HILLTOP
HOLDINGS

2014 Annual Report,

Notice of 2015 Annual Meeting &

Proxy Statement

To Our Stockholders, Customers and Employees:

2014 was a momentous year for Hilltop. Each of our four operating subsidiaries performed well and together produced $106 million of net income for Hilltop's common shareholders, representing an ROAE of 8.0% for 2014. Hilltop's book value per share increased from $13.27 at December 31, 2013 to $14.93 at December 31, 2014.

Early in 2014 we announced the acquisition of SWS Group, representing another step towards our stated goal of building a premier Texas-based bank and prominent diversified financial services company. The transaction closed January 1, 2015 and was immediately accretive to tangible book value. Simultaneous with the closing, we formed a new entity called Hilltop Securities Holdings that serves as the parent to both SWS's broker-dealer subsidiary and First Southwest, our legacy broker-dealer. We are working diligently to merge the two firms to create one of the largest and most dominant broker-dealers in the Southwest. The combined business will be led by Hill Feinberg as Chief Executive Officer and Bob Peterson as President and Chief Operating Officer.

At January 1, 2015, Hilltop had $12.4 billion of assets, $1.7 billion of equity, and approximately 5,300 employees. Since 2011, Hilltop has grown from $925 million to $12.4 billion in assets primarily through the acquisitions of PlainsCapital Corporation, First National Bank of Edinburg, and most recently SWS. Furthermore, Hilltop recently issued $150 million of 5% senior notes due 2025 with an investment grade rating from Fitch. Proceeds from the issuance will be used to redeem all of Hilltop's outstanding Non-Cumulative Perpetual Preferred Stock, Series B and the remainder for general corporate purposes. These steps represent the completion of an important phase for our company, and we now look forward to leveraging Hilltop's established platform for future M&A transactions and prudent organic growth.

Operating Subsidiaries:

- PlainsCapital Bank offers commercial banking, personal banking and wealth management products and services throughout Texas. During 2014, the legacy bank grew loans and expanded its branch network while profitably working out problem assets and divesting noncore branches acquired from the FNB Transaction in 2013. For 2014, the bank reported a net interest margin of 5.00% and pre-tax income of $139 million. Excluding the addition of SWS's bank subsidiary, PlainsCapital Bank had $8.0 billion of assets, $6.4 billion of deposits, and 78 branches at year end and remained the fifth largest Texas-based bank based on deposits. Immediately following the close of the SWS transaction, SWS's banking subsidiary merged into PlainsCapital Bank and brought four new branches, strong core funding, and key personnel. We will continue to emphasize our community banking model and robust credit culture as we grow the bank both organically and through M&A.

- PrimeLending was the 2nd largest purchase originator in Texas and the 6th largest nationwide in 2014. During the year, PrimeLending originated $10.3 billion in mortgage loans through 260 locations in 42 states. PrimeLending outperformed the broader mortgage origination industry in 2014, as evidenced by its increase in market share from 0.68% in 2013 to 0.96% in 2014. While refinance volume remained subdued, PrimeLending's strong retail franchise helped maintain purchase volume. Mortgage originations are expected to increase slightly in 2015, and PrimeLending is well-positioned to benefit from this positive trend.

- First Southwest provides financial advisory services to public sector entities, access to capital markets for institutional and individual investors, clearing services to correspondent broker-dealers and asset management services for state and local governments. During the year, First Southwest produced $6.9 million in pre-tax income. Low interest rates and an improving economy led to an increase in debt offerings by public finance clients, resulting in higher fees. We expect the merger of First Southwest with SWS to be complete after systems integration and regulatory approvals.

- National Lloyds is a niche property & casualty underwriter offering primarily fire and limited homeowners insurance for low value dwellings and manufactured homes in Texas and other southern states. National Lloyds had its best year ever in 2014. Growth in earned premium, more efficient reinsurance, and a decline in the severity of weather events contributed to pre-tax income of $25.7 million for the year. Additionally, National Lloyds' new CEO, Bob Otis, is reinvigorating the company by executing operational initiatives.

As an institution now above the $10 billion asset threshold, we will be subject to increased regulatory oversight across our entire franchise. To accommodate, we have invested heavily in our risk management, compliance, and regulatory functions, including hiring professionals, instituting new policies, and strengthening compliance procedures company-wide. Hilltop is committed to maintaining positive relationships with our regulators and will continue to prioritize strong risk and capital management within our culture.

Acquiring financial institutions is a core strength of Hilltop. We will continue to maintain a highly disciplined approach in our pursuit of acquisitions in Texas that build on our core banking franchise. Following the SWS acquisition and the senior notes issuance, we still have ample freely useable cash at Hilltop's parent company and significant excess capital in our subsidiaries. Additionally, we have the flexibility to use our stock as acquisition consideration.

Lastly, I would like to thank our employees, including new employees from SWS, for their dedicated service to our company. Additionally, we would like to thank our customers and the communities in which we do businesses. I would also like to extend my gratitude to our Board members for their sound guidance and commitment to Hilltop. For our stockholders, I would like to thank you for your confidence in our stewardship and continued support.

Sincerely,

Jeremy B. Ford
President and Chief Executive Officer
Hilltop Holdings Inc.
April 30, 2015

Hilltop Holdings Inc.
200 Crescent Court, Suite 1330
Dallas, Texas 75201
Tel: 214.855.2177
Fax: 214.855.2173
www.hilltop-holdings.com
NYSE: HTH

NOTICE OF 2015 ANNUAL MEETING
AND PROXY STATEMENT

April 30, 2015

You are cordially invited to attend our 2015 Annual Meeting of Stockholders at 10:00 a.m., Dallas, Texas, local time, on June 12, 2015. The meeting will be held at 2323 Victory Avenue, 5th Floor, Dallas, Texas 75219.

This booklet includes the formal notice of the meeting and our proxy statement. The proxy statement tells you about the matters to be addressed, and the procedures for voting, at the meeting.

YOUR VOTE IS VERY IMPORTANT. Even if you only have a few shares, we want your shares to be represented. **If your shares are held in a brokerage account, your broker no longer has discretion to vote on your behalf with respect to electing directors or certain other non-routine matters. Accordingly, you must provide specific voting instructions to your broker in order to vote.** Please vote promptly in order to ensure that your shares are represented at the meeting.

The Notice of Internet Availability of Proxy Materials or this proxy statement and the accompanying proxy card, Notice of 2015 Annual Meeting of Stockholders and annual report for the year ended December 31, 2014 were first provided to all stockholders of record on or about May 1, 2015.

We look forward to seeing you at the meeting.

Very truly yours,

Jeremy B. Ford
Chief Executive Officer

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JUNE 12, 2015.

Our proxy statement and our annual report for the fiscal year ended December 31, 2014 are both available at www.proxyvote.com

Notice of 2015 Annual Meeting of Stockholders
To Be Held on June 12, 2015

WHEN:	Friday, June 12, 2015, at 10:00 a.m., Dallas, Texas local time
WHERE:	2323 Victory Avenue, 5th Floor Dallas, Texas 75219
WHY:	At this meeting, you will be asked to: 1. Elect 21 directors to serve on our Board of Directors until the 2016 annual meeting of stockholders and until their successors are duly elected and qualified; 2. Conduct an advisory vote to approve executive compensation; 3. Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015; and 4. Transact any other business that may properly come before the meeting and any adjournments or postponements of the meeting.
WHO MAY VOTE:	Stockholders of record at the close of business on April 21, 2015.
ANNUAL REPORT:	Our 2014 Annual Report is enclosed.

Pursuant to rules promulgated by the Securities and Exchange Commission, we are providing access to our proxy materials, including this proxy statement and our annual report for the year ended December 31, 2014, over the Internet. As a result, we are providing to many of our stockholders a Notice of Internet Availability of Proxy Materials instead of a paper copy of our proxy materials. The notice contains instructions on how to access those proxy materials over the Internet, as well as instructions on how to request a paper copy of our proxy materials. All stockholders who are not sent a notice will be sent a paper copy of our proxy materials by mail. This electronic distribution process reduces the environmental impact and lowers the costs of printing and distributing our proxy materials.

Your vote is very important. Please read the proxy statement and voting instructions on the enclosed proxy card. Then, whether or not you plan to attend the annual meeting in person, and no matter how many shares you own, please vote by Internet, telephone or by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope, which requires no additional postage if mailed in the United States. Please see "General Information - What should I do if I want to attend in person?" for information on how to obtain directions to be able to attend the meeting and vote in person.

By Order of the Board of Directors,

Corey G. Prestidge
Executive Vice President,
General Counsel & Secretary

April 30, 2015
Dallas, Texas

PROXY STATEMENT
TABLE OF CONTENTS

HILLTOP HOLDINGS INC.
200 Crescent Court, Suite 1330
Dallas, Texas 75201

PROXY STATEMENT
2015 Annual Meeting of Stockholders
To be Held on June 12, 2015

GENERAL INFORMATION

The Notice of Internet Availability of Proxy Materials or this Proxy Statement and the accompanying proxy card, Notice of 2015 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2014 were first provided to all stockholders of record on or about May 1, 2015.

Unless the context otherwise indicates, all references in this Proxy Statement to the "Company," "we," "us," "our" or "ours" or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to "Hilltop" refer solely to Hilltop Holdings Inc., references to "PlainsCapital" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to "Hilltop Securities" refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to "Southwest Securities" refer to Southwest Securities, Inc. (a wholly owned subsidiary of Hilltop Securities), references to "SWS Financial" refer to SWS Financial Services, Inc. (a wholly owned subsidiary of Hilltop Securities), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PlainsCapital), references to "FNB" refer to First National Bank, references to "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Hilltop Securities) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company, LLC (a wholly owned subsidiary of First Southwest), references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, and references to "NLC" refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole.

Why am I receiving these proxy materials?

The Board of Directors of Hilltop, or the Board of Directors, has made these materials available to you on the Internet or has delivered printed versions of these materials to you by mail in connection with the Board of Directors' solicitation of proxies for use at our 2015 Annual Meeting of Stockholders, or the Annual Meeting, which will take place at 10:00 a.m. (Dallas, Texas time) on Friday, June 12, 2015, at 2323 Victory Avenue, 5th Floor, Dallas, Texas 75219. This Proxy Statement describes matters on which you, as a stockholder, are entitled to vote. This Proxy Statement also gives you information on these matters so that you can make an informed decision.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of printed proxy materials?

In accordance with rules promulgated by the Securities and Exchange Commission, or the SEC, instead of mailing a printed copy of our proxy materials to all of our stockholders, we have elected to furnish such materials to selected stockholders by providing access to these documents over the Internet. Accordingly, on or about May 1, 2015, we provided a Notice of Internet Availability of Proxy Materials, or the Notice, to selected stockholders of record and beneficial owners. These stockholders have the ability to access the proxy materials on a website referred to in the Notice or to request to receive a printed set of the proxy materials by calling the toll-free number found on the Notice. We encourage you to take advantage of the availability of the proxy materials on the Internet in order to help reduce the environmental impact of the Annual Meeting.

How can I get electronic access to the proxy materials?

The Notice provides you with instructions regarding how to:

- view our proxy materials for the Annual Meeting on the Internet;
- vote your shares after you have viewed our proxy materials;
- register to attend the meeting in-person;

- request a printed copy of the proxy materials; and
- instruct us to send our future proxy materials to you electronically by email.

Copies of the proxy materials are available for viewing at www.proxyvote.com.

You may have received proxy materials by email. Even if you received a printed copy of our proxy materials, you may choose to receive future proxy materials by email. Choosing to receive your future proxy materials by email will lower our costs of delivery and will reduce the environmental impact of our annual meetings. If you choose to receive our future proxy materials by email, you will receive an email next year with instructions containing a link to view those proxy materials and link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it or for so long as the email address provided by you is valid.

What am I voting on?

At the Annual Meeting, stockholders will be asked to:

- Elect 21 directors to serve on our Board of Directors until the 2016 annual meeting of stockholders and until their successors are duly elected and qualified;
- Conduct an advisory vote to approve executive compensation;
- Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015; and
- Transact any other business that may properly come before the Annual Meeting and any adjournments or postponements of the Annual Meeting.

What are the Board of Directors' recommendations?

The Board of Directors recommends that you vote your shares:

- **FOR** each of our director candidates;
- **FOR** the approval, on an advisory basis, of the compensation of our named executive officers; and
- **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015.

Who is entitled to vote?

Holders of record of our common stock at the close of business on April 21, 2015, are entitled to vote at the Annual Meeting. With respect to each matter presented, a stockholder is entitled to cast one vote for each share of common stock owned at the close of business on April 21, 2015.

How do I vote?

If you are a stockholder of record, there are four ways to vote:

- *In Person.* You may vote in person at the Annual Meeting. Bring your printed proxy card if you received one by mail. Otherwise, we will provide stockholders of record a ballot at the Annual Meeting. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. You always can change your vote at the Annual Meeting.
- *Via the Internet.* You may vote by proxy via the Internet by visiting www.proxyvote.com. Have your proxy card or Notice in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.
- *Via Telephone.* If you received or requested printed copies of the proxy materials by mail, you may vote by proxy by calling the toll-free number found on the proxy card.
- *Via Mail.* If you received or requested printed copies of the proxy materials by mail, you may vote by proxy by marking, signing and dating the proxy card and sending it back in the envelope provided.

If you are the beneficial owner of shares held by a broker or other nominee, you may instruct your broker or nominee to vote your shares by following the instructions that the broker or nominee provides you. New York Stock Exchange rules prohibit your broker from voting for the election of directors and to approve executive compensation on your behalf without specific voting instructions from you. Many brokers allow stockholders to provide voting instructions by mail, telephone and the Internet.

How do proxies work?

Our Board of Directors is asking for your proxy. Giving your proxy to the persons named by us means you authorize them to vote your shares at the Annual Meeting in the manner you direct. You may vote for all, some or none of our director candidates, and you may vote for or against, or abstain from voting on, executive compensation and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015.

If you are a stockholder of record and (a) you indicate when voting on the Internet or by telephone that you wish to vote as recommended by our Board of Directors or (b) you sign and return the enclosed proxy card but do not specify how your shares are to be voted, your shares will be voted **FOR** the election of all of our director candidates, **FOR** the approval of our executive compensation and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015.

If you are the beneficial owner of shares held by a broker or other nominee, also referred to as held in "street name," and you do not provide such broker or nominee with specific voting instructions, under the rules promulgated by the New York Stock Exchange, the broker or nominee that holds your shares may generally vote on "routine" matters at its discretion, but cannot vote on "non-routine" matters. If the broker or nominee that holds your shares does not receive instructions from you on how to vote your shares on a "non-routine" matter, that broker or nominee will inform the inspector of election that it does not have the authority to vote on such matters with respect to your shares, which is generally referred to as a "broker non-vote."

You may receive more than one proxy or voting card depending on how you hold your shares. Shares registered in your name are covered by one card. If you also hold shares through a broker or other nominee, you also may receive material from them asking how you want those shares voted. To be sure that all of your shares are voted, we encourage you to respond to each request you receive.

Which matters are considered "routine" or "non-routine"?

The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015 is considered to be a "routine" matter. A broker or other nominee may generally vote on routine matters and, therefore, no broker non-votes are expected to exist with respect to this matter. All other matters set forth in this Proxy Statement are matters that we believe will be designated "non-routine" matters. A broker or other nominee cannot vote without instructions on non-routine matters and, therefore, there may be broker non-votes on all matters other than the ratification of the appointment of PricewaterhouseCoopers LLP.

Can I change my vote or revoke my proxy after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the Annual Meeting (or before any earlier deadline specified in the Notice or the proxy card) by (a) voting again via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the Annual Meeting will be counted), (b) signing and returning a new proxy card or vote instruction form with a later date or (c) attending the Annual Meeting and voting in person. Your attendance at the Annual Meeting, however, will not automatically revoke your proxy unless you vote again at the Annual Meeting or specifically request that your prior proxy be revoked by delivering, prior to the Annual Meeting, a written notice of revocation to the corporate Secretary at the address listed under "Questions" on page 56.

Will my shares be voted if I don't sign a proxy?

If you hold your shares directly in your own name, they will not be voted unless you provide a proxy or attend the Annual Meeting and vote in person. Under certain conditions, shares that you own that are held by a broker or nominee may be voted even if you do not provide voting instructions to the broker or nominee. As discussed above under "—How do proxies work?", brokerage firms have the authority under applicable rules to vote on certain "routine" matters, including the ratification of the appointment of auditors.

What constitutes a quorum?

In order to carry on the business of the Annual Meeting, we must have a quorum present. This means that the holders of at least a majority of the outstanding shares eligible to be cast must be represented at the Annual Meeting, either in person or by proxy. Any shares that we hold for our own benefit may not be voted and are not counted in the total number of outstanding shares eligible to be voted. Both abstentions and broker non-votes (described below) are counted as present for purposes of determining the presence of a quorum. On April 21, 2015, we had 100,289,492 shares of common stock outstanding and entitled to vote at the Annual Meeting.

How many votes are needed for approval?

Election of Directors

Election of the director nominees requires the affirmative vote of a plurality of the votes cast on the matter. The director candidates receiving the highest number of affirmative votes of the shares entitled to be voted will be elected as directors. For purposes of the election of directors, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote. Stockholders may not cumulate votes in the election of directors.

Advisory Vote to Approve Executive Compensation

The affirmative vote of a majority of the votes cast on the matter is required to approve, on an advisory basis, executive compensation. The Compensation Committee of the Board of Directors will review the results of this matter and will take the results into account in making future determinations concerning executive compensation. For purposes of the advisory vote on executive compensation, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote.

Ratification of Independent Registered Public Accounting Firm

The appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015 will be ratified if this proposal receives the affirmative vote of a majority of the votes cast on the matter. Brokers have the authority to vote **FOR** this proposal in the absence of contrary instructions from a beneficial owner. If this appointment is not ratified by our stockholders, the Audit Committee may reconsider its selection of PricewaterhouseCoopers LLP. With respect to this proposal, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote.

Who conducts the proxy solicitation?

Our Board of Directors is soliciting the proxies, and we will bear all costs of this solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement. Copies of proxy materials will be furnished to banks, brokerage houses and other agents and nominees holding shares in their names that are beneficially owned by others so that they may forward the proxy materials to those beneficial owners. In addition, if asked, we will reimburse these persons for their reasonable expenses in forwarding the proxy materials to the beneficial owners. We have requested banks, brokerage houses and other custodians, nominees and fiduciaries to forward all proxy materials to the beneficial owners of the shares that they hold of record. Certain of our officers and employees also may solicit proxies on our behalf by mail, email, phone or fax or in person.

What should I do if I want to attend in person?

You will need an admission ticket to attend the Annual Meeting. Attendance at the Annual Meeting will be limited to stockholders of record at the close of business on April 21, 2015 (or their authorized representatives) having an admission ticket or proof of their share ownership, and guests of the Company. If you plan to attend the Annual Meeting, please indicate that you intend to do so when you are voting by telephone or Internet or follow the instructions on your proxy card, and we will promptly mail an admission ticket to you.

If your shares are held in the name of a bank, broker or other nominee and you plan to attend the Annual Meeting, you can obtain an admission ticket in advance by providing proof of your ownership, such as a bank or brokerage account statement, to the corporate Secretary at the address listed under “Questions” on page 56. If you do not have an admission ticket, you must show proof of your ownership of the Company’s common stock at the registration table at the door.

Proposal One – Election of Directors

General

At the recommendation of the Nominating and Corporate Governance Committee, our Board of Directors has nominated the director candidates named under "—Nominees for Election as Directors" below.

Our Board of Directors oversees our management on your behalf. The Board of Directors reviews our long-term strategic plans and exercises direct decision-making authority on key issues, such as the approval of business combination transactions, the authorization of dividends, the selection of the Chief Executive Officer, setting the scope of his authority to manage our day-to-day operations and the evaluation of his performance.

Our Board of Directors is not classified; thus, all of our directors are elected annually. The Nominating and Corporate Governance Committee has recommended, and our Board of Directors has nominated, for re-election all 21 persons currently serving as directors whose terms are expiring at the 2015 Annual Meeting of Stockholders.

If elected, each of the persons nominated as a director will serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualified. Personal information on each of our nominees is given below.

Nominees for Election as Directors

Charlotte Jones Anderson Age 48	Ms. Anderson has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. She previously served as a director of PlainsCapital from September 2009 to November 2012. She currently serves as Executive Vice President and Chief Brand Officer for the Dallas Cowboys Football Club, Ltd., a National Football League team. She has worked in various capacities for the Dallas Cowboys organization since 1990. Since 2012, she has served as Chairman of the NFL Foundation and in 2014 she was appointed by the NFL commissioner to be a member of the NFL Personal Conduct Committee. Ms. Anderson is actively involved with a number of charitable and philanthropic organizations, including The Boys and Girls Clubs of America, the Salvation Army, The Rise School, the Southwest Medical Foundation, the Dallas Symphony, The Dallas Center for Performing Arts Foundation, the Shelton School, TACA, and Make-a-Wish North Texas Foundation.
Rhodes R. Bobbitt Age 69	Mr. Bobbitt has served as a director of Hilltop since November 2005. Mr. Bobbitt is retired. From 1987 until June 2004, he served as a Managing Director and the Regional Office Manager of the Private Client Service Group of Credit Suisse First Boston/Donaldson, Lufkin & Jenrette. Mr. Bobbitt was formerly Vice President of Security Sales in the Dallas office of Goldman, Sachs & Company from 1969 until 1987. He also serves on the Board of Directors of First Acceptance Corporation, including the Nominating and Corporate Governance, Investment, and Audit Committees of that company.
Tracy A. Bolt Age 51	Mr. Bolt has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from September 2009 to November 2012. In 1994, Mr. Bolt co-founded Hartman Leito & Bolt, LLP, an accounting and consulting firm based in Fort Worth, Texas, where he served as a partner and a member of the firm's leadership committees until its sale in June 2014. Mr. Bolt holds a Bachelor of Science and Master of Science from the University of North Texas, and he is a certified public accountant. He currently serves as a business advisor to numerous management teams, public and private company boards, not for profit organizations and trusts.

W. Joris Brinkerhoff
Age 63

Mr. Brinkerhoff has served as a director of Hilltop since June 2005. Mr. Brinkerhoff founded a Native American-owned joint venture, Doyon Drilling Inc. J.V., in 1981 and served as its operations Chief Executive Officer and Chief Financial Officer until selling his venture interests in 1992. Doyon Drilling Inc. J.V. designed, built, leased and operated state of the art mobile drilling rigs for ARCO and British Petroleum in conjunction with their development of the North Slope Alaska petroleum fields. Mr. Brinkerhoff currently manages, on a full-time basis, family interests, including oil and gas production, a securities portfolio and various other business interests. He actively participates in numerous philanthropic organizations.

J. Taylor Crandall
Age 61

Mr. Crandall was appointed a director of Hilltop effective April 13, 2015. Mr. Crandall is a founding Managing Partner of Oak Hill Capital Management, LLC ("OHCM") and has served OHCM (or its predecessors) since 1986. He has senior responsibility for originating, structuring and managing investments for OHCM's Media and Telecom and Technology industry groups. Mr. Crandall has also served as Chief Operating Officer of Keystone, Inc., the primary investment vehicle for Robert M. Bass. Prior to joining OHCM, Mr. Crandall was a Vice President with the First National Bank of Boston. Mr. Crandall serves on the board of directors of Intermedia.net, Inc., Wave Division Holdings, LLC, Dave & Buster's, Inc., Omada International, Pulsant Limited, Berlin Packaging LLC and Powdr Corporation. Mr. Crandall is the secretary-treasurer of the Anne T. and Robert M. Bass Foundation, the trustee of the Lucile Packard Foundation for Children's Health and currently serves on the boards of trustees of The Park City Foundation and the U.S. Ski and Snowboard Team Foundation.

Charles R. Cummings
Age 78

Mr. Cummings has served as a director of Hilltop since October 2005. Mr. Cummings currently serves as the Co-Manager of Acoustical Control LLC, a provider of noise abatement primarily for the oil and gas industry; DQB Solutions, LLC, a service provider to the waste industry; and Argyle Equipment, LLC, a lessor of equipment to the waste industry. In addition, Mr. Cummings is the President and Chief Executive Officer of CB Resources LLC, an investor in the oil and natural gas industry, and Container Investments, LLC, a lessor of equipment to the waste industry, each of which positions he has held since 1999 and 1991, respectively. Until its sale in January 2014, he served as the Chairman of Aaren Scientific, Inc., a manufacturer of intraocular lenses used in cataract surgery. From 1998 through 2008, he was the Chairman and Chief Executive Officer of Aaren Scientific, Inc. and its predecessors. In 1994, Mr. Cummings co-founded I.E.S.I. Corporation, a regional, non-hazardous waste management company, and serving as a director until its sale in 2005. Prior to that, he served as a Managing Director of AEA Investors, Inc., a private investment firm. Prior to 1979, he was a partner with Arthur Young & Company.

Hill A. Feinberg
Age 68

Mr. Feinberg has served as Chairman and Chief Executive Officer of First Southwest since 1991. He has also served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from December 31, 2008 (in conjunction with PlainsCapital's acquisition of First Southwest) to November 2012. Prior to joining First Southwest, Mr. Feinberg was a senior managing director at Bear Stearns & Co. Mr. Feinberg is a past chairman of the Municipal Securities Rulemaking Board, the self-regulatory organization with responsibility for authoring the rules that govern the municipal securities activities of registered brokers. Mr. Feinberg also is a member of the board of directors of Energy XXI (Bermuda) Limited, a public company. Mr. Feinberg also formerly served as a member of the board of directors of Compass Bancshares, Inc. and Texas Regional Bancshares, Inc., as an advisory director of Hall Phoenix Energy, LLC and as the non-executive chairman of the board of directors of General Cryogenics, Inc.

Gerald J. Ford
Age 70

Mr. Ford has served as Chairman of the Board of Hilltop since August 2007, and has served as a director of Hilltop since June 2005. Mr. Ford served as interim Chief Executive Officer of Hilltop from January 1, 2010 until March 11, 2010. Mr. Ford is a banking and financial institutions entrepreneur who has been involved in numerous mergers and acquisitions of private and public sector financial institutions, primarily in the Southwestern United States, over the past 40 years. In that capacity, he acquired and consolidated 30 commercial banks from 1975 to 1993, forming First United Bank Group, Inc., a multi-bank holding company for which he functioned as Chairman of the Board and Chief Executive Officer until its sale in 1994. During this period, he also led investment consortiums that acquired numerous financial institutions, forming in succession, First Gibraltar Bank, FSB, First Madison Bank, FSB and First Nationwide Bank. Mr. Ford also served as Chairman of the Board of Directors and Chief Executive Officer of Golden State Bancorp Inc. and its subsidiary, California Federal Bank, FSB, from 1998 to 2002. He currently serves on the boards of directors of Freeport McMoRan Copper and Gold Inc. and Scientific Games Corporation. Mr. Ford previously served as Chairman of Pacific Capital Bancorp and a director of First Acceptance Corporation and McMoRan Exploration Co. Mr. Ford also currently serves on the Board of Trustees of Southern Methodist University, is the Co-Managing Partner of Ford Financial Fund II, L.P., a private equity fund. Hilltop's President and Chief Executive Officer, Jeremy B. Ford, is the son of Mr. Ford, and Hilltop's Executive Vice President, General Counsel and Secretary, Corey G. Prestidge, is the son-in-law of Mr. Ford.

Jeremy B. Ford
Age 40

Mr. Jeremy B. Ford has served as President, Chief Executive Officer and a director of Hilltop since March 2010. Mr. Jeremy B. Ford has worked in the financial services industry for over 15 years, primarily focused on investments in, and acquisitions of, depository institutions and insurance and finance companies. He also is one of the individuals who provided services to Hilltop under the prior Management Services Agreement with Diamond A Administration Company, LLC. Accordingly, he was actively involved in numerous potential acquisitions for Hilltop prior to 2010, and the divestiture of the mobile home communities business in 2007. Mr. Jeremy B. Ford also is currently Chairman of the Board of First Acceptance Corporation. Prior to becoming President and Chief Executive Officer of Hilltop, he was a principal of Ford Financial Fund, L.P., a private equity fund. From 2004 to 2008, he worked for Diamond A-Ford Corporation, where he was involved in various investments made by a family limited partnership. Prior to that, he worked at Liberté Investors Inc. (now First Acceptance Corporation), California Federal Bank, FSB (now Citigroup Inc.), and Salomon Smith Barney (now Citigroup Inc.). Jeremy Ford is the son of Gerald J. Ford, Hilltop's Chairman of the Board, and the brother-in-law of Corey G. Prestidge, Hilltop's Executive Vice President, General Counsel and Secretary.

J. Markham Green
Age 71

Mr. Green has served as a director of Hilltop since February 2004. Mr. Green is a private investor. From 2001 to 2003, he served as Vice Chairman of the Financial Institutions and Governments Group in investment banking at JP Morgan Chase. From 1993 until joining JP Morgan Chase, Mr. Green was involved in the start-up, and served on the boards, of eight companies, including Affordable Residential Communities Inc., the predecessor company to Hilltop. From 1973 to 1992, Mr. Green served in various capacities at Goldman, Sachs & Co. in investment banking. He was a general partner of Goldman, Sachs & Co. and co-head of its Financial Services Industry Group. Mr. Green is a member of the board of directors of MENTOR/The National Mentoring Partnership. Mr. Green previously served as Chairman of the Board of PowerOne Media LLC.

