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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12043

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**OPPENHEIMER HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

98-0080034

(I.R.S. Employer  
Identification No.)

85 Broad Street

New York, NY 10004

(Address of principal executive offices) (Zip Code)

(212) 668-8000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

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 October 26, 2018 was 13,177,931 and 99,665 shares, respectively.

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**PART I. FINANCIAL INFORMATION**
**Item 1. FINANCIAL STATEMENTS (UNAUDITED)**

**OPPENHEIMER HOLDINGS INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

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

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37,531	\$ 48,154
Deposits with clearing organizations	53,956	42,222
Receivable from brokers, dealers and clearing organizations	205,031	187,115
Receivable from customers, net of allowance for credit losses of \$859 (\$769 in 2017)	797,751	848,226
Income tax receivable	3,495	2,939
Securities purchased under agreements to resell, at fair value	1,502	658
Securities owned, including amounts pledged of \$738,835 (\$655,683 in 2017), at fair value	895,251	926,597
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$24,334 and \$7,126, respectively (\$24,705 and \$7,975, respectively, in 2017)	43,278	40,520
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$87,165 (\$82,826 in 2017)	28,842	27,187
Intangible assets	32,100	31,700
Goodwill	137,889	137,889
Other assets	119,659	145,310
Total assets	<u>\$ 2,356,285</u>	<u>\$ 2,438,517</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Drafts payable	\$ 29,242	\$ 42,412
Bank call loans	3,000	118,300
Payable to brokers, dealers and clearing organizations	219,443	211,483
Payable to customers	351,750	385,907
Securities sold under agreements to repurchase	606,010	586,478
Securities sold but not yet purchased, at fair value	143,746	94,486
Accrued compensation	151,658	173,116
Accounts payable and other liabilities	95,820	92,495
Senior secured notes, net of debt issuance costs of \$969 (\$1,163 in 2017)	199,031	198,837
Deferred tax liabilities, net of deferred tax assets of \$46,827 (\$47,597 in 2017)	12,708	11,092
Total liabilities	<u>1,812,408</u>	<u>1,914,606</u>
Commitments and contingencies (note 12)		
<b>Stockholders' equity</b>		
Share capital		
Class A non-voting common stock, par value \$0.001 per share, 50,000,000 shares authorized, 13,177,931 and 13,139,203 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	59,153	58,359
Class B voting common stock, par value \$0.001 per share, 99,665 shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017	133	133
	<u>59,286</u>	<u>58,492</u>
Contributed capital	40,362	36,546
Retained earnings	443,188	426,930
Accumulated other comprehensive income	702	1,582
Total Oppenheimer Holdings Inc. stockholders' equity	<u>543,538</u>	<u>523,550</u>
Non-controlling interest	339	361
Total stockholders' equity	<u>543,877</u>	<u>523,911</u>
Total liabilities and stockholders' equity	<u>\$ 2,356,285</u>	<u>\$ 2,438,517</u>

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

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

<i>(Expressed in thousands, except number of shares and per share amounts)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>REVENUE</b>				
Commissions	\$ 79,678	\$ 77,635	\$ 245,935	\$ 248,204
Advisory fees	78,154	74,329	232,972	216,521
Investment banking	28,328	23,940	84,442	57,347
Bank deposit sweep income	30,053	21,146	84,203	52,992
Interest	13,403	12,952	38,686	36,346
Principal transactions, net	(16)	5,135	9,110	15,810
Other	8,214	11,083	19,552	28,145
Total revenue	237,814	226,220	714,900	655,365
<b>EXPENSES</b>				
Compensation and related expenses	152,846	142,090	457,821	428,625
Communications and technology	18,602	17,781	55,287	53,886
Occupancy and equipment costs	15,106	15,288	45,435	45,721
Clearing and exchange fees	5,378	5,622	17,254	17,392
Interest	12,915	6,500	32,787	18,710
Other	25,823	27,111	77,046	87,865
Total expenses	230,670	214,392	685,630	652,199
Income before income taxes from continuing operations	7,144	11,828	29,270	3,166
Income taxes	2,083	4,425	8,661	2,464
<b>Net income from continuing operations</b>	<b>5,061</b>	<b>7,403</b>	<b>20,609</b>	<b>702</b>
<b>Discontinued operations</b>				
Income from discontinued operations	—	769	—	1,834
Income taxes	—	308	—	733
<b>Net income from discontinued operations</b>	<b>—</b>	<b>461</b>	<b>—</b>	<b>1,101</b>
<b>Net income</b>	<b>5,061</b>	<b>7,864</b>	<b>20,609</b>	<b>1,803</b>
Less net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
<b>Net income attributable to Oppenheimer Holdings Inc.</b>	<b>\$ 5,071</b>	<b>\$ 7,789</b>	<b>\$ 20,631</b>	<b>\$ 1,623</b>
<b>Basic net income per share attributable to Oppenheimer Holdings Inc.</b>				
Continuing operations	\$ 0.38	\$ 0.56	\$ 1.56	\$ 0.05
Discontinued operations	—	0.03	—	0.07
Net income per share	<b>\$ 0.38</b>	<b>\$ 0.59</b>	<b>\$ 1.56</b>	<b>\$ 0.12</b>
<b>Diluted net income per share attributable to Oppenheimer Holdings Inc.</b>				
Continuing operations	\$ 0.36	\$ 0.54	\$ 1.47	\$ 0.05
Discontinued operations	—	0.03	—	0.07
Net income per share	<b>\$ 0.36</b>	<b>\$ 0.57</b>	<b>\$ 1.47</b>	<b>\$ 0.12</b>
<b>Weighted average shares</b>				
Basic	13,269,024	13,213,139	13,252,596	13,290,399
Diluted	14,140,263	13,763,516	14,043,326	13,790,136

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

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

<i>(Expressed in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 5,061	\$ 7,864	\$ 20,609	\$ 1,803
Other comprehensive income (loss), net of tax <sup>(1)</sup>				
Currency translation adjustment	99	(251)	(880)	1,953
Comprehensive income	5,160	7,613	19,729	3,756
Net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
Comprehensive income attributable to Oppenheimer Holdings Inc.	<u>\$ 5,170</u>	<u>\$ 7,538</u>	<u>\$ 19,751</u>	<u>\$ 3,576</u>

(1) No other comprehensive income (loss) is attributable to non-controlling interests.

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

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

<i>(Expressed in thousands)</i>	2018	2017
<b>Share capital</b>		
Balance at beginning of period	\$ 58,492	\$ 59,361
Issuance of Class A non-voting common stock	794	4,225
Repurchase of Class A non-voting common stock for cancellation	—	(7,464)
Balance at end of period	59,286	56,122
<b>Contributed capital</b>		
Balance at beginning of period	36,546	41,765
Share-based expense	4,647	4,112
Vested employee share plan awards	(831)	(6,457)
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	425
Balance at end of period	40,362	39,845
<b>Retained earnings</b>		
Balance at beginning of period	426,930	410,258
Net income attributable to Oppenheimer Holdings Inc.	20,631	1,623
Dividends paid (\$0.33 per share)	(4,373)	(4,394)
Dividends received from non-controlling interest	—	6
Cumulative-effect adjustment from adoption of new accounting update of employee share-based accounting	—	(314)
Balance at end of period	443,188	407,179
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of period	1,582	(681)
Currency translation adjustment	(880)	1,953
Balance at end of period	702	1,272
<b>Total Oppenheimer Holdings Inc. stockholders' equity</b>	<b>543,538</b>	<b>504,418</b>
<b>Non-controlling interest</b>		
Balance at beginning of period	361	2,631
Net income (loss) attributable to non-controlling interest, net of tax	(22)	180
Dividends paid to non-controlling interest	—	(2,448)
Dividends paid to parent	—	(6)
Balance at end of period	339	357
<b>Total stockholders' equity</b>	<b>\$ 543,877</b>	<b>\$ 504,775</b>

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

OPPENHEIMER HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30,

<i>(Expressed in thousands)</i>	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$ 20,609	\$ 1,803
Adjustments to reconcile net income to net cash used in operating activities		
Non-cash items included in net income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	4,999	4,185
Deferred income taxes	1,616	4,240
Amortization of notes receivable	9,480	8,658
Amortization of debt issuance costs	194	287
Write-off of debt issuance costs	—	430
Provision for (reversal of) credit losses	90	(12)
Share-based compensation	11,088	3,517
Decrease (increase) in operating assets:		
Deposits with clearing organizations	(11,734)	(6,016)
Receivable from brokers, dealers and clearing organizations	(17,916)	(33,957)
Receivable from customers	50,385	71,796
Income tax receivable	(556)	755
Securities purchased under agreements to resell	(844)	24,006
Securities owned	31,346	(330,355)
Notes receivable	(12,238)	(16,800)
Other assets	24,487	(9,585)
Increase (decrease) in operating liabilities:		
Drafts payable	(13,170)	(12,748)
Payable to brokers, dealers and clearing organizations	7,960	26,090
Payable to customers	(34,157)	(53,431)
Securities sold under agreements to repurchase	19,532	20,566
Securities sold but not yet purchased	49,260	281,531
Accrued compensation	(27,899)	(14,238)
Accounts payable and other liabilities	5,747	(5,108)
Cash provided by (used in) operating activities	<u>118,279</u>	<u>(34,386)</u>
<b>Cash flows from investing activities</b>		
Purchase of furniture, equipment and leasehold improvements	(6,654)	(3,506)
Purchase of intangible assets	(400)	—
Proceeds from the settlement of Company-owned life insurance	284	1,194
Cash used in investing activities	<u>(6,770)</u>	<u>(2,312)</u>
<b>Cash flows from financing activities</b>		
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,373)	(4,394)
Cash dividends paid to non-controlling interest	—	(2,448)
Issuance of Class A non-voting common stock	70	—
Repurchase of Class A non-voting common stock for cancellation	—	(7,464)
Payments for employee taxes withheld related to vested share-based awards	(2,529)	(2,232)
Issuance of senior secured notes	—	200,000
Redemption of senior secured notes	—	(150,000)
Debt issuance costs	—	(1,183)
Decrease in bank call loans, net	(115,300)	(15,700)
Cash (used in) provided by financing activities	<u>(122,132)</u>	<u>16,579</u>
Net decrease in cash and cash equivalents	(10,623)	(20,119)
<b>Cash and cash equivalents, beginning of period</b>	<u>48,154</u>	<u>64,913</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 37,531</u>	<u>\$ 44,794</u>
<b>Schedule of non-cash financing activities</b>		
Employee share plan issuance	\$ 724	\$ 4,225
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for interest	\$ 36,500	\$ 17,711
Cash paid during the period for income taxes, net	\$ 7,757	\$ 2,354

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

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

**1. Organization and basis of presentation**

***Organization***

Oppenheimer Holdings Inc. ("OPY" or the "Parent") is incorporated under the laws of the State of Delaware. The condensed consolidated financial statements include the accounts of OPY and its consolidated 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, market-making, research, investment banking (both corporate and public finance), investment advisory and asset management services and trust services.

The Company has 91 retail branch offices in the United States and has institutional businesses located in London, Tel Aviv, and Hong Kong. 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, 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 finance and is regulated by the Financial Conduct Authority; Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides fixed income and equities brokerage services to institutional investors and is regulated by the Securities and Futures Commission; and Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHMF") which 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.

***Basis of Presentation***

The accompanying condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Form 10-K"). The accompanying December 31, 2017 condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates. The condensed consolidated results of operations for the nine month period ended September 30, 2018 are not necessarily indicative of the results to be expected for any future interim or annual period.

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

Accounting standards require the Company to present non-controlling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of September 30, 2018, the Company owned 83.68% of OMHMF and the non-controlling interest recorded on the condensed consolidated balance sheet was \$339,000.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

**2. New accounting pronouncements**

***Recently Issued***

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 significant impact on its condensed consolidated financial statements. Since the Company has operating leases in over 100 locations, equipment leases and embedded leases, the Company expects to recognize a significant right-of use asset and lease liability on its condensed consolidated balance sheet upon adoption of this ASU. As of September 30, 2018, the Company estimates that it will record right-of-use assets between \$170.0 million to \$190.0 million and lease liabilities within the same range on the condensed consolidated balance sheet upon the adoption of this standard, which predominately relate to real estate leases. The Company has elected the modified retrospective method and will include any cumulative-effect adjustment as of the date of adoption.

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 fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact, if any, that the ASU will have on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed 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 fiscal years 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, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. The ASU improves the transparency and understandability of information conveyed to financial statement users by better aligning companies' hedging relationships to their existing risk management strategies, simplifies the application of hedge accounting and increases transparency regarding the scope and results of the hedging program. The ASU is effective for fiscal years 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, if any, of the ASU on the Company; the adoption of the ASU is not currently expected to have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for the Fair Value Measurement," which modifies the disclosure requirements related to fair value measurement. The ASU is effective for fiscal years and interim periods 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, if any, of the ASU on the Company's disclosure.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

**3. Revenues from contracts with customers**

In the first quarter of 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers." The Company has elected the modified retrospective method which did not result in a cumulative-effect adjustment at the date of adoption. The implementation of this new standard had no material impact on the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2018.

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised goods or services to customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those promised goods or services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of the Company's influence, such as market volatility or the judgment and actions of third parties.

The Company earns revenue from contracts with customers and other sources (principal transactions, interest and other). The following provides detailed information on the recognition of the Company's revenue from contracts with customers:

***Commissions***

*Commissions from Sales and Trading* — The Company earns commission revenue by executing, settling and clearing transactions with clients primarily in exchange-traded and over-the-counter corporate equity and debt securities, money market instruments and exchange-traded options and futures contracts. A substantial portion of Company's revenue is derived from commissions from private clients through accounts with transaction-based pricing. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenue associated with combined trade execution and clearing services, as well as trade execution services on a standalone basis, is recognized at a point in time on trade date when the performance obligation is satisfied. Commission revenue is generally paid on settlement date, which is generally two business days after trade date for equity securities and corporate bond transactions and one day for government securities and commodities transactions. The Company records a receivable on the trade date and receives a payment on settlement date.

*Mutual Fund Income* — The Company earns mutual fund income for sales and distribution of mutual fund shares. Many mutual fund companies pay distribution fees to intermediaries, such as broker-dealers, for selling their shares. The fees are operational expenses of the mutual fund and are included in its expense ratio. The Company recognizes mutual fund income at a point in time on trade date when the performance obligation is satisfied which is when the mutual fund interest is sold to the investor. Mutual fund income is generally received within 90 days.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

***Advisory Fees***

The Company earns management and performance (or incentive) fees in connection with the advisory and asset management services it provides to various types of funds and investment vehicles through its subsidiaries. Management fees are generally based on the account value at the valuation date per the respective asset management agreements and are recognized over time as the customer receives the benefits of the services evenly throughout the term of the contract. Performance fees are recognized when the return on client assets under management ("AUM") exceeds a specified benchmark return or other performance targets over a 12-month measurement period. Performance fees are considered variable as they are subject to fluctuation and/or are contingent on a future event over the measurement 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. Both management and performance fees are generally received within 90 days.

***Investment Banking***

The Company earns underwriting revenues by providing capital raising solutions for corporate clients through initial public offerings, follow-on offerings, equity-linked offerings, private investments in public entities, and private placements. Underwriting revenues are recognized at a point in time on trade date, as the client obtains the control and benefit of the capital markets offering at that point. These fees are generally received within 90 days after the transactions are completed. 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 and related expenses are presented gross on the condensed consolidated statement of income.

Revenue from financial advisory services includes fees generated in connection with mergers, acquisitions and restructuring transactions and such revenue and fees are primarily recorded at a point in time when services for the transactions are completed and income is reasonably determinable, generally as set forth under the terms of the engagement. Payment for advisory services is generally due upon a completion of the transaction or milestone. Retainer fees and fees earned from certain advisory services are recognized ratably over the service period as the customer receives the benefit of the services throughout the term of the contracts, and such fees are collected based on the terms of the contracts.

