	Certificate of Corporate Domestication of Oppenheimer Holdings Inc., a Canadian corporation, as filed with the Secretary of State of the State of Delaware on May 11, 2009 (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2009).	
3.4	Certificate of Discontinuance of Oppenheimer Holdings Inc., a Canadian corporation, as filed with Corporations Canada on May 11, 2009 (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2009).	
3.5	Certificate of Continuance of Oppenheimer Holdings Inc. dated May 11, 2005 (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2005).	
3.6	Bylaws of Oppenheimer Holdings Inc. (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2005).	
4.1	Exchangeable Debenture dated January 6, 2003, issued by E. A. Viner International Co. to Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 8-K dated January 17, 2003).	
4.2	Interim Exchangeable Debenture dated January 6, 2003, issued by E. A. Viner International Co. to Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 8-K dated January 17, 2003).	
4.3	Exchangeable Debenture dated May 17, 2003, issued by E. A. Viner International Co. to Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 10-K for the year ended December 31, 2003).	
4.4	Variable Rate Exchangeable Debenture, dated July 31, 2006, issued by E. A. Viner International Co. to Canadian Imperial Bank of Commerce. (previously filed as an Exhibit to Form 8-K dated August 3, 2006).	
4.5	Amended and Restated Promissory Note dated January 15, 2003, made by Viner Finance Inc. for the benefit of CIBC World Markets Corp. (previously filed as an exhibit to Form 8-K dated January 17, 2003).	
4.6	Warrant dated January 14, 2008 No. W-A1 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).	
4.7	Registration Rights Agreement dated as of January 14, 2008, between Oppenheimer Holdings Inc. and Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).	
10.1	Fahnestock Viner Holdings Inc. 1996 Equity Incentive Plan, Amended and Restated as of May 17, 1999 (previously filed as an exhibit to Form S-8 dated May 15, 2000).	

- 10.2 Fahnestock Viner Holdings Inc. 1996 Equity Incentive Plan Amendment No. 1 dated February 29, 2000 (previously filed as an exhibit to Form 10-K for the year ended December 31, 1999).
- 10.3 Fahnestock Viner Holdings Inc. 1996 Equity Incentive Plan Amendment No. 2 dated May 19, 2001 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2001).
- 10.4 Fahnestock Viner Holdings Inc. 1996 Equity Incentive Plan Amendment No. 3 dated February 28, 2002 (previously filed as an exhibit to Form S-8 dated December 17, 2002).
- 10.5 Oppenheimer Holdings Inc. 1996 Equity Incentive Plan Amendment No. 4 dated February 26, 2004 (previously filed as an exhibit to Form S-8 dated July 28, 2004).
- 10.6 Oppenheimer Holdings Inc. 1996 Equity Incentive Plan Amendment No. 5 dated March 10, 2005 (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2005).
- 10.7 Employee Share Plan dated January 1, 2005 (previously filed as an exhibit filed to Form 10-Q for the quarterly period ended June 30, 2005).
- 10.8 Performance-Based Compensation Agreement between Oppenheimer Holdings Inc. and Albert G. Lowenthal dated March 15, 2005 (previously filed as an exhibit filed to Form 10-Q for the quarterly period ended June 30, 2005).
- 10.9 Oppenheimer Holdings Inc. 2006 Equity Incentive Plan effective December 11, 2006 (previously filed as an exhibit to Form S-8 dated October 29, 2007).
- 10.10 Clearing Agreement dated January 14, 2008 between CIBC World Markets Corp. and Oppenheimer & Co. Inc. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.11 Secured Credit Arrangement (Loan Trading Platform) dated as of January 14, 2008 by and among OPY Credit Corp., CIBC Inc., and Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.12 Subordinated Credit Agreement dated as of January 14, 2008 by and among E.A. Viner International Co., Canadian Imperial Bank of Commerce and CIBC World Markets Corp. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.13 Warehouse Facility Agreement dated as of January 14, 2008 by and among OPY Credit Corp. and Canadian Imperial Bank of Commerce (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.14 Service Agreement dated as of January 14, 2008, by and between CIBC Delaware Holdings Inc. and Oppenheimer & Co. Inc. together with Relocation from 300 Madison Avenue letter dated January 14, 2008 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.15 Securities Purchase Agreement, dated as of July 31, 2006, by and among Oppenheimer Holdings Inc., E. A. Viner International Co. and Canadian Imperial Bank of Commerce. (previously filed as an Exhibit to Form 8-K dated August 3, 2006).
- 10.16 Senior Secured Credit Agreement, dated as of July 31, 2006, by and among E. A. Viner International Co., as borrower, and the other credit parties thereto from time to time, as guarantors, and the lenders party thereto from time to time, and Morgan Stanley Senior Funding, Inc., as administrative agent and syndication agent, and Morgan Stanley & Co. Incorporated, as collateral agent. (previously filed as an Exhibit to Form 8-K dated August 3, 2006).
- 10.17 Amendment No. 1 to Senior Secured Credit Agreement dated as of July 24, 2006 by and among E.A. Viner International Co., Oppenheimer Holdings Inc., Viner Finance Inc., and Morgan Stanley Senior Funding, Inc. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.18 Amendment No. 2 to Senior Secured Credit Agreement dated as of December 12, 2007, by and among E.A. Viner International Co., Oppenheimer Holdings Inc., Viner Finance Inc., and Morgan Stanley Senior Funding, Inc. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2007).
- 10.19 Pledge and Security Agreement, dated as of July 31, 2006, by and among E. A. Viner International Co., as borrower, and the other credit parties thereto from time to time, as guarantors, and Morgan Stanley & Co. Incorporated, as collateral agent. (previously filed as an Exhibit to Form 8-K dated August 3, 2006).
- 10.20 Third Amendment to Senior Secured Credit Agreement dated as of December 16, 2008, by and among E.A. Viner International Co., Oppenheimer Holdings Inc., Viner Finance Inc., each of the lenders party to the Existing Credit Agreement and Morgan Stanley Senior Funding, Inc., as administrative agent (previously filed as an Exhibit to Form 8-K dated December 16, 2008).