William T. Hill, Jr. Age 72	Mr. Hill has served as a director of Hilltop since April 2008. He currently has his own law firm. Prior to 2012, Mr. Hill was of counsel at Fitzpatrick Hagood Smith & Uhl, a criminal defense firm. Prior to that, Mr. Hill served as the Dallas District Attorney and the Chief Prosecuting Attorney of the Dallas District Attorney's office. During his tenure at the District Attorney's office, Mr. Hill restructured the office of 250 lawyers and 150 support personnel, including the computerization of the office in 1999. For more than four decades, Mr. Hill has been a strong community leader serving on a number of charitable boards and receiving numerous civic awards, including President of the SMU Mustang Board of Directors and Chairman of the Doak Walker Running Back Award for its first year. Mr. Hill currently serves on the board of directors of Oncor Electric Delivery Company LLC, Oncor Electric Delivery Holdings Company LLC and Baylor Hospital Foundation, and is actively involved in the Mercy Street Mission. Mercy Street is a Christian-based organization serving West Dallas children by placing mentors with the children.
James R. Huffines Age 64	Mr. Huffines is the President and Chief Operating Officer of PlainsCapital, a position he has held since November 2010. He has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from May 2011 to November 2012. Prior to that, Mr. Huffines served as the Chairman of the Central and South Texas region and a director of PlainsCapital Bank, a position he held since joining PlainsCapital in 2001. Mr. Huffines holds a Bachelor of Business Administration in Finance from the University of Texas. He served on the board of Energy Future Holdings (formerly TXU Corp.), from 2007 until 2012. In addition, Mr. Huffines previously served as Chairman of the University of Texas System Board of Regents for over four and a half years. Mr. Huffines also participates in many community and business organizations, including serving as a board member of the Dallas Citizens Council, Board of Advisors of Dallas Chamber, the Board of Trustees of the Bob Bullock Texas State History Museum Foundation, Vice Chair of the Texas Business Leadership Council, the Executive Committee of the Chancellor's Council at the University of Texas System; and a member of the Texas Philosophical Society.
Lee Lewis Age 63	Mr. Lewis has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from 1989 to November 2012. He founded in 1976, and currently serves as the Chief Executive Officer of, Lee Lewis Construction, Inc., a construction firm based in Lubbock, Texas. Mr. Lewis is a member of the American General Contractors Association, West Texas Chapter, Chancellors Council for the Texas Tech University System, and Red Raider Club.
Andrew J. Littlefair Age 54	Mr. Littlefair has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from September 2009 to November 2012. He is a co-founder of Clean Energy Fuels Corp., a provider of compressed and liquefied natural gas in the United States and Canada that is publicly traded on the NASDAQ Global Select Market, and has served as that company's President, Chief Executive Officer and a director since 2001. From 1996 to 2001, Mr. Littlefair served as President of Pickens Fuel Corp., and from 1987 to 1996, he served in various management positions at Mesa, Inc., an energy company. From 1983 to 1987, Mr. Littlefair served in the Reagan Administration as a Staff Assistant to the President. He served as the Chairman of NGV America, the leading U.S. advocacy group for natural gas vehicles, from March 1993 to March 2011. Mr. Littlefair served on the board of directors of Westport Innovations Inc., a Canadian company publicly traded on the NASDAQ Global Market from 2007 to June 2010.

W. Robert Nichols, III
Age 70

Mr. Nichols has served as a director of Hilltop since April 2008. Mr. Nichols has been a leader in the construction machinery business since 1966. He was the president of Conley Lott Nichols, a dealer for several manufacturers of construction machinery, until its sale in 2012. In 2013, he purchased an oilfield services company in Midland, Texas, for which he serves as Chairman and President. He has served on numerous bank and bank holding company boards, including United New Mexico Bancorp and Ford Bank Group. Mr. Nichols is active in civic and charitable activities, serving as an active director at M.D. Anderson Hospital, The Nature Conservancy of Texas and Mercy Street.

C. Clifton Robinson
Age 77

Mr. Robinson has served as a director of Hilltop since March 2007. From 2000 until its acquisition by a subsidiary of Hilltop in January 2007, Mr. Robinson was Chairman of the Board and Chief Executive Officer of NLASCO, Inc., an insurance holding company domiciled in Texas. Until December 2012, Mr. Robinson served as Chairman of the Board of NLASCO, Inc. In 2000, Mr. Robinson formed NLASCO, Inc. in conjunction with the acquisition of American Summit Insurance Company and the reacquisition of National Lloyds Insurance Company, which he had initially acquired in 1964 and later sold. In 1979, he organized National Group Corporation for the purpose of purchasing insurance companies and related businesses. In 1964, he became the President and Chief Executive Officer of National Lloyds Insurance Company in Waco, Texas, one of the two current insurance subsidiaries of NLC (formerly known as NLASCO, Inc.). From 1964 to the present, Mr. Robinson has participated in the formation, acquisition and management of numerous insurance business enterprises. Mr. Robinson established the Robinson-Lanham Insurance Agency in 1961. He previously has held positions with various insurance industry associations, including Vice-Chairman of the Board of Texas Life and Health Guaranty Association, President of the Independent Insurance Agents of Waco-McLennan County and member of the board of directors of the Texas Life Insurance Association and the Texas Medical Liability Insurance Underwriting Association. Mr. Robinson currently serves on the Board of Trustees of the Scottish Rite Hospital for Children in Dallas, Texas and the Baylor University Board of Regents.

Kenneth D. Russell
Age 66

Mr. Russell has served as a director of Hilltop since August 2010. Mr. Russell is a former member of the managing board of directors for KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (KPMG DTG). While a member of KPMG DTG, Mr. Russell served in leadership of Audit–Financial Services. Subsequent to his service as a member of the German firm leadership, he functioned as a freelance strategic advisory to KPMG DTG's managing board of directors, working directly with members of its executive committee. Prior to joining KPMG DTG, Mr. Russell was the lead financial services partner in the US KPMG LLP's Department of Professional Practice in New York. His responsibilities in the Department of Profession Practice included leading the financial instruments, structured financing and securitization topic teams, and he was one of KPMG's leading consultants on financial instruments, hedging and securitization accounting issues. Prior to joining the Department of Professional Practice at KPMG in 1993, Mr. Russell spent 20 years in KPMG's Dallas office and had engagement responsibilities for several significant regional banking, thrift and other financial services clients. He currently serves as a Financial Advisor with Diamond A Administration Company, LLC, an affiliate of Gerald J. Ford. He also serves as a director of First Acceptance Corporation.

A. Haag Sherman
Age 49

Mr. Sherman has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from September 2009 to November 2012. Mr. Sherman is the Chief Executive Officer and Chief Investment Officer of Tectonic Advisors LLC a registered investment advisor, and is a private investor and co-owner of an energy services company. In addition, Mr. Sherman serves on the boards of directors of the following public companies: Miller Energy Resources and ZaZa Energy Corp. Prior thereto, Mr. Sherman co-founded and served in various executive positions (including Chief Executive Officer and Chief Investment Officer) of Salient Partners, LP, a Houston-based investment firm. In addition, he previously served as an executive officer and partner of The Redstone Companies where he, among other things, managed a private equity portfolio. Mr. Sherman currently serves as an adjunct professor of law at The University of Texas School of Law. Mr. Sherman previously practiced corporate law at Akin, Gump, Strauss, Hauer & Feld, LLP and was an auditor at Price Waterhouse, a public accounting firm. Mr. Sherman is an attorney and certified public accountant.

Robert C. Taylor, Jr.
Age 67

Mr. Taylor has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from 1997 to November 2012. He has been engaged in the wholesale distribution business in Lubbock, Texas since 1971. In February 2009, Mr. Taylor was appointed to serve as Chief Executive Officer for United Supermarkets, LLC, a retail grocery business in Texas since 1915. He also serves on the board of directors of United Supermarkets, LLC. Prior to that appointment, Mr. Taylor served as the Vice President of Manufacturing and Supply Chain for United Supermarkets since 2007. From 2002 to 2007, Mr. Taylor was the President of R.C. Taylor Distributing, Inc., a business engaged in the business of general merchandise, candy and tobacco to retail outlets in West Texas and Eastern New Mexico. He is chairman of the Lubbock Downtown Tax Increment Finance Redevelopment Committee and serves on the Texas Tech Chancellors Advisory Board.

Carl B. Webb
Age 65

Mr. Webb has served as a director of Hilltop since June 2005. From August 2010 until December 2012, Mr. Webb served as the Chief Executive Officer of Pacific Capital Bancorp and as Chairman of the Board and Chief Executive Officer of Santa Barbara Bank & Trust, N.A. He was a Senior Principal of Ford Financial Fund, L.P., a private equity fund that was the parent company of SB Acquisition Company LLC, the majority stockholder of Pacific Capital Bancorp prior to its sale to UnionBanCal Corporation. Mr. Webb also is the Co-Managing Partner of Ford Financial Fund II, L.P., a private equity fund. In addition, Mr. Webb has served as a consultant to Hunter's Glen/Ford, Ltd., a private investment partnership, since November 2002. He served as the Co-Chairman of Triad Financial Corporation, a privately held financial services company, from July 2007 to October 2009, as was the interim President and Chief Executive Officer from August 2005 to June 2007. Previously, Mr. Webb was the President and Chief Operating Officer and a Director of Golden State Bancorp Inc. and its subsidiary, California Federal Bank, FSB, from September 1994 to November 2002. Prior to his affiliation with California Federal Bank, FSB, Mr. Webb was the President and Chief Executive Officer of First Madison Bank, FSB (1993 to 1994) and First Gibraltar Bank, FSB (1988 to 1993), as well as President and a Director of First National Bank at Lubbock (1983 to 1988). Mr. Webb also is a director of Prologis, Inc. He is a former director of Pacific Capital Bancorp, M&F Worldwide Corp. and Plum Creek Timber Company.

Alan B. White Age 66	Mr. White is one of PlainsCapital's founders. He has served as Chairman and Chief Executive Officer of PlainsCapital since 1987. He has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012 and is the Vice-Chairman of the Board of Directors and the Chairman of Hilltop's Executive Committee. Mr. White's current charitable and civic service includes serving as a member of the Cotton Bowl Athletic Association Board of Directors, the MD Anderson Cancer Center Living Legend Committee and the Dallas Citizens Council. He was also the founding chairman of the Texas Tech School of Business Chief Executive's Roundtable; the former Chairman of the Texas Tech Board of Regents, the Covenant Health System Board of Trustees, and the Methodist Hospital System Board of Trustees; and a member of the Texas Tech University President's Council and the Texas Hospital Association Board.

Director Independence

Our Board of Directors has affirmatively determined that 12 of the 21 nominees for election as directors at the Annual Meeting have no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and are independent within the meaning of the director independence requirements of the listing standards of the New York Stock Exchange, or NYSE. The independent directors are Charlotte Jones Anderson, Rhodes Bobbitt, Tracy A. Bolt, W. Joris Brinkerhoff, J. Taylor Crandall, Charles R. Cummings, J. Markham Green, William T. Hill, Jr., Andrew J. Littlefair, W. Robert Nichols, III, A. Haag Sherman and Robert C. Taylor, Jr. Jess T. Hay, who served on our Board of Directors until his death in April 2015, was affirmatively determined to be independent. The determinations regarding the independence of these individuals were based upon information known by the members of the Board of Directors concerning each other and supplied by each of the directors for the purpose of this determination.

In conducting its annual review of director independence, the Board of Directors considered transactions and relationships between each director or any member of his or her immediate family and the Company. The Board of Directors considered that three directors it determined to be independent— Ms. Anderson and Messrs. Bolt and Taylor—have, or a member of their respective immediate families or an affiliated company in which they are employed or in which they are a principal equity holder has, received loans from the Bank in the ordinary course of business, in each case which our Board of Directors did not view as compensation. In our management's opinion, these loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by the Bank with other unaffiliated persons and do not involve more than normal risk of collectability. In addition, the Board of Directors considered transactions between the Bank and Clean Energy Finance, Inc., a subsidiary of Clean Energy Fuels Corp., a company for which Andrew J. Littlefair serves as a director and president and chief executive officer. Mr. Littlefair also beneficially owned 2.1% of the outstanding shares of common stock of Clean Energy Fuels Corp. at April 7, 2015. From late 2011 through March 31, 2015, the Bank purchased, in a series of transactions, an aggregate of approximately $16.3 million in original principal amount of promissory notes issued by unaffiliated third parties from Clean Energy Finance, Inc. Although purchased at a premium to the outstanding principal balance on the notes, at the time of purchase, the interest rates on the notes exceeded the market rates charged by the Bank on similar-type loans that it originated. Clean Energy Finance, Inc. performs the servicing on the notes at no cost to the Bank, and the Bank purchased these notes with recourse to Clean Energy Finance, Inc. in the event of default. The aggregate yearly payments of the purchase prices in these transactions constituted less than 2% of the consolidated gross revenues of each of Clean Energy Fuels Corp. and the Company in the applicable year purchased and were made in the ordinary course of business in arms-length transactions. Mr. Littlefair did not have a direct financial interest in any of the transactions with Clean Energy Finance, Inc.

Assuming the election of our 21 nominees, all of our directors, other than Messrs. Hill A. Feinberg, Gerald J. Ford, Jeremy B. Ford, James R. Huffines, Lee Lewis, Clifton Robinson, Kenneth D. Russell, Carl B. Webb and Alan B. White, also will be "independent" directors, as defined by the NYSE.

Meeting Attendance

Our Board of Directors met seven times during 2014. No director attended fewer than 75% of the meetings of the Board of Directors and of the board committees on which he or she served during 2014. Our Board of Directors has not adopted a formal policy with regard to director attendance at the annual meetings of stockholders. We, however, encourage members of the Board of Directors to attend annual meetings. Messrs. Gerald J. Ford, Jeremy B. Ford, Alan B. White, James R. Huffines, Hill A. Feinberg, Kenneth W. Russell and Robert Nichols attended the 2014 annual meeting of stockholders.

Vote Necessary to Elect Directors

Election of the director nominees requires the affirmative vote of a plurality of the votes cast on the matter. The director candidates receiving the highest number of affirmative votes of the shares entitled to be voted will be elected as directors. For purposes of the election of directors, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote. Under applicable NYSE rules, a broker or other nominee does not possess the authority to vote for the director nominees in the absence of instructions from the beneficial owner of the relevant shares. Stockholders may not cumulate votes in the election of directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES IDENTIFIED ABOVE.

Director Compensation

General

Members of our Board of Directors who also are full-time employees do not receive any compensation for their service on the Board of Directors or any committee of the Board of Directors. All other directors receive the following compensation for their service on the Board of Directors:

- $40,000 annual retainer; and
- $2,000 fee for participation in each meeting of the Board of Directors at which attendance in person is requested (one-half of that fee is paid for participation in any meeting at which attendance is requested by telephone).

In addition, members of board committees receive the following additional compensation:

- Audit Committee—$65,000 annual fee for the chairperson of the committee;
- Nominating and Corporate Governance Committee—$10,000 annual fee for the chairperson of the committee;
- Compensation Committee—$10,000 annual fee for the chairperson of the committee;
- Investment Committee—$25,000 annual fee for the chairperson of the committee;
- Merger and Acquisition Committee— $10,000 annual fee for the chairperson of the committee; and
- $1,000 fee for participation in each meeting of a board committee.

Members of our Board of Directors may elect to receive their aggregate Board of Directors and board committee compensation:

- entirely in the form of cash;
- entirely in the form of common stock; or
- one-half in cash and one-half in common stock.

Any elections, or changes in elections, by directors regarding the form of compensation to be received may only occur during a "trading window" and only become effective at the "trading window" immediately following such election or change in election. Cash and shares of common stock are paid and issued, respectively, in arrears on a calendar quarterly basis, with no vesting requirements. Customarily, these payments and issuances occur by the 15th day of the month following the applicable calendar quarter-end. The value of the common stock awarded is based upon the average closing price per share of our common stock for the last ten consecutive trading days of the applicable calendar quarter. In lieu of fractional shares of common stock that would otherwise be issuable to directors, we pay cash to the director based upon the value of those fractional shares at the value the shares are awarded to the director. If a director does not serve for the entire calendar quarter, that director is compensated based upon the time of service during the applicable calendar quarter.

Each member of our Board of Directors is reimbursed for out-of-pocket expenses associated with his service on, and attendance at, Board of Directors or board committee meetings. Other than as described above, members of our Board of Directors receive no additional compensation for their service on the Board of Directors or board committees.

Political Action Committee Matching Program

The NLASCO Political Action Committee, or the PAC, is a separate segregated fund that was formed to make political contributions. To encourage participation in the PAC by eligible participants, for each contribution made to the PAC by an eligible individual contributor, NLC makes a matching contribution to any Section 501(c)(3) organization of the contributor's choice, dollar for dollar, up to the maximum amount an eligible individual can contribute to the PAC in a given calendar year. Under this program, no contributor to the PAC receives any financial, tax or other tangible benefit or premium from either the recipient charities or us. This program is completely voluntary.

2014 Director Compensation

Director Compensation Table for 2014[1]

Name	Fees earned or paid in cash ($)	Stock awards ($)	Total ($)
Charlotte Jones Anderson	30,062	29,938	60,000
Rhodes R. Bobbitt	91,000	-	91,000
Tracy A. Bolt	63	68,937	69,000
W. Joris Brinkerhoff	58,000	-	58,000
Charles R. Cummings	131,000	-	131,000
Hill A. Feinberg	-	-	-
Gerald J. Ford	53,000	-	53,000
Jeremy B. Ford	-	-	-
J. Markham Green	69,000	-	69,000
Jess T. Hay [2]	62,000	-	62,000
William T. Hill, Jr.	66,000	-	66,000
James R. Huffines	-	-	-
Lee Lewis	53,000	-	53,000
Andrew J. Littlefair	28,057	27,943	56,000
W. Robert Nichols, III	70,000	-	70,000
C. Clifton Robinson	53,000	-	53,000
Kenneth D. Russell	55,000	-	55,000
A. Haag Sherman	73,000	-	73,000
Robert C. Taylor, Jr.	29,550	29,450	59,000
Carl B. Webb	39	50,961	51,000
Alan B. White	-	-	-

(1) Fees earned for services performed in 2014 include annual retainers, meeting fees and chairperson remuneration. Aggregate fees paid to non-employee directors for annual retainers and committee chairmanships were paid quarterly in arrears. Cash was paid in lieu of the issuance of fractional shares. Service for any partial quarter is calculated and paid on the basis of time served during the applicable calendar quarter. Non-employee directors are solely responsible for the payment of taxes payable on remuneration paid by the Company. The number of shares awarded was determined based upon the average closing price per share of our common stock for the last ten consecutive trading days of the calendar quarter during which the stock was earned; however, the dollar value reported in the table for each stock award was determined in accordance with FASB ASC Topic 718.

(2) Mr. Hay passed away on April 13, 2015.

As described above, the 2014 stock awards were issued to each non-employee director who elected to receive all or part of his or her director compensation in the form of our common stock, generally within 15 days following each applicable calendar quarter-end. All of our personnel, as well as non-employee directors, are subject to trading restrictions with regard to our common stock, and trading may only occur during a "trading window." Provided that any such party does not possess material, non-public information about us, this trading period commences on the next trading day following two trading days after the public release of quarterly or annual financial information and continues until the close of business on last day of the month preceding the last month of the next fiscal quarter.

The following numbers of shares of our common stock were issued to our directors for services performed during 2014:

Name of Director	Number of Shares
Charlotte Jones Anderson	1,407
Tracy A. Bolt	3,253
Andrew J. Littlefair	1,317
Robert C. Taylor, Jr.	1,386
Carl B. Webb	2,398

Each of the following directors had outstanding the following aggregate numbers of shares of our common stock awarded for services performed on behalf of us from election or appointment through the end of fiscal 2014:

Name of Director	Number of Shares
Charlotte Jones Anderson	3,030
Tracy A. Bolt	7,079
Rhodes Bobbitt	1,562
W. Joris Brinkerhoff	9,943
Charles R. Cummings	5,379
Gerald J. Ford	2,893
J. Markham Green	3,872
Andrew J. Littlefair	2,983
Robert C. Taylor, Jr.	3,009
Carl B. Webb	37,478

For further information about the stockholdings of these directors and our management, see "Security Ownership of Certain Beneficial Owners and Management" commencing on page 23 of this Proxy Statement.

Board Committees

General

The Board of Directors appoints committees to assist it in carrying out its duties. In particular, committees work on key issues in greater detail than would be practical at a meeting of all the members of the Board of Directors. Each committee reviews the results of its deliberations with the full Board of Directors.

The standing committees of the Board of Directors currently consist of the Audit Committee, the Compensation Committee, the Executive Committee, the Investment Committee, the Merger and Acquisition Committee, Risk Committee and the Nominating and Corporate Governance Committee. A more detailed description of these committees is set forth below. Our Board of Directors may, from time to time, establish certain other committees to facilitate our management. Current copies of the charters for each of the foregoing committees, as well as our Corporate Governance Guidelines, Code of Ethics and Business Conduct, or the General Code of Ethics and Business Conduct, and Code of Ethics for Chief Executive and Senior Financial Officers, or the Senior Officer Code of Ethics, may be found on our website at ir.hilltop-holdings.com, under the heading "Corporate Information – Governance Documents." Printed versions also are available to any stockholder who requests them by writing to our corporate Secretary at the address listed under "Questions" on page 56.

Committee Membership

The following table shows the current membership of, and the 2014 fiscal meeting information for, each of the committees of the Board of Directors.

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Investment Committee	Merger and Acquisition Committee (1)	Executive Committee	Risk Committee
Charlotte Jones Anderson*			†		†		
Rhodes Bobbit*		†		Chairman	†		
Tracy A. Bolt*	†				†		†
W. Joris Brinkerhoff*		†					
J. Taylor Crandall*			†				
Charles R. Cummings*	Chairman				†		
Hill A. Feinberg						†	
Gerald J. Ford						†	
Jeremy B. Ford						†	
J. Markham Green*	†			†			†
William T. Hill, Jr.*		†	†		†		
James Huffines							
Lee Lewis				†			
Andrew J. Littlefair*		†					
W. Robert Nichols, III*			Chairman		†		
C. Clifton Robinson							
Kenneth D. Russell							Chairman
A. Haag Sherman*		Chairman		†			
Robert C. Taylor, Jr.*			†		†		
Carl B. Webb						†	
Alan B. White						Chairman	
Meetings in Fiscal 2014	10	6	4	4	3	6	3

* Denotes independent director.

(1) With the recent passing of Mr. Hay, a new chairman of the Merger and Acquisition Committee has not yet been appointed.

Audit Committee

We have a standing Audit Committee established within the meaning of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Audit Committee helps our Board of Directors ensure the integrity of our financial statements, the qualifications and independence of our independent registered public accounting firm and the performance of our internal audit function and independent registered public accounting firm. In furtherance of those matters, the Audit Committee assists in the establishment and maintenance of our internal audit controls, selects, meets with and assists the independent registered public accounting firm, oversees each annual audit and quarterly review and prepares the report that federal securities laws require be included in our annual proxy statement, which appears on page 53. Mr. Cummings has been designated as Chairman, and Messrs. Green and Bolt are members, of the Audit Committee. Our Board of Directors has reviewed the education, experience and other qualifications of each member of the Audit Committee. Based upon that review, our Board of Directors has determined that each of Mr. Cummings and Mr. Bolt qualifies as an "audit committee financial expert," as defined by the rules of the SEC, and each member of the Audit Committee is independent in accordance with the listing standards of the NYSE. Currently, none of our Audit Committee members serve on the audit committees of three or more public companies.

Compensation Committee

The Compensation Committee reviews and approves the compensation and benefits of our executive officers, administers the Hilltop Holdings Inc. 2012 Annual Incentive Plan, or the Annual Incentive Plan, the Hilltop Holdings Inc. 2003 Equity Incentive Plan, or the 2003 Equity Incentive Plan, and the Hilltop Holdings Inc. 2012 Equity Incentive Plan, or the 2012 Equity Incentive Plan, and produces the annual report on executive compensation for inclusion in our annual proxy statement, which appears on page 37. Each member is independent in accordance with the listing standards of the NYSE.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee's purpose is as follows:

- Identify, screen and recommend to our Board of Directors individuals qualified to serve as members, and on committees, of the Board of Directors;
- Advise our Board of Directors with respect to the composition, procedures and committees of the Board of Directors;
- Advise our Board of Directors with respect to the corporate governance principles applicable to the Company; and
- Oversee the evaluation of the Board of Directors and our management.

Each member of the Nominating and Corporate Governance Committee is independent in accordance with the listing standards of the NYSE.

Risk Committee

The purpose of the Risk Committee is to provide assistance to the Board of Directors in its oversight of:

- The Company's risk governance structure;
- The Company's risk tolerance;
- The Company's risk management and risk assessment guidelines and policies regarding market, credit, operation, liquidity, funding, reputational, regulatory, and such other risks as necessary;
- The Company's capital and liquidity and funding; and
- The performance of the Company's Chief Risk Officer.

The duties assigned to the Risk Committee are meant to ensure that there is an effective system reasonably designed to evaluate and control risk throughout the Company.

Investment Committee

The Investment Committee is responsible for, among other things, reviewing investment policies, strategies and programs; reviewing the procedures that we utilize in determining that funds are invested in accordance with policies and limits approved by the Investment Committee; and reviewing the quality and performance of our investment portfolios and the alignment of asset duration to liabilities.

Merger and Acquisition Committee

The purpose of the Merger and Acquisition Committee is to review potential mergers, acquisitions or dispositions of material assets or a material portion of any business proposed by management and to report its findings and conclusions to the Board of Directors. Each member is independent in accordance with the listing standards of the NYSE.

Executive Committee

The Executive Committee, with certain exceptions, has the power and authority of the Board of Directors to manage the affairs of the Company between meetings of the Board of Directors.

Corporate Governance

General

We are committed to good corporate governance practices and, as such, we have adopted formal corporate governance guidelines to maintain our effectiveness. The guidelines govern, among other things, board member qualifications, responsibilities, education, management succession and executive sessions. A copy of the corporate governance guidelines may be found at our corporate website at ir.hilltop-holdings.com under the heading "Corporate Information –Governance Documents." A copy also may be obtained upon request from our corporate Secretary at the address listed under "Questions" on page 56.

Board Leadership Structure

We have separated the offices of Chief Executive Officer and Chairman of the Board as a means of separating management of the Company from our Board of Director's oversight of management. Separating these roles also enables an orderly leadership transition when necessary. We believe, at this time, that this structure provides desirable oversight of our management and affairs. We have in the past appointed, and will continue to appoint, lead independent directors as circumstances require.

Risk Oversight

Our Board of Directors and the Risk Committee of the Board of Directors oversee an enterprise-wide approach to risk management, intended to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. Our Board of Directors and the Risk Committee are actively involved in establishing and refining our business strategy, including assessing management's appetite for risk and determining the appropriate level of overall risk for the Company. The Company conducts continual assessments through the Chief Risk Officer who is overseen by the Risk Committee.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board of Directors outside of the Risk Committee also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including internal controls, and, from time to time, discusses and evaluates matters of risk, risk assessment and risk management with our management team. The Compensation Committee is responsible for overseeing the management of risk associated with our compensation policies and arrangements. The Nominating and Corporate Governance Committee ensures that the internal rule processes by which we are governed are consistent with prevailing governance practices and applicable laws and regulations. Finally, the Investment Committee ensures that our funds are invested in accordance with policies and limits approved by it. Our Senior Officer Code of Ethics, General Code of Ethics and Business Conduct, committee charters and other governance documents are reviewed by the appropriate committees annually to confirm continued compliance, ensure that the totality of our risk management processes and procedures is appropriately comprehensive and effective and that those processes and procedures reflect established best practices.

Board Performance

Our Board of Directors conducts a survey of its members regarding its performance and reviews the results of the survey with a view to improving efficacy and effectiveness of the Board of Directors. In addition, the full Board of Directors reviews annually the qualifications and effectiveness of the Audit Committee and its members.

Director Qualifications for Service

As described below, the Nominating and Corporate Governance Committee considers a variety of factors when evaluating a potential candidate to fill a vacancy on the Board of Directors or when nomination of an incumbent director for re-election is under consideration. The Nominating and Corporate Governance Committee and the Board of Directors strive to balance a diverse mix of experience, perspective, skill and background with the practical requirement that the Board of Directors will operate collegially, with the common purpose of overseeing our business on behalf of our stockholders. All of our directors possess relevant experience, and each of them approaches the business of the Board of Directors and their responsibilities with great seriousness of purpose. The following describes, with respect to each director, his or her particular experience, qualifications, attributes and skills that qualify him or her to serve as a director:

Charlotte Jones Anderson	Ms. Anderson has significant managerial and executive officer experience with large entrepreneurial businesses and provides the Board of Directors the perspective of one of PlainsCapital's significant customers.
Rhodes Bobbitt	Mr. Bobbitt has an extensive investment background. This is particularly important given our available cash on hand and the investment portfolios at our subsidiaries.
Tracy A. Bolt	Mr. Bolt has significant experience concerning accounting matters that is essential to our Audit Committee's and Board of Directors' oversight responsibilities.
W. Joris Brinkerhoff	Mr. Brinkerhoff has participated, and continues to participate, in a number of business interests. Accordingly, he brings knowledge and additional perspectives to our Board of Directors from experiences with those interests.
J. Taylor Crandall	Mr. Crandall has significant experience in finance and management and board governance, including his experience serving on the Boards of Directors of several public and private companies.
Charles R. Cummings	Mr. Cummings has an extensive operational and accounting background. His expertise in these matters brings considerable strength to our Audit Committee and Board of Directors in these areas.
Hill A. Feinberg	Mr. Feinberg has extensive knowledge and experience concerning the financial advisory segment and the industry in which it operates through his extended period of service to First Southwest.
Gerald J. Ford	Mr. Ford has been a financial institutions entrepreneur and private investor involved in numerous mergers and acquisitions of private and public sector financial institutions over the past 40 years. His extensive banking industry experience and educational background provide him with significant knowledge in dealing with financial and regulatory matters, making him a valuable member of our Board of Directors. In addition, his service on the boards of directors and audit and corporate governance committees of a variety of public companies gives him a deep understanding of the role of the Board of Directors.
Jeremy B. Ford	Mr. Jeremy B. Ford's career has focused on mergers and acquisitions in the financial services industry. Accordingly, he has been actively involved in numerous acquisitions, including our acquisitions of NLC, PlainsCapital, substantially all of the assets of FNB, and SWS Group, Inc. ("SWS"). His extensive knowledge of our operations makes him a valuable member of our Board of Directors.
J. Markham Green	Mr. Green has an extensive background in financial services, as well as board service. His investment banking background also provides our Board of Directors with expertise surrounding acquisitions and investments.