***Bank Deposit Sweep Income***

Bank deposit sweep income consists of revenue earned from the FDIC-insured 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. Fees are earned over time and are generally received within 30 days.

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**Disaggregation of Revenue**

The following presents the Company's revenue from contracts with customers disaggregated by major business activity and other sources of revenue for the three and nine months ended September 30, 2018:

(Expressed in thousands)

	For the Three Months Ended September 30, 2018				Total
	Reportable Segments				
	Private Client	Asset Management	Capital Markets	Corporate/ Other	
<b>Revenues from contracts with customers:</b>					
Commissions from sales and trading	\$ 36,553	\$ —	\$ 31,807	\$ 10	\$ 68,370
Mutual fund income	11,059	240	4	5	11,308
Advisory fees	60,516	17,627	3	8	78,154
Investment banking - capital markets	2,733	—	15,806	—	18,539
Investment banking - advisory	—	—	9,789	—	9,789
Bank deposit sweep income	30,053	—	—	—	30,053
Other	3,654	3	318	40	4,015
<b>Total revenues from contracts with customers</b>	<b>144,568</b>	<b>17,870</b>	<b>57,727</b>	<b>63</b>	<b>220,228</b>
<b>Other sources of revenue:</b>					
Interest	9,469	—	3,678	256	13,403
Principal transactions, net	675	—	6,423	(7,114)	(16)
Other	3,371	—	302	526	4,199
<b>Total other sources of revenue</b>	<b>13,515</b>	<b>—</b>	<b>10,403</b>	<b>(6,332)</b>	<b>17,586</b>
<b>Total revenue</b>	<b>\$ 158,083</b>	<b>\$ 17,870</b>	<b>\$ 68,130</b>	<b>\$ (6,269)</b>	<b>\$ 237,814</b>

(Expressed in thousands)

	For the Nine Months Ended September 30, 2018				Total
	Reportable Segments				
	Private Client	Asset Management	Capital Markets	Corporate/ Other	
<b>Revenues from contracts with customers:</b>					
Commissions from sales and trading	\$ 115,924	\$ —	\$ 96,826	\$ 87	\$ 212,837
Mutual fund income	32,327	745	11	15	33,098
Advisory fees	180,426	52,465	57	24	232,972
Investment banking - capital markets	10,572	—	46,398	—	56,970
Investment banking - advisory	—	—	27,472	—	27,472
Bank deposit sweep income	84,203	—	—	—	84,203
Other	11,359	9	750	(6)	12,112
<b>Total revenues from contracts with customers</b>	<b>434,811</b>	<b>53,219</b>	<b>171,514</b>	<b>120</b>	<b>659,664</b>
<b>Other sources of revenue:</b>					
Interest	27,820	1	10,146	719	38,686
Principal transactions, net	807	—	15,804	(7,501)	9,110
Other	5,292	—	401	1,747	7,440
<b>Total other sources of revenue</b>	<b>33,919</b>	<b>1</b>	<b>26,351</b>	<b>(5,035)</b>	<b>55,236</b>
<b>Total revenue</b>	<b>\$ 468,730</b>	<b>\$ 53,220</b>	<b>\$ 197,865</b>	<b>\$ (4,915)</b>	<b>\$ 714,900</b>

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**Contract Balances**

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records receivables when revenue is recognized prior to payment and it has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

The Company had receivables related to revenue from contracts with customers of \$23.7 million and \$18.6 million at September 30, 2018 and January 1, 2018, respectively. The Company had no significant impairments related to these receivables during the three and nine months ended September 30, 2018.

Deferred revenue relates to IRA fees received annually in advance on customer's IRA accounts managed by the Company and the retainer fees and fees earned from certain advisory transactions where the performance obligations have not yet been satisfied. Total deferred revenue was \$1.2 million and \$nil at September 30, 2018 and January 1, 2018, respectively.

The following presents the Company's contract assets and deferred revenue balances from contracts with customers, which are included in other assets and other liabilities, respectively, on the condensed consolidated balance sheet:

*(Expressed in thousands)*

	Ending Balance at September 30, 2018	Opening Balance at January 1, 2018
<b>Contract assets (receivables):</b>		
Commission <sup>(1)</sup>	\$ 2,867	\$ 2,007
Mutual fund income <sup>(2)</sup>	7,364	7,779
Advisory fees <sup>(3)</sup>	681	1,460
Bank deposit sweep income <sup>(4)</sup>	3,849	3,459
Investment banking fees <sup>(5)</sup>	5,601	3,926
Other	3,290	—
Total contract assets	<u>\$ 23,652</u>	<u>\$ 18,631</u>
<b>Deferred revenue (payables):</b>		
Investment banking fees	\$ 407	\$ —
IRA fees	762	—
Total deferred revenue	<u>\$ 1,169</u>	<u>\$ —</u>

- (1) Commission recorded on trade date but not yet settled.
- (2) Mutual fund income earned but not yet received.
- (3) Management and performance fees earned but not yet received.
- (4) Fees earned from FDIC-insured bank deposit program but not yet received.
- (5) Underwriting revenue and advisory fee earned but not yet received.

**Contract Costs**

The Company incurs incremental transaction-related costs to obtain and/or fulfill contracts associated with investment banking and advisory engagements where the revenue is recognized at a point in time and the costs are determined to be recoverable. As of September 30, 2018, the contract costs were \$1.5 million. There were no significant charges recognized in relation to these costs for the nine months ended September 30, 2018.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

#### 4. 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 non-voting common stock ("Class A Stock") and Class B voting common stock ("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 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 Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted average number of shares outstanding	13,269,024	13,213,139	13,252,596	13,290,399
Net dilutive effect of share-based awards, treasury method <sup>(1)</sup>	871,239	550,377	790,730	499,737
Diluted weighted average number of shares outstanding	14,140,263	13,763,516	14,043,326	13,790,136
Net income from continuing operations	\$ 5,061	\$ 7,403	\$ 20,609	\$ 702
Net income from discontinued operations	—	461	—	1,101
Net income	5,061	7,864	20,609	1,803
Less net income (loss) attributable to non-controlling interest, net of tax	(10)	75	(22)	180
Net income attributable to Oppenheimer Holdings Inc.	\$ 5,071	\$ 7,789	\$ 20,631	\$ 1,623
<b>Basic net income per share attributable to Oppenheimer Holdings Inc.</b>				
Continuing operations	\$ 0.38	\$ 0.56	\$ 1.56	\$ 0.05
Discontinued operations <sup>(2)</sup>	—	0.03	—	0.07
Net income per share	\$ 0.38	\$ 0.59	\$ 1.56	\$ 0.12
<b>Diluted net income per share attributable to Oppenheimer Holdings Inc.</b>				
Continuing operations	\$ 0.36	\$ 0.54	\$ 1.47	\$ 0.05
Discontinued operations <sup>(2)</sup>	—	0.03	—	0.07
Net income per share	\$ 0.36	\$ 0.57	\$ 1.47	\$ 0.12

- (1) For both the three and nine months ended September 30, 2018, the diluted net income per share computation does not include the anti-dilutive effect of 4,050 shares of Class A Stock granted under share-based compensation arrangements (15,450 shares for both the three and nine months ended September 30, 2017).
- (2) Represents net income from discontinued operations less net income attributable to non-controlling interest, net of tax divided by weighted average number of shares outstanding.

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Notes to Condensed Consolidated Financial Statements (unaudited)

**5. Receivable from and payable to brokers, dealers and clearing organizations**

*(Expressed in thousands)*

	As of	
	September 30, 2018	December 31, 2017
Receivable from brokers, dealers and clearing organizations consists of:		
Securities borrowed	\$ 114,795	\$ 132,368
Receivable from brokers	31,396	19,298
Securities failed to deliver	23,390	9,442
Clearing organizations	29,026	24,361
Other	6,424	1,646
<b>Total</b>	<b>\$ 205,031</b>	<b>\$ 187,115</b>
Payable to brokers, dealers and clearing organizations consists of:		
Securities loaned	\$ 197,332	\$ 180,270
Payable to brokers	2,004	1,567
Securities failed to receive	18,102	17,559
Other	2,005	12,087
<b>Total</b>	<b>\$ 219,443</b>	<b>\$ 211,483</b>

**6. 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.

***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.

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*Mortgage and Other Asset-Backed Securities*

The Company values non-agency securities collateralized by home equity and various other types of collateral 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.

*Auction Rate Securities ("ARS")*

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 September 30, 2018, the Company had no 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 September 30, 2018, the Company purchased and holds (net of redemptions) approximately \$40.8 million in ARS from its clients. In addition, the Company is committed to purchase another \$7.2 million in ARS 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 that are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities that 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 classified 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.

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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.

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

(Expressed in thousands)

Quantitative Information about ARS Level 3 Fair Value Measurements as of September 30, 2018

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
<b>Auction Rate Securities Owned <sup>(1)</sup></b>							
Auction Rate Preferred Securities	\$ 21,500	\$ 406	\$ 21,094	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	3.14% to 4.28%	4.26%
					Duration	2.5 Years	2.5 Years
					Current Yield <sup>(3)</sup>	2.38% to 3.46%	3.45%
Auction Rate Preferred Securities	18,950	2,697	16,253	Tender Offer <sup>(4)</sup>	N/A	N/A	N/A
Municipal Auction Rate Securities	75	—	75	Par	N/A	N/A	N/A
Student Loan Auction Rate Securities	275	14	261	Discounted Cash Flow	Discount Rate <sup>(5)</sup>	4.17%	4.17%
					Duration	5.5 Years	5.5 Years
					Current Yield <sup>(3)</sup>	3.09%	3.09%
	<u>\$ 40,800</u>	<u>\$ 3,117</u>	<u>\$ 37,683</u>				
<b>Auction Rate Securities Commitments to Purchase <sup>(6)</sup></b>							
Auction Rate Preferred Securities	\$ 49	\$ 1	\$ 48	Discounted Cash Flow	Discount Rate <sup>(2)</sup>	3.14% to 4.28%	4.26%
					Duration	2.5 Years	2.5 Years
					Current Yield <sup>(3)</sup>	2.38% to 3.46%	3.45%
Auction Rate Preferred Securities	7,184	1,078	6,106	Tender Offer <sup>(4)</sup>	N/A	N/A	N/A
	<u>\$ 7,233</u>	<u>\$ 1,079</u>	<u>\$ 6,154</u>				
<b>Total</b>	<u>\$ 48,033</u>	<u>\$ 4,196</u>	<u>\$ 43,837</u>				

- (1) Principal amount represents the par value of the ARS and is included in securities owned on the condensed consolidated balance sheet as of September 30, 2018. The valuation adjustment amount is included as a reduction to securities owned on the condensed consolidated balance sheet as of September 30, 2018.
- (2) Derived by applying a multiple to a spread between 110% to 150% to the U.S. Treasury rate of 2.85%.
- (3) Based on current yields for ARS positions owned.
- (4) Residual ARS amounts owned and ARS commitments to purchase that were subject to tender offers were priced at the tender offer price. Included in Level 2 of the fair value hierarchy.
- (5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.97%.
- (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 amount is included in accounts payable and other liabilities on the condensed consolidated balance sheet as of September 30, 2018.

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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 September 30, 2018 would result in a decrease in the fair value of \$126,000 (does not consider a corresponding reduction in duration as discussed above).
- The impact of a 50 basis point increase in the discount rate at September 30, 2018 would result in a decrease in the fair value of \$251,000 (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, ARS are primarily categorized in Level 3 of the fair value hierarchy. As of September 30, 2018, the Company had a valuation adjustment (unrealized loss) of \$3.1 million for ARS owned which is included as a reduction to securities owned on the condensed consolidated balance sheet. As of September 30, 2018, the Company also had a valuation adjustment of \$1.1 million on ARS purchase commitments from legal settlements and awards which is included in accounts payable and other liabilities on the condensed consolidated balance sheet. The total valuation adjustment was \$4.2 million as of September 30, 2018. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

During the three months ended September 30, 2018, the Company participated in tender offers by issuers of ARS which resulted in recognized losses totaling \$8.1 million. The recognized losses are comprised of realized losses of \$4.6 million related to tendering ARS holdings at prices below par and unrealized losses of \$3.5 million related to revaluing the remaining affected ARS owned and commitments to purchase at the tender offer prices.

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*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 September 30, 2018:

*(Expressed in thousands)*

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds <sup>(1)</sup>	\$ 1,631	\$ —	Annually	30 - 120 Days
Private equity funds <sup>(2)</sup>	4,974	1,400	N/A	N/A
	<u>\$ 6,605</u>	<u>\$ 1,400</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.

**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 with ARS that are trading in the secondary market.

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**Assets and Liabilities Measured at Fair Value**

The Company's assets and liabilities, recorded at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, have been categorized based upon the above fair value hierarchy as follows:

**Assets and liabilities measured at fair value on a recurring basis as of September 30, 2018**

(Expressed in thousands)

	Fair Value Measurements as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 10,500	\$ —	\$ —	\$ 10,500
Deposits with clearing organizations	31,291	—	—	31,291
Securities owned:				
U.S. Treasury securities	701,261	—	—	701,261
U.S. Agency securities	14,688	7,425	—	22,113
Sovereign obligations	—	2,964	—	2,964
Corporate debt and other obligations	—	14,400	—	14,400
Mortgage and other asset-backed securities	—	2,777	—	2,777
Municipal obligations	—	45,427	—	45,427
Convertible bonds	—	34,013	—	34,013
Corporate equities	34,613	—	—	34,613
Auction rate securities	—	16,253	21,430	37,683
Securities owned, at fair value	750,562	123,259	21,430	895,251
Investments <sup>(1)</sup>	—	—	104	104
Derivative contracts:				
TBAs	—	12,309	—	12,309
Total	\$ 792,353	\$ 135,568	\$ 21,534	\$ 949,455
<b>Liabilities</b>				
Securities sold but not yet purchased:				
U.S. Treasury securities	\$ 107,031	\$ —	\$ —	\$ 107,031
U.S. Agency securities	—	2	—	2
Corporate debt and other obligations	—	4,061	—	4,061
Mortgage and other asset-backed securities	—	2,349	—	2,349
Convertible bonds	—	7,356	—	7,356
Corporate equities	22,947	—	—	22,947
Securities sold but not yet purchased, at fair value	129,978	13,768	—	143,746
Derivative contracts:				
Futures	709	—	—	709
Foreign exchange forward contracts	2	—	—	2
TBAs	—	12,258	—	12,258
ARS purchase commitments	—	1,078	1	1,079
Derivative contracts, total	711	13,336	1	14,048
Total	\$ 130,689	\$ 27,104	\$ 1	\$ 157,794

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

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Notes to Condensed Consolidated Financial Statements (unaudited)

*Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017*

(Expressed in thousands)

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 10,490	\$ —	\$ —	\$ 10,490
Deposits with clearing organizations	34,293	—	—	34,293
Securities owned:				
U.S. Treasury securities	640,337	—	—	640,337
U.S. Agency securities	3,011	6,894	—	9,905
Sovereign obligations	—	608	—	608
Corporate debt and other obligations	—	12,538	—	12,538
Mortgage and other asset-backed securities	—	4,037	—	4,037
Municipal obligations	—	89,618	35	89,653
Convertible bonds	—	23,216	—	23,216
Corporate equities	34,067	—	—	34,067
Money markets	383	—	—	383
Auction rate securities	—	24,455	87,398	111,853
Securities owned, at fair value	677,798	161,366	87,433	926,597
Investments <sup>(1)</sup>	—	—	169	169
Derivative contracts:				
TBAs	—	716	—	716
Total	\$ 722,581	\$ 162,082	\$ 87,602	\$ 972,265
<b>Liabilities</b>				
Securities sold but not yet purchased:				
U.S. Treasury securities	\$ 53,425	\$ —	\$ —	\$ 53,425
U.S. Agency securities	—	13	—	13
Sovereign obligations	—	1,179	—	1,179
Corporate debt and other obligations	—	4,357	—	4,357
Mortgage and other asset-backed securities	—	10	—	10
Convertible bonds	—	10,109	—	10,109
Corporate equities	25,393	—	—	25,393
Securities sold but not yet purchased, at fair value	78,818	15,668	—	94,486
Derivative contracts:				
Futures	766	—	—	766
TBAs	—	614	—	614
ARS purchase commitments	—	—	8	8
Derivative contracts, total	766	614	8	1,388
Total	\$ 79,584	\$ 16,282	\$ 8	\$ 95,874

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

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2018 and 2017:

*(Expressed in thousands)*

Level 3 Assets and Liabilities For the Three Months Ended September 30, 2018						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(3)(4)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Auction rate securities <sup>(1)(5)</sup>	\$ 72,621	\$ (2,163)	\$ 2,150	\$ (34,925)	\$ (16,253)	\$ 21,430
Investments	164	—	—	—	(60)	104
<b>Liabilities</b>						
ARS purchase commitments <sup>(2)(5)</sup>	131	(948)	—	—	1,078	1

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (3) Included in principal transactions in the condensed consolidated statement of income, except for gains (losses) from investments which are included in other income in the condensed consolidated statement of income.
- (4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (5) Represents transfers from Level 3 to Level 2 of the fair value hierarchy. Transfers were due to tender offers by issuers of ARS.