## Table of Contents

- 10.21 Agreement on Certain Outstanding Items, dated November 21, 2008, by and among Canadian Imperial Bank of Commerce, Oppenheimer Holdings Inc., Oppenheimer & Co. Inc. and E.A. Viner International Co. (previously filed as an Exhibit to Form 10-K for the year ended December 31, 2008).
- 10.22 Assurance of Discontinuance, dated February 23, 2010, between the Attorney General of the State of New York and Oppenheimer & Co. Inc. (previously filed as an Exhibit to Form 8-K filed February 26, 2010).
- 10.23 Offer of Settlement, dated February 22, 2010, between the Commonwealth of Massachusetts Division of Securities and Oppenheimer & Co. Inc., Albert Lowenthal, Robert Lowenthal and Greg White (previously filed as an Exhibit to Form 8-K filed February 26, 2010).
- 10.24 Consent Order from the Commonwealth of Massachusetts Division of Securities dated February 26, 2010 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2009).
- 10.25 Amended and Restated Performance-Based Compensation Agreement between Oppenheimer Holdings Inc. and Albert G. Lowenthal effective as of January 1, 2010 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2010).
- 10.26 Indenture dated as of April 12, 2011 among Oppenheimer Holdings Inc., the subsidiary guarantors, The Bank of New York Mellon Trust Company, N.A., as Trustee and The Bank of New York Mellon Trust Company, as Collateral Agent (previously filed as an exhibit to Form 10-Q for the quarterly period ended March 31, 2011).
- 10.27 Registration Rights Agreement dated April 12, 2011 by and among Oppenheimer Holdings Inc., a Delaware corporation, E.A. Viner International Co., a Delaware corporation, Viner Finance Inc., a Delaware corporation and Morgan Stanley & Co. Incorporated, as representative of the several Initial Purchasers (previously filed as an exhibit to Form 10-Q for the quarterly period ended March 31, 2011).
- 10.28 Security Agreement by and among Oppenheimer Holdings Inc., as grantor, and each other grantor from time to time party thereto and the Bank of New York Mellon Trust Company, N.A., as Collateral Agent dated as of April 12, 2011 (previously filed as an exhibit to Form 10-Q for the quarterly period ended March 31, 2011).
- 10.29 Lease dated July 15, 2011 between 85 Broad Street LLC, Landlord and Viner Finance Inc., Tenant for premises at 85 Broad Street, New York, NY (previously filed as an exhibit to Form 10-Q for the quarterly period ended June 30, 2010).
- 10.30 First Amendment to Agreement of Lease dated January 29, 2013 between 85 Broad Street LLC, Landlord and Viner Finance Inc., Tenant for premises at 85 Broad Street, New York, NY (previously filed as an exhibit to Form 10-K for the year ended December 31, 2012).
- 10.31 Form of Indemnification Agreement between Oppenheimer Holdings Inc. and the directors of Oppenheimer Holdings Inc., as the Indemnified Party, dated as of October 25, 2012. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2012).
- 10.32 Form of Indemnification Agreement between Oppenheimer Holdings Inc. and the officers of Oppenheimer Holdings Inc., as the Indemnified Party, dated as of October 25, 2012. (previously filed as an exhibit to Form 10-K for the year ended December 31, 2012).
- 10.33 Oppenheimer & Co. Inc. Executive Deferred Compensation Plan (As Amended and Restated Effective January 1, 2005) (As Further Amended and Restated with respect to Specific Elective Accounts Effective as of March 1, 2013) (previously filed as an exhibit to Form 10-K for the year ended December 31, 2012).
- 10.34 Oppenheimer Holdings Inc. 2014 Incentive Plan (previously filed as an exhibit to Form 10-K for the year ended December 31, 2013).
- 10.35 SEC Order Instituting Administrative Cease and Desist Proceedings dated January 27, 2015 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2015).
- 10.36 FinCEN Civil Monetary Assessment dated January 27, 2015 (previously filed as an exhibit to Form 10-K for the year ended December 31, 2015).
- 12 Oppenheimer Holdings Inc. Computation of Ratio of Earnings to Fixed Charges (filed herewith).
- 23.1 Consent of independent accountants (filed herewith).
- 31.1 Certification signed by A.G. Lowenthal (filed herewith).
- 31.2 Certification signed by Jeffrey J. Alfano (filed herewith).