William T. Hill, Jr.	Mr. Hill's experience with legal and compliance matters, along with his management of a large group of highly skilled professionals, have given him considerable knowledge concerning many matters that come before our Board of Directors. Mr. Hill has also served on several civic and charitable boards, which has given him invaluable experience in corporate governance matters.
James R. Huffines	Mr. Huffines' significant banking and managerial experience provide unique insights and experience to our Board of Directors.
Lee Lewis	Through his service on our Board of Directors and PlainsCapital's Board of Directors, Mr. Lewis has many years of knowledge of PlainsCapital and the challenges and opportunities that it is presented. The background of Mr. Lewis as a manager of a Texas-based company also provides unique insight to the Board of Directors.
Andrew J. Littlefair	Mr. Littlefair has significant experience serving as a chief executive officer and as a director of publicly traded companies and provides the Board of Directors with the perspective of one of PlainsCapital's significant customers.
W. Robert Nichols III	Mr. Nichols has broad experience in managing and leading enterprises. This significant experience provides our Board of Directors with additional perspectives on our operations.
C. Clifton Robinson	Mr. Robinson possesses particular knowledge and experience in the insurance industry, as we purchased NLC from him in 2007. This provides our Board of Directors with expertise in regards to our insurance operations.
Kenneth D. Russell	Mr. Russell's extensive background in accounting and operating entities provides valuable insight to our Board of Directors, including merger and acquisition activities.
A. Haag Sherman	Mr. Sherman has significant experience concerning investing, legal and accounting matters that is essential to our Board of Director's oversight responsibilities.
Robert C. Taylor, Jr.	Through his service on our Board of Directors and PlainsCapital's Board of Directors, Mr. Taylor has many years of knowledge of PlainsCapital and the challenges and opportunities that it is presented. The background of Mr. Taylor as a manager of a Texas-based company also provides unique insight to the Board of Directors.
Carl B. Webb	Mr. Webb possesses particular knowledge and experience in strategic planning and the financial industry, as well as expertise in finance, that strengthen the Board of Directors' collective qualifications, skills and experience.
Alan B. White	Mr. White possesses knowledge of our business and industry through his lengthy tenure as PlainsCapital's Chief Executive Officer that aids him in efficiently and effectively identifying and executing our strategic priorities.

Executive Board Sessions

The current practice of our Board of Directors is to hold an executive session of its non-management directors at least once per quarter. The individual who serves as the chair at these executive sessions is the Chairman of the Board of Directors. Executive sessions of the independent directors of the Board of Directors also are held at least once per fiscal year, and the independent directors select the independent director to preside over each executive session.

Communications with Directors

Our Board of Directors has established a process to receive communications from stockholders and other interested parties. Stockholders and other interested parties may contact any member or all members of the Board of Directors by mail. To communicate with our Board of Directors, any individual director or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual director or group or committee of directors by either name or title. The correspondence should be sent to Hilltop Holdings Inc., c/o Secretary, 200 Crescent Court, Suite 1330, Dallas, Texas 75201.

All communications received as set forth in the preceding paragraph will be opened by the office of our General Counsel for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service or patently offensive material will be forwarded promptly to the addressee(s). In the case of communications to the Board of Directors or any group or committee of directors, the General Counsel's office will make sufficient copies of the contents to send to each director who is a member of the group or committee to whom the communication is addressed. If the amount of correspondence received through the foregoing process becomes excessive, our Board of Directors may consider approving a process for review, organization and screening of the correspondence by the corporate Secretary or other appropriate person.

Code of Business Conduct and Ethics

We have adopted a Senior Officer Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. We also have adopted a General Code of Ethics and Business Conduct applicable to all officers, directors and employees. Both codes are available on our website at ir.hilltop-holdings.com under the heading "Corporate Information—Governance Documents." Copies also may be obtained upon request by writing our corporate Secretary at the address listed under "Questions" on page 56. We intend to disclose any amendments to, or waivers from, our Senior Officer Code of Ethics and our General Code of Ethics and Business Conduct at the same website address provided above.

Director Nomination Procedures

The Nominating and Corporate Governance Committee believes that, at a minimum, candidates for membership on the Board of Directors should have a demonstrated ability to make a meaningful contribution to the Board of Directors' oversight of our business and affairs and have a record and reputation for honest and ethical conduct. The Nominating and Corporate Governance Committee recommends director nominees to the Board of Directors based on, among other things, its evaluation of a candidate's experience, knowledge, skills, expertise, integrity, ability to make independent analytical inquiries, understanding of our business environment and a willingness to devote adequate time and effort to board responsibilities. In making its recommendations to the Board of Directors, the Nominating and Corporate Governance Committee also seeks to have the Board of Directors nominate candidates who have diverse backgrounds and areas of expertise so that each member can offer a unique and valuable perspective.

The Nominating and Corporate Governance Committee expects, in the future, to identify potential nominees by asking current directors and executive officers to notify the committee if they become aware of persons who meet the criteria described above. The Nominating and Corporate Governance Committee also, from time to time, may engage firms, at our expense, that specialize in identifying director candidates. As described below, the Nominating and Corporate Governance Committee also will consider candidates recommended by stockholders.

Once a person has been identified by the Nominating and Corporate Governance Committee as a potential candidate, the committee expects to collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating and Corporate Governance Committee determines that the candidate warrants further consideration, and if the person expresses a willingness to be considered and to serve on the Board of Directors, the Nominating and Corporate Governance Committee expects to request information from the candidate, review the person's accomplishments and qualifications, including in light of any other candidates that the committee might be considering, and conduct one or more interviews with the candidate. In certain instances, members of the Nominating and Corporate Governance Committee may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accomplishments.

In addition to formally nominating individuals for election as directors in accordance with our Second Amended and Restated Bylaws, as summarized below on page 55 under "Stockholder Proposals for 2016," stockholders may send written recommendations of potential director candidates to the Nominating and Corporate Governance Committee for its consideration. Such recommendations should be submitted to the Nominating and Corporate Governance Committee "c/o Secretary" at Hilltop Holdings Inc., 200 Crescent Court, Suite 1330, Dallas, Texas 75201. Director recommendations submitted by stockholders should include the following information regarding the stockholder making the recommendation and the individual(s) recommended for nomination:

- name, age, business address and residence address;
- the class, series and number of any shares of Hilltop stock or other securities of Hilltop or any affiliate of Hilltop owned, beneficially or of record (including the name of the nominee holder if beneficially owned);
- the date(s) that shares of Hilltop stock or other securities of Hilltop or any affiliate of Hilltop were acquired and the investment intent of such acquisition;
- any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any securities of Hilltop or any affiliate of Hilltop;
- whether and the extent to which such person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the prior six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (a) manage risk or benefit of changes in the price of Hilltop securities or any security of any entity listed in the peer group in the stock performance graph included in the materials distributed with this Proxy Statement or (b) increase or decrease the voting power of such person in Hilltop disproportionately to such person's economic interest in Hilltop securities (or, as applicable, any security of any entity listed in the peer group in the stock performance graph included in the materials distributed with this Proxy Statement);
- any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with us), by security holdings or otherwise of such person in us or in any of our affiliates, other than an interest arising from the ownership of securities where such person receives no extra or special benefit not shared on a pro rata basis by all other holders of the same class or series;
- the investment strategy or objective, if any, of the stockholder making the recommendation and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors, or potential investors, in such stockholder (if not an individual);
- to the extent known by the stockholder making the recommendation, the name and address of any other stockholder supporting the nominee for election or reelection as a director;
- a certificate executed by the proposed nominee that certifies that the proposed nominee is not, and will not, become a party to any agreement, arrangement or understanding with any person or entity other than us in connection with service or action as a director that has not been disclosed to us and that the proposed nominee consents to being named in a proxy statement and will serve as a director if elected;
- completed proposed nominee questionnaire (which will be provided upon request by writing or telephoning our corporate Secretary at the address or phone number listed under "Questions" on page 56); and

- all other information that would be required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and the rules promulgated thereunder.

The stockholder recommendation and information described above must be delivered to the corporate Secretary not earlier than the 120th day and not later than 5:00 p.m., Dallas, Texas time, on the 90th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting of stockholders; *provided, however*, that if the date of the annual meeting is advanced more than 30 days prior to, or delayed by more than 30 days after, the first anniversary of the date of the preceding year's annual meeting, the stockholder recommendation and information must be delivered not earlier than the 120th day prior to the date of such annual meeting and not later than 5:00 p.m., Dallas, Texas time, on the later of the 90th day prior to the date of such annual meeting of stockholders and the 10th day following the date on which public announcement of the date of such annual meeting is first made. In the event, however, the number of directors to be elected to the Board of Directors is increased and there is no public announcement of such action at least 100 days prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting, a stockholder recommendation also will be considered timely, but only with respect to nominees for any new positions created by the increase, if it is delivered to the corporate Secretary not later than 5:00 p.m., Dallas, Texas time, on the 10th day following the day on which the public announcement is first made.

The Nominating and Corporate Governance Committee expects to use a similar process to evaluate candidates to the Board of Directors recommended by stockholders as the one it uses to evaluate candidates otherwise identified by the committee.

No fee was paid to any third party or parties to identify or evaluate, or assist in identifying or evaluating, potential nominees.

The Nominating and Corporate Governance Committee did not receive the name of any stockholder recommendations for director nominees with respect to the Annual Meeting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Principal Stockholders

The following table sets forth information regarding our common stock beneficially owned on April 21, 2015 by any person or "group," as that term is used in Section 13(d)(3) of the Exchange Act, known to us to beneficially own more than five percent of the outstanding shares of our common stock.

Name and Addresss of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (a)
Gerald J. Ford (b) 200 Crescent Court, Suite 1350 Dallas, Texas 75201	15,553,745	15.5 %

(a) Based on 100,289,492 shares of common stock outstanding on April 21, 2015. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 21, 2015 are treated as if outstanding for computing the percentage ownership of the person holding these instruments, but are not treated as outstanding for purposes of computing the percentage ownership of any other person.

(b) The shares of common stock beneficially owned by Mr. Ford include 15,544,674 shares owned by Diamond A Financial, LP. Mr. Ford is the sole general partner of Diamond A Financial, LP. Mr. Ford has sole voting and dispositive power of these shares.

Security Ownership of Management

The following table sets forth information regarding the number of shares of our common stock beneficially owned on April 21, 2015, by:

- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers presently serving, as a group.

Except as otherwise set forth below, the address of each of the persons listed below is c/o Hilltop Holdings Inc., 200 Crescent Court, Suite 1330, Dallas, Texas 75201. Except as otherwise indicated in the footnotes to this table, the persons named in the table have specified that they have sole voting and investment power with respect to all shares of stock shown as beneficially owned by them, subject to any applicable community property law.

	Common Stock		
Name of Beneficial Owner	**Amount and Nature of Beneficial Ownership**		**Percent of Class (a)**
Charlotte Jones Anderson	6,169		*
Rhodes Bobbitt	126,059	(b)	*
Tracy A. Bolt	10,728		*
W. Joris Brinkerhoff	25,228		*
J. Taylor Crandall	-	(c)	*
Charles R. Cummings	37,476		*
Hill A. Feinberg	1,364,052	(d)	1.4%
Gerald J. Ford 200 Crescent Court, Suite 1350 Dallas, Texas 75201	15,553,745	(e)	15.5%
Jeremy B. Ford	517,438	(f)	*
J. Markham Green	119,152		*
William T. Hill, Jr.	48,350	(g)	*
James R. Huffines	364,730	(h)	*
Lee Lewis	656,199	(i)	*
Andrew J. Littlefair	14,622		*
W. Robert Nichols, III	41,000	(j)	*
Darren Parmenter	5,361	(k)	*
C. Clifton Robinson	1,235,024		1.2%
Kenneth D. Russell	-		*
Todd L. Salmans	25,000	(l)	*
A. Haag Sherman	14,422		*
Robert C. Taylor, Jr.	31,661		*
Carl B. Webb	106,784		*
Alan B. White	1,907,922	(m)	1.9%
All Directors and Executive Officers, as a group (26 persons)	22,514,962	(n)	22.3%

* Represents less than 1% of the outstanding shares of such class.

(a) Based on 100,289,492 shares of common stock outstanding on April 21, 2015. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 21, 2015 are treated as if outstanding for computing the percentage ownership of the person holding these instruments, but are not treated as outstanding for purposes of computing the percentage ownership of any other person.

(b) Includes 62,100 shares of common stock held in an IRA account for the benefit of Mr. Bobbitt.

(c) Excludes 1,488 shares held by Oak Hill Capital Management LLC, 69,014 shares held by Oak Hill Capital Management Partners III, L.P. and 2,101,418 shares held by Oak Hill Capital Partners III, L.P.

(d) Includes 25,776 shares of common stock held directly by Mr. Feinberg's wife. Also includes 776 shares of common stock held by the Max McDermott Trust for the benefit of Mr. Feinberg's stepson. Mr. Feinberg's wife is the trustee of the trust. Includes 15,000 restricted shares of common stock that cliff vest on April 11, 2016. Mr. Feinberg can vote such restricted shares but may not dispose of them until they have vested. Excludes 21,747 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

(e) The shares of common stock beneficially owned by Mr. Ford include 15,544,674 shares owned by Diamond A Financial, LP. Mr. Ford is the sole general partner of Diamond A Financial, LP. Mr. Ford has sole voting and dispositive power of these shares.

(f) Jeremy Ford is a beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, LP (see footnote (e)). Includes (a) 400,000 shares of common stock acquirable upon the exercise of a stock option and (b) 30,000 restricted shares of common stock that cliff vest on April 1, 2016. Mr. Jeremy Ford can vote such restricted shares but may not dispose of them until they have vested. Excludes (x) 100,000 shares of common stock acquirable upon the exercise of a stock option that will not vest within 60 days of April 21, 2015, (y) 61,400 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015 and (z) 15,544,674 shares of common stock held by Diamond A Financial, LP.

(g) Includes 7,300 shares of common stock held in a SEP IRA account for the benefit of Mr. Hill and 15,750 shares of common stock held by the William T. Hill P.C. retirement account for the benefit of Mr. Hill.

(h) Includes (a) 47,000 shares of common stock held by the James Huffines 1994 Trust for the benefit of Mr. Huffines, (b) 12,028 shares of common stock held in a self-directed individual retirement account and (c) 30,000 restricted shares of common stock that cliff vest on April 1, 2016. Mr. Huffines can vote such restricted shares but may not dispose of them until they have vested. Excludes 39,379 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

(i) Includes 603,417 shares of common stock held by Lee Lewis Construction. Mr. Lewis is the sole owner of Lee Lewis Construction and may be deemed to have voting and/or investment power with respect to the shares owned by Lee Lewis Construction.

(j) Includes 11,000 shares of common stock held in an IRA account for the benefit of Mr. Nichols.

(k) Includes 5,000 restricted shares of common stock that cliff vest on April 1, 2016. Mr. Parmenter can vote such restricted shares but may not dispose of them until they have vested. Excludes 16,408 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

(l) Includes 25,000 restricted shares of common stock that cliff vest on April 1, 2016. Mr. Salmans can vote such restricted shares but may not dispose of them until they have vested. Excludes 32,816 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

(m) Includes (a) 9,785 shares of common stock held directly by Mr. White's wife, (b) 453 shares of common stock held in a self-directed individual retirement account of Mr. White's wife, (c) 23,806 shares of common stock held by Double E Investments ("Double E"), (d) 12,883 shares of common stock held by EAW White Family Partnership, Ltd. ("EAW"), (e) 8,045 shares of common stock held by Maedgen, White and Maedgen ("MW&M"), (f) 1,566,458 shares of common stock held by Maedgen & White, Ltd., and (g) 95,844 shares of common stock held in a self-directed individual retirement account of Mr. White. As the manager of Double E, the managing partner of MW&M and the sole member of the general partner of EAW, Mr. White has exclusive authority to vote and/or dispose of the securities held by Double E, MW&M and EAW, respectively, and may, therefore, be deemed to have sole voting and dispositive power over the shares of common stock held by Double E, MW&M and EAW. Mr. White is the sole general partner of Maedgen & White, Ltd. and may be deemed to beneficially own the shares held by Maedgen & White, Ltd. As the sole general partner of Maedgen & White, Ltd., Mr. White has the power to vote the shares held by Maedgen & White, Ltd. The Agreement of Limited Partnership of Maedgen & White, Ltd. requires the approval of 80% of the limited partnership interests in Maedgen & White, Ltd. before its general partner may dispose of the shares held by Maedgen & White, Ltd. Mr. White, directly and indirectly, controls approximately 77% of the limited partnership interests of Maedgen & White, Ltd. and therefore may be deemed to share dispositive power over the shares held by Maedgen & White, Ltd. Includes 50,000 restricted shares of common stock that cliff vest on April 1, 2016. Mr. White can vote such restricted shares but may not dispose of them until they have vested. Excludes 65,631 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

(n) Represents 26 persons and includes (a) 480,000 shares of common stock acquirable pursuant to the exercise of stock options and (b) 210,000 restricted shares of common stock that cliff vest on April 1, 2016. The holders of such restricted shares can vote the restricted shares but may not dispose of them until they have vested. Excludes (x) 120,000 shares of common stock acquirable by our executive officers pursuant to the exercise of stock options that will not vest within 60 days of April 21, 2015 and (y) 317,545 shares of common stock deliverable upon the vesting of restricted stock units that will not vest within 60 days of April 21, 2015.

MANAGEMENT

Executive Officers

General

We have identified the following officers as "executive officers," consistent with the definition of that term as used by the SEC:

Name	Age	Position	Officer Since
Hill A. Feinberg	68	Chairman and Chief Executive Officer of First Southwest	2012
Jeremy B. Ford	40	President, Chief Executive Officer and Director	2010
James R. Huffines	64	President and Chief Operating Officer of PlainsCapital	2012
John A. Martin	67	Executive Vice President, Chief Financial Officer of PlainsCapital	2012
Darren E. Parmenter	52	Executive Vice President, Principal Financial Officer	2007
Corey G. Prestidge	41	Executive Vice President, General Counsel and Secretary	2008
Todd L. Salmans	66	Chief Executive Officer of PrimeLending	2012
Jerry L. Schaffner	57	President and Chief Executive Officer of PlainsCapital Bank	2012
Alan B. White	66	Chairman and Chief Executive Officer of PlainsCapital	2012

Business Experience of Executive Officers

Information concerning the business experience of Messrs. Hill A. Feinberg, Jeremy B. Ford, James R. Huffines and Alan B. White is set forth above under "Proposal One – Election of Directors – Nominees for Election as Directors" beginning on page 5.

John A. Martin. Mr. Martin has served as the Executive Vice President and Chief Financial Officer of PlainsCapital since November 2010 and has continued in that position since our acquisition of PlainsCapital in November 2012. Mr. Martin also serves on the board of directors of the Bank and various other subsidiaries of PlainsCapital. Prior to joining PlainsCapital, Mr. Martin most recently served as executive vice president and chief financial officer of Family Bancorp, Inc. and its subsidiary, San Antonio National Bank, from April 2010 until October 2010. Before joining Family Bancorp, from 2009 to 2010, Mr. Martin served as a consultant to community banks, providing strategic planning services. Beginning in 2005, Mr. Martin served as chief financial officer of Texas Regional Bancshares, Inc. and later served as director of financial planning and analysis for BBVA Compass after its acquisition of Texas Regional Bancshares in 2006.

Darren E. Parmenter. Mr. Parmenter has served as Executive Vice President – Principal Financial Officer of Hilltop since February 2014 and previously served as Senior Vice President of Finance of Hilltop from June 2007 to February 2014. From January 2000 to June 2007, Mr. Parmenter was with Hilltop's predecessor, Affordable Residential Communities Inc., and served as the Controller of Operations from April 2002 to June 2007. Prior to 2000, Mr. Parmenter was employed by Albertsons Inc., as an Assistant Controller.

Corey G. Prestidge. Mr. Prestidge has served as an Executive Vice President of Hilltop since February 2014 and General Counsel and Secretary of Hilltop since January 2008. From November 2005 to January 2008, Mr. Prestidge was the Assistant General Counsel of Mark Cuban Companies. Prior to that, Mr. Prestidge was an associate in the corporate and securities practice group at Jenkens & Gilchrist, a Professional Corporation, which is a former national law firm. Mr. Prestidge is the son-in-law of our Chairman of the Board, Gerald J. Ford, and the brother-in-law of our President and Chief Executive Officer, Jeremy B. Ford.

Todd L. Salmans. Mr. Salmans has served as Chief Executive Officer of PrimeLending since January 2011 and has continued in that position since our acquisition of PlainsCapital in November 2012. He also previously held the office of President of PrimeLending until August 2013. As Chief Executive Officer, Mr. Salmans is responsible for the strategic direction and day-to-day management of PrimeLending, including financial performance, compliance, business development, board and strategic partner communications and team development. He also serves as a member of PrimeLending's Board of Directors. Mr. Salmans joined PrimeLending in 2006 as Executive Vice President and Chief Operating Officer, with responsibility over daily operations, loan processing and sales. He was promoted to President in April 2007. Mr. Salmans has over 30 year of experience in the mortgage banking industry. Prior to joining PrimeLending, he served as regional executive vice president of CTX/Centex, regional senior vice president of Chase Manhattan/Chase Home Mortgage Corp., and regional senior vice president of First Union National Bank/First Union Mortgage Corp. Mr. Salmans is currently a board member of the Texas Mortgage Bankers Association.

Jerry L. Schaffner. Mr. Schaffner has served as the President and Chief Executive Officer of the Bank since November 2010 and has continued in that position since our acquisition of PlainsCapital in November 2012. He currently serves as a director of the Bank and various other subsidiaries, and previously served as a director of PlainsCapital from 1993 until March 2009. Mr. Schaffner joined PlainsCapital in 1988 as part of its original management group.

Terms of Office and Relationships

Our executive officers are elected annually or, as necessary, to fill vacancies or newly created offices by our Board of Directors. Each executive officer holds office until his successor is duly elected and qualifies or, if earlier, until his death, resignation or removal. Any officer or agent elected or appointed by our Board of Directors may be removed by our Board of Directors whenever, in its judgment, our best interests will be served, but any removal will be without prejudice to the contractual rights, if any, of the person so removed.

Except as disclosed under "Proposal One – Election of Directors – Nominees for Election as Directors" commencing on page 5, (a) there are no familial relationships among any of our current directors or executive officers and (b) none of our director nominees hold directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or pursuant to Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Except as set forth in this Proxy Statement, there are no arrangements or understandings between any nominee for election as a director or officer and any other person pursuant to which that director was nominated or that officer was selected.

Compensation Discussion and Analysis

The Compensation Committee (the "Committee") is responsible for establishing, implementing and monitoring adherence with our compensation philosophy. The Committee ensures that the total compensation paid to executive officers is fair, reasonable, competitive, performance-based and aligned with stockholder interests.

Executive Summary

Year 2014 represented another strong and exciting year for our Company and compensation programs. We have recently grown into a diversified financial holding company through our acquisitions of PlainsCapital Corporation in 2012, FNB in 2013 and SWS in 2015. 2014 was the first year under the more robust compensation program developed for our growing organization in the prior year, which focuses on defined performance objectives. The Committee continues to evaluate the compensation program to ensure it achieves the intended results, including pay-for-performance.

2014 Highlights

- We generated $105.9 million in income to common stockholders, or $1.17 per diluted share. Return on average equity (ROAE) was 8.01% and return on average assets (ROAA) was 1.26% for 2014.
- Asset quality remained strong compared to peers with non-performing assets as a percentage of total assets of 0.25%, excluding covered loans and covered other real estate owned.
- Hilltop capital ratios remained strong with a Tier 1 Leverage Ratio at 14.17% and a Total Capital Ratio of 19.69% at December 31, 2014.

- NLC recorded its best annual operating results since its founding.
- We entered into a merger agreement with SWS Group, Inc. to acquire the remaining interests not owned by us. This transaction was consummated on January 1, 2015.

All of this contributed to an increase in our book value per share from $13.27 at December 31, 2013 to $14.93 at December 31, 2014. Additional detail regarding our results and achievements can be found in our Annual Report on Form 10-K for the year ended December 31, 2014. Furthermore, we believe that we are well positioned to continue positive growth momentum into 2015 and beyond.

Enhanced Compensation Program

Year 2014 represented the first year under the comprehensive compensation program that was under development in 2013 following our acquisition of PlainsCapital Corporation. In that regard, the Committee refined scorecards, as described in more detail below, for each executive under the annual cash incentive compensation program to enhance its objective to align pay and performance. The Committee also awarded long-term incentive compensation in the form of restricted stock units that includes a combination of performance-based and time-based award. Accordingly, half of the equity awards granted to executive officers are subject to performance-based vesting criteria over a three-year period and all awards are subject to a one-year hold period following vesting, subject to certain exceptions. The Committee believes the implementation of these programs has benefited the Company in clearly defining short-term and long-term objectives.

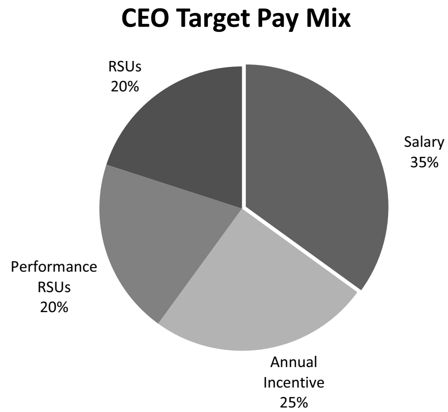
Philosophy and Objectives of Our Executive Compensation Program

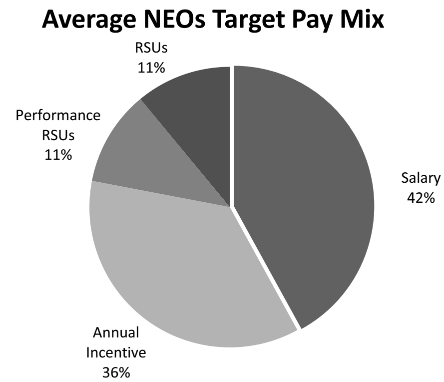
Our compensation program includes the following components: base salary, annual and long-term incentive awards that are linked to performance and the creation of stockholder value and perquisites. In structuring our compensation programs, the Committee selected the particular components and the weight given to those components based upon our strategic objectives. We believe that it is critical to structure the compensation program in such a manner to retain those with the talent, skill and experience necessary for us to realize our strategic objectives.

With this in mind, the following principles help guide our decisions regarding compensation of our named executive officers:

- *Compensation opportunities should be competitive with market practices.* In order to attract and retain executives with the experience and skills necessary to lead our Company and motivate them to deliver strong performance to our stockholders, we are committed to providing total annual compensation opportunities that are competitive.
- *A significant portion of compensation should be performance-based.* Our executive compensation program now further emphasizes pay-for-performance. This means that compensation based on corporate performance, as assessed under the criteria established pursuant to the Annual Incentive Plan and the 2012 Equity Incentive Plan, represents a significant portion of the named executive officer's total compensation. An additional component, which has the ability to reduce annual incentive compensation, is based upon improper risk taking and non-compliance with applicable laws and regulations.
- *Management's interests should be aligned with those of our stockholders.* Our long-term incentive compensation was delivered in the form of restricted stock units in 2014 to support our goals for ownership and retention. Half of the restricted stock units awarded vest upon achievement of predefined performance goals. The value of these awards ultimately depends upon our relative total stockholder return and our cumulative earnings per share over a three-year period. In 2014, we also implemented stock ownership guidelines applicable to our Section 16 officers, including our named executive officers, and directors.
- *Compensation should be perceived as fair.* We strive to create a compensation program that will be perceived as fair and equitable, both internally and externally.
- *Our compensation program should be balanced and mitigate risk taking.* We have a balanced approach to total compensation that includes a mix of base/fixed pay and variable performance-based pay, a proportion

of cash and equity and a proportion of short- and long-term incentive compensation that we believe effectively aligns our pay with performance while discouraging inappropriate risk taking.





How We Determine and Assess Executive Compensation Generally

Background

We completed the acquisition of PlainsCapital Corporation on November 30, 2012, and the compensation of our named executive officers who were employed by PlainsCapital Corporation is, therefore, in part based upon the compensation they were paid by PlainsCapital Corporation prior to the acquisition. Three of our named executive officers, Messrs. White, Huffines and Salmans, were employed by PlainsCapital Corporation or its subsidiaries prior to the acquisition, and each had an employment agreement. In connection with the acquisition of PlainsCapital, we entered into a retention agreement with Mr. White to ensure continuity following the closing that was negotiated based upon the pre-existing rights in his employment agreement with PlainsCapital Corporation. All other existing employment arrangements at PlainsCapital were amended to terminate on November 30, 2014. Following the expiration of the employment agreements with Messrs. Huffines and Salmans, we entered into new employment agreements with them that are consistent with our current compensation philosophy. For a more detailed discussion of these employment agreements and Mr. White's retention agreement, see "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table – Employment Contracts and Incentive Plans – Employment Contracts" commencing on page 40.