*(Expressed in thousands)*

Level 3 Assets and Liabilities For the Three Months Ended September 30, 2017						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(3)(4)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipal obligations	\$ 36	\$ (1)	\$ —	\$ —	\$ —	\$ 35
Auction rate securities <sup>(1)</sup>	107,170	(161)	25	(250)	—	106,784
Investments	168	(1)	—	—	—	167
ARS purchase commitments <sup>(2)</sup>	—	—	—	—	—	—
<b>Liabilities</b>						
ARS purchase commitments <sup>(2)</sup>	254	(22)	—	—	—	276

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (3) Included in principal transactions in the condensed consolidated statement of income, except for gains (losses) from investments which are included in other income in the condensed consolidated statement of income.
- (4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2018 and 2017:

(Expressed in thousands)

Level 3 Assets and Liabilities						
For the Nine Months Ended September 30, 2018						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(3)(4)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipal obligations	\$ 35	\$ 14	\$ 76	\$ (125)	\$ —	\$ —
Auction rate securities <sup>(1)(5)</sup>	87,398	(2,218)	6,250	(36,145)	(33,855)	21,430
Investments	169	(5)	—	—	(60)	104
<b>Liabilities</b>						
ARS purchase commitments <sup>(2)(5)</sup>	8	(1,162)	—	—	1,169	1

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (3) Included in principal transactions in the condensed consolidated statement of income, except for gains (losses) from investments which are included in other income in the condensed consolidated statement of income.
- (4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.
- (5) Represents transfers from Level 3 to Level 2 of the fair value hierarchy. Transfers were due to tender offers by issuers of ARS.

(Expressed in thousands)

Level 3 Assets and Liabilities						
For the Nine Months Ended September 30, 2017						
	Beginning Balance	Total Realized and Unrealized Gains (Losses) <sup>(3)(4)</sup>	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
<b>Assets</b>						
Municipal obligations	\$ 44	\$ (9)	\$ —	\$ —	\$ —	\$ 35
Auction rate securities <sup>(1)</sup>	84,926	983	22,075	(1,200)	—	106,784
Investments	158	9	—	—	—	167
ARS purchase commitments <sup>(2)</sup>	849	(849)	—	—	—	—
<b>Liabilities</b>						
ARS purchase commitments <sup>(2)</sup>	645	369	—	—	—	276

- (1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.
- (2) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.
- (3) Included in principal transactions in the condensed consolidated statement of income, except for gains (losses) from investments which are included in other income in the condensed consolidated statement of income.
- (4) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

**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 condensed 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 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.

*Assets and liabilities not measured at fair value as of September 30, 2018*

*(Expressed in thousands)*

	Carrying Value	Fair Value Measurement: Assets			Total
		Level 1	Level 2	Level 3	
Cash	\$ 27,031	\$ 27,031	\$ —	\$ —	\$ 27,031
Deposits with clearing organization	22,665	22,665	—	—	22,665
Receivable from brokers, dealers and clearing organizations:					
Securities borrowed	114,795	—	114,795	—	114,795
Receivables from brokers	31,396	—	31,396	—	31,396
Securities failed to deliver	23,390	—	23,390	—	23,390
Clearing organizations	29,026	—	29,026	—	29,026
Other	5,183	—	5,183	—	5,183
	203,790	—	203,790	—	203,790
Receivable from customers	797,751	—	797,751	—	797,751
Securities purchased under agreements to resell	1,502	—	1,502	—	1,502
Notes receivable, net	43,278	—	43,278	—	43,278
Investments <sup>(1)</sup>	68,585	—	68,585	—	68,585

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

*(Expressed in thousands)*

	Carrying Value	Fair Value Measurement: Liabilities			Total
		Level 1	Level 2	Level 3	
Drafts payable	\$ 29,242	\$ 29,242	\$ —	\$ —	\$ 29,242
Bank call loans	3,000	—	3,000	—	3,000
Payables to brokers, dealers and clearing organizations:					
Securities loaned	197,332	—	197,332	—	197,332
Payable to brokers	2,004	—	2,004	—	2,004
Securities failed to receive	18,102	—	18,102	—	18,102
Other	106	—	106	—	106
	217,544	—	217,544	—	217,544
Payables to customers	351,750	—	351,750	—	351,750
Securities sold under agreements to repurchase	606,010	—	606,010	—	606,010
Senior secured notes	200,000	—	202,938	—	202,938

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

*Assets and liabilities not measured at fair value as of December 31, 2017*

*(Expressed in thousands)*

	Carrying Value	Fair Value Measurement: Assets			Total
		Level 1	Level 2	Level 3	
Cash	\$ 37,664	\$ 37,664	\$ —	\$ —	\$ 37,664
Deposits with clearing organization	7,929	7,929	—	—	7,929
Receivable from brokers, dealers and clearing organizations:					
Securities borrowed	132,368	—	132,368	—	132,368
Receivables from brokers	19,298	—	19,298	—	19,298
Securities failed to deliver	9,442	—	9,442	—	9,442
Clearing organizations	24,361	—	24,361	—	24,361
Other	930	—	930	—	930
	186,399	—	186,399	—	186,399
Receivable from customers	848,226	—	848,226	—	848,226
Securities purchased under agreements to resell	658	—	658	—	658
Notes receivable, net	40,520	—	40,520	—	40,520
Investments <sup>(1)</sup>	65,404	—	65,404	—	65,404

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

*(Expressed in thousands)*

	Carrying Value	Fair Value Measurement: Liabilities			Total
		Level 1	Level 2	Level 3	
Drafts payable	\$ 42,212	\$ 42,212	\$ —	\$ —	\$ 42,212
Bank call loans	118,300	—	118,300	—	118,300
Payables to brokers, dealers and clearing organizations:					
Securities loaned	180,270	—	180,270	—	180,270
Payable to brokers	1,567	—	1,567	—	1,567
Securities failed to receive	17,559	—	17,559	—	17,559
Other	10,707	—	10,707	—	10,707
	210,103	—	210,103	—	210,103
Payables to customers	385,907	—	385,907	—	385,907
Securities sold under agreements to repurchase	586,478	—	586,478	—	586,478
Senior secured notes	200,000	—	206,380	—	206,380

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

***Fair Value Option***

The Company elected the fair value option for securities sold under agreements to repurchase ("repurchase agreements") and securities purchased under agreements to resell ("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 reflect more accurately 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 September 30, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

***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 condensed consolidated balance sheet.

*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 ("NIS"). 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 condensed consolidated balance sheet and other income in the condensed consolidated statement of income.

*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 Company uses futures contracts, including U.S. Treasury notes, Federal Funds, General Collateral futures and Eurodollar contracts 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 condensed consolidated balance sheet in payable to brokers, dealers and clearing organizations and in the condensed consolidated statement of income as principal transactions revenue, net.

*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. Net unrealized gains and losses on TBAs are recorded on the condensed consolidated balance sheet in receivable from brokers, dealers and clearing organizations or payable to brokers, dealers and clearing organizations and in the condensed consolidated statement of income as principal transactions revenue, net.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

The notional amounts and fair values of the Company's derivatives as of September 30, 2018 and December 31, 2017 by product were as follows:

*(Expressed in thousands)*

	Fair Value of Derivative Instruments as of September 30, 2018		
	Description	Notional	Fair Value
<b>Assets:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 568,430	\$ 11,057
	Other TBAs <sup>(2)</sup>	28,501	1,252
		<u>\$ 596,931</u>	<u>\$ 12,309</u>
<b>Liabilities:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts	Futures	\$ 3,720,000	\$ 709
Other contracts	Foreign exchange forward contracts	200	2
	TBAs	568,430	11,068
	Other TBAs <sup>(2)</sup>	28,501	1,190
	ARS purchase commitments	7,233	1,079
		<u>\$ 4,324,364</u>	<u>\$ 14,048</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.
- (2) Represents TBA purchase and sale contracts related to the legacy OMHMF business.

*(Expressed in thousands)*

	Fair Value of Derivative Instruments as of December 31, 2017		
	Description	Notional	Fair Value
<b>Assets:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Other contracts	TBAs	\$ 26,000	\$ 22
	Other TBAs <sup>(2)</sup>	39,576	694
		<u>\$ 65,576</u>	<u>\$ 716</u>
<b>Liabilities:</b>			
Derivatives not designated as hedging instruments <sup>(1)</sup>			
Commodity contracts	Futures	\$ 5,844,000	\$ 766
Other contracts	TBAs	26,000	22
	Other TBAs <sup>(2)</sup>	39,576	592
	ARS purchase commitments	10,992	8
		<u>\$ 5,920,568</u>	<u>\$ 1,388</u>

- (1) See "Derivative Instruments and Hedging Activities" above for a description of derivative financial instruments.
- (2) Represents TBA purchase and sale contracts related to the legacy OMHMF business.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect in the condensed consolidated statements of income for the three months ended September 30, 2018 and 2017:

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Income For the Three Months Ended September 30, 2018			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ 413
Other contracts	Foreign exchange forward contracts	Other revenue	2
Other contracts	TBAs	Principal transactions revenue	73
	Other TBAs	Other revenue	62
	ARS purchase commitments	Principal transactions revenue	(857)
			\$ (307)

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Income For the Three Months Ended September 30, 2017			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (20)
Other contracts	Foreign exchange forward contracts	Other revenue	—
	TBAs	Principal transactions revenue	(26)
	Other TBAs	Other revenue	(70)
	ARS purchase commitments	Principal transactions revenue	(22)
			\$ (138)

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect in the condensed consolidated statements of income for the nine months ended September 30, 2018 and 2017:

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Income For the Nine Months Ended September 30, 2018			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ 1,764
Other contracts	Foreign exchange forward contracts	Other revenue	(3)
Other contracts	TBAs	Principal transactions revenue	269
	Other TBAs	Other revenue	209
	ARS purchase commitments	Principal transactions revenue	(1,071)
			\$ 1,168

*(Expressed in thousands)*

The Effect of Derivative Instruments in the Statement of Income For the Nine Months Ended September 30, 2017			
Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Net Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ 214
Other contracts	Foreign exchange forward contracts	Other revenue	12
	TBAs	Principal transactions revenue	(184)
	Other TBAs	Other revenue	(320)
	ARS purchase commitments	Principal transactions revenue	(480)
			\$ (758)

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

## 7. Collateralized transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn 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 September 30, 2018, bank call loans were \$3.0 million (\$118.3 million as of December 31, 2017). As of September 30, 2018, such loans were collateralized by firm and/or customer securities with market values of approximately \$3.3 million and \$311.8 million, respectively, with commercial banks.

As of September 30, 2018, the Company had approximately \$1.1 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately \$169.9 million under securities loan agreements.

As of September 30, 2018, the Company had pledged \$287.0 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

As of September 30, 2018, 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 U.S. 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 agreements and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase agreements 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 agreements 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 September 30, 2018:

*(Expressed in thousands)*

	Overnight and Open
Repurchase agreements:	
U.S. Government and Agency securities	\$ 705,491
Securities loaned:	
Equity securities	197,332
Gross amount of recognized liabilities for repurchase agreements and securities loaned	<u>\$ 902,823</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

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 September 30, 2018 and December 31, 2017:

As of September 30, 2018

*(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	\$ 100,983	\$ (99,481)	\$ 1,502	\$ (1,495)	\$ —	\$ 7
Securities borrowed <sup>(1)</sup>	114,795	—	114,795	(110,123)	—	4,672
<b>Total</b>	<b>\$ 215,778</b>	<b>\$ (99,481)</b>	<b>\$ 116,297</b>	<b>\$ (111,618)</b>	<b>\$ —</b>	<b>\$ 4,679</b>

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed 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	\$ 705,491	\$ (99,481)	\$ 606,010	\$ (603,961)	\$ —	\$ 2,049
Securities loaned <sup>(2)</sup>	197,332	—	197,332	(189,961)	—	7,371
<b>Total</b>	<b>\$ 902,823</b>	<b>\$ (99,481)</b>	<b>\$ 803,342</b>	<b>\$ (793,922)</b>	<b>\$ —</b>	<b>\$ 9,420</b>

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

As of December 31, 2017

*(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	\$ 200,712	\$ (200,054)	\$ 658	\$ —	\$ —	\$ 658
Securities borrowed <sup>(1)</sup>	132,368	—	132,368	(128,575)	—	3,793
<b>Total</b>	<b>\$ 333,080</b>	<b>\$ (200,054)</b>	<b>\$ 133,026</b>	<b>\$ (128,575)</b>	<b>\$ —</b>	<b>\$ 4,451</b>

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed 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	\$ 786,532	\$ (200,054)	\$ 586,478	\$ (585,289)	\$ —	\$ 1,189
Securities loaned <sup>(2)</sup>	180,270	—	180,270	(170,176)	—	10,094
<b>Total</b>	<b>\$ 966,802</b>	<b>\$ (200,054)</b>	<b>\$ 766,748</b>	<b>\$ (755,465)</b>	<b>\$ —</b>	<b>\$ 11,283</b>

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

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

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. As of September 30, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

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 September 30, 2018, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$110.7 million (\$127.2 million as of December 31, 2017) and \$100.6 million (\$221.6 million as of December 31, 2017), respectively, of which the Company has sold and re-pledged approximately \$18.1 million (\$30.9 million as of December 31, 2017) under securities loaned transactions and \$100.6 million under repurchase agreements (\$221.6 million as of December 31, 2017).

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 \$738.8 million, as presented on the face of the condensed consolidated balance sheet as of September 30, 2018 (\$655.7 million as of December 31, 2017). 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 \$3.3 million as of September 30, 2018 (\$97.2 million as of December 31, 2017).

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 credit 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 September 30, 2018 are receivables from five major U.S. broker-dealers totaling approximately \$84.3 million.

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 two 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, the Fixed Income Clearing Corporation ("FICC"), R.J. O'Brien & Associates (commodities transactions), Mortgage-Backed Securities Division (a division of FICC) and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts as of September 30, 2018 are with the FICC. In addition, the Company clears its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through Global Prime Partners, Ltd. 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 September 30, 2018, 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.

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**8. Variable interest entities ("VIEs")**

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 to the amount committed.

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 condensed consolidated balance sheet.

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 September 30, 2018 and December 31, 2017:

*(Expressed in thousands)*

	As of September 30, 2018				
	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	\$ 336,209	\$ 342	\$ —	\$ —	\$ 342
Private equity funds	9,174	12	—	1	13
<b>Total</b>	<b>\$ 345,383</b>	<b>\$ 354</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ 355</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 condensed consolidated balance sheet.

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(Expressed in thousands)

	As of December 31, 2017				
	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	\$ 328,172	\$ 713	\$ —	\$ —	\$ 713
Private equity funds	15,668	12	—	2	14
Total	\$ 343,840	\$ 725	\$ —	\$ 2	\$ 727

(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 condensed consolidated balance sheet.