[Table of Contents](#)

- 32.1 Certification pursuant to 18 U.S.C. Section 1350 signed by A.G. Lowenthal (filed herewith).
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 signed by Jeffrey J. Alfano (filed herewith).
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015, (ii) the Consolidated Statements of Operations for the three years ended December 31, 2016, 2015 and 2014, (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2016, 2015 and 2014, (iv) the Consolidated Statements of Changes in Stockholders' Equity for the three years ended December 31, 2016, 2015 and 2014, (v) the Consolidated Statements of Cash Flows for the three years ended December 31, 2016, 2015 and 2014, and (vi) the notes to the Consolidated Financial Statements.\*

\* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**Oppenheimer Holdings Inc.**  
**Computation of Ratio of Earnings to Fixed Charges <sup>(1)</sup>**

*(Expressed in thousands)*

	2012	2013	2014	2015	2016
<b>Income (Loss) Before Income Taxes</b>	\$ (527)	\$ 43,909	\$ 25,736	\$ 6,711	\$ (21,892)
<b>Add Fixed Charges:</b>					
Interest Expense <sup>(2)</sup>	35,086	26,142	17,801	17,323	19,437
Amortization of Debt Issuance Costs	639	639	1,118	485	484
Appropriate Portion of Rentals Representative of the Interest Factor <sup>(3)</sup>	17,075	15,454	15,208	15,308	14,807
<b>Total Fixed Charges</b>	<b>\$ 52,800</b>	<b>\$ 42,235</b>	<b>\$ 34,127</b>	<b>\$ 33,116</b>	<b>\$ 34,728</b>
<b>Earnings</b>	<b>\$ 52,273</b>	<b>\$ 86,144</b>	<b>\$ 59,863</b>	<b>\$ 39,827</b>	<b>\$ 12,836</b>
<b>Ratio of Earnings to Fixed Charges <sup>(4)</sup></b>	<b>—</b>	<b>2.0</b>	<b>1.8</b>	<b>1.2</b>	<b>—</b>

**Notes:**

- (1) The ratio of earnings to fixed charges is computed by dividing earnings, which is the sum of profit (loss) before income taxes and fixed charges, by fixed charges. Fixed charges represent interest expense, amortization of debt issuance costs, and an appropriate portion of rentals representative of the interest factor.
- (2) In addition to interest expense on long-term debt, also includes interest expenses on short-term borrowings including bank call loans, securities lending, and repurchase agreements which generally have a corresponding asset that generates interest income that substantially offsets or exceeds the aforementioned interest expense.
- (3) The percent of rent included in the computation is a reasonable approximation of the interest factor.
- (4) Due to the Company's pre-tax losses in the year ended December 31, 2012 and 2016, the ratio coverage was less than 1:1 in these periods. The Company would have needed to generate additional earnings of \$527,000 in 2012 and \$21.9 million in 2016 to achieve a coverage of 1:1.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form S-3 (No. 333-174933), Form S-4 (Nos. 333-174932 and 333-157937), Form S-8 (Nos. 333-129385, 333-129387, 333-129389, 333-129390, 333-135064, 333-146989, 333-146990, 333-157686, 333-180979, 333-195951 and 333-111125) of our reports dated March 3, 2017, relating to the consolidated financial statements of Oppenheimer Holdings Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2016.

/s/ Deloitte & Touche LLP  
New York, NY  
March 3, 2017

## CERTIFICATION

I, Albert G. Lowenthal, certify that:

1. I have reviewed this annual report on Form 10-K of Oppenheimer Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Albert G. Lowenthal

Name: Albert G. Lowenthal

Title: Chief Executive Officer

March 3, 2017

## CERTIFICATION

I, Jeffrey J. Alfano, certify that:

1. I have reviewed this annual report on Form 10-K of Oppenheimer Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey J. Alfano

Name: Jeffrey J. Alfano

Title: Chief Financial Officer

March 3, 2017

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned, Albert G. Lowenthal, Chairman and Chief Executive Officer of Oppenheimer Holdings Inc. (the “Company”), hereby certifies that to his knowledge the Annual Report on Form 10-K for the year ended December 31, 2016 of the Company filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period specified.

Signed at New York, New York, this 3rd day of March, 2017.

/s/ Albert G. Lowenthal  
Albert G. Lowenthal  
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned, Jeffrey J. Alfano, Chief Financial Officer of Oppenheimer Holdings Inc. (the “Company”), hereby certifies that to his knowledge the Annual Report on Form 10-K for the year ended December 31, 2016 of the Company filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period specified.

Signed at New York, New York, this 3rd day of March, 2017.

/s/ Jeffrey J. Alfano  
Jeffrey J. Alfano  
Chief Financial Officer