Role of the Compensation Committee

The Committee is responsible for reviewing and approving all aspects of the compensation programs for our named executive officers and making all decisions regarding specific compensation to be paid or awarded to them. The Committee is responsible for, among its other duties, the following:

- Review and approval of corporate incentive goals and objectives relevant to compensation;
- Evaluation of individual performance results in light of these goals and objectives;
- Evaluation of the competitiveness of the total compensation package; and
- Approval of any changes to the total compensation package, including, but not limited to, base salary, annual and long-term incentive award opportunities and payouts and retention programs.

The Committee is responsible for determining all aspects of compensation of the Chief Executive Officers of Hilltop and PlainsCapital, as well as assessing their individual performance.

In setting the compensation of our named executive officers, the Committee, in its discretion, considers (i) the transferability of managerial skills, (ii) the relevance of each named executive officer's experience to other potential employees, and (iii) the readiness of the named executive officer to assume a different or more significant role, either within our organization or with another organization. When making pay-related decisions, the Committee also considers our growth and acquisition strategy and the challenges associated with attracting, retaining and motivating talent and the importance of compensation in supporting the achievement of our strategic objectives.

Information about the Committee and its composition, responsibilities and operations can be found under "Board Committees" beginning on page 14.

Role of the Chief Executive Officers in Compensation Decisions

The Chief Executive Officers of Hilltop and PlainsCapital recommend to the Committee any compensation changes affecting the other named executive officers. The Chief Executive Officers provide input and recommendations to the Committee with regards to compensation decisions for their direct reports. These recommendations are made within the framework of the compensation programs approved by the Committee and based on market data provided by the Committee's independent consultant. The input includes base salary changes, annual incentive and long-term incentive opportunities, specific individual performance objectives, and individual performance assessments. The Chief Executive Officers make their recommendations based on their assessment of the individual officer's performance, performance of the officer's respective business or function and employee retention considerations. The Committee reviews and considers the Chief Executive Officers' recommendations when determining any compensation changes affecting our officers or executives. Each Chief Executive Officer does not play any role with respect to any matter impacting his own compensation.

Role of Stockholder Say-on-Pay Votes

The Company provides its stockholders with the opportunity to cast an annual advisory vote on executive compensation. At the Company's annual meeting of stockholders held in June 2014, 97.0% of the votes cast (excluding abstentions and broker non-votes) on the say-on-pay proposal at that meeting were voted in favor of the proposal. As a result of such vote, the Committee continues to utilize the more comprehensive and robust compensation framework designed for 2014. Highlights of the compensation program for fiscal 2015 are included in this Compensation, Discussion & Analysis in order to assist stockholders in evaluating the compensation program currently in effect. Accordingly, the Committee will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for the named executive officers.

Role of Compensation Consultant

Pursuant to its charter, the Committee is authorized to retain and terminate any consultant, as well as to approve the consultant's fees and other terms of the engagement. The Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors. In 2014, the Committee continued its engagement of Meridian Compensation Partners, LLC ("Meridian") as its independent compensation consultant. Other than performing Monte Carlo valuations with respect to the performance-based restricted stock units granted to assist in recording their expense, Meridian does not provide any other services to management.

Meridian provides research, data analyses, survey information and design expertise in developing compensation programs for executives and incentive programs for eligible employees. In addition, Meridian keeps the Committee apprised of regulatory developments and market trends related to executive compensation practices. Meridian does not determine or recommend the exact amount or form of executive compensation for any of the named executive officers. A representative of Meridian generally attends meetings of the Committee, is available to participate in executive sessions and communicates directly with the Committee and the chairman of the Committee.

Pursuant to the Committee's charter, if the Committee elects to use a compensation consultant, the Committee must assess the consultant's independence, taking into account the following factors:

- the provision of other services to the Company by the consultant;
- the amount of fees the consultant received from the Company;
- the policies and procedures the consultant has in place to prevent conflicts of interest;
- any business or personal relationships between the consulting firm and the members of the Committee;

- any ownership of Company stock by the individuals at the firm performing consulting services for the Committee; and
- any business or personal relationship of the firm with an executive officer of the Company.

Meridian has provided the Committee with appropriate assurances and confirmation of its independent status pursuant to the charter and other factors. The Committee believes that Meridian has been independent throughout its service for the Committee and there is no conflict of interest between Meridian and the Committee.

Other Factors

The Committee makes executive compensation decisions following a review and discussion of both the financial and operational performance of our businesses and the annual performance reviews of the named executive officers and other members of the management team.

Benchmarking Compensation

During 2013, the Committee consulted with Meridian to assess the competitiveness and effectiveness of our executive compensation program. In December 2013, Meridian provided an analysis of base salary, short-term incentive, long-term incentive and benefit practices of comparable companies in the financial industry. Meridian considered individual compensation elements, as well as the total compensation package, and assessed the relationship of pay to performance.

In performing this analysis, Meridian used a peer group of financial institutions, which was reviewed and approved by the Committee. The peer group included institutions of generally similar asset size and, to the extent possible, organizations with significant other operating segments. At the time the peer group was selected, our Company was positioned at the 55th percentile of the peer group in terms of total assets, with asset size ranging from \$3.2 billion to \$13.1 billion (approximately one-half to two times the size of our Company). The peer group used in the report presented for consideration in the determination of 2014 pay consisted of the following financial institutions:

1st Source Corporation	BancFirst Corporation	Banner Corporation
Capital Bank Financial Corp.	Community Trust Bancorp, Inc.	First Financial Bankshares, Inc.
First Financial Holdings, Inc.	First Midwest Bancorp, Inc.	IBERIABANK Corporation
International Banchares Corp.	MB Financial, Inc.	Old National Bancorp
Park National Corporation	Pinnacle Financial Partners, Inc.	Texas Capital Bancshares, Inc.
Southside Bancshares, Inc.	Sterling Financial Corporation	Westamerica Bancorporation
Trustmark Corporation	Umpqua Holdings Corporation	

Because a peer group analysis is limited to those positions for which compensation information is disclosed publicly, these studies typically include only the five most highly compensated officers at each company. Therefore, the compensation consultant also relied on published compensation surveys to supplement information for these positions, as well as to provide the basis for analysis for other executives. Similar asset and scope comparisons were used for that benchmarking analysis.

In late 2014, Meridian, at the direction of the Committee, re-evaluated the members of the Company's peer group given the pending acquisition of SWS. As a result, Meridian developed a new peer group for the Company, which was reviewed and approved by the Committee. That new peer group was used to ensure that compensation program developed for 2015 was in the desired benchmark range, as well as competitive.

Elements of our Executive Compensation Program

Overall, our executive compensation program is designed to be consistent with the objectives and principles set forth in this discussion. The basic elements of our executive compensation program are summarized below, followed by a more detailed discussion of the programs.

Our compensation policies and programs are considered by the Committee in a total rewards framework, considering both "pay"—base salary, annual incentive compensation and long-term incentive compensation; and "benefits"—benefits, perquisites and executive benefits and other compensation. Our executive compensation program consists primarily of the following components:

Compensation Component	Purpose
Base Salary	Fixed component of pay intended to compensate the individual fairly for the responsibility level of the position held.
Annual Incentive Awards	Variable component of pay intended to motivate and reward the individual's contribution to achieving our short-term/annual objectives.
Long-term Incentive Awards	Variable component of pay intended to motivate and reward the individual's contribution to achieving our long-term objectives.
Benefits and Perquisites	Fixed component of pay intended to provide an economic benefit to us in attracting and retaining executive talent.

Base Salary

We provide base salaries for each named executive officer, commensurate with the services each provides to us, because we believe a portion of total direct compensation should be provided in a form that is fixed and liquid. In reviewing base salaries, the Committee evaluated the salaries of other named executive officers of the Company and its peers and any increased level of responsibility, among other items. As a result of that analysis, the Committee determined to increase the annual salaries of Messrs. Ford and Parmenter for 2014. With respect to the other named executive officers of the Company, the Committee determined to maintain the current salary for 2014, as they were found to be competitive with the Company's peers. The following are the base salaries for the named executive officers in 2013 and 2014:

Name	Base Salary 2013	Base Salary 2014	$ Change
Jeremy B. Ford	$ 500,000	$ 550,000	$ 50,000
Darren E. Parmenter	$ 300,000	$ 330,000	$ 30,000
Alan B. White	$ 1,350,000	$ 1,350,000(a)	$ —
James R. Huffines	$ 690,000	$ 690,000	$ —
Todd L. Salmans	$ 750,000	$ 750,000	$ —

(a) Mr. White's base salary is set forth in his retention agreement, which became effective upon the closing of the acquisition of PlainsCapital Corporation.

In February 2015, the Committee conducted a further evaluation of the salaries of the named executive officers. As a result of this analysis, the Committee determined to increase the salaries of Messrs. Ford and Parmenter for 2015 to $700,000 and $335,000, respectively, and to maintain the current salary of the Company's other named executive officers, as they were found to be competitive with the Company's peers.

Annual Incentive Awards

Our named executive officers and other employees are eligible to participate in the Annual Incentive Plan and receive annual cash incentive awards based upon our financial performance and other factors, including individual performance. The Committee believes that this element of compensation is important to focus management efforts on, and provide rewards for, annual financial and strategic results that are aligned with creating value for our stockholders.

Target incentive awards are defined at the start of the year in consideration of market data provided by the Committee's consultant, each executive's total compensation package and the entity's budgetary considerations. Targets for 2014 were adjusted slightly lower than 2013 in consideration of these factors, and the percentage payout as a percentage of salary also was reduced accordingly.

Each executive officer had defined performance objectives during the outset of 2014 based upon measurable performance of both the individual and our Company. Annual Incentive Plan awards are subject to claw back for improper risk management and non-compliance with applicable laws and regulations.

The Committee, in its sole discretion, determines the amount of each participant's award based on attainment of the applicable performance goals and assessments of individual performance. For 2014, the applicable performance goals were among the following:

- Consolidated net income for Hilltop for named executive officers employed by Hilltop;
- Consolidated net income of PlainsCapital for employees of PlainsCapital and its subsidiaries;
- Net income results of lines of business for business heads; and
- Pre-determined strategic initiatives and individual objectives.

The weights of these factors are summarized in the following table:

Name (a)	Hilltop Performance	PlainsCapital Performance	Business Unit Performance	Strategic Initiatives
Jeremy B. Ford	70%	--	--	30%
Darren E. Parmenter	50%	--	20%	30%
James R. Huffines	--	70%	--	30%
Todd L. Salmans	--	20%	50%	30%

(a) Mr. White's annual incentive compensation is determined pursuant to his retention agreement for the achievement of performance criteria.

Additionally, a forfeiture of up to 15% of any available Annual Incentive Plan award can occur in the event that any improper risk management or non-compliance with applicable laws or regulations is identified.

Each element of the annual cash incentive award is independent of the other. Accordingly, the executive officer may achieve certain performance goals, while at the same time failing to achieve others. In that case, the executive officer will be entitled to receive the award for the performance goal achieved, but not an award for a performance goal for which threshold performance is not achieved. Potential awards for 2014 ranged from 50% of target for threshold performance to a maximum of 150% of target for stretch performance. Threshold awards were set at 60% of target. Between the threshold and target amounts, a range of the potential annual cash incentive award is defined. Our 2014 goals were intended to be realistic and reasonable but challenging in order to drive performance. The Committee and management believe that by using these metrics we are encouraging profitable top line growth and value for stockholders. For 2014 and 2015, the Committee set Annual Incentive Plan compensation target payments for named executive officers as follows:

Name	Annual Incentive Target as a Percent of Annual Base Salary for 2014	2015
Jeremy B. Ford	77%	86%
Darren E. Parmenter	61%	70%
Alan B. White (a)	100%	100%
James R. Huffines	80%	80%
Todd L. Salmans	100%	100%

(a) Determined pursuant to Mr. White's retention agreement for the achievement of earnings threshold.

Based upon evaluation of their respective performance in 2014, together with operations of the Company, the Committee determined the Annual Incentive Plan bonuses for 2014 as follows for the following named executive officers.

	2014 Annual Incentive Target		2014 Annual Incentive Payout	
Name	Amount ($)	% of Base Salary	Amount ($)	% of Target
Jeremy B. Ford	425,000	77%	600,000	141%
Darren E. Parmenter	200,000	61%	325,000	163%
Alan B. White (a)	1,350,000	100%	1,350,000	100%
James R. Huffines	550,000	80%	555,000	101%
Todd L. Salmans	750,000	100%	500,000	67%

(a) Determined pursuant to Mr. White's retention agreement for the achievement of earnings threshold.

In determining such bonus amounts, the Committee exercised its discretion under the Annual Incentive Plan to increase the amounts paid to each of Jeremy B. Ford and Darren E. Parmenter above the amounts payable pursuant to the performance criteria. The increases in the Annual Incentive Plan payment for Mr. Ford were in recognition of his efforts in connection with the negotiation and consummation of the SWS merger and the integration of the operations acquired in the FNB acquisition. The Committee increased Mr. Parmenter's payment in recognition of the work he performed at NLC, which led to NLC's best annual operating results since its founding. The Committee also awarded discretionary bonuses to Todd L. Salmans during 2014 in the amount of $240,000 for cost savings implemented at PrimeLending and $260,000 as an enticement to sign his employment agreement.

See "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table—Annual Incentive Plan" for more information on possible future payments to the named executive officers.

Long-Term Incentive Awards

As described above, we believe that a portion of each named executive officer's compensation should be tied to the performance of our stock price, aligning the officer's interest with that of our stockholders. In this regard, our long-term incentive compensation for 2014 was delivered in the form of restricted stock units, the value of which is ultimately dependent upon the performance of our stock price. 50% of the restricted stock units awarded to each named executive officer provide for time-based vesting, and the remaining 50% contain performance-based vesting conditions. Performance-based restricted stock units are earned and cliff vest after three years based 50% on EPS performance and 50% on relative Total Shareholder Return. All shares of common stock delivered pursuant to the restricted stock units are subject to a one-year holding period requirement. Further discussion of the 2012 Equity Incentive Plan pursuant to which such restricted stock units were awarded is found after the "Grants of Plan-Based Awards" section below.

Mr. Ford has an award outstanding under the 2003 Equity Incentive Plan. However, with the adoption of the 2012 Equity Incentive Plan, all 2013 equity-based awards, including the named executive officers, have since been made pursuant to the 2012 Equity Incentive Plan. All equity-based awards made to the named executive officers are approved by the Committee and not pursuant to delegated authority.

In 2014, long-term incentive awards were made in consideration of each executive's role, competitive market practice, and performance. Grants were made in the form of restricted stock units on February 24, 2014, to the following named executive officers as set forth below:

Name	Time-Based RSUs Awarded	Performance-Based RSUs Awarded (at Target)	Total RSUs Awarded
Jeremy B. Ford	12,696	12,696	25,392
Darren E. Parmenter	3,703	3,703	7,406
Alan B. White	14,812	14,811	29,623
James R. Huffines	8,887	8,887	17,774
Todd L. Salmans	7,406	7,406	14,812

On February 24, 2015, restricted stock units were granted to the named executive officers as set forth below:

Name	Time-Based RSUs Awarded	Performance-Based RSUs Awarded (at Target)	Total RSUs Awarded
Jeremy B. Ford	18,004	18,004	36,008
Darren E. Parmenter	4,501	4,501	9,002
Alan B. White	18,004	18,004	36,008
James R. Huffines	10,803	10,802	21,605
Todd L. Salmans	9,002	9,002	18,004

Perquisites and Other Benefits

We provide a limited number of perquisites and other benefits to our named executive officers at Hilltop. The only perquisite currently offered to both named executive officers employed directly by Hilltop is $150 per month to be applied to a gym membership to promote wellness. In addition, Mr. Jeremy B. Ford is provided access to company aircraft. With respect to named executive officers employed by PlainsCapital and its subsidiaries, those entities provide them with a monthly car allowance and reimbursement for country club membership dues. In addition, Mr. White is provided access to company aircraft and bank-owned life insurance. Otherwise, generally, our named executive officers receive only medical benefits, life insurance and long-term disability coverage, as well as supplemental contributions to the Company's 401(k) program, on the same terms and conditions as available to all employees of that entity.

Severance and Other Post-Termination Compensation

On November 30, 2014, employment agreements with Messrs. Huffines and Salmans expired. Accordingly, on December 4, 2014, we entered into new employment agreements with Messrs. Huffines and Salmans. A description of these new employment agreements and the post-contractual benefits provided thereunder is discussed in further detail under "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table—Employment Contracts and Incentive Plans – Employment Contracts" and "Potential Payments Upon Termination or Change-in-Control" below

For named executive officers employed directly by Hilltop, other than change in control provisions in our 2012 Equity Incentive Plan, we do not currently maintain any severance or change in control programs. We, however, have historically paid severance, the amount of which is generally determined both by length of tenure and level of compensation, when termination occurs other than for cause and pursuant to which certain benefits may be provided to the named executive officers. Absent the negotiation of specific agreements with the named executive officers, severance benefits would be provided on the same basis as provided to other employees of the Company.

In connection with acquisition of PlainsCapital in 2012, we entered into a retention agreement with Mr. White which was approved by shareholders of PlainsCapital Corporation in connection with our acquisition of PlainsCapital Corporation. The summary of the severance terms for this retention agreement is set forth below:

Legacy Retention Agreement

Pursuant to his retention agreement, Mr. White is entitled to the following:

(1) $6,430,890, including interest thereon from November 30, 2012, in full satisfaction of Mr. White's rights under Section 6 (Termination Upon Change in Control) of his previous employment agreement with PlainsCapital Corporation, dated January 1, 2009, payable in a cash lump-sum upon any termination of his employment; and

(2) upon termination of his employment by us other than for cause or death or disability, or after non-renewal, cash severance of (i) the sum of Mr. White's annual base salary and the average of the annual bonus amounts paid to him for the three most recently completed fiscal years ending immediately prior to the date of termination, multiplied by (ii) the greater of (A) two, and (B) the number of full and partial years from the date of termination through the end of the applicable employment period under the retention agreement. Such severance is payable over the "severance period," which is the greater of two years from the date of termination and the number of full and partial years from the date of termination through the end of the applicable employment period under the retention agreement.

The foregoing cash amounts in subparagraph (1) represent "modified single trigger" benefits, payable assuming the termination of employment for any reason, and the foregoing cash amounts in subparagraph (2) represent "double trigger" benefits, payable assuming a qualifying termination of employment. With respect to the amounts described in subparagraph (1) that are paid in full satisfaction of Section 6 of Mr. White's previous employment agreement with PlainsCapital, such amounts are payable upon any termination of employment at any time, subject to any delay required by Section 409A of the Internal Revenue Code (the "Code") and the execution of a release of claims. The cash severance amounts described in subparagraph (2) are payable upon a termination of employment other than for cause, death or disability or a termination due to non-renewal by Hilltop, subject to any delay required by Section 409A of the Code and the execution of a release of claims.

Huffines and Salmans Employment Agreements

Pursuant to the employment agreements of Messrs. Huffines and Salmans, upon termination of their employment by us other than for cause, they are entitled to a lump-sum cash payment equal to the sum of (i) his annual base salary rate immediately prior to the effective date of such termination, and (ii) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. If his employment is terminated without "Cause" within the twelve months immediately following, or the six months immediately preceding, a "Change in Control," he will be entitled to receive a lump-sum cash payment equal to two times the sum of (A) his annual base salary rate immediately prior to the effective date of such termination and (B) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. The immediately foregoing cash amount represents a "double trigger" benefit. Finally, if any payment made as a result of a change in control would constitute a "parachute payment" as defined under Section 280G of the Code, then the benefits payable will be reduced to $1 below the parachute limit.

Further discussion of the agreements with Messrs. White, Huffines and Salmans and payments made pursuant thereto may be found under the headings "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table" and "Potential Payments Upon Termination or Change-in-Control" below.

Incentive Plans

The 2012 Equity Incentive Plan, under which we have granted awards to the named executive officers, contains specific termination and change in control provisions. We determined to include a change in control provision in the plan to be competitive with what we believe to be the standards for the treatment of equity upon a change in control for similar companies and so that employees who remain after a change in control would be treated the same with regard to equity as the general stockholders who could sell or otherwise transfer their equity upon a change in control. Under the terms of the 2012 Equity Incentive Plan, if a change in control (as defined below in the discussion of the plan) were to occur, all awards then outstanding would become vested and/or exercisable and any applicable performance goals with respect thereto would be deemed to be fully achieved. Further discussion of the change in control payments made pursuant to the 2012 Equity Incentive Plan may be found in the "Potential Payments Upon Termination or Change-in-Control" section below.

The Annual Incentive Plan, pursuant to which annual incentive bonuses are awarded, does not contain specific change in control provisions. Accordingly, the Committee, in its discretion, may determine what constitutes a change in control and what effects such an event may have any awards made pursuant to such plan.

Risk Considerations in Our Compensation Program

We do not believe that our compensation policies and practices for 2014 give rise to risks that are reasonably likely to have a material adverse effect on our Company. In reaching this conclusion for 2014, we considered the following factors:

- Base salary is fixed and the only compensation components that are variable are the annual bonuses and restricted stock units awarded to named executive officers, which, other than the annual bonus with respect to Mr. White, were awarded based upon attainment of a pre-determined level of earnings.
- Annual Incentive Plan payments to the remaining named executive officers were determined or approved following the substantial completion of the audit of the Company's financial statements by the Company's independent registered public accounting firm. Thus, the Committee had ample knowledge of the financial condition and results of the Company, as well as reports of other committees of the Board of Directors, upon which to base any decisions.
- We have a balanced program that includes multiple performance goals, rewards short and multi-year performance, pays in cash and equity and provides a meaningful portion of pay in stock which is tied to our performance long-term.
- The Annual Incentive Plan awards are subject to claw-back and adjustments for improper risk and significant compliance issues.
- Each year the Committee reviews all compensation programs to ensure existing programs are not reasonably likely to have a material adverse effect on the Company.

Other Programs and Policies

Stock Ownership Requirements

In February 2014, the Committee recommended, and the Board of Directors adopted, a stock ownership policy applicable to our executive officers and directors. Within five years of the later of appointment or the date the policy was adopted, executive officers are required to achieve ownership of a defined market value of Company common stock equal to a minimum number of equity or equity-based securities as follows:

- Six times annual base salary for the Chief Executive Officer; and
- Three times annual base salary for the other executive officers.

Under this policy, directors are expected to own shares with a value greater than five times their annual retainer for serving on the Board of Directors of the Company. Our director compensation program permits directors to elect to receive their director compensation in cash, Company common stock or a combination of cash and Company common stock.

In calculating equity ownership for purposes of this requirement, we will include all shares beneficially owned by an individual, such as shares owned by an individual in the Company's benefit plans (e.g., 401(k)), shares of restricted stock and shares with respect to which an individual has voting or investment power. Shares underlying unexercised stock options are excluded when determining ownership for these purposes.

Executive officers are expected to hold 50% of any net shares received through compensatory equity based grants until the ownership guidelines are achieved. Once such officer achieves the ownership requirement, he or she is no longer restricted by the holding requirement; provided his or her total stock ownership level does not fall below the ownership guidelines.

In addition, all awards of restricted stock units granted in February 2014 and thereafter to named executive officers are, subject to certain exceptions, required to be held for one year after vesting.

Clawback Policy

Our compensation program also includes a claw-back from any annual cash or long-term incentive award for improper risk and significant compliance issues. Annual Incentive Plan awards are subject to any clawback, recoupment or forfeiture provisions (i) required by law or regulation and applicable to Hilltop or its subsidiaries or (ii) set forth in any policies adopted or maintained by Hilltop or any of its subsidiaries.

Tax Considerations

Section 162(m) of the Code imposes a $1.0 million limit on the tax-deductibility of compensation paid to our five most highly paid executives, which includes the named executive officers. Exceptions are provided for compensation that is "performance-based" and paid pursuant to a plan meeting certain requirements of Section 162(m) of the Code. The Committee has carefully considered the implications of Section 162(m) of the Code and believes that tax deductibility of compensation is an important consideration. Accordingly, where possible and considered appropriate, the Committee strives to preserve corporate tax deductions. The Committee, however, reserves the flexibility, where appropriate, to approve compensation arrangements that may not be tax deductible to the Company, such as base salary and awards of time-based restricted stock units. The Committee will continue to review the Company's executive compensation practices to determine if other elements of executive compensation constitute "qualified performance-based compensation" under Section 162(m) of the Code.

Trading Controls and Hedging, Short Sale and Pledging Policies

Executive officers, including the named executive officers, are required to receive the permission of the General Counsel prior to entering into any transactions in our securities, including gifts, grants and those involving derivatives. Generally, trading is permitted only during announced trading periods. Employees who are subject to trading restrictions, including the named executive officers, may enter into a trading plan under Rule 10b5-1 of the Exchange Act. These trading plans may be entered into only during an open trading period and must be approved by the General Counsel. We require trading plans to include a waiting period and the trading plans may not be amended during their term. The named executive officer bears full responsibility if he or she violates our policy by permitting shares to be bought or sold without pre-approval or when trading is restricted.

Executive officers are prohibited from entering into hedging and short sale transactions and are subject to restrictions on pledging our securities.

Compensation Committee Report

The Compensation Committee of the Board of Directors of Hilltop Holdings Inc. has reviewed and discussed with management the Compensation Discussion and Analysis contained in this Proxy Statement. Based on its review, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement.

The foregoing report has been submitted by the following members of the Compensation Committee:

Haag Sherman (Chairman) Rhodes Bobbitt W. Joris Brinkerhoff
William T. Hill, Jr. Andrew Littlefair

Executive Compensation

The following tables set forth information concerning the compensation earned for services performed during 2014, 2013 and 2012 by the named executive officers, who were either serving in such capacities on December 31, 2014, or during 2014, or are reportable pursuant to applicable SEC regulations.

Name and principal position	Year	Salary ($)	Bonus (a) ($)	Stock Awards (i) ($)	Option awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in pension value and nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Jeremy B. Ford	2014	537,500 (b)	-	600,013	-	600,000	-	23,028 (f)	1,760,541
President and	2013	466,667 (c)	-	397,500	-	500,000	-	1,800 (g)	1,365,967
Chief Executive Officer	2012	400,000	300,000	-	-	-	-	-	700,000
Darren Parmenter	2014	322,500 (b)	25,000 (j)	175,004	-	300,000	-	3,318 (f)	825,822
Executive Vice President and	2013	296,667 (c)	-	66,250	-	200,000	-	1,800 (g)	564,717
Principal Financial Officer	2012	290,000 (d)	100,000	-	-	-	-	-	390,000
Alan B. White	2014	1,350,000	1,350,000	699,991	-	-	29,129	106,142 (f)	3,535,263
Chief Executive Officer of	2013	1,350,000	1,350,000	662,500	-	-	28,950	132,877 (g)	3,524,327
PlainsCapital Corporation	2012	112,500 (e)	1,350,000	-	-	-	6,431,982	1,716 (h)	7,896,198
James R. Huffines	2014	690,000	-	420,000	-	555,000	-	41,433 (f)	1,706,433
President and Chief Operating Officer of	2013	690,000	-	397,500	-	555,000	-	41,564 (g)	1,684,064
PlainsCapital Corporation	2012	57,500 (e)	600,000	-	-	-	-	3,133 (h)	660,633
Todd L. Salmans	2014	750,000	500,000	350,008	-	500,000	-	34,967 (f)	2,134,974
Chief Executive Officer of	2013	750,000	-	331,250	-	-	-	31,906 (g)	1,113,156
PrimeLending	2012	62,500 (e)	900,000	-	-	-	-	2,998 (h)	965,498

(a) Represents bonuses paid for services during 2014, 2013, and 2012, as applicable.
(b) Reflects increase in annual salary effective on April 1, 2014.
(c) Reflects increase in annual salary effective on April 1, 2013.
(d) Reflects increase in annual salary effective on April 1, 2012.
(e) Represents annual salaries (Mr. White - $1,350,000; Mr. Huffines - $690,000; Mr. Salmans - $750,000) prorated for service from December 1, 2012 to December 31, 2012.
(f) Includes, as applicable, group life insurance premiums, auto allowance, and
(g) Includes, as applicable, group life insurance premiums, auto allowance, and
(h) Includes, as applicable, group life
(i) Reflects the grant date fair value
(j) Reflects the portion of his bonus pursuant to the Annual Incentive Plan in excess of the maximum stretch bonus permitted thereunder.

All Other Compensation							
Name	Year	Perquisites and Personal Benefits (1)	Gross-Ups or Other Amounts Reimbursed for the Payment of Taxes	Company Contributions to Defined Contribution Plans	Insurance Policies (2)	Director Fees	Total All Other Compensation
Jeremy B. Ford	2014	22,248	-	-	780	-	23,028
	2013	1,800	-	-	-	-	1,800
	2012	-	-	-	-	-	-
Darren Parmenter	2014	1,800	-	-	1,518	-	3,318
	2013	1,800	-	-	-	-	1,800
	2012	-	-	-	-	-	-
Alan B. White	2014	96,236	-	-	9,906	-	106,142
	2013	127,729	-	-	5,148	-	132,877
	2012	429	1,287	-	-	-	1,716
James R. Huffines	2014	36,285	-	-	5,148	-	41,433
	2013	36,416	-	-	5,148	-	41,564
	2012	2,704	-	-	429	-	3,133
Todd L. Salmans	2014	25,061	-	-	9,906	-	34,967
	2013	22,000	-	-	9,906	-	31,906
	2012	2,569	-	-	429	-	2,998

(1) Year 2014: For Mr. Ford, reflects $1,800 gym allowance and personal use of company airplane ($20,448). For Mr. Parmenter, reflects $1,800 gym membership allowance. For Mr. White, reflects car allowance of $36,000, club expenses totaling $33,768, and the personal use of company airplane ($24,617), and personal use of company automobile ($1,852). For Mr. Huffines, includes a car allowance of $24,000 and club expenses totaling $12,285. For Mr. Salmans, includes a car allowance of $12,000, club expenses totaling $10,000.00, and cash incentives totaling $3,061. Personal use of company aircraft is calculated on a per mile basis utilizing SIFL rates published by the IRS.