## 9. Long-term debt

(Expressed in thousands)

Issued	Maturity Date	September 30, 2018	December 31, 2017
6.75% Senior Secured Notes	7/1/2022	\$ 200,000	\$ 200,000
Unamortized Debt Issuance Cost		(969)	(1,163)
		\$ 199,031	\$ 198,837

### 6.75% Senior Secured Notes

On June 23, 2017, the Parent issued in a private offering \$200.0 million aggregate principal amount of 6.75% Senior Secured Notes due 2022 (the "Unregistered Notes") under an indenture at an issue price of 100% of the principal amount. On September 19, 2017, the Parent completed an exchange offer in which the Parent exchanged 99.8% of its Unregistered Notes for a like principal amount of notes with identical terms except that such new notes have been registered under the Securities Act of 1933, as amended (the "Notes"). The Parent did not receive any proceeds in the exchange offer. Interest on the Notes is payable semi-annually on January 1st and July 1st, beginning January 1, 2018. On June 23, 2017, the Parent used a portion of the net proceeds from the offering of the Unregistered Notes to redeem in full its 8.75% Senior Secured Notes due April 15, 2018 (the "Old Notes") in the principal amount of \$120.0 million, and pay all related fees and expenses related thereto. The cost to issue the Notes was \$4.3 million, of which \$3.0 million was paid to its subsidiary, Oppenheimer, who served as the initial purchaser of the offering, and was eliminated in consolidation. The Company capitalized the remaining \$1.3 million and will amortize it over the term of the Notes.

The indenture governing the Notes contains covenants that place restrictions on the incurrence of indebtedness, the payment of dividends, the repurchase of equity, the sale of assets, mergers and acquisitions and the granting of liens. Pursuant to the indenture governing the Notes, the Parent is restricted from paying any dividend or making any payment or distribution on account of its equity interests unless, among other things, (i) the dividend, payment or distribution (together with all other such dividends, payments or distributions made since July 1, 2017) is less than an amount calculated based in part on the Consolidated Adjusted Net Income (as defined in the indenture governing the Notes) of the Parent and its restricted and regulated subsidiaries since July 1, 2017, or (ii) the dividend, payment or distribution fits within one or more exceptions, including:

- it is less than \$20 million in any fiscal year; or
- when combined with all other Restricted Payments (as defined in the indenture governing the Notes) that rely upon this exception, it does not exceed \$10 million.

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The Notes provide for events of default including, among other things, nonpayment, breach of covenants and bankruptcy. The Parent's obligations under the Notes are guaranteed by certain of the Parent's subsidiaries and are secured by a first-priority security interest in substantially all of the assets of the Parent and the subsidiary's guarantors. These guarantees and the collateral may be shared, on a pari passu basis, under certain circumstances, with debt incurred. As of September 30, 2018, the Parent was in compliance with all of its covenants.

Interest expense for the three and nine months ended September 30, 2018 on the Notes was \$3.4 million and \$10.1 million, respectively (\$3.4 million and \$3.7 million for the three and nine months ended September 30, 2017, respectively).

**8.75% Senior Secured Notes**

On April 12, 2011, the Parent issued in a private offering \$200.0 million in aggregate principal amount of Old Notes at an issue price of 100% of the principal amount. Interest on the Old Notes was payable semi-annually on April 15th and October 15th. On April 15, 2014, the Parent retired early \$50.0 million of the Old Notes.

The indenture for the Old Notes contained covenants, with which the Company was in compliance during 2017.

On April 15, 2017, the Parent used the net proceeds from the asset sales of OMHHF to finance the redemption of \$30.0 million aggregate principal amount of the Old Notes at a redemption price equal to 100% of the principal, plus accrued and unpaid interest.

On June 23, 2017, the Parent used a portion of the net proceeds from the offering of the Notes to redeem in full its Old Notes in the principal amount of \$120.0 million and to satisfy and discharge all of its obligations under the indenture governing the Old Notes (the "8.75% Notes Indenture").

In connection with the satisfaction and discharge of the 8.75% Notes Indenture, all of the obligations of the Parent and the subsidiary guarantors (other than certain customary provisions of the 8.75% Notes Indenture, including those relating to the compensation and indemnification of the trustee that expressly survive pursuant to the terms of the 8.75% Notes Indenture) were discharged and the guarantees of the subsidiary guarantors and the liens on the collateral securing the Old Notes were released on June 23, 2017.

Interest expense for the three and nine months ended September 30, 2017 on the Old Notes was \$nil and \$6.7 million, respectively.

**10. 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 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:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Class A Stock outstanding, beginning of period	13,156,353	13,132,775	13,139,203	13,261,095
Issued pursuant to share-based compensation plans	21,578	19,883	38,728	198,903
Repurchased and canceled pursuant to the stock buy-back	—	(143,010)	—	(450,350)
Class A Stock outstanding, end of period	<u>13,177,931</u>	<u>13,009,648</u>	<u>13,177,931</u>	<u>13,009,648</u>

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*Stock buy-back*

On May 5, 2017, the Company announced that its board of directors approved a share repurchase program that authorizes the Company to purchase up to 650,000 shares of the Company's Class A Stock, representing approximately 5% of its 13,178,571 then issued and outstanding shares of Class A Stock. This authorization supplemented the 40,734 shares that remained authorized and available under the Company's previous share repurchase program covering up to 665,000 shares of the Company's Class A Stock, which was announced on September 15, 2015, for a total of 690,734 shares authorized and available for repurchase.

During the three and nine months ended September 30, 2018, the Company did not purchase any shares of Class A Stock under this program. As of September 30, 2018, 508,906 shares remained available to be purchased under this 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. The Company will cancel all of the shares repurchased. The Company expects to continue the share repurchase program indefinitely. The Company will base the timing and amounts of any purchases 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, the Company may commence or suspend repurchases from time to time without notice.

**11. Income taxes**

On December 22, 2017, the Federal government enacted Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. Federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income ("GILTI"), which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (5) limitations on the use of FTCs to reduce the U.S. income tax liability; (6) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (7) creating the base erosion anti-abuse tax, a new minimum tax; (8) limitations on the deductibility of certain executive compensation; (9) creating a new limitation on deductible interest expense; (10) eliminating the deductibility of entertainment expenses; and (11) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

On December 22, 2017, the SEC staff issued SAB 118 which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under ASC 740. The Company has not completed its accounting for the income tax effects of certain elements of the TCJA. However, the Company was able to make reasonable estimates of the effects of certain elements and recorded a provisional estimate in the condensed consolidated financial statements. The estimated enactment net discrete after-tax benefit incorporates assumptions made based upon the Company's current interpretations of the TCJA, and may change as it receives additional clarification and implementation guidance and as the interpretation of the TCJA evolves over time. The Company is expected to complete its analysis within the measurement period in accordance with SAB 118.

The effective income tax rate from continuing operations for the three months ended September 30, 2018 was 29.2% compared with 37.4% for the three months ended September 30, 2017 and reflects the Company's estimate of the annual effective tax rate adjusted for certain discrete items. The lower estimated effective tax rate for the three months ended September 30, 2018 is due to the Federal tax rate of 21% (versus 35%) as a result of the passage of the TCJA in December 2017 offset by foreign income inclusion and larger non-deductible expenses related to items such as entertainment, fringe benefits, regulatory fines and penalties, and limitations around the deductibility of executive compensation under the TCJA.

OPPENHEIMER HOLDINGS INC.  
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**12. 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 and periodic expenses. 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 expenses, adverse judgments, settlements, fines, penalties, injunctions or other relief. The investigations include 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 a 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. Counsel may be required to review, analyze and resolve numerous issues, 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 the Company can reasonably estimate a loss or range of loss or additional loss for the 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 condensed 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 \$30.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where the Company can make an estimate for such losses. For certain cases, the Company does not believe that it can make an estimate. The foregoing aggregate 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 September 30, 2018, the Company had no 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 September 30, 2018, the Company purchased and holds (net of redemptions) approximately \$40.8 million in ARS from its clients. In addition, the Company is committed to purchase another \$7.2 million in ARS from clients through 2020 under legal settlements and awards.

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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. 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 and discuss offer scenarios in terms of which Eligible Investors should receive a Purchase Offer. 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 the 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 \$7.7 million of ARS principal value as of September 30, 2018. 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 represent 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. As of September 30, 2018, there were no ARS purchase commitments related to legal settlements extending past 2020.

Since August 2014, Oppenheimer has been responding to information requests from the SEC 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. A number of Oppenheimer employees have provided on-the-record testimony in connection with the SEC inquiry. Oppenheimer is continuing to cooperate with the SEC inquiry.

Since September 2016, Oppenheimer has been responding to information requests from FINRA (including from FINRA's Enforcement Department) regarding the supervision of Oppenheimer's sale of unit investment trusts from 2011 to 2015. The inquiry is part of a larger targeted examination or "sweep" examination involving many other brokerage firms. Oppenheimer is continuing to cooperate with the FINRA inquiry.

On February 12, 2018, the SEC Division of Enforcement ("Enforcement Division") announced the Share Class Selection Disclosure Initiative ("SCSD Initiative") pursuant to which investment advisers were encouraged to self-report possible securities laws violations relating to the failure to make certain disclosures concerning mutual fund share class selection. On June 11, 2018, Oppenheimer and OAM notified the Enforcement Division that it intended to participate in the SCSD Initiative. Oppenheimer and OAM filed the information required by the SCSD Initiative on September 19, 2018. Oppenheimer will continue to cooperate with the SEC Staff. Oppenheimer's participation in the SCSD initiative may result in disgorgement to certain clients of 12b-1 fees that the Company received during the period under review.

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**13. 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 September 30, 2018, the net capital of Oppenheimer as calculated under the Rule was \$184.3 million or 19.11% of Oppenheimer's aggregate debit items. This was \$165.0 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 September 30, 2018, Freedom had net capital of \$5.3 million, which was \$5.2 million in excess of the \$100,000 required to be maintained at that date.

As of September 30, 2018, the capital required and held under the Capital Requirements Directive ("CRD IV") for Oppenheimer Europe Ltd. was as follows:

- Common Equity Tier 1 ratio 15.27% (required 4.5%);
- Tier 1 Capital ratio 15.27% (required 6.0%); and
- Total Capital ratio 15.81% (required 8.0%).

In December 2017, Oppenheimer Europe Ltd. received approval from the Financial Conduct Authority ("FCA") for a variation of permission to remove the limitation of "matched principal business" from the firm's scope of permitted businesses and become a "Full-Scope Prudential Sourcebook for Investment Firms (IFPRU) €730K" firm which was effective January 2018. In addition to the capital requirement under CRV IV above, Oppenheimer Europe Ltd. is required to maintain a minimum capital of EUR 730,000. In December 2017, the Company contributed additional capital of \$7.0 million to Oppenheimer Europe Ltd. in order to facilitate this new permissioning.

As of September 30, 2018, the regulatory capital of Oppenheimer Investments Asia Limited was \$1.9 million, which was \$1.5 million in excess of the \$383,000 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 of Hong Kong.

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#### 14. 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 assets under management ("AUM"), net interest earnings on client margin loans and cash balances, fees from money market funds, custodian fees, 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 manage client assets either in individual accounts or in funds, and includes direct expenses associated with this segment; and

**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.

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 table below presents information about the reported revenue and income (loss) before income taxes from continuing operations of the Company for the three and nine months ended September 30, 2018 and 2017. 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 Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenue</b>				
Private client <sup>(1)</sup>	\$ 158,083	\$ 147,428	\$ 468,730	\$ 425,069
Asset management <sup>(1)</sup>	17,870	19,277	53,220	57,247
Capital markets	68,130	58,808	197,865	168,418
Corporate/Other	(6,269)	707	(4,915)	4,631
<b>Total</b>	<b>\$ 237,814</b>	<b>\$ 226,220</b>	<b>\$ 714,900</b>	<b>\$ 655,365</b>
<b>Income (loss) before income taxes</b>				
Private client <sup>(1)</sup>	\$ 37,608	\$ 36,950	\$ 111,283	\$ 93,763
Asset management <sup>(1)</sup>	4,127	3,338	11,803	11,130
Capital markets	(2,076)	(1,639)	(8,332)	(25,235)
Corporate/Other	(32,515)	(26,821)	(85,484)	(76,492)
<b>Total</b>	<b>\$ 7,144</b>	<b>\$ 11,828</b>	<b>\$ 29,270</b>	<b>\$ 3,166</b>

- (1) Clients investing in the OAM advisory program are charged fees based on the value of AUM. Advisory fees are allocated 10.0% to the Asset Management and 90.0% to the Private Client segments.

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Revenue, classified by the major geographic areas in which it was earned, for the three and nine months ended September 30, 2018 and 2017 was as follows:

*(Expressed in thousands)*

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas	\$ 230,486	\$ 217,900	\$ 690,569	\$ 625,615
Europe/Middle East	6,500	7,655	21,245	27,019
Asia	828	665	3,086	2,731
Total	\$ 237,814	\$ 226,220	\$ 714,900	\$ 655,365

#### 15. Subsequent events

On October 26, 2018, the Company announced a quarterly dividend in the amount of \$0.11 per share, payable on November 23, 2018 to holders of Class A Stock and Class B Stock of record on November 9, 2018.

#### 16. Condensed consolidating financial information

On June 23, 2017, the Parent issued in a private offering \$200.0 million aggregate principal amount of the Notes. The Company used a portion of the net proceeds from the offering of the Unregistered Notes to redeem in full its Old Notes. See note 9 for further details.

The 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 Parent. The indenture for the Notes contains covenants with restrictions which are discussed in note 9. The following condensed consolidating financial information presents the financial position, results of operations and cash flows of the Parent, 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 Parent 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 Parent of its legal defeasance option or covenant defeasance option or the discharge of the Parent's obligations under the indenture for the Notes in accordance with the terms of such indenture.