(2) Reflects group term life insurance premiums paid during 2014, 2013, and 2012, as applicable.

Grants of Plan-Based Awards

Grants of Plan-Based Awards Table
Fiscal Year 2014

Name	Grant Date (a)	Estimated future payouts under non-equity plan awards (b) Threshold ($)	Target ($)	Maximum ($)	All other stock awards: number of shares of stock or units (#)	Grant Date fair value of stock and option awards (c) ($)
Jeremy B. Ford	02/24/2014				25,392	600,013
President and Chief Executive Officer	03/11/2014	212,500	425,000	637,500		
Darren Parmenter	02/24/2014				7,406	175,004
Executive Vice President and Principal Financial Officer	03/11/2014	100,000	200,000	300,000		
Alan B. White	02/24/2014				29,623	699,991
Chief Executive Officer of PlainsCapital Corporation	03/11/2014	1,350,000 (d)	1,350,000 (d)	1,350,000 (d)		
James R. Huffines	02/24/2014				17,774	420,000
President and Chief Operating Officer of PlainsCapital Corporation	03/11/2014	275,000	550,000	825,000		
Todd L. Salmans	02/24/2014				14,812	350,008
Chief Executive Officer of PrimeLending	03/11/2014	375,000	750,000	1,125,000		

(a) Represents the effective date of grant of restricted stock under the 2012 Long-Term Incentive Plan and payment of annual cash incentive awards under the Annual Incentive Plan.
(b) Represent the value of potential payments under the Annual Incentive Plan to the named executive officers based on 2014 performance. Management incentive award amounts shown above represent potential awards that may have been earned based on performance during 2014. The actual Annual Incentive Plan awards earned for 2014 are reported in the "Summary Compensation Table" above. For more information regarding the Annual Incentive Plan, see below and also refer to "Compensation Discussion and Analysis" in this Proxy Statement.
(c) Represents the ASC Topic 718 expenses recognized for restricted stock units granted in 2014. For more information regarding outstanding awards held by the named executive officer, refer to section "Outstanding Equity Awards at Fiscal Year-End" below.
(d) Represents the amount Mr. White would be entitled to under his retention agreement.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Contracts and Incentive Plans

Set forth below is a summary of our retention agreement with Mr. White and our employment agreements with Messrs. Huffines and Salmans. We do not have employment agreements with Messrs. Jeremy B. Ford or Darren E. Parmenter. Also set forth below is a description of our incentive plans, pursuant to which the awards included in the "Outstanding Equity Awards at Fiscal Year-End Table" below were made to our named executive officers. The Compensation Committee believes that the arrangements described below serve our interests and the interests of our stockholders because they help secure the continued employment and dedication of our named executive officers prior to or following a change in control, without concern for their own continued employment.

Employment Contracts

Mr. White

On November 30, 2012, in connection with our acquisition of PlainsCapital, we entered into a retention agreement with Mr. White. The term of the retention agreement is three years, with automatic one-year renewals at the end of the second year of the agreement and each anniversary thereof unless notice has been given otherwise. Pursuant to the agreement, Mr. White's annual base salary is $1,350,000. He is also entitled to an annual bonus that varies based upon the performance of PlainsCapital. If PlainsCapital's annual net income is less than or equal to $70,000,000 but greater than $15,000,000, Mr. White is entitled to a bonus equal to the average of his annual bonus in the prior three calendar years. If PlainsCapital's annual net income exceeds $70,000,000, he is entitled to a bonus equal to 100% of his annual base salary. Additionally, in accordance with the agreement, Mr. White is entitled to participate in all of the Company's employee benefit plans and programs. Further, the agreement provides that the Company will provide Mr. White with the use of a corporate aircraft and an automobile allowance, each at the same level that such benefits were available to Mr. White immediately prior to our acquisition of PlainsCapital. He continues to have bank-owned life insurance and access to the country club that was available to him through PlainsCapital's membership prior to our acquisition of PlainsCapital. For a description of compensation and benefits to which Mr. White is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Mr. Huffines

On December 4, 2014, we entered into an employment agreement with Mr. Huffines, pursuant to which Mr. Huffines will continue to serve as President and Chief Operating Officer of PlainsCapital. Mr. Huffines's previous employment agreement expired on November 30, 2014 in accordance with its terms. The employment agreement with Mr. Huffines has a three-year term and provides that Mr. Huffines is entitled to an annual base salary of $690,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee and (2) any long-term incentive award programs adopted by the Compensation Committee. Mr. Huffines is also entitled to participate in the employee benefit programs generally available to employees of the Company. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. For a description of compensation and benefits to which Mr. Huffines is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Mr. Salmans

On December 4, 2014, we entered into an employment agreement with Mr. Salmans, pursuant to which Mr. Salmans will continue to serve as Chief Executive Officer of PrimeLending. Mr. Salmans's previous employment agreement expired on November 30, 2014 in accordance with its terms. The employment agreement with Mr. Salmans has a three-year term and provides that Mr. Salmans is entitled to an annual base salary of $750,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee and (2) any long-term incentive award programs adopted by the Compensation Committee. Mr. Salmans is also entitled to participate in the employee benefit programs generally available to employees of the Company. Additionally, the agreement provided for a cash bonus of $260,000, which was paid to Mr. Salmans upon execution of the agreement. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. For a description of compensation and benefits to which Mr. Salmans is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Equity Incentive Plans

On December 23, 2003, we adopted the 2003 Equity Incentive Plan, which provides for the grant of equity-based awards, including restricted shares of our common stock, stock options, grants of shares and other equity-based incentives, to our directors, officers and other employees and certain of our subsidiaries selected by our Compensation Committee. At inception, 1,992,387 shares were authorized for issuance pursuant to this plan. All shares granted and outstanding pursuant to the plan, whether vested or unvested, are entitled to receive dividends and to vote, unless forfeited. No participant in our 2003 Equity Incentive Plan may be granted awards in any fiscal year representing more than 500,000 shares of our common stock.

On September 20, 2012, our stockholders approved the 2012 Equity Incentive Plan, and as a result, we may no longer grant awards pursuant to the 2003 Equity Incentive Plan. However, all awards that were previously granted and outstanding under the 2003 Equity Incentive Plan will remain in full force and effect according to their respective terms and dividend equivalents may continue to be issued in respect of awards that were outstanding thereunder as of September 20, 2012.

The 2012 Equity Incentive Plan provides for the grant of equity-based awards, including restricted shares of our common stock, restricted stock units, stock options, grants of shares, stock appreciation rights (SARs) and other equity-based incentives, to our directors, officers and other employees and those of our subsidiaries selected by our Compensation Committee. At inception, 4,000,000 shares were authorized for issuance pursuant to this plan. All shares granted and outstanding pursuant to this plan, whether vested or unvested, are entitled to receive dividends and to vote, unless forfeited. No participant in our 2012 Equity Incentive Plan may be granted performance-based equity awards in any fiscal year representing more than 500,000 shares of our common stock or stock options or SARs representing in excess of 750,000 shares of our common stock. The maximum number of shares underlying incentive stock options granted under this plan may not exceed 2,000,000.

The 2003 Equity Incentive Plan and the 2012 Equity Incentive Plan are administered by our Compensation Committee, which has the discretion to, among other things, determine the persons to whom awards will be granted, the number of shares of our common stock to be subject to awards and the other terms and conditions of the awards. The Compensation Committee also has authority to establish performance goals for purposes of determining cash bonuses to be paid under the incentive plans. Such performance goals may be applied to our Company as a whole, any of our subsidiaries or affiliates, and/or any of our divisions or strategic business units, and may be used to evaluate performance relative to a market index or a group of other companies. Further, the Compensation Committee has the authority to adjust the performance goals in recognition of unusual or non-recurring events. The 2003 Equity Incentive Plan and the 2012 Equity Incentive Plan each provide that in no event will the Compensation Committee be authorized to re-price stock options, or to lower the base or exercise price of any other award granted under such plan, without obtaining the approval of our stockholders.

Stock options granted under the 2003 Equity Incentive Plan and the 2012 Equity Incentive Plan may be either "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code, or nonqualified stock options. Generally, holders of restricted stock will be entitled to vote and receive dividends on their restricted shares, but our Compensation Committee may determine, in its discretion, whether dividends paid while the shares are subject to restrictions may be reinvested in additional shares of restricted stock. Except as otherwise permitted by our Compensation Committee, awards granted under the 2003 Equity Incentive Plan and the 2012 Equity Incentive Plan will be transferable only by will or through the laws of descent and distribution, and each stock option will be exercisable during the participant's lifetime only by the participant or, upon the participant's death, by his or her estate. Director compensation paid in the form of our common stock, whether at our or the director's election, is issued through the 2012 Equity Incentive Plan.

Annual Incentive Plan

On September 20, 2012, our stockholders approved the Annual Incentive Plan, which provides for a cash bonus to key employees of Hilltop and our subsidiaries who are selected by the Compensation Committee for participation in the plan. The Annual Incentive Plan is intended to permit the payment of amounts that constitute "performance-based compensation" under Section 162(m) of the Internal Revenue Code and is designed to reward executives whose performance during the fiscal year enabled Hilltop to achieve favorable business results and to assist Hilltop in attracting and retaining executives. A participant may receive a cash bonus under the Annual Incentive Plan based on the attainment, during each performance period, of performance objectives in support of our business strategy that are established by our Compensation Committee. These performance objectives may be based on one or more of the following criteria:

- stock price
- earnings (including earnings before interest, taxes, depreciation and amortization)
- earnings per share (whether on pre-tax, after-tax, operations or other basis)
- operating earnings
- total return to shareholders
- ratio of debt to debt plus equity
- net borrowing
- credit quality or debt ratings
- return on assets or operating assets
- asset quality
- net interest margin
- loan portfolio growth
- efficiency ratio
- deposit portfolio growth
- liquidity
- market share
- objective customer service measures or indices
- shareholder value added
- embedded value added
- loss ratio
- expense ratio
- combined ratio
- premiums
- premium growth
- investment income
- pre- or after-tax income
- net income
- cash flow (before or after dividends)
- expense or expense levels
- economic value added
- cash flow per share (before or after dividends)
- free cash flow
- gross margin
- risk-based capital
- revenues
- revenue growth
- sales growth
- return on capital (including return on total capital or return on invested capital)
- capital expenditures
- cash flow return on investment
- cost
- cost control
- gross profit
- operating profit
- economic profit
- profit before tax
- net profit
- cash generation
- unit volume
- sales
- net asset value per share
- asset quality
- cost saving levels
- market-spending efficiency
- core non-interest income
- change in working capital

The performance objectives may be applied with respect to Hilltop or any one or more of our subsidiaries, divisions, business units or business segments and may be applied to performance relative to a market index or a group of other companies. The Compensation Committee may adjust the performance goals applicable to any awards to reflect any unusual or non-recurring events.

Participation in the Annual Incentive Plan does not guarantee the payment of an award. All awards payable pursuant to the Annual Incentive Plan are discretionary and subject to approval by our Compensation Committee. After the performance period ends, the Compensation Committee will determine the payment amount of individual awards based on the achievement of the performance objectives. No participant in the Annual Incentive Plan may receive an award that exceeds $10,000,000 per year. Except as otherwise provided in a participant's employment or other individual agreement, the payment of a cash bonus to a participant for a performance period will be conditioned upon the participant's active employment on the date that the final awards are approved by the Compensation Committee. We may amend or terminate the Annual Incentive Plan at any time.

Outstanding Equity Awards at Fiscal Year End

The following tables presents information pertaining to all outstanding equity awards held by the named executive officers as of December 31, 2014.

Outstanding Equity Awards at Fiscal Year End Table
Fiscal Year 2014

Name	Number of Securities Underlying Unexercised Options (#) Exercisable		Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price ($) (b)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (c)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Jeremy B. Ford	400,000	(a)	100,000	(a)	7.70	11/02/2016	55,392	1,105,070	-	-
Darren Parmenter	-		-		-	-	12,406	247,500	-	-
Alan B. White	-		-		-	-	79,623	1,588,479	-	-
James R. Huffines	-		-		-	-	47,774	953,091	-	-
Todd L. Salmans	-		-		-	-	39,812	794,249	-	-

(a) These stock options vest in five equal installments on each of November 2, 2011, 2012, 2013, 2014, and 2015.

(b) Represents the exercise price of stock options held by Mr. Jeremy B. Ford, which is the average of the high and low sales prices of Hilltop common stock on the date of grant of the stock option.

(c) Based upon the closing price of Company common stock on December 31, 2014.

Option Exercises and Stock Vested in 2014

During the fiscal year ended December 31, 2014, none of our named executive officers exercised any options to purchase shares of common stock or held any outstanding awards of restricted stock, restricted stock units or similar instruments that vested.

Non-Qualified Deferred Compensation

The following table shows the non-qualified deferred compensation activity for our named executive officers during the fiscal year ended December 31, 2014.

Non-Qualified Deferred Compensation Table
Fiscal Year 2014

Name	Executive contributions in the last fiscal year ($)	Registrant contributions in last fiscal year ($) (1)	Aggregate earnings in last fiscal year ($) (1)	Aggregate withdrawals/ distributions ($)	Aggregate balance at last fiscal year end ($)
Jeremy B. Ford	-	-	-	-	-
Darren Parmenter	-	-	-	-	-
Alan B. White	-	-	29,129	-	6,491,405
James R. Huffines	-	-	-	-	-
Todd L. Salmans		-	-	-	-

(1) All amounts reported as registrant contributions in last fiscal year and aggregate earnings in last fiscal year are reported as compensation in the last completed fiscal year in the Summary Compensation Table. Interest earned on 2012 deferred compensation contributions of $6,430,890 for Mr. White.

In connection with acquisition of PlainsCapital, we entered into a retention agreement with Mr. White. Pursuant to this agreement, we agreed to contribute an amount in cash equal to $6,430,890 as deferred compensation to Mr. White in satisfaction of his rights under Section 6 (Termination Upon Change of Control) of his previous employment agreement with PlainsCapital. Such amount accrues interest at the prevailing money market rate and is payable to Mr. White on the 55th day following termination of his employment.

Potential Payments Upon Termination or Change-in-Control

The 2012 Equity Incentive Plan, under which we have granted awards to the named executive officers, contains specific termination and change in control provisions. We determined to include a change in control provision in the plan to be competitive with what we believe to be the standards for the treatment of equity upon a change in control for similar companies and so that employees who remain after a change in control would be treated the same with regard to equity as the general stockholders who could sell or otherwise transfer their equity upon a change in control. Under the terms of the plan, if a change in control (as defined below in the discussion of the plan) were to occur, all awards then outstanding would become vested and/or exercisable and any applicable performance goals with respect thereto would be deemed to be fully achieved.

Employment Contracts

Mr. White

If Mr. White's retention contract is terminated by us for cause, by him or due to his death or disability (as such terms are defined below), he or his estate, as applicable, is entitled to:

(i) his annual base salary through the date of termination, to the extent not already paid and not deferred;

(ii) any annual bonus earned by him for a prior award period, to the extent not already paid and not deferred;

(iii) any business expenses he incurred that are not yet reimbursed as of the date of termination; and

(iv) any other amounts or benefits, including all unpaid and/or vested, nonforfeitable amounts owing or accrued to him, required to be paid or provided or which he is eligible to receive under any plan, program, policy or practice or contract or agreement, to the extent not already paid and not deferred, through the date of termination.

In addition, Mr. White or his estate, as applicable, is entitled to a lump-sum cash payment equal to $6,430,890, which represents the amount Mr. White would have been entitled to receive under his prior employment agreement with PlainsCapital if his employment was terminated. Such amounts described in the preceding paragraph are referred to as the "White Accrued Amounts."

If Mr. White's employment is terminated by us other than for cause (as such term is defined below) or his death or disability, or if his employment terminates due to non-renewal by us, he is entitled to the White Accrued Amounts, including the lump-sum cash payment equal to $6,430,890 and interest thereon from November 30, 2012, as well as payments generally equal to the sum of the average of Mr. White's prior annual bonuses over the preceding three years plus his annual base salary, multiplied by the greater of (i) the number of full and partial years remaining until the end of the term of his retention agreement and (ii) two. Mr. White will retain the right to be grossed-up for any excise tax relating to "excess parachute payments" (as defined in Section 280G of the Internal Revenue Code), which is set forth in his prior employment agreement, provided that the gross-up will only relate to any excise taxes arising in connection with our acquisition of PlainsCapital. These severance amounts are payable subject to Mr. White's execution of a release of claims.

Messrs. Huffines and Salmans

If the employment agreement is terminated (1) by the executive officer, (2) by the Company for "Cause" (as such term is defined in the employment agreement), or (3) in the event of the executive officer's death or disability, the executive officer (or his estate, as applicable) will be entitled to receive his base salary through the effective date of such termination, all earned and unpaid and/or vested, nonforfeitable amounts owed to executive officer at such time under the employment agreement or under any compensation or benefit plans, and reimbursement for any unreimbursed business expenses incurred prior to the effective date of such termination (collectively, the "Officer Accrued Amounts").

If the executive officer's employment is terminated by the Company without "Cause" (other than pursuant to a "Change in Control" (as such term is defined in the employment agreement)), the executive officer will be entitled to receive the Officer Accrued Amounts and, subject to the executive officer's execution and delivery to the Company of a release, (1) a lump-sum cash payment equal to the sum of (A) the executive officer's annual base salary rate immediately prior to the effective date of such termination and (B) an amount equal to the annual incentive cash bonus paid to the executive officer in respect of the calendar year immediately preceding the year of the termination, and (2) if the executive officer elects continuation of coverage under the Company's group health plan pursuant to COBRA, reimbursement for the executive officer's COBRA premiums for a period of twelve months following the date of such termination, or until the executive officer is otherwise eligible for health coverage under another employer group health plan.

If the executive officer's employment is terminated without "Cause" within the twelve months immediately following, or the six months immediately preceding, a "Change in Control," the executive officer will be entitled to receive (1) a lump-sum cash payment equal to two times the sum of (A) the executive officer's annual base salary rate immediately prior to the effective date of such termination and (B) an amount equal to the annual incentive cash bonus paid to the executive officer in respect of the calendar year immediately preceding the year of the termination, and (2) if the executive officer elects continuation of coverage under the Company's group health plan pursuant to COBRA, reimbursement for the executive officer's COBRA premiums for a period of twelve months following the date of such termination, or until the executive officer is otherwise eligible for health coverage under another employer group health plan. Notwithstanding, any amounts payable to the executive officer upon a Change of Control shall not constitute a "parachute payment" and shall be reduced accordingly.

For the purposes of each employment or retention contract described above, "Cause" means: (i) an intentional act of fraud, embezzlement or theft in connection with the executive's duties or in the course of his employment with the Company or its affiliates; (ii) intentional wrongful damage to property of the Company or its affiliates;

(iii) intentional wrongful disclosure of trade secrets or confidential information of the Company or its affiliates; (iv) intentional violation of any law, rule or regulation (other than traffic violations or similar offenses) or a final "Cease and Desist Order;" (v) intentional breach of fiduciary duty involving personal profit; or (vi) intentional action or inaction that causes material economic harm to the Company or its affiliates. In addition to items above, the definition of "Cause" in Messrs. Huffines and Salmans employment agreements includes (a) a material violation of the Company's written policies, standards or guidelines applicable to the executive officer or (b) the failure or refusal of the executive officer to follow the reasonable lawful directives of the Board of Directors or the executive officer's supervisors.

For the purposes of Mr. White's retention agreement, "disability" means he shall have been absent from full-time performance of his duties for 180 consecutive days as a result of incapacity due to physical or mental illness that is determined to be total and permanent by a physician. For the purposes of the employment agreements with Messrs. Huffines and Salmans, "disability" is defined in accordance with our disability policy in effect at the time of the disability.

Set forth below are the amounts that Messrs. Ford, Parmenter, White, Huffines and Salmans would have received if the specified events had occurred on December 31, 2014:

Jeremy B. Ford	Termination for Cause	Termination due to death or disability	Termination without cause	Change of Control
Accrued Amounts	$ -	$ -	$ -	$ -
Cash Payment	-	-	-	-
Cash Severance	-	-	-	-
Stock Options (1)	-	-	-	1,225,000
Restricted Stock (2)	-	332,500	332,500	598,500
Restricted Stock Units (3)	-	154,785	154,785	517,343
Welfare Benefits	-	-	-	-
Total	$ -	$ 487,285	$ 487,285	$ 2,340,843

(1) Pursuant to the provisions of the 2003 Equity Incentive Plan under which issuances of stock option awards were made, if a change in control event, as defined under the plan, were to occur, all awards then outstanding would become vested and, if applicable, exercisable and any applicable performance goals with respect thereto would be deemed to be fully achieved. The Company has the discretion to require payment by the option holder of any amount it deems necessary to satisfy its liability to withhold income or any other taxes incurred by reason of exercise of options. Further, pursuant to the terms of the non-qualified stock option agreements that govern the issuance of options, upon the death of the option holder all options become fully vested and exercisable. The amount reported represents the value of unvested stock option grants that would vest upon a change in control, assuming a change in control event on the last business day of 2014. The value realized assumes the exercise of all stock options that became vested as a result of the event and is calculated as the difference between the option exercise price per share and the closing market price of $19.95 on December 31, 2014.

(2) The restricted stock vests ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock vests upon such event, which for purposes of the foregoing assumes December 31, 2014.

(3) The restricted stock units vest ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock units vest upon such event, which for purposes of the foregoing, assumes December 31, 2014. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards.

Darren E. Parmenter	Termination for Cause	Termination due to death or disability	Termination without cause	Change of Control
Accrued Amounts	$ -	$ -	$ -	$ -
Cash Payment	-	-	-	-
Cash Severance	-	-	-	-
Stock Options	-	-	-	-
Restricted Stock (1)	-	55,417	55,417	99,750
Restricted Stock Units (2)	-	45,146	45,146	147,750
Welfare Benefits	-	-	-	-
Total	$ -	$ 100,563	100,563	$ 247,500

(1) The restricted stock vests ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stocks vest upon such event, which for purposes of the foregoing assumes December 31, 2014.

(2) The restricted stock units vest ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock units vest upon such event, which for purposes of the foregoing assumes December 31, 2014. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards.

Alan B. White	Termination for Cause	Termination due to death or disability or by Executive for any Reason	Termination without cause or non-renewal of retention agreement	Change of Control
Accrued Amounts (1)	$ 1,350,000	$ 1,350,000	$ 1,350,000	$ -
Cash Payment (2)	6,491,405	6,491,405	6,491,405	-
Cash Severance (3)	-	-	5,400,000	-
Stock Options	-	-	-	-
Restricted Stock (4)	-	554,167	554,167	997,500
Restricted Stock Units (5)	-	180,577	180,577	590,979
Welfare Benefits	-	-	-	-
Total	$ 7,841,405	$ 8,576,149	$ 13,976,149	$ 1,588,479

(1) Accrued Amounts calculation based upon the sum of: (i) Mr. White's annual base salary through December 31, 2014, to the extent not already paid and not deferred; (ii) any annual bonus earned, to the extent not already paid and not deferred; (iii) any business expenses incurred that have not yet been reimbursed as of the date of termination; and (iv) any other amounts or benefits, including all unpaid and/or vested, nonforfeitable amounts owing or accrued to Mr. White.

(2) Cash Payments refers to a lump-sum cash payment that represents the amount, including interest thereon, Mr. White would have been entitled to receive under his prior employment agreement with PlainsCapital if his employment had been terminated.

(3) Cash Severance calculation based upon the sum of the average of Mr. White's prior annual bonuses for each of the preceding three years plus his annual base salary, multiplied by the greater of: (i) the number of full and partial years remaining until the end of the term of his employment agreement and (ii) two.

(4) The restricted stock vests ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock vests upon such event, which for purposes of the foregoing assumes December 31, 2014.

(5) The restricted stock units vest ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock units vest upon such event, which for purposes of the foregoing, assumes December 31, 2014. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards.

James R. Huffines	Termination for Cause		Termination due to death or disability		Termination without cause		Change of Control	
Accrued Amounts (1)	$	-	$	-	$	-	$	-
Cash Payment		-		-		-		-
Cash Severance (2)		-		-		1,240,000		2,480,000
Stock Options		-		-		-		-
Restricted Stock (3)		-		332,500		332,500		598,500
Restricted Stock Units (4)		-		108,347		108,347		354,591
Welfare Benefits (5)		-		-		-		-
Total	$	-	$	440,847	$	1,680,847	$	3,433,091

(1) Accrued Amounts calculation based upon the sum of: (i) Mr. Huffines annual base salary through December 31, 2014, to the extent not already paid and not deferred; (ii) any earned and unpaid and/or vested, nonforfeitable amounts owing at the date of termination; and (iii) any business expenses incurred that have not yet been reimbursed as of the date of termination.

(2) Cash severance calculation if Mr. Huffines is terminated without cause is based upon the sum of: (i) Mr. Huffines's annual base salary rate and (ii) an amount equal to annual incentive cash bonus paid to Mr. Huffines in respect of the calendar year immediately preceding the year of the date of termination. If his employment is terminated upon a change in control, the cash severance calculation is based upon two times the sum of: (i) Mr. Huffines' annual base salary rate and (ii) an amount equal to annual incentive cash bonus paid to Mr. Huffines in respect of the calendar year immediately preceding the year of the date of termination.

(3) The restricted stock vests ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock vests upon such event, which for purposes of the foregoing assumes December 31, 2014.

(4) The restricted stock units vest ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock units vest upon such event, which for purposes of the foregoing assumes December 31, 2014. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards.

(5) Assumes Mr. Huffines does not elect COBRA coverage for a period up to twelve months upon termination without cause.

Todd L. Salmans	Termination for Cause		Termination due to death or disability or by Executive for any Reason		Termination without cause		Change of Control	
Accrued Amounts (1)	$	-	$	-	$	-	$	-
Cash Payment		-		-		-		-
Cash Severance (2)		-		-		750,000		1,500,000
Stock Options		-		-		-		-
Restricted Stock (3)		-		277,083		277,083		498,750
Restricted Stock Units (4)		-		90,291		90,291		295,499
Welfare Benefits (5)		-		-		-		-
Total	$	-	$	367,374	$	1,117,374	$	2,294,249

(1) Accrued Amounts calculation based upon the sum of: (i) Mr. Salmans annual base salary through December 31, 2014, to the extent not already paid and not deferred; (ii) any earned and unpaid and/or vested, nonforfeitable amounts owing at the date of termination; and (iii) any business expenses incurred that have not yet been reimbursed as of the date of termination.

(2) Cash severance calculation if Mr. Salmans is terminated without cause is based upon the sum of: (i) Mr. Salmans's annual base salary rate and (ii) an amount equal to annual incentive cash bonus paid to Mr. Salmans in respect of the calendar year immediately preceding the year of the date of termination. If his employment is terminated upon a change in control, the cash severance calculation is based upon two times the sum of: (i) Mr. Salmans's annual base salary rate and (ii) an amount equal to annual incentive cash bonus paid to Mr. Salmans in respect of the calendar year immediately preceding the year of the date of termination.

(3) The restricted stock vests ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock vests upon such event, which for purposes of the foregoing assumes December 31, 2014.

(4) The restricted stock units vest ratably upon the death or disability of the participant or termination of the participant without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2014. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested restricted stock units vest upon such event, which for purposes of the foregoing assumes December 31, 2014. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards.

(5) Assumes Mr. Salmans does not elect COBRA coverage for a period up to twelve months upon termination without cause.

Incentive Plans

Each of the incentive plans has a complex definition of "change in control". Generally speaking, under the 2003 Equity Incentive Plan, a change in control occurs if: (i) with certain exceptions, any person becomes the owner of 50% or more of the combined voting power of our outstanding stock and other voting securities; (ii) a majority of the directors serving on our Board of Directors are replaced other than by new directors approved by at least two-thirds of the members of our Board of Directors; (iii) we are not the surviving company after a merger or consolidation; or (iv) with certain exceptions, our stockholders approve a plan of complete liquidation or dissolution or an agreement for the sale or disposition of all or substantially all of our assets is consummated. Under the 2012 Equity Incentive Plan, a change in control occurs if: (i) with certain exceptions, any person becomes the owner of 33% or more of the outstanding shares of our common stock or the combined voting power of our outstanding stock and other voting securities; (ii) a majority of the directors serving on our Board of Directors are replaced other than by new directors approved by at least two-thirds of the members of our Board of Directors; (iii) we are not the surviving company after a merger or consolidation or sale of all or substantially all of our assets; or (iv) with certain exceptions, our stockholders approve a plan of complete liquidation or dissolution.

Both our 2003 Equity Incentive Plan and our 2012 Equity Incentive Plan are "single trigger" plans, meaning that accelerated vesting occurs upon a change in control even if the award holder remains with us after the change in control, regardless of whether awards are assumed or substituted by the surviving company. We believe a "single trigger" change in control provision was appropriate because it allows management to pursue all alternatives for us without undue concern for their own financial security.

In the event of a change in control, all awards then outstanding under the 2003 Equity Incentive Plan will become vested and, if applicable, exercisable, and any performance goals imposed with respect to then-outstanding awards will be deemed to be fully achieved. With respect to awards granted pursuant to the 2012 Equity Incentive Plan, in the event of a change in control: (i) all outstanding stock options and SARs will become fully vested and exercisable; (ii) all restrictions on any restricted stock, restricted stock units or other stock-based awards that are not subject to performance goals will become fully vested; and (iii) all restrictions on any restricted stock, restricted stock units, performance units or other stock-based awards that are subject to performance goals will be deemed to be fully achieved.