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF SEPTEMBER 30, 2018

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 479	\$ 4,653	\$ 32,399	\$ —	\$ 37,531
Deposits with clearing organizations	—	—	53,956	—	53,956
Receivable from brokers, dealers and clearing organizations	—	—	205,031	—	205,031
Receivable from customers, net of allowance for credit losses of \$859	—	—	797,751	—	797,751
Income tax receivable	47,898	24,284	—	(68,687)	3,495
Securities purchased under agreements to resell	—	—	1,502	—	1,502
Securities owned, including amounts pledged of \$738,835, at fair value	—	1,369	893,882	—	895,251
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$24,334 and \$7,126, respectively	—	—	43,278	—	43,278
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$87,165	—	21,333	7,509	—	28,842
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	400	31,700	—	32,100
Goodwill	—	—	137,889	—	137,889
Other assets	100	2,580	116,979	—	119,659
Deferred tax assets	66	116	19,654	(19,836)	—
Investment in subsidiaries	651,369	534,754	—	(1,186,123)	—
Intercompany receivables	48,592	48,042	—	(96,634)	—
Total assets	<u>\$ 748,504</u>	<u>\$ 750,089</u>	<u>\$ 2,341,530</u>	<u>\$ (1,483,838)</u>	<u>\$ 2,356,285</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 29,242	\$ —	\$ 29,242
Bank call loans	—	—	3,000	—	3,000
Payable to brokers, dealers and clearing organizations	—	—	219,443	—	219,443
Payable to customers	—	—	351,750	—	351,750
Securities sold under agreements to repurchase	—	—	606,010	—	606,010
Securities sold but not yet purchased, at fair value	—	—	143,746	—	143,746
Accrued compensation	—	—	151,658	—	151,658
Accounts payable and other liabilities	3,495	31,945	60,380	—	95,820
Income tax payable	2,440	22,189	44,058	(68,687)	—
Senior secured notes, net of debt issuance cost of \$969	199,031	—	—	—	199,031
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	—	32,544	(19,836)	12,708
Intercompany payables	—	28,141	68,493	(96,634)	—
Total liabilities	<u>204,966</u>	<u>82,275</u>	<u>1,822,882</u>	<u>(297,715)</u>	<u>1,812,408</u>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	543,538	667,814	518,309	(1,186,123)	543,538
Non-controlling interest	—	—	339	—	339
Total stockholders' equity	<u>543,538</u>	<u>667,814</u>	<u>518,648</u>	<u>(1,186,123)</u>	<u>543,877</u>
Total liabilities and stockholders' equity	<u>\$ 748,504</u>	<u>\$ 750,089</u>	<u>\$ 2,341,530</u>	<u>\$ (1,483,838)</u>	<u>\$ 2,356,285</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2017

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7,442	\$ 3,716	\$ 36,996	\$ —	\$ 48,154
Deposits with clearing organizations	—	—	42,222	—	42,222
Receivable from brokers, dealers and clearing organizations	—	—	187,115	—	187,115
Receivable from customers, net of allowance for credit losses of \$769	—	—	848,226	—	848,226
Income tax receivable	45,998	26,025	—	(69,084)	2,939
Securities purchased under agreements to resell	—	—	658	—	658
Securities owned, including amounts pledged of \$655,683, at fair value	—	1,386	925,211	—	926,597
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$24,705 and \$7,975, respectively	—	—	40,520	—	40,520
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$82,826	—	20,221	6,966	—	27,187
Subordinated loan receivable	—	112,558	—	(112,558)	—
Intangible assets	—	—	31,700	—	31,700
Goodwill	—	—	137,889	—	137,889
Other assets	133	2,573	142,604	—	145,310
Deferred tax assets	3,502	—	18,463	(21,965)	—
Investment in subsidiaries	622,824	507,747	—	(1,130,571)	—
Intercompany receivables	52,149	83,437	—	(135,586)	—
Total assets	<u>\$ 732,048</u>	<u>\$ 757,663</u>	<u>\$ 2,418,570</u>	<u>\$ (1,469,764)</u>	<u>\$ 2,438,517</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Liabilities</b>					
Drafts payable	\$ —	\$ —	\$ 42,412	\$ —	\$ 42,412
Bank call loans	—	—	118,300	—	118,300
Payable to brokers, dealers and clearing organizations	—	—	211,483	—	211,483
Payable to customers	—	—	385,907	—	385,907
Securities sold under agreements to repurchase	—	—	586,478	—	586,478
Securities sold but not yet purchased, at fair value	—	—	94,486	—	94,486
Accrued compensation	—	—	173,116	—	173,116
Accounts payable and other liabilities	7,221	33,994	51,280	—	92,495
Income tax payable	2,440	22,189	44,455	(69,084)	—
Senior secured notes, net of debt issuance costs of \$1,163	198,837	—	—	—	198,837
Subordinated indebtedness	—	—	112,558	(112,558)	—
Deferred tax liabilities	—	17	33,040	(21,965)	11,092
Intercompany payables	—	62,163	73,423	(135,586)	—
Total liabilities	<u>208,498</u>	<u>118,363</u>	<u>1,926,938</u>	<u>(339,193)</u>	<u>1,914,606</u>
<b>Stockholders' equity</b>					
Stockholders' equity attributable to Oppenheimer Holdings Inc.	523,550	639,300	491,271	(1,130,571)	523,550
Non-controlling interest	—	—	361	—	361
Total stockholders' equity	<u>523,550</u>	<u>639,300</u>	<u>491,632</u>	<u>(1,130,571)</u>	<u>523,911</u>
Total liabilities and stockholders' equity	<u>\$ 732,048</u>	<u>\$ 757,663</u>	<u>\$ 2,418,570</u>	<u>\$ (1,469,764)</u>	<u>\$ 2,438,517</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 79,678	\$ —	\$ 79,678
Advisory fees	—	—	78,490	(336)	78,154
Investment banking	—	—	28,328	—	28,328
Bank deposit sweep income	—	—	30,053	—	30,053
Interest	1	2,063	13,415	(2,076)	13,403
Principal transactions, net	—	—	(19)	3	(16)
Other	—	154	8,213	(153)	8,214
Total revenue	<u>1</u>	<u>2,217</u>	<u>238,158</u>	<u>(2,562)</u>	<u>237,814</u>
<b>EXPENSES</b>					
Compensation and related expenses	343	—	152,503	—	152,846
Communications and technology	35	—	18,567	—	18,602
Occupancy and equipment costs	—	—	15,259	(153)	15,106
Clearing and exchange fees	—	—	5,378	—	5,378
Interest	3,375	—	11,616	(2,076)	12,915
Other	218	270	25,668	(333)	25,823
Total expenses	<u>3,971</u>	<u>270</u>	<u>228,991</u>	<u>(2,562)</u>	<u>230,670</u>
Income (Loss) before income taxes	(3,970)	1,947	9,167	—	7,144
Income taxes	(976)	479	2,580	—	2,083
Net income (loss) from continuing operations	<u>(2,994)</u>	<u>1,468</u>	<u>6,587</u>	<u>—</u>	<u>5,061</u>
Equity in earnings of subsidiaries	8,065	6,597	—	(14,662)	—
Net income	<u>5,071</u>	<u>8,065</u>	<u>6,587</u>	<u>(14,662)</u>	<u>5,061</u>
Less net loss attributable to non-controlling interest, net of tax	—	—	(10)	—	(10)
Net income attributable to Oppenheimer Holdings Inc.	<u>5,071</u>	<u>8,065</u>	<u>6,597</u>	<u>(14,662)</u>	<u>5,071</u>
Other comprehensive income	—	—	99	—	99
Total comprehensive income	<u>\$ 5,071</u>	<u>\$ 8,065</u>	<u>\$ 6,696</u>	<u>\$ (14,662)</u>	<u>\$ 5,170</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 77,635	\$ —	\$ 77,635
Advisory fees	—	—	74,655	(326)	74,329
Investment banking	—	—	23,940	—	23,940
Bank deposit sweep income	—	—	21,146	—	21,146
Interest	—	2,391	12,972	(2,411)	12,952
Principal transactions, net	—	2	5,133	—	5,135
Other	22	89	11,061	(89)	11,083
Total revenue	<u>22</u>	<u>2,482</u>	<u>226,542</u>	<u>(2,826)</u>	<u>226,220</u>
<b>EXPENSES</b>					
Compensation and related expenses	271	—	141,819	—	142,090
Communications and technology	33	—	17,748	—	17,781
Occupancy and equipment costs	—	—	15,377	(89)	15,288
Clearing and exchange fees	—	—	5,622	—	5,622
Interest	3,375	—	5,536	(2,411)	6,500
Other	412	62	26,963	(326)	27,111
Total expenses	<u>4,091</u>	<u>62</u>	<u>213,065</u>	<u>(2,826)</u>	<u>214,392</u>
Income (Loss) before income taxes	(4,069)	2,420	13,477	—	11,828
Income taxes	(1,558)	984	4,999	—	4,425
Net income (loss) from continuing operations	<u>(2,511)</u>	<u>1,436</u>	<u>8,478</u>	<u>—</u>	<u>7,403</u>
<b>Discontinued operations</b>					
Income from discontinued operations	—	—	769	—	769
Income taxes	—	—	308	—	308
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>461</u>	<u>—</u>	<u>461</u>
Equity in earnings of subsidiaries	10,300	8,864	—	(19,164)	—
Net income	<u>7,789</u>	<u>10,300</u>	<u>8,939</u>	<u>(19,164)</u>	<u>7,864</u>
Less net income attributable to non-controlling interest, net of tax	—	—	75	—	75
Net income attributable to Oppenheimer Holdings Inc.	<u>7,789</u>	<u>10,300</u>	<u>8,864</u>	<u>(19,164)</u>	<u>7,789</u>
Other comprehensive loss	—	—	(251)	—	(251)
Total comprehensive income	<u>\$ 7,789</u>	<u>\$ 10,300</u>	<u>\$ 8,613</u>	<u>\$ (19,164)</u>	<u>\$ 7,538</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 245,935	\$ —	\$ 245,935
Advisory fees	—	—	233,953	(981)	232,972
Investment banking	—	—	84,442	—	84,442
Bank deposit sweep income	—	—	84,203	—	84,203
Interest	4	6,183	38,732	(6,233)	38,686
Principal transactions, net	—	—	9,149	(39)	9,110
Other	—	345	19,549	(342)	19,552
Total revenue	<u>4</u>	<u>6,528</u>	<u>715,963</u>	<u>(7,595)</u>	<u>714,900</u>
<b>EXPENSES</b>					
Compensation and related expenses	1,191	—	456,630	—	457,821
Communications and technology	123	—	55,164	—	55,287
Occupancy and equipment costs	—	—	45,777	(342)	45,435
Clearing and exchange fees	—	—	17,254	—	17,254
Interest	10,125	—	28,895	(6,233)	32,787
Other	883	1,372	75,811	(1,020)	77,046
Total expenses	<u>12,322</u>	<u>1,372</u>	<u>679,531</u>	<u>(7,595)</u>	<u>685,630</u>
Income (Loss) before income taxes	(12,318)	5,156	36,432	—	29,270
Income taxes	(3,081)	1,112	10,630	—	8,661
Net income (loss) from continuing operations	<u>(9,237)</u>	<u>4,044</u>	<u>25,802</u>	<u>—</u>	<u>20,609</u>
Equity in earnings of subsidiaries	29,868	25,824	—	(55,692)	—
Net income	<u>20,631</u>	<u>29,868</u>	<u>25,802</u>	<u>(55,692)</u>	<u>20,609</u>
Less net loss attributable to non-controlling interest, net of tax	—	—	(22)	—	(22)
Net income attributable to Oppenheimer Holdings Inc.	<u>20,631</u>	<u>29,868</u>	<u>25,824</u>	<u>(55,692)</u>	<u>20,631</u>
Other comprehensive loss	—	—	(880)	—	(880)
Total comprehensive income	<u>\$ 20,631</u>	<u>\$ 29,868</u>	<u>\$ 24,944</u>	<u>\$ (55,692)</u>	<u>\$ 19,751</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

<i>(Expressed in thousands)</i>	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
<b>REVENUES</b>					
Commissions	\$ —	\$ —	\$ 248,204	\$ —	\$ 248,204
Advisory fees	—	—	217,510	(989)	216,521
Investment banking	—	—	60,347	(3,000)	57,347
Bank deposit sweep income	—	—	52,992	—	52,992
Interest	—	7,529	36,379	(7,562)	36,346
Principal transactions, net	—	17	15,793	—	15,810
Other	22	267	28,122	(266)	28,145
Total revenue	<u>22</u>	<u>7,813</u>	<u>659,347</u>	<u>(11,817)</u>	<u>655,365</u>
<b>EXPENSES</b>					
Compensation and related expenses	976	—	427,649	—	428,625
Communications and technology	112	—	53,774	—	53,886
Occupancy and equipment costs	—	—	45,987	(266)	45,721
Clearing and exchange fees	—	—	17,392	—	17,392
Interest	10,365	—	15,907	(7,562)	18,710
Other	4,661	329	86,864	(3,989)	87,865
Total expenses	<u>16,114</u>	<u>329</u>	<u>647,573</u>	<u>(11,817)</u>	<u>652,199</u>
Income (Loss) before income taxes	(16,092)	7,484	11,774	—	3,166
Income taxes	(6,184)	2,860	5,788	—	2,464
Net income (loss) from continuing operations	<u>(9,908)</u>	<u>4,624</u>	<u>5,986</u>	<u>—</u>	<u>702</u>
<b>Discontinued operations</b>					
Income from discontinued operations	—	—	1,834	—	1,834
Income taxes	—	—	733	—	733
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>1,101</u>	<u>—</u>	<u>1,101</u>
Equity in earnings of subsidiaries	11,531	6,907	—	(18,438)	—
Net income	1,623	11,531	7,087	(18,438)	1,803
Less net income attributable to non-controlling interest, net of tax	—	—	180	—	180
Net income attributable to Oppenheimer Holdings Inc.	1,623	11,531	6,907	(18,438)	1,623
Other comprehensive income	—	—	1,953	—	1,953
Total comprehensive income	<u>\$ 1,623</u>	<u>\$ 11,531</u>	<u>\$ 8,860</u>	<u>\$ (18,438)</u>	<u>\$ 3,576</u>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

<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	\$ (131)	\$ 1,337	\$ 117,073	\$ —	\$ 118,279
<b>Cash flows from investing activities:</b>					
Purchase of furniture, equipment and leasehold improvements	—	—	(6,654)	—	(6,654)
Purchase of tangible assets	—	(400)	—	—	(400)
Proceeds from the settlement of Company-owned life insurance	—	—	284	—	284
Cash used in investing activities	—	(400)	(6,370)	—	(6,770)
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,373)	—	—	—	(4,373)
Issuance of Class A non-voting common stock	70	—	—	—	70
Payments for employee taxes withheld related to vested share-based awards	(2,529)	—	—	—	(2,529)
Decrease in bank call loans, net	—	—	(115,300)	—	(115,300)
Cash used in financing activities	(6,832)	—	(115,300)	—	(122,132)
Net increase (decrease) in cash and cash equivalents	(6,963)	937	(4,597)	—	(10,623)
<b>Cash and cash equivalents, beginning of the period</b>	<b>7,442</b>	<b>3,716</b>	<b>36,996</b>	<b>—</b>	<b>48,154</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 479</b>	<b>\$ 4,653</b>	<b>\$ 32,399</b>	<b>\$ —</b>	<b>\$ 37,531</b>

OPPENHEIMER HOLDINGS INC.  
Notes to Condensed Consolidated Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

<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	\$ (34,449)	\$ 1,679	\$ (1,616)	\$ —	\$ (34,386)
<b>Cash flows from investing activities:</b>					
Purchase of furniture, equipment and leasehold improvements	—	—	(3,506)	—	(3,506)
Proceeds from settlement of company-owned life insurance	—	—	1,194	—	1,194
Cash used in investing activities	—	—	(2,312)	—	(2,312)
<b>Cash flows from financing activities:</b>					
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,394)	—	—	—	(4,394)
Cash dividends paid to non-controlling interest	—	—	(2,448)	—	(2,448)
Repurchase of Class A non-voting common stock for cancellation	(7,464)	—	—	—	(7,464)
Payments for employee taxes withheld related to vested share-based awards	(2,232)	—	—	—	(2,232)
Issuance of senior secured notes	200,000	—	—	—	200,000
Redemption of senior secured notes	(150,000)	—	—	—	(150,000)
Debt issuance costs	(1,183)	—	—	—	(1,183)
Decrease in bank call loans, net	—	—	(15,700)	—	(15,700)
Cash provided by (used in) financing activities	34,727	—	(18,148)	—	16,579
Net increase (decrease) in cash and cash equivalents	278	1,679	(22,076)	—	(20,119)
<b>Cash and cash equivalents, beginning of the period</b>	229	10,284	54,400	—	64,913
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 507</u>	<u>\$ 11,963</u>	<u>\$ 32,324</u>	<u>\$ —</u>	<u>\$ 44,794</u>

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Reference is also made to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2017.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, market-making, research, investment banking (both corporate and public finance), investment advisory and asset management services and trust services. Its principal subsidiaries are Oppenheimer & Co. Inc. ("Oppenheimer") and Oppenheimer Asset Management Inc. ("OAM"). As of September 30, 2018, the Company provided its services from 91 offices in 24 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 September 30, 2018 totaled \$86.9 billion. The Company provides investment advisory services through OAM and Oppenheimer Investment Management LLC ("OIM") and Oppenheimer's financial adviser direct programs. At September 30, 2018, client assets under management ("AUM") totaled \$29.6 billion. The Company provides trust services and products through Oppenheimer Trust Company of Delaware Inc. 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. At September 30, 2018, the Company employed 2,977 employees (2,924 full-time and 53 part-time), of whom 1,078 were financial advisers.

### **Critical Accounting Policies**

The Company's accounting policies are essential to understanding and interpreting the financial results reported on the condensed consolidated financial statements. The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are summarized in note 2 to the Company's consolidated financial statements and notes thereto found in its Annual Report on Form 10-K for the year ended December 31, 2017. 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.

During the nine months ended September 30, 2018, there were no material changes to matters discussed under the heading "Critical Accounting Policies" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### **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.

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 as well as deploying its capital for expansion through targeted acquisitions. 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.