In addition to acceleration of benefits upon a change in control event, the non-qualified stock option agreements pursuant to which all option awards are granted provide for acceleration of vesting upon the death of the option holder. No other rights of acceleration are provided for under the terms of the Company's benefit plans.

Compensation Committee Interlocks and Insider Participation

During fiscal year 2014, directors Rhodes R. Bobbitt, W. Joris Brinkerhoff, William T. Hill, Jr., Andrew J. Littlefair and A. Haag Sherman served on the Compensation Committee. During fiscal year 2014:

- none of the members of our Compensation Committee is, or has ever been, one of our officers or employees;
- none of the members of our Compensation Committee had any relationships with the Company requiring disclosure under "Certain Relationships and Related Party Transactions";
- none of our executive officers served as a member of the compensation committee of another entity, one of whose executive officers served on our Compensation Committee;
- none of our executive officers served as a director of another entity, one of whose executive officers served on our Compensation Committee; and
- none of our executive officers served as a member of the compensation committee of another entity, one of whose executive officers served as one of our directors.

Each of Mr. White, PlainsCapital's Chief Executive Officer, Mr. Huffines, PlainsCapital's President and Chief Operating Officer, and Mr. Feinberg, Chief Executive Officer of First Southwest, serves as a director of Hilltop. Hilltop's Compensation Committee is comprised of independent directors, reviews and sets the compensation of each of Messrs. White, Huffines and Feinberg and does not believe that these interlocks pose any risks that are likely to have a material adverse effect on us.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires officers and directors, and persons who beneficially own more than ten percent of our stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of the copies furnished to us and representations from our officers and directors, we believe that all Section 16(a) filing requirements for the year ended December 31, 2014, applicable to our officers, directors and greater than ten percent beneficial owners were timely satisfied, except that one Form 4 relating to a transaction that occurred in 2012 was filed late by Mr. White.

Based on written representations from our officers and directors, we believe that all Forms 5 for directors, officers and greater than ten percent beneficial owners that have been filed with the SEC are the only Forms 5 required to be filed for the period ended December 31, 2014.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

General

Transactions with related persons are governed by our General Code of Ethics and Business Conduct, which applies to all officers, directors and employees. This code covers a wide range of potential activities, including, among others, conflicts of interest, self-dealing and related party transactions. Waiver of the policies set forth in this code will only be permitted when circumstances warrant. Such waivers for directors and executive officers, or that provide a benefit to a director or executive officer, may be made only by the Board of Directors, as a whole, or the Audit Committee of the Board of Directors and must be promptly disclosed as required by applicable law or regulation. Absent such a review and approval process in conformity with the applicable guidelines relating to the particular transaction under consideration, such arrangements are not permitted.

Hilltop Sublease

On December 1, 2012, Hilltop entered into a sublease with Hunter's Glen/Ford, Ltd., an affiliate of Mr. Gerald J. Ford and the tenant of the office space. Pursuant to the Sublease, until February 27, 2014, Hilltop leased 5,491 square feet for $219,640 annually, plus additional rent due under the base Lease. On February 28, 2014, the parties amended the Sublease to increase the square footage subleased to 6,902 square feet, increase the rent based on such additional square footage, and extend the term to July 31, 2018. Hilltop pays the same rate per square foot as Hunter's Glen/Ford, Ltd. is required to pay under the base Lease, as amended.

Jeremy B. Ford, a director and the Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. Diamond A Financial, L.P. owns 15.5% of the outstanding Hilltop common stock at April 21, 2015. He also is a director and the Secretary of Diamond A Administration Company, LLC, or Diamond A, an affiliate of Gerald J. Ford, the current Chairman of the Board of Hilltop and the beneficial owner of 15.5% of Hilltop common stock as of April 21, 2015. Diamond A is owned by Hunter's Glen/Ford, Ltd., a limited partnership in which a trust for the benefit of Jeremy B. Ford is a 46% limited partner. The spouse of Corey G. Prestidge is the beneficiary of a trust that also owns a 46% limited partnership interest in Hunter's Glen/Ford, Ltd. and a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P.

Jeremy B. Ford is the son of Gerald J. Ford. Corey G. Prestidge, Hilltop's Executive Vice President, General Counsel and Secretary, is the son-in-law of Gerald J. Ford. Accordingly, Messrs. Jeremy B. Ford and Corey G. Prestidge are brothers-in-law.

Consultant

We are currently paying Richard P. Hodge $80,000 per year for tax services. Mr. Hodge also provides tax services Mr. Gerald J. Ford and his affiliates.

Employment of Certain Family Members

During 2014, Corey Prestidge, the brother-in-law of Jeremy B. Ford, our President and Chief Executive Officer, and the son-in-law of Gerald J. Ford, the Chairman of our Board, serves as Hilltop's Executive Vice President, General Counsel and Secretary; Lee Ann White, the wife of Alan B. White, PlainsCapital's Chairman and Chief Executive Officer, serves as the Senior Vice President, Director of Public Relations of PlainsCapital; Amy Passmore, the daughter of Mr. White served as Senior Premier Service Representative of PlainsCapital Bank until March 31, 2014; Logan Passmore, the son-in-law of Mr. White, serves as Assistant Vice President, Commercial Loan Officer I of PlainsCapital Bank; Kale Salmans, the son of Todd Salmans, Chief Executive Officer of PrimeLending, serves as Senior Vice President, Strategic Resources and Process Improvement of PrimeLending; and Ty Tucker, the son-in-law of Mr. Salmans, serves as Vice President, Risk Analyst of PrimeLending. Pursuant to our employment arrangements with these individuals, we paid Corey Prestidge $568,711, Lee Ann White $147,000, Amy Passmore $25,441, Logan Passmore $74,175, Kale Salmans $526,120 and Ty Tucker $109,600 as compensation for their services as employees during 2014.

Cowboys Stadium Suite

In 2007, the Bank contracted with Cowboys Stadium, L.P., a company affiliated with the employer of Ms. Anderson and that is beneficially owned by Ms. Anderson and certain of her immediate family members, for the 20-year lease of a suite at Cowboys Stadium beginning in 2009. Pursuant to the lease agreement, PlainsCapital Bank has agreed to pay Cowboys Stadium, L.P. annual payments of $500,000, subject to possible annual escalations, not to exceed 3% per year, beginning with the tenth year of the lease.

Indebtedness

The Bank has had, and may be expected to have in the future, lending relationships in the ordinary course of business with our directors and executive officers, members of their immediate families and affiliated companies in which they are employed or in which they are principal equity holders. In our management's opinion, the lending relationships with these persons were made in the ordinary course of business and on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with persons not related to us and do not involve more than normal collection risk or present other unfavorable features.

PROPOSAL TWO – ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Pursuant to Section 14A(a)(1) of the Exchange Act, we are asking stockholders to cast an advisory vote on the compensation of our named executive officers disclosed in the Management section of this Proxy Statement. While this vote is a non-binding advisory vote, we value the opinions of stockholders and will consider the outcome of the vote when making future compensation decisions.

We believe that our executive compensation programs effectively aligned the interests of our named executive officers with those of our stockholders by tying compensation to performance.

This annual vote on this matter is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this Proxy Statement. The vote is advisory and, therefore, not binding on the Company, the Board of Directors or the Compensation Committee of the Board of Directors.

We are asking our stockholders to indicate their support for this Proposal Two and the compensation paid to our named executive officers as disclosed commencing on page 25 of this Proxy Statement by voting **FOR**, on an advisory basis, the following resolution:

> "NOW, THEREFORE, BE IT RESOLVED, that the stockholders approve, on an advisory basis, the compensation paid to the named executive officers of the Company, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion & Analysis, the compensation tables and the narrative discussion related thereto."

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

PROPOSAL THREE - RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP, or PwC, served as our independent registered public accounting firm during 2014 and has been selected to serve in that capacity for 2015, unless the Audit Committee of the Board of Directors subsequently determines that a change is desirable. While stockholder ratification is not required for the selection of PwC as our independent registered public accounting firm, the selection is being submitted for ratification at the Annual Meeting, solely with a view toward soliciting our stockholders' opinion. This opinion will be taken into consideration by the Audit Committee in its future deliberations.

A representative of PwC is expected to be at our Annual Meeting to respond to appropriate questions and, if PwC desires, to make a statement.

Vote Necessary to Ratify the Appointment

The appointment of PwC as our independent registered public accounting firm for 2015 will be ratified if this proposal receives the affirmative vote of a majority of the votes cast on the matter. With respect to this proposal, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote. Under applicable rules, a broker will have the authority to vote for this proposal in the absence of instructions from the beneficial owner of the relevant shares.

Report of the Audit Committee

The Audit Committee of the Board of Directors of Hilltop Holdings Inc. currently consists of three directors and operates under a written charter adopted by the Board of Directors. Hilltop considers all members to be independent as defined by the applicable NYSE listing standards and SEC regulations. Management is responsible for Hilltop's internal controls and the financial reporting process. PricewaterhouseCoopers LLP, or PwC, Hilltop's independent registered public accounting firm, is responsible for performing an independent audit of Hilltop's consolidated financial statements in accordance with generally accepted auditing standards. The Audit Committee's responsibility is to monitor and oversee the financial reporting process.

In this context, the Audit Committee reviewed and discussed with management and PwC the audited financial statements for the year ended December 31, 2014, management's assessment of the effectiveness of the Company's internal control over financial reporting and PwC's evaluation of the Company's internal control over financial reporting. The Audit Committee has discussed with PwC the matters that are required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, issued by the Public Company Accounting Oversight Board.

The Audit Committee received from PwC the written disclosures and the letter required by the Public Company Accounting Oversight Board in Rule 3526, and has discussed with PwC the issue of its independence from the Company. The Audit Committee also concluded that PwC's provision of audit and non-audit services to the Company and its affiliates is compatible with PwC's independence.

Based upon the Audit Committee's review of the audited consolidated financial statements and its discussion with management and PwC noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

This report has been furnished by the members of the Audit Committee.

Charles R. Cummings (Chairman) Tracy A. Bolt J. Markham Green

Independent Auditor's Fees

For the fiscal years ended December 31, 2014 and 2013, the total fees paid to our independent registered public accounting firm, PwC, were as follows:

	Fiscal Year Ended	
	2014	**2013**
Audit Fees	$4,356,725	$3,252,350
Audit-Related Fees	397,700	1,960,200
Tax Fees	-	-
All Other Fees	1,800	1,800
Total	$4,756,225	$5,214,350

Audit Fees

Represents fees billed for the audits of our consolidated financial statements and effectiveness of internal control over financial reporting as of and for the years ended December 31, 2014 and 2013, reviews of our interim financial statements included in the Company's Quarterly Reports on Form 10-Q, statutory and regulatory audits and related services required for certain of our subsidiaries, and consultations related to miscellaneous SEC and financial reporting matters.

Audit-Related Fees

Represents fees billed for services related to the SWS merger and other SEC filings in 2014 and other SEC filings for the Company in connection with the FNB Transaction in 2013.

Tax Fees

No tax fees were incurred during 2014 and 2013.

All Other Fees

In 2014 and 2013, these fees related to an annual renewal of software licenses for accounting research software.

Audit Committee Pre-Approval Policy

In accordance with applicable laws and regulations, the Audit Committee reviews and pre-approves any non-audit services to be performed by PricewaterhouseCoopers LLP to ensure that the work does not compromise its independence in performing its audit services. The Audit Committee also reviews and pre-approves all audit services. In some cases, pre-approval is provided by the full committee for up to a year, and relates to a particular category or group of services and is subject to a specific budget. In other cases, the Chairman of the Audit Committee has the delegated authority from the committee to pre-approve additional services, and such pre-approvals are then communicated to the full Audit Committee. The Audit Committee pre-approved all fees noted above for 2014 and 2013.

The policy contains a de minimis provision that operates to provide retroactive approval for permissible non-audit services under certain circumstances. No services were provided by PricewaterhouseCoopers LLP during either 2014 or 2013 that fell under this provision.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015.

STOCKHOLDER PROPOSALS FOR 2016

Stockholder proposals intended to be presented at our 2016 annual meeting of stockholders pursuant to Rule 14a-8 under the Exchange Act must be received by us at our principal executive offices no later than 5:00 p.m., Dallas, Texas time, on January 2, 2016 and must otherwise comply with the requirements of Rule 14a-8 in order to be considered for inclusion in the 2016 proxy statement and proxy.

In order for director nominations and proposals of stockholders made outside the processes of Rule 14a-8 under the Exchange Act to be considered "timely" for purposes of Rule 14a-4(c) under the Exchange Act and pursuant to our current bylaws, the nomination or proposal must be received by us at our principal executive offices not before January 1, 2016, and not later than 5:00 p.m. Dallas, Texas time, on January 31, 2016; *provided, however*, that in the event that the date of the 2016 annual meeting is not within 30 days before or after June 12, 2016, notice by the stockholder in order to be timely must be received no earlier than the 120^{th} day prior to the date of the 2016 annual meeting and not later than 5:00 p.m. Dallas, Texas time, on the 90^{th} day prior to the date of the 2016 annual meeting or the 10^{th} day following the day on which public announcement of the date of the 2016 annual meeting is first made, whichever is later. Stockholders are advised to review our charter and bylaws, which contain additional requirements with respect to advance notice of stockholder proposals and director nominations, copies of which are available without charge upon request to our corporate Secretary at the address listed under "Questions" below.

OTHER MATTERS

Our Board of Directors knows of no other matters that have been submitted for consideration at this Annual Meeting. If any other matters properly come before our stockholders at this Annual Meeting, the persons named on the enclosed proxy card intend to vote the shares they represent in their discretion.

MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS

In accordance with Rule 14a-3(e)(1) under the Exchange Act, one set of proxy materials will be delivered to two or more stockholders who share an address, unless the Company has received contrary instructions from one or more of the stockholders. The Company will deliver promptly upon written or oral request a separate copy of the proxy materials to a stockholder at a shared address to which a single copy of the proxy materials was delivered. Requests for additional copies of the proxy materials, and requests that in the future separate proxy materials be sent to stockholders who share an address, should be directed by writing to Investor Relations, Hilltop Holdings Inc., 200 Crescent Court, Suite 1330, Dallas, Texas 75201, or by calling (214) 855-2177. In addition, stockholders who share a single address but receive multiple copies of the proxy materials may request that in the future they receive a single copy by contacting the Company at the address and phone number set forth in the prior sentence.

ANNUAL REPORT

A COPY OF OUR ANNUAL REPORT IS INCLUDED WITH THIS PROXY STATEMENT BUT SHALL NOT BE DEEMED TO BE SOLICITATION MATERIAL. A COPY OF THIS PROXY STATEMENT AND OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014 ALSO IS AVAILABLE WITHOUT CHARGE FROM OUR COMPANY WEBSITE AT WWW.HILLTOP-HOLDINGS.COM OR UPON WRITTEN REQUEST TO: INVESTOR RELATIONS, HILLTOP HOLDINGS INC., 200 CRESCENT COURT, SUITE 1330, DALLAS, TEXAS 75201.

QUESTIONS

If you have questions or need more information about the Annual Meeting, you may write to the corporate Secretary at the following address of our principal executive office:

Corporate Secretary
Hilltop Holdings Inc.
200 Crescent Court, Suite 1330
Dallas, Texas 75201

You may also call us at (214) 855-2177. We also invite you to visit our website at www.hilltop-holdings.com.

HILLTOP
HOLDINGS

200 Crescent Court, Suite 1330
Dallas, Texas 75201
Telephone: (214) 855-2177
Facsimile: (214) 855-2173

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2014

☐ **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: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland	**84-1477939**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Crescent Court, Suite 1330 Dallas, TX	**75201**
(Address of principal executive offices)	(Zip Code)

(214) 855-2177

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common stock was last sold on the New York Stock Exchange on June 30, 2014, was approximately $1.4 billion. For the purposes of this computation, all officers, directors and 10% stockholders are considered affiliates. The number of shares of the registrant's common stock outstanding at February 26, 2015 was 100,296,330.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement pertaining to the 2015 Annual Meeting of Stockholders, filed or to be filed not later than 120 days after the end of the fiscal year pursuant to Regulation 14A, is incorporated herein by reference into Part III.

TABLE OF CONTENTS

MARKET AND INDUSTRY DATA AND FORECASTS

Market and industry data and other statistical information and forecasts used throughout this Annual Report on Form 10-K (this "Annual Report") are based on independent industry publications, government publications and reports by market research firms or other published independent sources. We have not sought or obtained the approval or endorsement of the use of this third-party information. Some data also is based on our good faith estimates, which are derived from our review of internal surveys, as well as independent sources. Forecasts are particularly likely to be inaccurate, especially over long periods of time.

Unless the context otherwise indicates, all references in this Annual Report to the "Company," "we," "us," "our" or "ours" or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to "Hilltop" refer solely to Hilltop Holdings Inc., references to "PlainsCapital" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to "Hilltop Securities" refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to "Southwest Securities" refer to Southwest Securities, Inc. (a wholly owned subsidiary of Hilltop Securities), references to "SWS Financial" refer to SWS Financial Services, Inc. (a wholly owned subsidiary of Hilltop Securities), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PlainsCapital), references to "FNB" refer to First National Bank, references to "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Hilltop Securities) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company, LLC (a wholly owned subsidiary of First Southwest), references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, and references to "NLC" refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole.

FORWARD-LOOKING STATEMENTS

This Annual Report and the documents incorporated by reference into this report include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included in this Annual Report that address results or developments that we expect or anticipate will or may occur in the future, and statements that are preceded by, followed by or include, words such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goal," "intends," "may," "might," "probable," "projects," "seeks," "should," "view" or "would" or the negative of these words and phrases or similar words or phrases, including such things as our business strategy, our financial condition, our litigation, our efforts to make strategic acquisitions, our recent acquisition of SWS Group, Inc. ("SWS") and integration thereof, our revenue, our liquidity and sources of funding, market trends, operations and business, expectations concerning mortgage loan origination volume, anticipated changes in our revenues or earnings, the effects of government regulation applicable to our operations, the appropriateness of our allowance for loan losses and provision for loan losses, and the collectability of loans are forward-looking statements.

These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If an event occurs, our business, business plan, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Certain factors that could cause actual results to differ include, among others:

- risks associated with merger and acquisition integration, including the diversion of management time on acquisition-related issues and our ability to promptly and effectively integrate our businesses with those of FNB and SWS and achieve the synergies and value creation contemplated by the acquisitions;
- our ability to estimate loan losses;
- changes in the default rate of our loans;
- risks associated with concentration in real estate related loans;
- our ability to obtain reimbursements for losses on acquired loans under loss-share agreements with the Federal Deposit Insurance Corporation (the "FDIC");
- changes in general economic, market and business conditions in areas or markets where we compete;
- severe catastrophic events in our geographic area;
- changes in the interest rate environment;
- cost and availability of capital;
- changes in state and federal laws, regulations or policies affecting one or more of our business segments, including changes in regulatory fees, deposit insurance premiums, capital requirements and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

- our ability to use net operating loss carry forwards to reduce future tax payments;
- approval of new, or changes in, accounting policies and practices;
- changes in key management;
- competition in our banking, broker-dealer (formerly financial advisory), mortgage origination and insurance segments from other banks and financial institutions as well as insurance companies, mortgage bankers, investment banking and financial advisory firms, asset-based non-bank lenders and government agencies;
- failure of our insurance segment reinsurers to pay obligations under reinsurance contracts; and
- our ability to use excess cash in an effective manner, including the execution of successful acquisitions.

For a more detailed discussion of these and other factors that may affect our business and that could cause the actual results to differ materially from those anticipated in these forward-looking statements, see Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” herein. We caution that the foregoing list of factors is not exhaustive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. All subsequent written and oral forward-looking statements concerning our business attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements above. We do not undertake any obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Annual Report except to the extent required by federal securities laws.

PART I

Item 1. Business.

General

Hilltop Holdings Inc., headquartered in Dallas, Texas, is a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999. On November 30, 2012, Hilltop acquired PlainsCapital Corporation pursuant to a plan of merger whereby PlainsCapital Corporation merged with and into a wholly owned subsidiary of Hilltop (the "PlainsCapital Merger"), which continued as the surviving entity under the name "PlainsCapital Corporation".

Following the PlainsCapital Merger, our primary line of business has been to provide business and consumer banking services from offices located throughout Texas through the Bank. We also provide an array of financial products and services through our broker-dealer (formerly financial advisory), mortgage origination and insurance segments. The Company currently delivers its financial products and services through the following primary operating business units.

PlainsCapital. PlainsCapital is a financial holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, traditional banking services, residential mortgage lending, wealth and investment management and treasury management primarily in Texas.

Hilltop Securities. Hilltop Securities is a holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, investment banking and other related financial services, including municipal advisory, sales, trading and underwriting of taxable and tax-exempt fixed income securities, equity trading, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

NLC. NLC is a property and casualty insurance holding company, headquartered in Waco, Texas, that provides, through its subsidiaries, fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States.

At December 31, 2014, on a consolidated basis, we had total assets of $9.2 billion, total deposits of $6.4 billion, total loans, including loans held for sale, of $5.8 billion and stockholders' equity of $1.5 billion. Our operating results beginning December 1, 2012 include the banking, mortgage origination and broker-dealer operations acquired in the PlainsCapital Merger. The operations acquired in the FNB Transaction (defined hereinafter) are included in the results of our banking operations beginning September 14, 2013.

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "HTH."

Our principal office is located at 200 Crescent Court, Suite 1330, Dallas, Texas 75201, and our telephone number at that location is (214) 855-2177. Our internet address is www.hilltop-holdings.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on our website at http://ir.hilltop-holdings.com/ under the tab "SEC Filings" as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"). The references to our website in this Annual Report are inactive textual references only. The information on our website is not incorporated by reference into this Annual Report.

Company Background

In January 2007, we acquired NLC, a property and casualty insurance holding company. As a result, our subsequent primary operations through November 2012 were limited to providing fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States through NLC's wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

On November 30, 2012, we acquired PlainsCapital Corporation through the PlainsCapital Merger. Concurrent with the consummation of the PlainsCapital Merger, we became a financial holding company registered under the Bank Holding Company Act of 1956 (the "Bank Holding Company Act"), as amended by the Gramm-Leach-Bliley Act of 1999 (the "Gramm-Leach-Bliley Act").

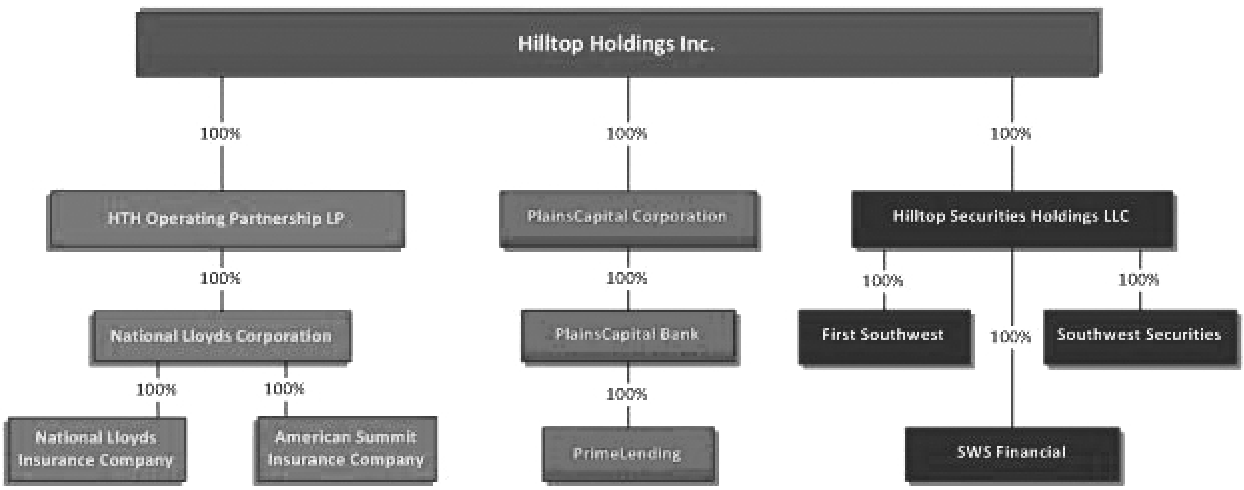
On September 13, 2013, the Bank assumed substantially all of the liabilities, incl uding all of the deposits, and acquired substantially all of the assets, of FNB from the FDIC, as receiver, and reopened former FNB branches acquired from the FDIC under the "PlainsCapital Bank" name (the "FNB Transaction").

On January 1, 2015, we completed our acquisition of SWS in a stock and cash transaction, whereby SWS merged with and into Hilltop Securities, formerly Peruna LLC, a wholly owned subsidiary of Hilltop formed for the purpose of facilitating this transaction (the “SWS Merger”). Following the SWS Merger, our broker-dealer segment operations include Southwest Securities, a clearing broker-dealer subsidiary registered with the SEC and Financial Industry Regulatory Authority (“FINRA”) and SWS Financial, an introducing broker-dealer subsidiary that is also registered with the SEC and FINRA. SWS’s banking subsidiary, Southwest Securities, FSB (“SWS FSB”), was merged into the Bank, an indirect wholly owned subsidiary of Hilltop. As a result, our results of operations will include those acquired in the SWS Merger beginning January 1, 2015.

We intend to make acquisitions with available cash, excess liquidity and, if necessary or appropriate, from additional equity or debt financing sources.

Organizational Structure

Our organizational structure is comprised of three primary operating business units, PlainsCapital (banking and mortgage origination), Hilltop Securities (broker-dealer) and NLC (insurance). Within the PlainsCapital unit are two primary wholly owned operating subsidiaries: the Bank and PrimeLending. The Hilltop Securities unit includes three primary wholly owned operating subsidiaries: First Southwest (transferred from the PlainsCapital unit effective January 1, 2015), Southwest Securities and SWS Financial (both acquired on January 1, 2015). The following provides additional details regarding our current organizational structure.



Geographic Dispersion of our Businesses

The Bank provides traditional banking services, residential mortgage lending, wealth and investment management, and treasury management. Substantially all of our banking operations are in Texas, and as a result of the FNB Transaction, the Bank has a presence in every major market in Texas. Immediately following the SWS Merger on January 1, 2015, the operations of the former SWS FSB were merged into the Bank.

Through December 31, 2014, our broker-dealer services were provided through FSC, a diversified investment banking firm and a registered broker-dealer, which competes for business nationwide. Public finance financial advisory revenues, of which 70% during 2014 were from entities located in Texas, represent a significant portion of total segment revenues. Effective January 1, 2015, the broker-dealer segment’s operations will include those provided by the broker-dealer subsidiaries acquired as a result of the SWS Merger. The retail brokerage service operations acquired in the SWS Merger, which represent a significant portion of the historical revenues of SWS, are concentrated in Texas, California and Oklahoma.

PrimeLending provides residential mortgage origination products and services from over 250 locations in 42 states. For the year ended December 31, 2014, 61.0% of PrimeLending’s origination volume was concentrated in eight states (none of the other states in which PrimeLending operated during 2014 had origination volume of 3% or more).

The following table is a summary of the origination volume by state for the periods shown (dollars in thousands).

	Year Ended December 31,			
	2014	% of Total	2013	% of Total
Texas	$ 2,453,705	23.7%	$ 2,660,810	22.6%
California	1,552,372	15.0%	2,082,184	17.7%
Florida	505,507	4.9%	456,643	3.9%
North Carolina	423,164	4.1%	618,802	5.3%
Ohio	401,379	3.9%	383,518	3.2%
Arizona	339,830	3.3%	392,006	3.3%
Virginia	322,134	3.1%	466,531	4.0%
South Carolina	307,832	3.0%	318,109	2.7%
All other states	4,057,925	39.0%	4,413,959	37.3%
	$ 10,363,848	100.0%	$ 11,792,562	100.0%

Our insurance products are distributed through a broad network of independent agents and a select number of managing general agents, referred to as MGAs, which are concentrated in five states (none of the other states in which we operated during 2014 had gross written premiums of 3% or more). The following table sets forth our total gross written premiums by state for the periods shown (dollars in thousands).

	Year Ended December 31,					
	2014	% of Total	2013	% of Total	2012	% of Total
Texas	$ 126,273	69.3%	$ 125,696	69.1%	$ 118,361	69.5%
Arizona	16,775	9.2%	15,904	8.7%	13,914	8.2%
Oklahoma	14,122	7.7%	16,494	9.1%	15,398	9.1%
Tennessee	10,903	6.0%	10,589	5.8%	10,527	6.2%
Georgia	7,031	3.9%	6,393	3.5%	5,454	3.2%
All other states	7,105	3.9%	6,892	3.8%	6,547	3.8%
Total	$ 182,209	100.0%	$ 181,968	100.0%	$ 170,201	100.0%

Business Segments

Under U.S. generally accepted accounting principles ("GAAP"), our three business units are comprised of four reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, broker-dealer, mortgage origination and insurance. The SWS Merger has not resulted in changes to our four reportable business segments. These segments reflect the manner in which operations are managed and the criteria used by our chief operating decision maker function to evaluate segment performance, develop strategy and allocate resources. Our chief operating decision maker function consists of the President and Chief Executive Officer of Hilltop and the Chief Executive Officer of PlainsCapital.

For more financial information about each of our business segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," herein. See also Note 30 in the notes to our consolidated financial statements included under Item 8, "Financial Statements and Supplementary Data."

Banking

The banking segment includes the operations of the Bank and, since September 14, 2013, the banking operations acquired in the FNB Transaction. At December 31, 2014, our banking segment had $8.0 billion in assets and total deposits of $6.2 billion. The primary sources of our deposits are residents and businesses located in Texas. Immediately following the SWS Merger on January 1, 2015, SWS's banking subsidiary, SWS FSB, was merged into the Bank. The Bank expects the integration of the back office operations of the former SWS FSB into the Bank to be substantially complete by April 2015.