### **Corporate Tax Reform**

On December 22, 2017, the Federal government enacted Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. Federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income ("GILTI"), which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (5) limitations on the use of FTCs to reduce the U.S. income tax liability; (6) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (7) creating the base erosion anti-abuse tax, a new minimum tax; (8) limitations on the deductibility of certain executive compensation; (9) creating a new limitation on deductible interest expense; (10) eliminating the deductibility of entertainment expenses; and (11) changing rules

related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. See note 11 to the condensed consolidated financial statements in Item 1 for further discussion.

## **Regulatory and Legal Environment**

The Company's brokerage business is subject to regulation by, among others, the Securities and Exchange Commission (the "SEC"), the Commodities Futures Trading Commission, the National Futures Association, the Municipal Securities Rulemaking Board and the Financial Industry Regulatory Authority ("FINRA") in the United States, the Financial Conduct Authority ("FCA") in the United Kingdom, the Jersey Financial Services Commission in the Isle of Jersey, the Securities and Futures Commission in Hong Kong, and various state securities regulators in the United States. In addition, Oppenheimer Israel (OPCO) Ltd. operates under the supervision of the Israel Securities Authority. Past events surrounding corporate accounting and other activities leading to investor losses caused increased regulation of public companies. 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. 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 the Dodd-Frank Act in 2011. The Volcker Rule is not applicable to the Company.

In April 2016, the DOL finalized its definition of fiduciary under the Employee Retirement Income Security Act 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 ("DOL Fiduciary Rules"). Under this rule, investment advice given to an employee benefit plan or an individual retirement account ("IRA") would be considered fiduciary advice.

In March 2018, the U.S. 5<sup>th</sup> Circuit Court of Appeals found that the DOL did not have the jurisdiction to adopt the aforementioned rules and vacated the DOL Fiduciary Rules effective in June 2018.

On April 18, 2018, the SEC announced its proposed "Regulation Best Interest," a package of rulemakings and interpretations that address customers' relationships with investment advisers and broker-dealers. Regulation Best Interest would enact an intermediate standard requiring advisers and broker-dealers to act in the clients' "best interest" at all times. The proposed rules would require substantially greater record keeping than is currently the case. The rules would be applicable to all customers of broker-dealers and investment advisers. The public comment period applicable to Regulation Best Interest expired on August 7, 2018. The SEC has indicated its intention to move forward with a final rule proposal in 2019. It is too soon to predict whether and in what form the SEC will adopt Regulation Best Interest, the effect it may have on broker-dealers and investment advisers generally, the specific effect it will have on the Company's broker-dealer and investment management businesses, and the effect it will have on the Company's competitive position in the financial services industry.

During 2017, the Company reviewed its business and operating models in light of the DOL Fiduciary Rules and made significant structural and operational changes to the Company's broker-dealer and investment management businesses. The changes have had 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. The Company is reviewing its business and operating models in light of the 5<sup>th</sup> Circuit ruling and the proposed Regulation Best Interest and may make further structural and operational changes in light of the vacated DOL Fiduciary Rules and in anticipation of the SEC adopting a version of the proposed Regulation Best Interest.

The European Commission recently adopted several acts under the revised Markets in Financial Instruments Directive (known as "MiFID II") that prevent broker-dealers operating in the European Union ("EU") from "bundling" the cost of research together with trading commissions. These rules became effective on January 3, 2018. The ability of the Company to be compensated for equity research activities has been reduced and institutional clients are required to make payments for research through cash payments rather than transaction-based commissions. MiFID II is already having an impact on the manner in which business is being conducted in the United Kingdom and in Europe with a noticeable reduction in the availability of equity research particularly in relation to smaller issuers. The long term effects of these changes on global securities markets and on competition in the EU and UK are impossible to predict.

In June 2016, in a referendum to consider the United Kingdom's continued participation in the EU, the United Kingdom voted in favor of withdrawing from the EU ("Brexit"). The British government instituted Rule 50 on March 30, 2017 thereby beginning a two-year period during which Great Britain and the EU will define their relationship effective with Great Britain's departure from the EU. Brexit has created significant uncertainty in both the United Kingdom and in the other member states around its economic impact and the operating requirements for businesses located in the United Kingdom after the effective date. The Company has a London-based business and the ability for it to passport its employees to conduct a financial services business in the EU post-Brexit is in considerable doubt. In addition, a number of its London-based employees do not hold British passports, although a number have applied for and received the right to continue to be employed in the United Kingdom. On July 12, 2018, Britain's Prime Minister released a "white paper" outlining the Prime Minister's government's views on the term under which Brexit should be completed. To date, there has been no discernible progress on the post-Brexit relationship between the EU and the UK. Failing the implementation of an agreed extension, the UK will leave the EU in March 2019 under a "hard" Brexit, leaving considerable uncertainty as to the ongoing relationship and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between Great Britain and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the United Kingdom. The Company is presently planning to open an office in Frankfurt, Germany in the EU for its investment banking business as well as in the eventuality that it is needed in order to continue to conduct a securities business in the EU post-Brexit.

The anti-money laundering ("AML") rules and requirements that were created by the passage of the USA Patriot Act in the U.S. and similar laws in other countries have created significant costs of compliance and can be expected to continue to do so. The U.S. Financial Crimes Enforcement Network ("FinCEN") has heightened its review of the activities of broker-dealers. 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 USA Patriot Act, as well as their views of the enforcement of the provisions of the Bank Secrecy Act and the Foreign Corrupt Practices Act 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 significantly increased its AML 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 ("CDD Rule") was finalized and became effective on May 11, 2018. FINRA has recently announced the expansion of AML regulations to include the collection and analysis of other types of client activity. The CDD and associated rules are significantly more intrusive on the activities of U.S.-based clients and will have the effect of increasing the costs associated with opening new accounts and creating new business relationships.

The Trump Administration has announced its intention to ease the regulatory burden on businesses. There can be no assurance that such easing will in fact take place, that it will have a favorable impact on financial service providers such as the Company, or that it will effect positively the Company's business.

Pursuant to FINRA Rule 3130, the chief executive officers ("CEOs") of member 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 2018.

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 potential liquidity needs related to both market wide stress and idiosyncratic stresses, devote sufficient resources to measuring risks applicable to their businesses and report the results of such measurement to senior management. The reporting requirement includes a review of risks that are based on historical events and stresses that could occur but have not yet been observed. Additionally, based on the guidelines, every broker-dealer must 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 customer assets. It must also conduct stress tests and other reviews to evaluate the effectiveness of the contingency plans, have a training plan for its staff and have tested the 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 in light of the guidance provided in Regulatory Notice 15-33.

On January 8, 2018, FINRA released for comment Regulatory Notice 18-02 "Liquidity Reporting and Notification" which would require member firms to notify FINRA no more than 48 hours after specified events that may signal an adverse change in liquidity risk. This notice would also require members to file a new Supplemental Liquidity Schedule ("SLS") detailing the largest customer and counterparty exposures as a supplement to the FOCUS Report. On the new SLS, member firms would report information related to specified financing transactions and other sources or uses of liquidity. The information would include among other things, financing terms, collateral types and the identity of large counterparties. The comment period ended on March 8, 2018.

### ***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 "SEC Order"). Pursuant to the SEC Order, Oppenheimer was ordered to, amongst other things, 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.

On February 19, 2015, the board of directors formed a 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 ("Kalorama") 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. In May 2017, the Board approved the assumption of the duties of the Special Committee by the Compliance Committee and the dissolution of the Special Committee. As part of its engagement of Kalorama, the Company agreed that the recommendations of Kalorama would be shared with the SEC. Moreover, Oppenheimer and OAM agreed to adopt the recommendations made by Kalorama for the FINRA IC Report and Additional IC Reports discussed below, subject to a process for any recommendations found by the Company to be impractical or overly burdensome.

In August 2015, Kalorama delivered a report as a result of a settlement reached by Oppenheimer with FINRA in a matter unrelated to the SEC matter discussed above (the "FINRA IC Report"). The FINRA IC Report was critical of the Company's governance practices, its management and its compliance program at the time of the review in 2015. The Company adopted and has implemented all of the recommendations made by Kalorama. The Company believes the changes made were responsive to the recommendations made by Kalorama.

On December 15, 2016, the Company's agreement with Kalorama expired by its terms, although Kalorama had not yet delivered the reports required by the SEC and as of the current date, the engagement has not been renewed. In May and June 2017, Kalorama delivered five additional reports. Two of those reports were rendered in connection with the January 2015 SEC Order, while another report was rendered in connection with Oppenheimer's 2015 settlement with the SEC in connection with the SEC's Municipalities Continuing Disclosure Cooperation ("MCDC", collectively the "Required Reports") initiative and two additional reports not arising out of any regulatory order (the "Additional IC Reports"). Each of the reports has been reviewed by the Company and the Compliance Committee. The Required Reports and the Additional IC Reports repeat a number of the criticisms regarding the Company's governance practices, its management and its compliance programs and include a substantial number of recommendations, a number of which appear in the FINRA IC Report. The Company believes it has already adopted and implemented a significant number of the recommendations made in the Required Reports and the Additional IC Reports and expects that it will adopt and implement many of the remaining recommendations. However, there can be no assurances that the Company will be able to implement all of the recommendations as set forth in the Required Reports and Additional IC Reports and, to the extent the Company does not implement or provide a satisfactory alternative method of implementation, the Company may be exposed to further SEC or other regulatory enforcement action. Furthermore, implementation of the remaining recommendations included in the Required Reports and Additional IC Reports or any recommendations made in any additional reports may be costly and time consuming, may divert management's attention from operating the Company's business and may have an adverse effect on the Company. In June 2018, the SEC began an examination of the Company to review the Company's assertions with respect to its fulfillment of Kalorama's recommendations in the Required Reports. It is not presently clear when such review may be completed. The Company has incurred a significant amount of expenses in connection with its engagement with Kalorama through December 2016, its implementation of the Kalorama recommendations, and its engagement of outside counsel with respect to these matters, all in connection with the FINRA IC Report, the Required Reports and the Additional IC Reports and may continue to incur additional expenses related thereto.

Since August 2014, Oppenheimer has been responding to information requests from the SEC regarding the supervision of one of its former financial advisers who was indicted and convicted of insider trading. Oppenheimer is continuing to cooperate with the SEC inquiry.

Since September 2016, Oppenheimer has been responding to information requests from FINRA (including FINRA's Enforcement Division) regarding the supervision of Oppenheimer's sale of unit investment trusts from 2011 to 2015. The Company understands that the inquiry is part of a larger targeted examination or "sweep" examination involving many other brokerage firms. Oppenheimer is continuing to cooperate with the FINRA inquiry.

On February 12, 2018, the SEC Division of Enforcement announced the Share Class Selection Disclosure Initiative ("SCSD Initiative") pursuant to which investment advisers were encouraged to self-report possible securities laws violations relating to the failure to make certain disclosures concerning mutual fund share class selection. On June 11, 2018, Oppenheimer and OAM notified the Division of Enforcement that it intended to participate in the SCSD Initiative. Oppenheimer and OAM filed the information required by the SCSD Initiative on or around September 19, 2018. Oppenheimer will continue to cooperate with the SEC Staff. Oppenheimer's participation in the SCSD initiative may result in disgorgement to certain clients of 12b-1 fees that the Company received during the period under review.

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. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Certain clients of the Company continue to hold ARS in their individual or corporate accounts.

Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. 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.

It seems likely that any remaining 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 99%. See "Risk Factors — The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and "Factors Affecting 'Forward-Looking Statements'" herein.

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 September 30, 2018, the Company purchased and holds (net of redemptions) approximately \$40.8 million in ARS from its clients. As of September 30, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. In addition, the Company is committed to purchase another \$7.2 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 \$22.4 million of ARS at September 30, 2018 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.

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" in Part II, Item 1 and note 12 to the condensed consolidated financial statements in Part I, Item 1.

### ***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 previously the case.

### **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 different location in New York City from its headquarters. 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. There is no guarantee that in the event of a significant business disruption that the Company's business continuity plans will be successful in restoring operations in a timely manner.

### **Cybersecurity**

For many years, the Company has sought to maintain the security of its clients' data, limit access to its data processing environment, and protect its data processing facilities. See "Risk Factors — The Company may be exposed to damage to its business or its reputation by cybersecurity incidents" as further described in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Recent examples of vulnerabilities by other companies and the government that have resulted in loss of client data and fraudulent activities by both domestic and foreign actors have caused the Company continually to review its security policies and procedures and to take additional actions to protect its network and its information.

Given the importance of the protection of client data, regulators have developed increased oversight of cybersecurity planning and protections that broker-dealers and other financial service providers have implemented. Such planning and protection are subject to the SEC's and FINRA's oversight and examination on a periodic or targeted basis. The Company expects that regulatory oversight will intensify, as a result of publicly announced data breaches by other organizations involving tens of millions of items of personally identifiable information. The Company continues to implement protections and adopt procedures to address the risks posed by the current information technology environment. The Company has significantly increased the resources dedicated to this effort and believes that further increases may be required in the future, in anticipation of increases in the sophistication and persistency of such attacks. There can be no guarantee that the Company's cybersecurity efforts will be successful in discovering or preventing a security breach.

### **Outlook**

The Company recognizes the importance of compliance with applicable regulatory requirements and has committed to performing rigorous and ongoing assessments of its compliance and risk management efforts, to investing in people and programs, and to providing a platform with first class investment ideas and services. The Company is committed to continuing to improve its technology capabilities to ensure compliance with industry regulations, support client service and expand its wealth management and 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, and to continue to grow and develop the existing trading, investment banking, investment advisory and other divisions.

The Company is also reviewing its full service business model to determine the opportunities available to build or acquire closely related businesses in areas where competitors have shown some success. Equally important is the search for viable acquisition candidates. The Company's long-term intention is to pursue growth by acquisition where it can find a comfortable match in terms of corporate goals and personnel at a price that would provide the Company's stockholders with incremental value. The Company reviews potential acquisition opportunities from time to time, while evaluating and managing its existing businesses. The Company 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. The Company may use all or a portion of the net proceeds of its June 2017 refinancing for the acquisition of related businesses.

## Results of Operations

The Company reported net income attributable to Oppenheimer Holdings Inc. of \$5.1 million or \$0.38 basic net income per share for the three months ended September 30, 2018 compared with net income attributable to Oppenheimer Holdings Inc. of \$7.8 million or \$0.59 basic net income per share for the three months ended September 30, 2017. Net income for the three months ended September 30, 2018 was negatively impacted by \$9.2 million (or \$0.69 basic net income per share) by recognizing losses of \$6.0 million related to sales of auction rate securities ("ARS") owned by the Company and increased compensation and related expenses of \$3.2 million directly correlated to the increase in the Company's stock price through its stock appreciation rights program. Income before income taxes from continuing operations was \$7.1 million for the three months ended September 30, 2018 compared with income before income taxes from continuing operations of \$11.8 million for the three months ended September 30, 2017. Revenue from continuing operations for the three months ended September 30, 2018 was \$237.8 million compared with revenue from continuing operations of \$226.2 million for the three months ended September 30, 2017, an increase of 5.1%.

The following table and discussion summarizes the changes in the major revenue and expense categories for the three and nine months ended September 30, 2018 compared with the same period in 2017:

(Expressed in thousands)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount	% Change	Amount	% Change
<b>Revenue</b>				
Commissions	\$ 2,043	2.6	\$ (2,269)	(0.9)
Advisory fees	3,825	5.1	16,451	7.6
Investment banking	4,388	18.3	27,095	47.2
Bank deposit sweep income	8,907	42.1	31,211	58.9
Interest	451	3.5	2,340	6.4
Principal transactions, net	(5,151)	*	(6,700)	(42.4)
Other	(2,869)	(25.9)	(8,593)	(30.5)
<b>Total revenue</b>	<b>11,594</b>	<b>5.1</b>	<b>59,535</b>	<b>9.1</b>
<b>Expenses</b>				
Compensation and related expenses	10,756	7.6	29,196	6.8
Communications and technology	821	4.6	1,401	2.6
Occupancy and equipment costs	(182)	(1.2)	(286)	(0.6)
Clearing and exchange fees	(244)	(4.3)	(138)	(0.8)
Interest	6,415	98.7	14,077	75.2
Other	(1,288)	(4.8)	(10,819)	(12.3)
<b>Total expenses</b>	<b>16,278</b>	<b>7.6</b>	<b>33,431</b>	<b>5.1</b>
Income before income taxes from continuing operations	(4,684)	(39.6)	26,104	824.5
Income taxes	(2,342)	(52.9)	6,197	251.5
<b>Net income from continuing operations</b>	<b>(2,342)</b>	<b>(31.6)</b>	<b>19,907</b>	<b>2,835.8</b>
<b>Discontinued operations</b>				
Income from discontinued operations	(769)	(100.0)	(1,834)	(100.0)
Income taxes	(308)	(100.0)	(733)	(100.0)
<b>Net income from discontinued operations</b>	<b>(461)</b>	<b>(100.0)</b>	<b>(1,101)</b>	<b>(100.0)</b>
<b>Net income</b>	<b>(2,803)</b>	<b>(35.6)</b>	<b>18,806</b>	<b>1,043.0</b>
Less net income (loss) attributable to non-controlling interest, net of tax	(85)	*	(202)	*
<b>Net income attributable to Oppenheimer Holdings Inc.</b>	<b>\$ (2,718)</b>	<b>(34.9)</b>	<b>\$ 19,008</b>	<b>1,171.2</b>

\* Percentage not meaningful.

## **Third Quarter 2018**

### ***Revenue***

Commission revenue was \$79.7 million for the three months ended September 30, 2018, an increase of 2.6% compared with \$77.6 million for the three months ended September 30, 2017 due to higher transaction-based revenue in the institutional equities business partially offset by lower transaction-based revenue in the retail business during the three months ended September 30, 2018.

Advisory fees were \$78.2 million for the three months ended September 30, 2018, an increase of 5.1% compared with \$74.3 million for the three months ended September 30, 2017 due to a higher level of AUM.

Investment banking revenue increased 18.3% to \$28.3 million for the three months ended September 30, 2018 compared with \$23.9 million for the three months ended September 30, 2017 due to higher equity underwriting fees as well as higher merger and acquisition advisory fees during the three months ended September 30, 2018.

Bank deposit sweep income was \$30.1 million for the three months ended September 30, 2018, an increase of 42.1% compared with \$21.1 million for the three months ended September 30, 2017 due to higher short-term interest rates during the three months ended September 30, 2018.

Interest revenue was \$13.4 million for the three months ended September 30, 2018, an increase of 3.5% compared with \$13.0 million for the three months ended September 30, 2017 due primarily to an increase in interest revenue on margin extended to customers during the three months ended September 30, 2018.

Principal transactions revenue was \$(16,000) for the three months ended September 30, 2018 compared with \$5.1 million for the three months ended September 30, 2017 primarily due to recognized losses during the three months ended September 30, 2018 resulting from participating in tender offers of ARS as indicated above partially offset by higher government trading income.

Other revenue was \$8.2 million for the three months ended September 30, 2018, a decrease of 25.9% compared to \$11.1 million for the three months ended September 30, 2017 due primarily to a favorable arbitration award during the three months ended September 30, 2017.

### ***Expenses***

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$152.8 million during the three months ended September 30, 2018, an increase of 7.6% compared with the three months ended September 30, 2017. The increase was due to higher salary, production-related, incentive, deferred and share-based compensation expenses during the three months ended September 30, 2018. As noted above, the Company recorded compensation and related expenses of \$4.3 million related to its OARs Plan due to the price of its Class A Stock increasing from \$28.00 at the end of the second quarter of 2018 to \$31.60 at the end of the third quarter of 2018. Compensation and related expenses as a percentage of revenue was 64.3% during the three months ended September 30, 2018 compared with 62.8% during the three months ended September 30, 2017.

Non-compensation expenses were \$77.8 million during the three months ended September 30, 2018, an increase of 7.6% compared with \$72.3 million during the three months ended September 30, 2017 primarily due to an increase of \$6.4 million in interest costs during the three months ended September 30, 2018.

The effective income tax rate from continuing operations for the three months ended September 30, 2018 was 29.2% compared with 37.4% for the three months ended September 30, 2017 and reflects the Company's estimate of the annual effective tax rate adjusted for certain discrete items. The lower estimated effective tax rate for the three months ended September 30, 2018 is due to the Federal tax rate of 21% (versus 35%) as a result of the passage of the TCJA in December 2017 offset by foreign income inclusion and larger non-deductible expenses related to items such as entertainment, fringe benefits, regulatory fines and penalties, and limitations around the deductibility of executive compensation under the TCJA.

## **Year-to-date 2018**

### ***Revenue***

Commission revenue was \$245.9 million for the nine months ended September 30, 2018, a decrease of 0.9% compared with \$248.2 million for the nine months ended September 30, 2017.

Advisory fees were \$233.0 million for the nine months ended September 30, 2018, an increase of 7.6% compared with \$216.5 million for the nine months ended September 30, 2017 due to a higher level of AUM.

Investment banking revenue increased 47.2% to \$84.4 million for the nine months ended September 30, 2018 compared with \$57.3 million for the nine months ended September 30, 2017 due to higher equity underwriting fees as well as higher merger and acquisition advisory fees during the nine months ended September 30, 2018.

Bank deposit sweep income was \$84.2 million for the nine months ended September 30, 2018, an increase of 58.9% compared with \$53.0 million for the nine months ended September 30, 2017 due to higher short-term interest rates during the nine months ended September 30, 2018.

Interest revenue was \$38.7 million for the nine months ended September 30, 2018, an increase of 6.4% compared with \$36.3 million for the nine months ended September 30, 2017 due primarily to an increase in interest revenue on margin extended to customers offset by a decrease in interest earned on U.S. Government and Agency securities during the nine months ended September 30, 2018.

Principal transactions revenue decreased 42.4% to \$9.1 million for the nine months ended September 30, 2018 compared with \$15.8 million for the nine months ended September 30, 2017 primarily due to recognized losses resulting from participating in tender offers of ARS during the nine months ended September 30, 2018.

Other revenue was \$19.6 million for the nine months ended September 30, 2018, a decrease of 30.5% compared to \$28.1 million for the nine months ended September 30, 2017 primarily due to a favorable arbitration award during the nine months ended September 30, 2017.

### ***Expenses***

Compensation and related expenses (including salaries, production and incentive compensation, share-based compensation, deferred compensation, and other benefit-related items) totaled \$457.8 million during the nine months ended September 30, 2018, an increase of 6.8% compared with the nine months ended September 30, 2017. Higher production-related, incentive, and share-based compensation expenses were partially offset by lower deferred compensation costs during the nine months ended September 30, 2018. Compensation and related expenses as a percentage of revenue was 64.0% during the nine months ended September 30, 2018 compared with 65.4% during the nine months ended September 30, 2017.

Non-compensation expenses were \$227.8 million during the nine months ended September 30, 2018, an increase of 1.9% compared with \$223.6 million during the nine months ended September 30, 2017.

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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 three and nine months ended September 30, 2018 and 2017:

*(Expressed in thousands)*

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Revenue</b>						
Private Client	\$ 158,083	\$ 147,428	7.2	\$ 468,730	\$ 425,069	10.3
Asset Management	17,870	19,277	(7.3)	53,220	57,247	(7.0)
Capital Markets	68,130	58,808	15.9	197,865	168,418	17.5
Corporate/Other	(6,269)	707	*	(4,915)	4,631	*
Total	\$ 237,814	\$ 226,220	5.1	\$ 714,900	\$ 655,365	9.1
<b>Income (Loss) before income taxes</b>						
Private Client	\$ 37,608	\$ 36,950	1.8	\$ 111,283	\$ 93,763	18.7
Asset Management	4,127	3,338	23.6	11,803	11,130	6.0
Capital Markets	(2,076)	(1,639)	26.7	(8,332)	(25,235)	(67.0)
Corporate/Other	(32,515)	(26,821)	21.2	(85,484)	(76,492)	11.8
Total	\$ 7,144	\$ 11,828	(39.6)	\$ 29,270	\$ 3,166	824.5

\* Percentage not meaningful.

### Private Client

Private Client reported revenue of \$158.1 million for the third quarter of 2018, 7.2% higher than the third quarter of 2017 due to increased advisory fee revenue from higher AUM, higher fees earned on client deposits in the FDIC-insured bank deposit program, and higher margin interest revenue during the third quarter of 2018. Income before income taxes was \$37.6 million for the third quarter of 2018, an increase of 1.8% compared with the third quarter of 2017 due to the increases in revenue referred to above.

- Client assets under administration were \$86.9 billion at September 30, 2018, remained flat compared with \$86.9 billion at December 31, 2017.
- Financial adviser headcount was 1,078 at the end of the third quarter of 2018 (1,083 at the end of the second quarter of 2018), down from 1,117 at the end of the third quarter of 2017. The decline since the third quarter of 2017 has resulted from the Company's emphasis on adviser productivity.
- Retail commissions were \$47.6 million for the third quarter of 2018, a decrease of 1.0% from the third quarter of 2017 due to reduced transaction volumes from retail investors during the third quarter of 2018.
- Advisory fee revenue on traditional and alternative managed products was \$60.5 million for the third quarter of 2018, an increase of 9.6% from the third quarter of 2017 (see Asset Management below for further information). The increase in advisory fees was due to the increase in the value of AUM.
- Bank deposit sweep income was \$30.1 million for the third quarter of 2018, an increase of 42.1% compared with \$21.1 million for the third quarter of 2017 due to higher short-term interest rates during the third quarter of 2018.

**Asset Management**

Asset Management reported revenue of \$17.9 million for the third quarter of 2018, 7.3% lower than the third quarter of 2017 due to a change in the method of reporting management fees earned through an investment adviser of alternative investments adopted during the first quarter of 2018. Income before income taxes was \$4.1 million for the third quarter of 2018, an increase of 23.6% compared with the third quarter of 2017.

- Advisory fee revenue on traditional and alternative managed products was \$17.6 million for the third quarter of 2018, a decrease of 7.9% from the third quarter of 2017 primarily due to the change in the method of reporting management fees from alternative investments referred to above offset by higher AUM. Advisory fees are calculated based on the value of AUM at the end of the prior quarter which totaled \$28.7 billion at June 30, 2018 (\$26.1 billion at June 30, 2017) and are allocated to the Private Client and Asset Management business segments.
- AUM increased 8.8% to a record high of \$29.6 billion at September 30, 2018 compared with \$27.2 billion at September 30, 2017. AUM at September 30, 2018 is the basis for advisory fee billings for the fourth quarter of 2018. The increase in AUM was comprised of asset appreciation of \$1.7 billion and net contributions of assets of \$0.7 billion.

The following table provides a breakdown of the change in assets under management for the three months ended September 30, 2018:

*(Expressed in millions)*

Fund Type	For the three months ended September 30, 2018				
	Beginning Balance	Contributions	Redemptions	Appreciation (Depreciation)	Ending Balance
Traditional <sup>(1)</sup>	\$ 24,700	\$ 1,238	\$ (1,139)	\$ 730	\$ 25,529
Institutional Fixed Income <sup>(2)</sup>	684	6	(12)	5	683
<b>Alternative Investments:</b>					
Hedge funds <sup>(3)</sup>	2,623	89	(76)	25	2,661
Private Equity Funds <sup>(4)</sup>	176	—	—	32	208
Portfolio Enhancement Program <sup>(5)</sup>	500	2	—	—	502
	<u>\$ 28,683</u>	<u>\$ 1,335</u>	<u>\$ (1,227)</u>	<u>\$ 792</u>	<u>\$ 29,583</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.
- (5) The portfolio enhancement program sells uncovered, far out-of-the-money puts and calls on the S&P 500 Index. The program is market neutral and uncorrelated to the index. Valuation is based on collateral requirements for a series of contracts representing the investment strategy.

**Capital Markets**

Capital Markets reported revenue of \$68.1 million for the third quarter of 2018, 15.9% higher than the third quarter of 2017 due to higher equities underwriting and merger and acquisition advisory fees as well as higher commission and trading revenue during the third quarter of 2018. Loss before income taxes was \$2.1 million for the third quarter of 2018, compared with a loss before income taxes of \$1.6 million for the third quarter of 2017 primarily due to the increases in compensation and related expenses related to guaranteed compensation arrangements with senior hires in investment banking and interest costs during the third quarter of 2018.

- Institutional equities commissions increased 7.4% to \$23.1 million for the third quarter of 2018 compared with the third quarter of 2017 reflecting higher client trading activity in the third quarter of 2018.

- Advisory fees from investment banking activities increased 41.2% to \$9.6 million in the third quarter of 2018 compared with the third quarter of 2017 due to higher fees earned on completed merger and acquisition transactions during the third quarter of 2018.
- Equity underwriting fees increased 26.5% to \$14.8 million for the third quarter of 2018 compared with the third quarter of 2017 due to the Company's increased focus on equity issuances as well as a robust market for equity underwritings during the third quarter of 2018.
- Revenue from Taxable Fixed Income increased 10.5% to \$14.7 million for the third quarter of 2018 compared with the third quarter of 2017 due to higher government trading income during the third quarter of 2018.
- Public Finance and Municipal Trading revenue increased 37.1% to \$4.8 million for the third quarter of 2018 compared with the third quarter of 2017 due to higher municipal capital markets fees and commissions offset by lower municipal trading income during the third quarter of 2018.

## **Liquidity and Capital Resources**

At September 30, 2018, total assets decreased by 3.4% from December 31, 2017. 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, and uncommitted lines of credit. The Company finances its trading in government securities through the use of securities sold under agreements to repurchase ("repurchase agreements"). The Company has met its longer-term capital needs through the issuance of the 6.75% Senior Secured Notes due 2022 (the "Notes") (see "Refinancing" below).

Oppenheimer has arrangements with banks for borrowings on a fully-collateralized basis. 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. At September 30, 2018, the Company had \$3.0 million of such borrowings outstanding compared to outstanding borrowings of \$118.3 million at December 31, 2017. The Company also has some availability of short-term bank financing on an unsecured basis.

The Company's overseas subsidiaries, Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited, are subject to local regulatory capital requirements that restrict the Company's ability to utilize their capital for other purposes. The regulatory capital requirements for Oppenheimer Europe Ltd. and Oppenheimer Investments Asia Limited were \$3.9 million and \$383,000, respectively, at September 30, 2018. In December 2017, Oppenheimer Europe Ltd. received approval from the FCA for a variation of permission to remove the limitation of "matched principal business" from the firm's scope of permitted businesses and become a "Full-Scope Prudential Sourcebook for Investment Firms (IFPRU) €730K" firm, effective in January 2018. In December 2017, the Company contributed additional capital of \$7.0 million to Oppenheimer Europe Ltd. in order to facilitate this new permissioning. See note 13 to the condensed consolidated financial statements in Item 1 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 is estimated at \$2.9 million for those subsidiaries with respect to which the Company would be subject to residual U.S. tax on cumulative earnings through September 30, 2018 were those earnings to be repatriated. The Company has continued 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. With the passage of the TCJA, the Company will review its historical treatment of these earnings to determine whether its historical practice will continue or whether a change is warranted.

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 fines, penalties and 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 June 23, 2017, the Parent issued in a private offering \$200.0 million aggregate principal amount of 6.75% Senior Secured Notes due 2022 (the "Unregistered Notes") under an indenture at an issue price of 100% of the principal amount. On September 19, 2017, the Parent completed an exchange offer in which the Parent exchanged 99.8% of its Unregistered Notes for a like principal amount of notes with identical terms except that such new notes have been registered under the Securities Act of 1933, as amended (the "Notes"). The Parent did not receive any proceeds in the exchange offer. The interest on the Notes is payable semi-annually on January 1st and July 1st, beginning January 1, 2018. The Parent used a portion of the net proceeds from the offering of the Unregistered Notes to redeem in full its 8.75% Senior Secured Notes due April 15, 2018 in the principal amount of \$120.0 million, and pay all related fees and expenses related thereto. See note 9 to the condensed consolidated financial statements in Item 1 for further discussion.