Business Banking. Our business banking customers primarily consist of agribusiness, energy, health care, institutions of higher education, real estate (including construction and land development) and wholesale/retail trade companies. We provide these customers with extensive banking services, such as Internet banking, business check cards and other add-on services as determined on a customer-by-customer basis. Our treasury management services, which are designed to reduce the time, burden and expense of collecting, transferring, disbursing and reporting cash, are also available to our business customers. We offer these business customers lines of credit, equipment loans and leases, letters of credit, agricultural loans, commercial real estate loans and other loan products.

The table below sets forth a distribution of the banking segment's non-covered and covered loans, classified by portfolio segment and segregated between those considered to be purchased credit impaired ("PCI") loans and all other originated or acquired loans at December 31, 2014 (dollars in thousands). PCI loans showed evidence of credit deterioration that makes it probable that all contractually required principal and interest payments will not be collected. The banking segment's loan portfolio includes "covered loans" acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC, while all other loans held by the Bank are referred to as "non-covered loans." The commercial and industrial non-covered loans category includes a $1.5 billion warehouse line of credit extended to PrimeLending, of which $1.2 billion was drawn at December 31, 2014. Amounts advanced against the warehouse line are included in the table below, but are eliminated from net loans on our consolidated balance sheets.

Non-covered loans	Loans, excluding PCI Loans	PCI Loans	Total Loans	% of Total Non-Covered Loans
Commercial and industrial:				
Secured	$ 2,450,541	$ 13,374	$ 2,463,915	52.0%
Unsecured	110,350	68	110,418	2.3%
Real estate:				
Secured by commercial properties	1,175,838	22,341	1,198,179	25.3%
Secured by residential properties	497,113	1,810	498,923	10.5%
Construction and land development:				
Residential construction loans	65,046	—	65,046	1.4%
Commercial construction loans and land development	339,419	9,178	348,597	7.4%
Consumer	51,009	2,138	53,147	1.1%
Total non-covered loans	$ 4,689,316	$ 48,909	$ 4,738,225	100.0%

Covered loans	Loans, excluding PCI Loans	PCI Loans	Total Loans	% of Total Covered Loans
Commercial and industrial:				
Secured	$ 9,135	$ 13,630	$ 22,765	3.5%
Unsecured	1,210	6,805	8,015	1.2%
Real estate:				
Secured by commercial properties	42,557	227,772	270,329	42.1%
Secured by residential properties	141,329	141,192	282,521	44.0%
Construction and land development:				
Residential construction loans	1,286	354	1,640	0.3%
Commercial construction loans and land development	11,735	45,635	57,370	8.9%
Consumer	—	—	—	0.0%
Total covered loans	$ 207,252	$ 435,388	$ 642,640	100.0%

Our lending policies seek to achieve the goal of establishing an asset portfolio that will provide a return on stockholders' equity sufficient to maintain capital to assets ratios that meet or exceed established regulations. In support of that goal, we have designed our underwriting standards to determine:

- That our borrowers possess sound ethics and competently manage their affairs;
- That we know the source of the funds the borrower will use to repay the loan;
- That the purpose of the loan makes economic sense; and
- That we identify relevant risks of the loan and determine that the risks are acceptable.

We implement our underwriting standards according to the facts and circumstances of each particular loan request, as discussed below.

Commercial and industrial loans are primarily made within Texas and are underwritten on the basis of the borrower's ability to service the debt from cash flow from an operating business. In general, commercial and industrial loans involve more credit risk than residential and commercial mortgage loans and, therefore, usually yield a higher return. The increased risk in commercial and industrial loans results primarily from the type of collateral securing these loans, which typically includes commercial real estate, accounts receivable, equipment and inventory. Additionally, increased risk arises from the expectation that commercial and industrial loans generally will be serviced principally from operating cash flow of the business, and such cash flows are dependent upon successful business operations. Historical trends have shown these types of loans to have higher delinquencies than mortgage loans. As a result of the additional risk and complexity associated with commercial and industrial loans, such loans require more thorough underwriting and servicing than loans to individuals. To manage these risks, our policy is to attempt to secure commercial and industrial loans with both the assets of the borrowing business and other additional collateral and guarantees that may be available. In addition, depending on the size of the credit, we actively monitor the financial condition of the borrower by analyzing the borrower's financial statements and assessing certain financial measures, including cash flow, collateral value and other appropriate credit factors. We also have processes in place to analyze and evaluate on a regular basis our exposure to industries, products, market changes and economic trends.

The Bank also offers term financing on commercial real estate properties that include retail, office, multi-family, industrial, warehouse and non-owner occupied single family residences. Commercial mortgage lending can involve high principal loan amounts, and the repayment of these loans is dependent, in large part, on a borrower's on-going business operations or on income generated from the properties that are leased to third parties. Accordingly, we apply the measures described above for commercial and industrial loans to our commercial real estate lending, with increased emphasis on analysis of collateral values. As a general practice, the Bank requires its commercial mortgage loans to (i) be secured with first lien positions on the underlying property, (ii) generate adequate equity margins, (iii) be serviced by businesses operated by an established management team and (iv) be guaranteed by the principals of the borrower. The Bank seeks lending opportunities where cash flow from the collateral provides adequate debt service coverage and/or the guarantor's net worth is comprised of assets other than the project being financed.

The Bank offers construction financing for (i) commercial, retail, office, industrial, warehouse and multi-family developments, (ii) residential developments and (iii) single family residential properties. Construction loans involve additional risks because loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. If the Bank is forced to foreclose on a project prior to completion, it may not be able to recover the entire unpaid portion of the loan. Additionally, it may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan-to-value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. We generally require that the subject property of a construction loan for commercial real estate be pre-leased, since cash flows from the completed project provide the most reliable source of repayment for the loan. Loans to finance these transactions are generally secured by first liens on the underlying real property. The Bank conducts periodic completion inspections, either directly or through an agent, prior to approval of periodic draws on these loans.

In addition to the real estate lending activities described above, a portion of the Bank's real estate portfolio consists of single family residential mortgage loans typically collateralized by owner occupied properties located in its market areas. These residential mortgage loans are generally secured by a first lien on the underlying property and have maturities up to thirty years. At December 31, 2014, the Bank had $641.8 million in one-to-four family residential loans, which represented 11.9% of its total loans held for investment.

Personal Banking. We offer a broad range of personal banking products and services for individuals. Similar to our business banking operations, we also provide our personal banking customers with a variety of add-on features such as check cards, safe deposit boxes, Internet banking, bill pay, overdraft privilege services, gift cards and access to automated teller machine (ATM) facilities throughout the United States. We offer a variety of deposit accounts to our personal banking customers including savings, checking, interest-bearing checking, money market and certificates of deposit.

We loan to individuals for personal, family and household purposes, including lines of credit, home improvement loans, home equity loans, credit cards and loans for purchasing and carrying securities. At December 31, 2014, we had $53.1 million of loans for these purposes, which are shown in the non-covered loans table above as "Consumer."

Wealth and Investment Management. Our private banking team personally assists high net worth individuals and their families with their banking needs, including depository, credit, asset management, and trust and estate services. We offer trust and asset management services in order to assist these customers in managing, and ultimately transferring, their wealth.

Our wealth management services provide personal trust, investment management and employee benefit plan administration services, including estate planning, management and administration, investment portfolio management, employee benefit accounts and individual retirement accounts.

Broker-Dealer

Through December 31, 2014, our broker-dealer segment's operations were comprised of First Southwest. FSC, a wholly owned subsidiary of First Southwest, is a diversified investment banking firm and a registered broker-dealer with the SEC and FINRA. First Southwest's primary focus is on providing public finance services. At December 31, 2014, First Southwest employed approximately 400 people and maintained 25 locations nationwide, nine of which are in Texas. At December 31, 2014, First Southwest had consolidated assets of $758.6 million, maintained $123.7 million in equity capital and had more than 1,600 public sector clients.

Following the SWS Merger, our broker-dealer segment operations include Southwest Securities, a clearing broker-dealer subsidiary registered with the SEC and FINRA and a member of the NYSE, and SWS Financial, an introducing broker-dealer subsidiary that is also registered with the SEC and FINRA. Southwest Securities and SWS Financial are both registered with the Commodity Futures Trading Commission ("CFTC") as non-guaranteed introducing brokers and as members of the National Futures Association ("NFA"). First Southwest, Southwest Securities and SWS Financial are continuing to operate as separate broker-dealers, under coordinated leadership, until such time as the necessary regulatory approvals are obtained and systems integrations are complete. At December 31, 2014, Southwest Securities employed approximately 700 people and maintained 35 locations nationwide, 11 of which are in Texas. At December 31, 2014, Southwest Securities had consolidated assets of $2.1 billion and net capital of approximately $170.6 million, which is approximately $164.6 million in excess of its minimum net capital requirement of approximately $6.0 million.

As of January 1, 2015, our broker-dealer segment has six primary lines of business: (i) public finance, (ii) capital markets, (iii) retail, (iv) structured finance, (v) clearing, and (vi) securities lending activities.

Public Finance. The First Southwest public finance group, along with a similar group within Southwest Securities, assists public bodies in originating, syndicating and distributing securities of municipalities and political subdivisions. Our broker-dealer segment advises cities, counties, school districts, utility districts, tax increment zones, special districts, state agencies and other governmental entities nationwide. In addition, the group provides specialized advisory and investment banking services for airports, convention centers, healthcare institutions, institutions of higher education, housing, industrial development agencies, toll road authorities, and public power and utility providers.

Additionally, First Southwest Asset Management, LLC and Southwest Securities are investment advisors registered under the Investment Advisers Act of 1940 providing state and local governments with advice and assistance with respect to arbitrage rebate compliance, portfolio management and local government investment pool administration.

Capital Markets. Through its capital markets group, First Southwest trades fixed income securities to support sales and other customer activities, underwrites tax-exempt and taxable fixed income securities and trades equities and option orders on an agency basis on behalf of its retail and institutional clients. In addition, First Southwest provides asset and liability management advisory services to community banks.

Similarly, Southwest Securities specializes in trading and underwriting U.S. government and government agency bonds, corporate bonds, municipal bonds, mortgage-backed, asset-backed and commercial mortgage-backed securities and structured products. The clients of its fixed income group include corporations, insurance companies, banks, mutual funds, money managers and other institutions. Southwest Securities' equity trading department focuses on executing equity and option orders on an agency basis for clients. Southwest Securities' syndicate department, housed within its fixed income sales group, coordinates the distribution of managed and co-managed corporate equity underwritings, accepts invitations to participate in competitive or negotiated underwritings managed by other investment banking firms and allocates and markets Southwest Securities selling allotments to institutional clients and to other broker-dealers.

Retail. Prior to the SWS Merger, the broker-dealer segment did not have substantial retail brokerage service operations. The retail group we acquired in the SWS Merger acts as a securities broker for retail investors in the purchase and sale of securities, options, commodities and futures contracts that are traded on various exchanges or in the over-the-counter market through SWS employee registered representatives or independent contractor arrangements. As a securities broker, we extend margin credit on a secured basis to our retail customers in order to facilitate securities transactions. Through our insurance subsidiaries, we hold insurance licenses to facilitate the sale of insurance and annuity products by SWS Financial advisors to retail clients. We retain no underwriting risk related to these insurance and annuity products. In addition, through the Investment Management Group of Southwest Securities, the retail group provides a number of advisory programs that offer advisors a wide array of products and services for their advisory business. In most cases, we charge commissions to our clients in accordance with an established commission schedule, subject to certain discounts based upon the client's level of business, the trade size and other relevant factors. Some registered representatives also maintain licenses to sell certain insurance products. Southwest Securities is also a fully disclosed client of two of the largest futures commission merchants in the United States. At December 31, 2014, Southwest Securities employed 144 registered representatives in 16 retail brokerage offices and SWS Financial had contracts with 259 independent retail representatives for the administration of their securities business.

Structured Finance. Through its structured finance group, First Southwest provides structured asset and liability services and commodity hedging advisory services to facilitate balance sheet management primarily to its public finance clients. In addition, the structured finance group within First Southwest participates in programs in which it issues forward purchase commitments of mortgage-backed securities to certain non-profit housing clients and sells U.S. Agency to-be-announced, or TBA, mortgage-backed securities.

Clearing. The First Southwest clearing group, along with a similar group within Southwest Securities, offers fully disclosed clearing services to FINRA and SEC registered member firms for trade executing, clearing and back office services such as record keeping, trade reporting, accounting, general back-office support, securities and margin lending, reorganization assistance and custody of securities. At December 31, 2014, First Southwest provided services to approximately 80 correspondent firms, including discount and full-service brokerage firms, registered investment advisors and institutional firms, while Southwest Securities provided services to approximately 140 financial service organizations, including correspondent broker-dealers and registered investment advisors.

Securities Lending Activities. The securities lending groups of both First Southwest and Southwest Securities perform activities that include borrowing and lending securities for other broker-dealers, lending institutions and internal clearing and retail operations. These activities involve borrowing securities to cover short sales and to complete transactions in which clients have failed to deliver securities by the required settlement date and lending securities to other broker-dealers for similar purposes.

Mortgage Origination

Our mortgage origination segment operates through a wholly owned subsidiary of the Bank, PrimeLending. Founded in 1986, PrimeLending is a residential mortgage banker licensed to originate and close loans in all 50 states and the District of Columbia. At December 31, 2014, our mortgage origination segment operated from over 250 locations in 42 states, originating 23.7% of its mortgages from its Texas locations and 15.0% of its mortgages from locations in California. The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Historically, the mortgage origination segment has typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased refinancings. Changes in interest rates have historically had a lesser impact on home purchases volume than on refinancing volume.

PrimeLending handles loan processing, underwriting and closings in-house. Mortgage loans originated by PrimeLending are funded through a warehouse line of credit maintained with the Bank. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. PrimeLending's determination on whether to retain or release servicing on mortgage loans it sells is impacted by changes in mortgage interest rates, and refinancing and market activity. PrimeLending may, from time to time, manage its mortgage servicing rights ("MSR") asset through different strategies, including varying the percentage of mortgage loans sold servicing released and opportunistically selling MSR assets. As mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. Loans sold are subject to certain standard indemnification provisions with investors, including the repurchase of loans sold and the repayment of sales proceeds to investors under certain conditions.

Our mortgage lending underwriting strategy, driven in large measure by secondary market investor standards, seeks primarily to originate conforming loans. Our underwriting practices include:

- granting loans on a sound and collectible basis;
- obtaining a balance between maximum yield and minimum risk;
- ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan; and
- ensuring that each loan is properly documented and, if appropriate, adequately insured.

Since its inception, PrimeLending has grown from a staff of 20 individuals producing approximately $80 million in annual closed mortgage loan volume to a staff of approximately 2,500 producing $10.4 billion in 2014, of which 80% related to home purchases volume. PrimeLending offers a variety of loan products catering to the specific needs of borrowers seeking purchase or refinancing options, including 30-year and 15-year fixed rate conventional mortgages, adjustable rate mortgages, jumbo loans, and Federal Housing Administration ("FHA") and Veteran Affairs ("VA") loans. Mortgage loans originated by PrimeLending are secured by a first lien on the underlying property. PrimeLending does not currently originate subprime loans (which it defines to be loans to borrowers having a Fair Isaac Corporation (FICO) score lower than 620 on conventional mortgages and VA loans or 600 on FHA loans or loans that do not comply with applicable agency or investor-specific underwriting guidelines).

Insurance

The operations of NLC comprise our insurance segment. NLC specializes in providing fire and limited homeowners insurance for low value dwellings and manufactured homes primarily in Texas and other areas of the south, southeastern and southwestern United States. NLC's product lines also include enhanced homeowners products offering higher coverage limits with distribution restricted to select agents. NLC targets underserved markets through a broad network of independent agents currently operating in 23 states and a select number of MGAs, which require underwriting expertise that many larger carriers have been unwilling to develop given the relatively small volume of premiums produced by local agents.

Ratings. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other rating agencies to assist them in assessing the financial strength and overall quality of the companies from which they purchase insurance. The financial strength ratings for NLIC and ASIC of "A" (Excellent) were affirmed by A.M. Best in April 2014. An "A" rating is the third highest of 16 rating categories used by A.M. Best. In evaluating a company's financial and operating performance, A.M. Best reviews a company's profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its liabilities for losses and loss adjustment expenses ("LAE"), the adequacy of its surplus, its capital structure, the experience and competence of its management and its market presence. This rating assignment is subject to the ability to meet A.M. Best's expectations as to performance and capitalization on an ongoing basis, and is subject to revocation or revision at any time at the sole discretion of A.M. Best. NLC cannot ensure that NLIC and ASIC will maintain their present ratings.

Product Lines. NLC's business is conducted in two product lines: personal lines and commercial lines. The personal lines include homeowners, dwelling fire, manufactured home, flood and vacant policies. The commercial lines include commercial multi-peril, builders risk, builders risk renovation, sports liability and inland marine policies.

The NLC companies specialize in writing fire and homeowners insurance coverage for low value dwellings and manufactured homes. The vast majority of NLC's property coverage is written on policies that provide actual cash value payments, as opposed to replacement cost. Under actual cash value policies, the insured is entitled to receive only the cost of replacing or repairing damaged or destroyed property with comparable new property, less depreciation. Replacement cost coverage does not include such a deduction for depreciation; however it does include limited water coverage. These products have been marketed and sold primarily in Texas. Rate increases and exposure management since 2013 have reduced the proportionate premium provided by these products.

Underwriting and Pricing. NLC applies its regional expertise, underwriting discipline and a risk-adjusted, return-on-equity-based approach to capital allocation to primarily offer short-tail insurance products in its target markets. NLC's underwriting process involves securing an adequate level of underwriting information from its independent agents, identifying and evaluating risk exposures and then pricing the risks it chooses to accept. Management reviews pricing on an ongoing basis to monitor any emerging issues on a specific coverage or geographic territory.

Catastrophe Exposure. NLC maintains a comprehensive risk management strategy, which includes actively monitoring its catastrophe prone territories by zip code to ensure a diversified book of risks. NLC utilizes software and risk support from its reinsurance brokers to analyze its portfolio and catastrophe exposure. Biannually, NLC has its entire portfolio analyzed by its reinsurance broker who utilizes hurricane and severe storm models to predict risk.

Reinsurance. NLC purchases reinsurance to reduce its exposure to liability on individual risks and claims and to protect against catastrophe losses. NLC's management believes that less volatile, yet reasonable returns are in the long-term interest of NLC.

Reinsurance involves an insurance company transferring, or ceding, a portion of its risk to another insurer, the reinsurer. The reinsurer assumes the exposure in return for a portion of the premium. The ceding of risk to a reinsurer does not legally discharge the primary insurer from its liability for the full amount of the policies on which it obtains reinsurance. Accordingly, the primary insurer remains liable for the entire loss if the reinsurer fails to meet its obligations under the reinsurance agreement, and as a result, the primary insurer is exposed to the risk of non-payment by its reinsurers. In formulating its reinsurance programs, NLC believes that it is selective in its choice of reinsurers and considers numerous factors, the most important of which are the financial stability of the reinsurer, its history of responding to claims and its overall reputation.

NLC purchases catastrophe excess of loss reinsurance to a limit that exceeds the Hurricane 200-year return time as modeled by RMS Risk Link v.13.1 and exceeds the Hurricane 500-year return time as modeled by AIR Touchstone v.2. Additionally, NLC purchased an underlying excess of loss contract that provides $10 million aggregate coverage for sub-catastrophic events. As of January 1, 2015, NLC retains a 9% participation in this coverage, down from 34% participation during 2014.

Competition

We face significant competition with respect to the business segments in which we operate and the geographic markets we serve. Many of our competitors have substantially greater financial resources, lending limits and larger branch networks than we do, and offer a broader range of products and services.

Our banking segment primarily competes with national, regional and community banks within the various markets where the Bank operates. The Bank also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, finance companies, pension trusts, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders, government agencies and certain other non-financial institutions. The ability to attract and retain skilled lending professionals is critical to our banking business. Competition for deposits and in providing lending products and services to consumers and businesses in our market area is intense and pricing is important. Other factors encountered in competing for savings deposits are convenient office locations, interest rates and fee structures of products offered. Direct competition for savings deposits also comes from other commercial bank and thrift institutions, money market mutual funds and corporate and government securities that may offer more attractive rates than insured depository institutions are willing to pay. Competition for loans includes such additional factors as interest rates, loan origination fees and the range of services offered by the provider. We seek to distinguish ourselves from our competitors through our commitment to personalized customer service and responsiveness to customer needs while providing a range of competitive loan and deposit products and other services.

Within our broker-dealer segment we face significant competition based on a number of factors, including price, perceived expertise, quality of advice, reputation, range of services and products, technology, innovation and local presence. Competition for successful securities traders, stock loan professionals and investment bankers among securities firms and other competitors is intense. Our broker-dealer business competes directly with numerous other financial advisory and investment banking firms, broker-dealers and banks, including large national and major regional firms and smaller niche companies, some of whom are not broker-dealers and, therefore, are not subject to the broker-dealer regulatory framework. Further, our broker-dealer segment competes with discount brokerage firms that do not offer equivalent services but offer discounted prices.

Our competitors in the mortgage origination business include large financial institutions as well as independent mortgage banking companies, commercial banks, savings banks and savings and loan associations. Our mortgage origination segment competes on a number of factors including customer service, quality and range of products and services offered, price, reputation, interest rates and loan origination fees. The ability to attract and retain skilled mortgage origination professionals is critical to our mortgage origination business. We seek to distinguish ourselves from our competitors through our commitment to personalized customer service and responsiveness to customer needs while providing a range of competitive mortgage loan products and services.

Our insurance business competes with a large number of other companies in its selected lines of business, including major U.S. and non-U.S. insurers, regional companies, mutual companies, specialty insurance companies, underwriting agencies and diversified financial services companies. The personal lines market in Texas is dominated by a few large carriers and their subsidiaries and affiliates. We seek to distinguish ourselves from our competitors by targeting underserved market segments that provide us with the best opportunity to obtain favorable policy terms, conditions and pricing.

Employees

At December 31, 2014, we employed approximately 4,400 people, substantially all of which are full-time. None of our employees are represented by any collective bargaining unit or a party to any collective bargaining agreement. After giving effect to the SWS Merger on January 1, 2015, we employed approximately 5,300 people.

Government Supervision and Regulation

General

We are subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of customers and clients, and not for the protection of our stockholders or creditors. In many cases, the applicable regulatory authorities have broad enforcement power over bank holding companies, banks and their subsidiaries, including the power to impose substantial fines and other penalties for violations of laws and regulations. The following discussion describes the material elements of the regulatory framework that applies to us and our subsidiaries. References in this Annual Report to applicable statutes and regulations are brief summaries thereof, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.

Recent Regulatory Developments. New regulations and statutes are regularly proposed and/or adopted that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. Certain of these recent proposals and changes are described below.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act aims to restore responsibility and accountability to the financial system by significantly altering the regulation of financial institutions and the financial services industry. Most of the provisions contained in the Dodd-Frank Act have delayed effective dates. Full implementation of the Dodd-Frank Act will require many new rules to be issued by federal regulatory agencies over the next several years, which will profoundly affect how financial institutions will be regulated in the future. The ultimate effect of the Dodd-Frank Act and its implementing regulations on the financial services industry in general, and on us in particular, is uncertain at this time.

The Dodd-Frank Act, among other things:

- Established the Consumer Financial Protection Bureau (the “CFPB”), an independent organization within the Federal Reserve which has the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial products or services, including banks and mortgage originators. The CFPB has broad rule-making authority for a wide range of consumer protection laws, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has exclusive examination authority and primary enforcement authority with respect to financial institutions with total assets of more than $10.0 billion and their affiliates for purposes of federal consumer protection laws. After June 30, 2011, a financial institution becomes subject to the CFPB’s exclusive examination authority and primary enforcement authority after it has reported total assets of greater than $10.0 billion in its quarterly call reports for four consecutive quarters.

- Established the Financial Stability Oversight Council, tasked with the authority to identify and monitor institutions and systems which pose a systemic risk to the financial system, and to impose standards regarding capital, leverage, liquidity, risk management, and other requirements for financial firms.

- Changed the base for FDIC insurance assessments.

- Increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% (the FDIC subsequently increased it by regulation to 2.00%).

- Permanently increased the deposit insurance coverage amount from $100,000 to $250,000.

- Directed the Federal Reserve to establish interchange fees for debit cards pursuant to a restrictive “reasonable and proportional cost” per transaction standard.

- Limits the ability of banking organizations to sponsor or invest in private equity and hedge funds and to engage in proprietary trading in a provision known as the “Volcker Rule”.

- Grants the U.S. government authority to liquidate or take emergency measures with respect to troubled nonbank financial companies that fall outside the existing resolution authority of the FDIC, including the establishment of an orderly liquidation fund.

- Increases regulation of asset-backed securities, including a requirement that issuers of asset-backed securities retain at least 5% of the risk of the asset-backed securities.

- Increases regulation of consumer protections regarding mortgage originations, including banker compensation, minimum repayment standards, and prepayment consideration.

- Establishes new disclosure and other requirements relating to executive compensation and corporate governance.

On June 21, 2010, the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the FDIC jointly issued comprehensive final guidance on incentive compensation policies (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon three primary principles: (i) balanced risk-taking incentives, (ii) compatibility with effective controls and risk management, and (iii) strong corporate governance. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. In addition, under the Incentive Compensation Guidance, a banking organization's federal supervisor may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization.

On April 14, 2011, the Federal Reserve Board and various other federal agencies published a notice of proposed rulemaking implementing provisions of the Dodd-Frank Act that would require reporting of incentive-based compensation arrangements by a covered financial institution and prohibit incentive-based compensation arrangements at a covered financial institution that provide excessive compensation or that could expose the institution to inappropriate risks that could lead to material financial loss. The Dodd-Frank Act defines "covered financial institution" to include, among other entities, a depository institution or depository institution holding company that has $1 billion or more in assets. There are enhanced requirements for institutions with more than $50 billion in assets. The proposed rule states that it is consistent with the Incentive Compensation Guidance.

On January 10, 2013, the CFPB issued a final rule to implement the "qualified mortgage", or "QM" provisions of the Dodd-Frank Act requiring mortgage lenders to consider consumers' ability to repay home loans before extending them credit. The final rule describes certain minimum requirements for creditors making ability-to-repay determinations, but does not dictate that they follow particular underwriting models. Lenders will be presumed to have complied with the ability-to-repay rule if they issue "qualified mortgages", which are generally defined as mortgage loans prohibiting or limiting certain risky features. Loans that do not meet the ability-to-repay standard can be challenged in court by borrowers who default and the absence of ability-to-repay status can be used against a creditor in foreclosure proceedings. The CFPB's QM rule took effect on January 10, 2014.

We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Corporate

Hilltop is a legal entity separate and distinct from PlainsCapital and its other subsidiaries. On November 30, 2012, concurrent with the consummation of the PlainsCapital Merger, Hilltop became a financial holding company registered under the Bank Holding Company Act, as amended by the Gramm-Leach-Bliley Act. Accordingly, it is subject to supervision, regulation and examination by the Federal Reserve Board. The Dodd-Frank Act, Gramm-Leach-Bliley Act, the Bank Holding Company Act and other federal laws subject financial and bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Changes of Control. Federal and state laws impose additional notice, approval and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of a regulated holding company, such as Hilltop. These laws include the Bank Holding Company Act, the Change in Bank Control Act and the Texas Insurance Code. Among other things, these laws require regulatory filings by an investor that seeks to acquire direct or indirect "control" of a regulated holding company. The determination whether an investor "controls" a regulated holding company is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting stock. Subject to rebuttal, an investor may be presumed to control the regulated holding company if the investor owns or controls 10% or more of any class of voting stock. Accordingly, these laws would apply to a person acquiring 10% or more of Hilltop's common stock. Furthermore, these laws may discourage potential acquisition proposals and may delay, deter or prevent change of control transactions, including those that some or all of our stockholders might consider to be desirable.

Regulatory Restrictions on Dividends; Source of Strength. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. The Dodd-Frank Act requires the regulatory agencies to issue regulations requiring that all bank and savings and loan holding companies serve as a source of financial and managerial strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress; however, no such proposals have yet been published.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve Board policy, a holding company may not be inclined to provide it. As discussed herein, a bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

Scope of Permissible Activities. Under the Bank Holding Company Act, Hilltop and PlainsCapital generally may not acquire a direct or indirect interest in, or control of more than 5% of, the voting shares of any company that is not a bank or bank holding company. Additionally, the Bank Holding Company Act may prohibit Hilltop from engaging in activities other than those of banking, managing or controlling banks or furnishing services to, or performing services for, its subsidiaries, except that it may engage in, directly or indirectly, certain activities that the Federal Reserve Board has determined to be closely related to banking or managing and controlling banks as to be a proper incident thereto. In approving acquisitions or the addition of activities, the Federal Reserve Board considers, among other things, whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

Notwithstanding the foregoing, the Gramm-Leach-Bliley Act, effective March 11, 2000, eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers and permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The Gramm-Leach-Bliley Act defines "financial in nature" to include: securities underwriting; dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. Prior to enactment of the Dodd-Frank Act, regulatory approval was not required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that were financial in nature or incidental to activities that were financial in nature, as determined by the Federal Reserve Board.