On August 24, 2018, S&P affirmed the Company's 'B+' Corporate Family rating and 'B+' rating on the Notes and affirmed its stable outlook. On June 13, 2018, Moody's Corporation affirmed the Company's 'B2' Corporate Family rating and 'B1' rating on the Notes and affirmed its stable outlook.

### ***Liquidity***

For the most part, the Company's assets consist of cash and cash equivalents and assets that it can readily convert into cash. The receivable from brokers, dealers and clearing organizations represents deposits for securities borrowed transactions, margin deposits or current transactions awaiting settlement. The 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 \$4.2 million in forgivable notes (which are inherently illiquid) to employees for the three months ended September 30, 2018 (\$4.6 million for the three months ended September 30, 2017) as upfront or backend inducements to continue employment. 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, in most cases, collateralized by firm and customer 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 not exceeding the broker call rate. At September 30, 2018, bank call loans were \$3.0 million (\$118.3 million at December 31, 2017 and \$130.1 million at September 30, 2017). The average daily bank loan outstanding for the three and nine months ended September 30, 2018 was \$25.1 million and \$68.9 million, respectively (\$105.7 million and \$137.9 million for the three and nine months ended September 30, 2017, respectively). The largest daily bank loan outstanding for the three and nine months ended September 30, 2018 was \$107.9 million and \$516.5 million, respectively (\$230.4 million and \$247.6 million for the three and nine months ended September 30, 2017, respectively). The average weighted interest rate on bank call loans applicable on September 30, 2018 was 3.0%.

At September 30, 2018, securities loan balances totaled \$197.3 million (\$180.3 million at December 31, 2017 and \$179.2 million at September 30, 2017). The average daily securities loan balance for the three and nine months ended September 30, 2018 was \$216.2 million and \$210.8 million, respectively (\$170.4 million and \$162.8 million for the three and nine months ended September 30, 2017, respectively). The largest daily stock loan balance for the three and nine months ended September 30, 2018 was \$250.5 million and \$274.6 million, respectively (\$208.8 million for the three and nine months ended September 30, 2017).

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 September 30, 2018, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

At September 30, 2018, the gross balances of reverse repurchase agreements and repurchase agreements were \$101.0 million and \$705.5 million, respectively. The average daily balance of reverse repurchase agreements and repurchase agreements on a gross basis for the three months ended September 30, 2018 was \$168.0 million and \$754.5 million, respectively (\$200.4 million and \$601.3 million, respectively, for the three months ended September 30, 2017). The largest amount of reverse repurchase agreements and repurchase agreements outstanding on a gross basis during the three months ended September 30, 2018 was \$394.8 million and \$1.1 billion, respectively (\$303.4 million and \$741.3 million, respectively, for the three months ended September 30, 2017).

During the three and nine months ended September 30, 2018, the Company obtained additional liquidity on its ARS owned of \$45.2 million and \$66.1 million, respectively, through ARS issuer redemptions and tender offers, net of additional client buybacks.

At September 30, 2018, the gross leverage ratio was 4.3.

### ***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 nine months ended September 30,	
	2018	2017
Cash provided by (used in) operating activities	\$ 118,279	\$ (34,386)
Cash used in investing activities	(6,770)	(2,312)
Cash (used in) provided by financing activities	(122,132)	16,579
Net decrease in cash and cash equivalents	\$ (10,623)	\$ (20,119)

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'" herein.

## **Other Matters**

On October 26, 2018, the Board of Directors declared a regular quarterly cash dividend of \$0.11 per share of Class A and Class B Stock payable on November 23, 2018 to stockholders of record on November 9, 2018.

The book value of the Company's Class A and Class B Stock was \$40.94 at September 30, 2018 compared to \$39.55 at December 31, 2017, based on total outstanding shares of 13,277,596 and 13,238,868, respectively.

The diluted weighted average number of shares of Class A and Class B Stock outstanding for the three months ended September 30, 2018 was 14,140,263 compared to 13,763,516 outstanding for the same period in 2017.

## **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 September 30, 2018, the Company had no 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 September 30, 2018, the Company purchased and holds (net of redemptions) approximately \$40.8 million in ARS from its clients. In addition, the Company is committed to purchase another \$7.2 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 the 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 September 30, 2018, 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 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. At September 30, 2018, the amount of ARS held by the Company that was below investment grade was \$75,000 and the amount of ARS that was unrated was \$nil.

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(Expressed in thousands)

### Auction Rate Securities Owned and Committed to Purchase at September 30, 2018

Product	Principal	Valuation Adjustment	Fair Value
Auction Rate Securities Owned <sup>(1)</sup>	\$ 40,800	\$ 3,117	\$ 37,683
ARS Commitments to Purchase Pursuant to: <sup>(2)(3)</sup>			
Settlements with the Regulators <sup>(4)</sup>	—	—	—
Legal Settlements and Awards <sup>(5)</sup>	7,233	1,079	6,154
<b>Total</b>	<b>\$ 48,033</b>	<b>\$ 4,196</b>	<b>\$ 43,837</b>

- (1) Principal amount represents the par value of the ARS and is included in securities owned on the condensed consolidated balance sheet at September 30, 2018. The valuation adjustment amount is included as a reduction to securities owned on the condensed consolidated balance sheet at September 30, 2018.
- (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 condensed consolidated balance sheet at September 30, 2018.
- (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 September 30, 2018. Eligible Investors for future buybacks under the settlements with the Regulators held approximately \$7.7 million of ARS as of September 30, 2018.
- (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 \$4.2 million as of September 30, 2018. The valuation adjustment is comprised of \$3.1 million which represents the difference between the principal value and the fair value of the ARS the Company owned as of September 30, 2018 and \$1.1 million which represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase under legal settlements and awards. As of September 30, 2018, the Company had no outstanding ARS purchase commitments related to the settlements with the Regulators. Eligible Investors for future buybacks under the settlements with the Regulators held approximately \$7.7 million of ARS as of September 30, 2018. Since the Company was not committed to purchase this amount as of September 30, 2018, 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 6 to the condensed consolidated financial statements in Item 1. 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" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as well as "Regulatory and Legal Environment — Other Regulatory Matters" herein for additional details.

### Contractual Obligations

The following table sets forth the Company's contractual obligations as of September 30, 2018:

(Expressed in thousands)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	\$ 260,500	\$ 40,867	\$ 70,780	\$ 57,618	\$ 91,235
Committed Capital	1,400	1,400	—	—	—
Senior Secured Notes <sup>(1)(2)</sup>	254,038	13,500	27,000	213,538	—
ARS Purchase Commitments <sup>(3)</sup>	7,233	49	7,184	—	—
<b>Total</b>	<b>\$ 523,171</b>	<b>\$ 55,816</b>	<b>\$ 104,964</b>	<b>\$ 271,156</b>	<b>\$ 91,235</b>

- (1) See note 9 to the condensed consolidated financial statements in Item 1 for additional information.
- (2) Includes interest payable of \$54.0 million through maturity.
- (3) See note 12 to the condensed consolidated financial statements in Item 1 for additional information.

## **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, earnings, liabilities or expenses 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 remain within 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 that 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, (vii) changes in the rate of inflation and the related impact on the securities markets, (viii) competition from existing financial institutions, new entrants and other participants in the securities markets and financial services industry, (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, FINRA and other regulators and the results of pending litigation and regulatory proceedings involving the Company, (x) changes in foreign, federal and state tax laws that could affect the popularity of products sold by the Company or impose taxes on securities transactions, (xi) the adoption and implementation of the SEC's proposed "Regulation Best Interest" and other regulations in recent years, (xii) the effectiveness of the Company's efforts to reduce costs and manage compensation expense, (xiii) war, international police actions, terrorist acts and nuclear confrontation as well as political unrest and regime changes, health epidemics and economic crises in foreign countries, (xiv) the Company's ability to achieve its business plan, (xv) corporate governance issues, (xvi) the consolidation of the banking and financial services industry, (xvii) the effects of the economy on the Company's ability to find and maintain financing options and liquidity, (xviii) credit, operational, legal and regulatory risks, (xix) risks related to foreign operations, including those in the United Kingdom which may be affected by Britain's June 23, 2016 referendum to exit the EU beginning in March 2019 ("Brexit"), (xx) risks related to the downgrade of U.S. long-term sovereign debt obligations and the sovereign debt of European nations, (xxi) potential cybersecurity threats, (xxii) the effect of technological innovation on the financial services industry and business, (xxiii) risks related to the changes by S&P Global Ratings ("S&P") or Moody's Investor Service, Inc. ("Moody's") of its rating on the Company and on the Company's long-term debt, (xxiv) risks related to elections results, Congressional gridlock, government shutdowns and investigations, changes in or uncertainty surrounding regulations and threats of default by the federal government, (xxv) risks relate to trade wars, and (xxvi) risks related to changes in capital requirements under international standards that may cause banks to back away from providing funding to the securities industry. 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 "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

During the nine months ended September 30, 2018, there were no material changes to the information contained in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### **Item 4. 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. 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**

There have been no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. 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 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 since the financial crisis of 2008, including investigations by multiple regulators of matters involving the same or similar underlying facts and seeking substantial penalties, fines or other monetary relief.

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 condensed consolidated balance sheet 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 Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting 'Forward-Looking Statements'" in Part I, Item 2.

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, the Company has not established reserves 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 \$30.0 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 it can make an estimate. 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. See "Risk Factors — The Company may continue to be adversely affected by the failure of the Auction Rate Securities Market" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" in Part I, Item 2.

As previously disclosed, Oppenheimer, without admitting or denying liability, entered into a Consent Order (the "Order") with the Massachusetts Securities Division (the "MSD") on February 26, 2010 and an Assurance of Discontinuance ("AOD") with the New York Attorney General ("NYAG" and together with the MSD, the "Regulators") on February 23, 2010, each in connection with Oppenheimer's sales of ARS to retail and other investors in the Commonwealth of Massachusetts and the State of New York.

Pursuant to the terms of the Order and AOD, the Company commenced and closed seventeen offers to purchase ARS from customer accounts when the Company's latest offer to purchase expired on February 12, 2018. 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 September 30, 2018, the Company had purchased and holds (net of redemptions) \$40.8 million of ARS pursuant to 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, pursuant to the Order, Oppenheimer agreed to offer margin loans against eligible collateral for other Massachusetts clients not covered by the offers to purchase. As of September 30, 2018, Oppenheimer had extended margin loans to four 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; (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.

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 reinstitute 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 June 30, 2018 and in the Company's Annual Reports on Form 10-K for the years ended December 31, 2010 through and including 2017, 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 September 30, 2018, there were no pending ARS-related cases against Oppenheimer. As of September 30, 2018, 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 Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements" in Part I, Item 2.

#### *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 (the "Court of Appeals"). On July 27, 2011, the Court of Appeals 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, and judgment was entered in Oppenheimer's favor and the court dismissed the case. On January 24, 2017, the Trustee appealed the summary judgment order to the U.S.N.D. GA. On February 12, 2018, the U.S.N.D. GA issued an order (the "District Court Order") reversing the Bankruptcy Court's summary judgment order and remanding the proceedings to the Bankruptcy Court. In March 2018, Oppenheimer moved to certify the District Court Order for interlocutory appeal. The Trustee opposed the motion for interlocutory appeal. On June 28, 2018, the Eleventh Circuit dismissed the direct appeal. Oppenheimer's motion for interlocutory appeal before the U.S.N.D. GA is pending. If the U.S.N.D. GA grants the motion for interlocutory appeal, the Eleventh Circuit must also approve the appeal. If the U.S.N.D. GA or the Eleventh Circuit does not permit the interlocutory appeal to go forward, then the U.S.N.D. GA will set a date for trial to commence. Oppenheimer believes it has meritorious defenses and expects to defend the claims vigorously.

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. Following removal to the United States District Court for the Eastern District of Texas, Sherman Division, Providence Holdings, Inc. filed a new action in that court against Oppenheimer, Oppenheimer Trust Company, and two individuals, re-asserting basically the same claims as above. On March 18, 2013, the Texas court approved the parties' stipulation 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 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. asserted cross-claims against Oppenheimer Holdings Inc., Oppenheimer Asset Management Inc., Oppenheimer Investment Management LLC, and Oppenheimer Trust Company of Delaware 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 fact discovery. 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.

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 ("Trial Court") where it remains), in 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 of Delaware Inc., 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 have filed their sixth amended complaint. Plaintiffs allege that defendants failed properly to 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 21, 2016, the plaintiffs filed a motion for Leave to Seek Punitive Damages against the defendants. On March 24, 2017, the Trial Court granted the plaintiffs' motion. On February 12, 2018, the Trial Court entered an order setting June 25, 2018 as the date for the trial to commence. On April 17, 2018, the parties filed a Joint Motion to Specially Set Trial Date, requesting that the Trial Court continue the previously set trial date. On April 18, 2018, the Trial Court entered the Agreed Order Granting Joint Motion to Specially Set Trial Date and, on April 20, 2018, the Trial Court entered its Jury Trial Order, setting forth a new pre-trial schedule and providing for the trial to commence on February 4, 2019. Defendants believe they have meritorious defenses and intend to defend themselves vigorously.

In January 2017, Oppenheimer received a Notice of Civil Claim in the Supreme Court of British Columbia, Canada by Teck Metals Ltd. against Oppenheimer Holdings Inc. as well as co-defendants Western Forest Products Inc., Xylem Canada Company/Societe Xylem Canada, JRM Financial Services Ltd. and Glencore Corporation Canada. The civil claim seeks damages and/or the cost of environmental clean-up for property purportedly managed during the period 1965-66 by a predecessor company of Oppenheimer Holdings Inc. The underlying claim involves alleged adverse environmental impact at the Sunro Mine, located in British Columbia, which properties are now owned by plaintiff and seeks unspecified damages from defendants. To date, the plaintiff has not actively prosecuted the claim. The other defendants have various alleged historical connections to the property, which plaintiff contends allows plaintiff to assert claims against those defendants, as well as Oppenheimer Holdings Inc. Oppenheimer believes it has meritorious defenses to the claims and intends to defend itself vigorously.

See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory and Legal Environment — Other Regulatory Matters" in Part I, Item 2.

**Item 1A. RISK FACTORS**

During the nine months ended September 30, 2018, there were no material changes to the information contained in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) During the third quarter of 2018, the Company issued 18,602 shares of Class A Stock pursuant to the Company's share-based compensation plans to certain employees of the Company for no cash consideration. Such issuances were exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.
- (b) Not applicable.
- (c) Not applicable.

**Item 6. EXHIBITS**

[31.1 Certification of Albert G. Lowenthal](#)

[31.2 Certification of Jeffrey J. Alfano](#)

[32 Certification of Albert G. Lowenthal and Jeffrey J. Alfano](#)

101 Interactive data files pursuant to Rule 405 of Regulation S-T (unaudited): (i) the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2018 and 2017, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (vi) the notes to the Condensed 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.

## SIGNATURES

Pursuant to the requirements 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 26th day of October, 2018.

OPPENHEIMER HOLDINGS INC.

BY: /s/ Albert G. Lowenthal

Albert G. Lowenthal, Chairman and Chief Executive Officer  
(Principal Executive Officer)

BY: /s/ Jeffrey J. Alfano

Jeffrey J. Alfano, Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Albert G. Lowenthal, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 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

October 26, 2018

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey J. Alfano, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 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

October 26, 2018

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Albert G. Lowenthal, Chairman and Chief Executive Officer of Oppenheimer Holdings Inc. (the "Company"), and Jeffrey J. Alfano, Chief Financial Officer of the Company, hereby certify that to his knowledge the Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 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 26th day of October, 2018.

/s/ Albert G. Lowenthal  
Albert G. Lowenthal  
Chairman and Chief Executive Officer

/s/ Jeffrey J. Alfano  
Jeffrey J. Alfano  
Chief Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.