Under the Gramm-Leach-Bliley Act, a bank holding company may become a financial holding company by filing a declaration with the Federal Reserve Board if each of its subsidiary banks is "well capitalized" under the Federal Deposit Insurance Corporation Improvement Act prompt corrective action provisions, is "well managed", and has at least a "satisfactory" rating under the Community Reinvestment Act of 1977 (the "CRA"). The Dodd-Frank Act underscores the criteria for becoming a financial holding company by amending the Bank Holding Company Act to require that bank holding companies be "well capitalized" and "well managed" in order to become financial holding companies. Hilltop became a financial holding company on December 1, 2012.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. In addition, bank holding companies are required to consult with the Federal Reserve Board prior to making any redemption or repurchase, even within the foregoing parameters. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries that represent unsafe and unsound banking practices or that constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1.425 million for each day the activity continues. In addition, the Dodd-Frank Act authorizes the Federal Reserve Board to require reports from and examine bank holding companies and their subsidiaries, and to regulate functionally regulated subsidiaries of bank holding companies.

Anti-tying Restrictions. Subject to various exceptions, bank holding companies and their affiliates are generally prohibited from tying the provision of certain services, such as extensions of credit, to certain other services offered by a bank holding company or its affiliates.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines in effect as of December 31, 2014, a risk weight factor of 0% to 100% is assigned to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a “risk-weighted” asset base. At least half of the risk-based capital must consist of core (Tier 1) capital, which is comprised of:

- common stockholders’ equity (includes common stock and any related surplus, undivided profits, disclosed capital reserves that represent a segregation of undivided profits and foreign currency translation adjustments, excluding changes in other comprehensive income (loss));
- certain noncumulative perpetual preferred stock and related surplus; and
- minority interests in the equity capital accounts of consolidated subsidiaries (excludes goodwill and various intangible assets).

The remainder, supplementary (Tier 2) capital, may consist of:

- allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets;
- certain perpetual preferred stock and related surplus;
- hybrid capital instruments;
- perpetual debt;
- mandatory convertible debt securities;
- term subordinated debt;
- intermediate term preferred stock; and
- certain unrealized holding gains on equity securities.

Total capital is the sum of Tier 1 and Tier 2 capital. The guidelines require a minimum ratio of total capital to total risk-weighted assets of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). At December 31, 2014, our ratio of Tier 1 capital to total risk-weighted assets was 19.02% and our ratio of total capital to total risk-weighted assets was 19.69%.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company’s Tier 1 capital divided by its average total consolidated assets. We are required to maintain a leverage ratio of 4.0%, and, at December 31, 2014, our leverage ratio was 14.17%.

The federal banking agencies’ risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Dodd-Frank Act directs federal banking agencies to establish minimum leverage capital requirements and minimum risk-based capital requirements for insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Federal Reserve Board. These minimum capital requirements may not be less than the “generally applicable leverage and risk-based capital requirements” applicable to insured depository institutions, in effect applying the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. The Dodd-Frank Act, for the first time, embeds in the law a leverage capital requirement as opposed to leaving it to the regulators to use a risk-based capital requirement. However, it is left to the discretion of the agencies to set the leverage ratio requirement through the rulemaking process.

BASEL III. In December 2010, the Basel Committee on Banking Supervision (the "Basel Committee") released revised final frameworks for the regulation of capital and liquidity of internationally active banking organizations. These frameworks are generally referred to as "Basel III." On July 2, 2013, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency released three final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. These final rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Hilltop, PlainsCapital and the Bank began transitioning to the final rules on January 1, 2015 when the minimum capital requirements, as set forth in the table below, became effective. However, the capital conservation buffer and certain deductions from common equity Tier 1 capital phase in over a time period from 2015 through 2019.

The following table summarizes the Basel III transition schedule for the ratios and capital definitions beginning January 1, 2015.

Year (as of January 1)	2015	2016	2017	2018	2019
Minimum common equity Tier 1 capital ratio	4.5%	4.5%	4.5%	4.5%	4.5%
Common equity Tier 1 capital conservation buffer	N/A	0.625%	1.25%	1.875%	2.5%
Minimum common equity Tier 1 capital ratio plus capital conservation buffer	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of most deductions from common equity Tier 1 (including 10 percent & 15 percent common equity Tier 1 threshold deduction items that are over the limits)(1)	40.0%	60.0%	80.0%	100.0%	100.0%
Minimum Tier 1 capital ratio	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Tier 1 capital ratio plus capital conservation buffer	N/A	6.625%	7.25%	7.875%	8.5%
Minimum total capital ratio	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital ratio plus conservation buffer	N/A	8.625%	9.25%	9.875%	10.5%

* N/A means not applicable.

(1) Deductions from common equity Tier 1 capital include goodwill and other intangibles, deferred tax assets that arise from net operating loss and tax credit carryforwards (above certain levels), gains-on-sale in connection with a securitization, any defined benefit pension fund net asset (for banking organizations that are not insured depository institutions), investments in a banking organization's own capital instruments, mortgage servicing assets (above certain levels) and investments in the capital of unconsolidated financial institutions (above certain levels).

The final Basel III rules take important steps toward improving the quality and increasing the quantity of capital for all banking organizations as well as setting higher standards for large, internationally active banking organizations. The regulatory agencies believe that the new rules will result in capital requirements that better reflect banking organizations' risk profiles, thereby improving the overall resilience of the banking system. The regulatory agencies carefully considered the potential impacts on all banking organizations, including community and regional banking organizations such as Hilltop and the Bank, and sought to minimize the potential burden of these changes where consistent with applicable law and the agencies' goals of establishing a robust and comprehensive capital framework.

The final Basel III rules treatment of one- to four-family residential mortgage exposures remains the same as under current general risk-based capital rules. This includes a 50 percent risk weight for prudently underwritten first lien mortgage loans that are not past due, reported as nonaccrual, or restructured, and a 100 percent risk weight for all other residential mortgages. Also in the new rules, non-advanced approaches banking organizations, such as Hilltop and the Bank, are given a one-time option to filter certain Accumulated Other Comprehensive Income ("AOCI") components, comparable to the treatment under the current general risk-based capital rule. The AOCI opt-out election must be made on the institution's first regulatory filing after January 1, 2015.

The final Basel III rules also make certain major changes from the current general risk-based capital rules, including, but not limited to the following:

- Implementing higher minimum capital requirements, including a new common equity Tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5 percent and a Tier 1 capital ratio of 6.0 percent (an increase from 4.0 percent), and a total capital ratio that remains at 8.0 percent. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0 percent. The new rules maintain the general structure of the current prompt corrective action framework (described below) while incorporating these increased minimum requirements starting January 1, 2015.

- Changing the definition of capital by incorporating stricter eligibility criteria for regulatory capital instruments that disallow the inclusion of instruments such as newly issued and, in certain circumstances, existing trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing rights, deferred tax assets, and other certain investments in the capital of unconsolidated financial institutions. In addition, the new rules require that most regulatory capital deductions be made from common equity Tier 1 capital.

- The Dodd-Frank Act prohibits references to, and reliance on, external credit ratings in the banking regulations and directs the agencies to use alternative standards of creditworthiness. The new rules replace the ratings-based approach with a simplified supervisory formula approach in order to determine the appropriate risk-weights of securitization exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

- Mortgage servicing assets and deferred tax assets are subject to stricter individual and aggregate limitations as a percentage of common equity Tier 1 capital than those applicable under the current general risk-based capital rules.

- Increasing the risk-weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk-weights and credit conversion factors.

- In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk-weighted assets. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016.

The following table summarizes how much a banking organization can pay out in the form of distributions or discretionary bonus payments in a quarter based on its capital conservation buffer. A banking organization with a buffer greater than 2.5 percent would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5 percent would be subject to increasingly stringent limitations as the buffer approaches zero.

Capital Conservation Buffer (as a percentage of risk-weighted assets)	**Maximum Payout (as a percentage of eligible retained income)**
Greater than 2.5 percent	No payout limitation applies
Less than or equal to 2.5 percent and greater than 1.875 percent	60 percent
Less than or equal to 1.875 percent and greater than 1.25 percent	40 percent
Less than or equal to 1.25 percent and greater than 0.625 percent	20 percent
Less than or equal to 0.625 percent	0 percent

The new rules also prohibit a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income. When the new rules are fully phased-in in 2019, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds.

Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies. The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider, among other things, the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors. In addition, the Dodd-Frank Act requires the Federal Reserve Board to consider "the risk to the stability of the U.S. banking or financial system" when evaluating acquisitions of banks and nonbanks under the Bank Holding Company Act. With respect to interstate acquisitions, the Dodd-Frank Act amends the Bank Holding Company Act by raising the standard by which interstate bank acquisitions are permitted from a standard that the acquiring bank holding company be "adequately capitalized" and "adequately managed", to the higher standard of being "well capitalized" and "well managed".

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute acquisition of control of such company.

Emergency Economic Stabilization Act of 2008 and the Small Business Jobs Act of 2010. The U.S. Congress, the U.S. Department of the Treasury ("U.S. Treasury") and the federal banking regulators took broad action beginning in early September 2008 to address volatility in the U.S. banking system. The Emergency Economic Stabilization Act of 2008 authorized the U.S. Treasury to purchase from financial institutions and their holding companies certain mortgage loans, mortgage-backed securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in the Troubled Asset Relief Program ("TARP") Capital Purchase Program.

On December 19, 2008, PlainsCapital sold 87,631 shares of its Fixed Rate Cumulative Perpetual Stock, Series A and a warrant to purchase, upon net exercise, 4,382 shares of its Fixed Rate Cumulative Perpetual Stock, Series B to the U.S. Treasury for $87.6 million pursuant to the TARP Capital Purchase Program. The U.S. Treasury immediately exercised its warrant on December 19, 2008, and PlainsCapital issued the underlying shares of its Series B Preferred Stock to the U.S. Treasury. On September 27, 2011, PlainsCapital entered into a Securities Purchase Agreement with the Secretary of the Treasury (the "Purchase Agreement") pursuant to which PlainsCapital issued 114,068 shares of its newly designated Non-Cumulative Perpetual Preferred Stock, Series C for a total purchase price of $114,068,000. The proceeds from the sale of PlainsCapital's Series C Preferred Stock were used to redeem and repurchase PlainsCapital's Series A and Series B Preferred Stock. PlainsCapital's Series C Preferred Stock was issued pursuant to the Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. In connection with the PlainsCapital Merger, Hilltop assumed PlainsCapital's obligations under the Purchase Agreement and redeemed PlainsCapital's outstanding Series C Preferred Stock in exchange for the Non-Cumulative Perpetual Preferred Stock, Series B of Hilltop (the "Hilltop Series B Preferred Stock").

On November 29, 2012, Hilltop filed with the State Department of Assessments and Taxation of the State of Maryland articles supplementary for the Hilltop Series B Preferred Stock, setting forth its terms. Holders of the Hilltop Series B Preferred Stock are entitled to noncumulative cash dividends at a fluctuating dividend rate based on the Bank's level of qualified small business lending ("QSBL"). The Hilltop Series B Preferred Stock is non-voting, except in limited circumstances, and ranks senior to Hilltop's common stock with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of Hilltop.

The terms of the Hilltop Series B Preferred Stock restrict Hilltop's ability to pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment on its common stock and other Hilltop capital stock ranking junior to the Hilltop Series B Preferred Stock, and on other preferred stock and other stock ranking on a parity with the Hilltop Series B Preferred Stock, in the event that Hilltop does not declare dividends on the Hilltop Series B Preferred Stock during any dividend period.

The Hilltop Series B Preferred Stock qualifies as Tier 1 capital and is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. Until December 31, 2013, the dividend rate, as a percentage of the liquidation amount, fluctuated based upon changes in the level of QSBL by the Bank. From January 1, 2014 until March 26, 2016, the dividend rate is fixed at 5.0% based upon the Bank's level of QSBL at September 30, 2013. Beginning March 27, 2016, the dividend rate on any outstanding shares of Hilltop Series B Preferred Stock will be fixed at nine percent (9%) per annum.

Except as noted in the next sentence, the Hilltop Series B Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100 percent of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to approval of the Federal Reserve Board. In the agreement and plan of merger with PlainsCapital Corporation, the Company agreed not to redeem or otherwise acquire the Hilltop Series B Preferred Stock prior to the second anniversary of the closing date of the PlainsCapital Merger, or November 30, 2014. For more information, see "Risk Factors — The Treasury's investment in us imposes restrictions and obligations upon us that could adversely affect the rights of our common stockholders."

Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The monetary policies of the Federal Reserve Board have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its influence over the issuance of U.S. government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

Banking

The Bank is subject to various requirements and restrictions under the laws of the United States, and to regulation, supervision and regular examination by the Texas Department of Banking. The Bank, as a state member bank, is also subject to regulation and examination by the Federal Reserve Board. As a bank with less than $10 billion in assets, the Bank became subject to the regulations issued by the CFPB on July 21, 2011, although the Federal Reserve Board continued to examine the Bank for compliance with federal consumer protection laws. As of December 31, 2014, the Bank's total assets were $8.0 billion. If the Bank's total assets were to increase, either organically or through an acquisition, merger or combination, to over $10.0 billion (as measured on four consecutive quarterly call reports of the Bank and any institutions it acquires), the Bank would become subject to the CFPB's supervisory and enforcement authority with respect to federal consumer financial laws beginning in the following quarter. SWS FSB, which was merged with the Bank on January 1, 2015, was formerly regulated by the Office of the Comptroller of the Currency. The Bank is also an insured depository institution and, therefore, subject to regulation by the FDIC, although the Federal Reserve Board is the Bank's primary federal regulator. The Federal Reserve Board, the Texas Department of Banking, the CFPB and the FDIC have the power to enforce compliance with applicable banking statutes and regulations. Such requirements and restrictions include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon and restrictions relating to investments and other activities of the Bank. In July 2010, the FDIC voted to revise its agreement with the primary federal regulators to enhance the FDIC's existing backup authorities over insured depository institutions that the FDIC does not directly supervise. As a result, the Bank may be subject to increased supervision by the FDIC.

Restrictions on Transactions with Affiliates. Transactions between the Bank and its nonbanking affiliates, including Hilltop and PlainsCapital, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties that are collateralized by the securities or obligations of Hilltop or its subsidiaries. Among other changes, the Dodd-Frank Act expands the definition of "covered transactions" and clarifies the amount of time that the collateral requirements must be satisfied for covered transactions, and amends the definition of "affiliate" in Section 23A to include "any investment fund with respect to which a member bank or an affiliate thereof is an investment advisor."

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act, which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. The Federal Reserve has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretive guidance with respect to affiliate transactions.

Loans to Insiders. The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the Federal Reserve Board may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. The Dodd-Frank Act amends the statutes placing limitations on loans to insiders by including credit exposures to the person arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction, or securities borrowing transaction between the member bank and the person within the definition of an extension of credit.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets. Dividends paid by the Bank have provided a substantial part of PlainsCapital's operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to PlainsCapital will continue to be PlainsCapital's and Hilltop's principal source of operating funds. Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Pursuant to the Texas Finance Code, a Texas banking association may not pay a dividend that would reduce its outstanding capital and surplus unless it obtains the prior approval of the Texas Banking Commissioner. Additionally, the FDIC and the Federal Reserve Board have the authority to prohibit Texas state banks from paying a dividend when they determine the dividend would be an unsafe or unsound banking practice. As a member of the Federal Reserve System, the Bank must also comply with the dividend restrictions with which a national bank would be required to comply. Those provisions are generally similar to those imposed by the state of Texas. Among other things, the federal restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid.

In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its stockholders, including any depository institution holding company (such as PlainsCapital and Hilltop) or any stockholder or creditor thereof.

Branching. The establishment of a branch must be approved by the Texas Department of Banking and the Federal Reserve Board, which consider a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. The regulators will also consider the applicant's CRA record.

Interstate Branching. Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") amended the Federal Deposit Insurance Act and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed legislation prior to May 31, 1997 expressly prohibiting interstate mergers. Under the Dodd-Frank Act, de novo interstate branching by banks is permitted if, under the laws of the state where the branch is to be located, a state bank chartered in that state would be permitted to establish a branch.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized") in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as "undercapitalized", "significantly undercapitalized" or "critically undercapitalized" is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital. The Bank was classified as "well capitalized" at December 31, 2014.

In addition, if a bank is classified as "undercapitalized," the bank is required to submit a capital restoration plan to the federal banking regulators. Pursuant to FDICIA, an "undercapitalized" bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the federal banking regulators of a capital restoration plan for the bank.

Furthermore, if a bank is classified as "undercapitalized," the federal banking regulators may take certain actions to correct the capital position of the bank; if a bank is classified as "significantly undercapitalized" or "critically undercapitalized," the federal banking regulators would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring: sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as "critically undercapitalized," FDICIA requires the bank to be placed into conservatorship or receivership within 90 days, unless the federal banking regulators determines that other action would better achieve the purposes of FDICIA regarding prompt corrective action with respect to undercapitalized banks.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months. An exception to this rule is made, however, that provides that banks (i) with assets of less than $100 million, (ii) that are categorized as "well capitalized," (iii) that were found to be well managed and composite rating was outstanding and (iv) have not been subject to a change in control during the last 12 months, need only be examined once every 18 months.

FDIC Insurance Assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) "well capitalized;" (2) "adequately capitalized;" or (3) "undercapitalized." These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

On February 7, 2011, the FDIC issued a final rule implementing revisions to the assessment system mandated by the Dodd-Frank Act. The new regulation was effective April 1, 2011 and was reflected in the June 30, 2011 FDIC deposit insurance fund ("DIF") balance and the invoices for assessments due September 30, 2011. Accruals for DIF assessments were $1.0 million for the year ended December 31, 2014.

The FDIC is required to maintain a designated reserve ratio of the DIF to insured deposits in the United States. The Dodd-Frank Act requires the FDIC to assess insured depository institutions to achieve a DIF ratio of at least 1.35 percent by September 30, 2020. Pursuant to its authority in the Dodd-Frank Act, the FDIC on December 20, 2010, published a final rule establishing a higher long-term target DIF ratio of greater than 2%. Deposit insurance assessment rates are subject to change by the FDIC and will be impacted by the overall economy and the stability of the banking industry as a whole. The FDIC will notify the Bank concerning an assessment rate that we will be charged for the assessment period. As a result of the new regulations, we expect to incur higher annual deposit insurance assessments, which could have a significant adverse impact on our financial condition and results of operations.

The Dodd-Frank Act permanently increased the standard maximum deposit insurance amount from $100,000 to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

Community Reinvestment Act. The CRA requires, in connection with examinations of financial institutions, that federal banking regulators (in the Bank's case, the Federal Reserve Board) evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. Additionally, the Bank must publicly disclose the terms of various CRA-related agreements.

During the second quarter of 2013, the Bank received a "satisfactory" CRA rating in connection with its most recent CRA performance evaluation. A CRA rating of less than "satisfactory" adversely affects a bank's ability to establish new branches and impairs a bank's ability to commence new activities that are "financial in nature" or acquire companies engaged in these activities. See "Risk factors — We are subject to extensive supervision and regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to generate income."

Privacy. Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank and all of its subsidiaries have established policies and procedures to comply with the privacy provisions of the Gramm-Leach-Bliley Act.

Federal Laws Applicable to Credit Transactions. The loan operations of the Bank are also subject to federal laws and implementing regulations applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies and preventing identity theft;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies;
- Service Members Civil Relief Act, which amended the Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service;
- The Dodd-Frank Act, which establishes the CFPB, an independent entity within the Federal Reserve, dedicated to promulgating and enforcing consumer protection laws applicable to all entities offering consumer financial services or products; and
- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates.

Federal Laws Applicable to Deposit Operations. The deposit operations of the Bank are subject to:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Truth in Savings Act, which requires the Bank to disclose the terms and conditions on which interest is paid and fees are assessed in connection with deposit accounts; and
- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board and the CFPB to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of ATMs and other electronic banking services. The Dodd-Frank Act amends the Electronic Funds Transfer Act to, among other things, give the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Capital Requirements. The Federal Reserve Board and the Texas Department of Banking monitor the capital adequacy of the Bank by using a combination of risk-based guidelines and leverage ratios. The agencies consider the Bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system.

Under the regulatory capital guidelines (without giving effect to Basel III discussed below), the Bank must maintain a total risk-based capital to risk-weighted assets ratio of at least 8.0%, a Tier 1 capital to risk-weighted assets ratio of at least 4.0%, and a Tier 1 capital to average total assets ratio of at least 4.0% (3.0% for banks receiving the highest examination rating) to be considered "adequately capitalized." See the discussion herein under "The FDIC Improvement Act." At December 31, 2014, the Bank's ratio of total risk-based capital to risk-weighted assets was 14.45%, the Bank's ratio of Tier 1 capital to risk-weighted assets was 13.74% and the Bank's ratio of Tier 1 capital to average total assets was 10.31%.

On January 1, 2015, the Bank began transitioning to the final rules that substantially amend the regulatory risk-based capital rules to implement the Basel III regulatory capital reforms. For additional discussion of Basel III, see the section entitled "Government Supervision and Regulation — Corporate — Basel III" earlier in this Item 1.

FIRREA. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") includes various provisions that affect or may affect the Bank. Among other matters, FIRREA generally permits bank holding companies to acquire healthy thrifts as well as failed or failing thrifts. FIRREA removed certain cross marketing prohibitions previously applicable to thrift and bank subsidiaries of a common holding company. Furthermore, a multi-bank holding company may now be required to indemnify the DIF against losses it incurs with respect to such company's affiliated banks, which in effect makes a bank holding company's equity investments in healthy bank subsidiaries available to the FDIC to assist such company's failing or failed bank subsidiaries.

In addition, pursuant to FIRREA, any depository institution that has been chartered less than two years, is not in compliance with the minimum capital requirements of its primary federal banking regulator, or is otherwise in a troubled condition must notify its primary federal banking regulator of the proposed addition of any person to its board of directors or the employment of any person as a senior executive officer of the institution at least 30 days before such addition or employment becomes effective. During such 30 day period, the applicable federal banking regulatory agency may disapprove of the addition of or employment of such director or officer. The Bank is not subject to any such requirements. FIRREA also expanded and increased civil and criminal penalties available for use by the appropriate regulatory agency against certain "institution affiliated parties" primarily including: (i) management, employees and agents of a financial institution; (ii) independent contractors such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs and who caused or are likely to cause more than minimum financial loss to or a significant adverse effect on the institution, who knowingly or recklessly violate a law or regulation, breach a fiduciary duty or engage in unsafe or unsound practices. Such practices can include the failure of an institution to timely file required reports or the submission of inaccurate reports. Furthermore, FIRREA authorizes the appropriate banking agency to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets or take other action as determined by the ordering agency to be appropriate.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank's financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with GAAP and comply with such other disclosure requirements as prescribed by the FDIC.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. "Well capitalized" banks are permitted to accept brokered deposits, but banks that are not "well capitalized" are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are "adequately capitalized" to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. At December 31, 2014, the Bank was "well capitalized" and therefore not subject to any limitations with respect to its brokered deposits. Brokered deposits are the subject of a study under the Dodd-Frank Act.

Federal limitations on activities and investments. The equity investments and activities, as a principle of FDIC-insured state-chartered banks, are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank.

Check Clearing for the 21st Century Act. The Check Clearing for the 21st Century Act gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check.

Federal Home Loan Bank System. The Federal Home Loan Bank ("FHLB") system, of which the Bank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Board. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. The reserves are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. The FHLBs make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, according to currently existing policies and procedures, the Bank is entitled to borrow from the FHLB of its respective region and is required to own a certain amount of capital stock in the FHLB. The Bank is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to the Bank are secured by a portion of the respective mortgage loan portfolio, certain other investments and the capital stock of the FHLB held by the Bank.

Anti-terrorism and Money Laundering Legislation. The Bank is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism of 2001 (the "USA PATRIOT Act"), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control. These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. The Bank has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Broker-Dealer

FSC, Southwest Securities and SWS Financial (collectively, the "Hilltop Broker-Dealers") are broker-dealers registered with the SEC, FINRA, all 50 U.S. states and the District of Columbia. FSC and Southwest Securities are also registered in Puerto Rico and the U.S. Virgin Islands. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, principally FINRA, the Municipal Securities Rulemaking Board and national securities exchanges. These self-regulatory organizations adopt rules (which are subject to approval by the SEC) for governing its members and the industry. Broker-dealers are also subject to the laws and rules of the states in which a broker-dealer conducts business. The Hilltop Broker-Dealers are members of, and are primarily subject to regulation, supervision and regular examination by, FINRA.

The regulations to which broker-dealers are subject cover all aspects of the securities business, including, but not limited to, sales and trade practices, net capital requirements, record keeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, experience and training requirements for certain employees, the conduct of investment banking and research activities and the conduct of registered persons, directors, officers and employees. Broker-dealers are also subject to the privacy and anti-money laundering laws and regulations discussed herein. Additional legislation, changes in rules promulgated by the SEC and by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules often directly affects the method of operation and profitability of broker-dealers. The SEC, the self-regulatory organizations and states may conduct administrative and enforcement proceedings that can result in censure, fine, suspension or expulsion of our broker-dealers, their registered persons, officers or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than protection of creditors and stockholders of broker-dealers.

Limitation on Businesses. The businesses that the Hilltop Broker-Dealers may conduct are limited by its agreements with, and its oversight by, FINRA, other regulatory authorities and federal and state law. Participation in new business lines, including trading of new products or participation on new exchanges or in new countries often requires governmental and/or exchange approvals, which may take significant time and resources. In addition, the Hilltop-Broker Dealers are operating subsidiaries of Hilltop, which means its activities are further limited by those that are permissible for subsidiaries of financial holding companies, and as a result, may be prevented from entering new businesses that may be profitable in a timely manner, if at all.

Net Capital Requirements. The SEC, FINRA and various other regulatory authorities have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. Rule 15c3-1 of the Exchange Act (the "Net Capital Rule") requires that a broker-dealer maintain minimum net capital. Generally, a broker-dealer's net capital is net worth plus qualified subordinated debt less deductions for non-allowable (or non-liquid) assets and other adjustments and operational charges. At December 31, 2014, the Hilltop Broker-Dealers were in compliance with applicable net capital requirements.

The SEC, CFTC, FINRA and other regulatory organizations impose rules that require notification when net capital falls below certain predefined thresholds. These rules also dictate the ratio of debt-to-equity in the regulatory capital composition of a broker-dealer, and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a broker-dealer fails to maintain the required net capital, it may be subject to suspension or revocation of registration by the SEC or applicable regulatory authorities, and suspension or expulsion by these regulators could ultimately lead to the broker-dealer's liquidation. Additionally, the Net Capital Rule and certain FINRA rules impose requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to, and approval from, the SEC and FINRA for certain capital withdrawals.

Compliance with the net capital requirements may limit our operations, requiring the intensive use of capital. Such rules require that a certain percentage of our assets be maintained in relatively liquid form and therefore act to restrict our ability to withdraw capital from our broker-dealer entities, which in turn may limit our ability to pay dividends, repay debt or redeem or purchase shares of our outstanding common stock. Any change in such rules or the imposition of new rules affecting the scope, coverage, calculation or amount of capital requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect our ability to pay dividends, repay debt, meet our debt covenant requirements or to expand or maintain our operations. In addition, such rules may require us to make substantial capital contributions into one or more of the Hilltop Broker-Dealers in order for such subsidiaries to comply with such rules, either in the form of cash or subordinated loans made in accordance with the requirements of all applicable net capital rules.

Customer Protection Rule. The Hilltop Broker-Dealers that hold customers' funds and securities are subject to the SEC's customer protection rule (Rule 15c3-3 under the Exchange Act), which generally provides that such broker-dealers maintain physical possession or control of all fully-paid securities and excess margin securities carried for the account of customers and maintain certain reserves of cash or qualified securities.

Securities Investor Protection Corporation ("SIPC"). The Hilltop Broker-Dealers are subject to the Securities Investor Protection Act and belong to SIPC, whose primary function is to provide financial protection for the customers of failing brokerage firms. SIPC provides protection for customers up to $500,000, of which a maximum of $250,000 may be in cash.

Anti-Money Laundering. The Hilltop Broker-Dealers must also comply with the USA PATRIOT Act of 2001, as amended, (the "Patriot Act"), and other rules and regulations designed to fight international money laundering and to block terrorist access to the U.S. financial system. We are required to have systems and procedures to ensure compliance with such laws and regulations.

CFTC Oversight. Southwest Securities and SWS Financial are registered as introducing brokers with the CFTC and NFA. The CFTC also has net capital regulations (CFTC Rule 1.17) that must be satisfied. Our futures business is also regulated by the NFA, a registered futures association. FSC is registered with the CFTC as a commodity trading advisor. Violation of the rules of the CFTC, the NFA or the commodity exchanges could result in remedial actions including fines, registration restrictions or terminations, trading prohibitions or revocations of commodity exchange memberships.

Investment Advisory Activity. First Southwest Asset Management, LLC, Southwest Securities and SWS Financial are registered with, and subject to oversight and inspection by, the SEC as investment advisers under the Investment Advisers Act of 1940, as amended. The investment advisory business of our subsidiaries is subject to significant federal regulation, including with respect to wrap fee programs, the management of client accounts, the safeguarding of client assets, client fees and disclosures, transactions among affiliates and recordkeeping and reporting procedures. Legislation and changes in regulations promulgated by the SEC or changes in the interpretation or enforcement of existing laws and regulations often directly affect the method of operation and profitability of investment advisers. The SEC may conduct administrative and enforcement proceedings that can result in censure, fine, suspension, revocation or expulsion of the investment advisory business of our subsidiaries, our officers or employees.

Volcker Rule. Provisions of the Volcker Rule and the final rules implementing the Volcker Rule restrict certain activities provided by Hilltop Broker-Dealers, including proprietary trading. For purposes of the Volcker Rule, purchases or sales of financial instruments such as securities, derivatives, contracts of sale of commodities for future delivery or options on the foregoing for the purpose of short-term gain are deemed to be proprietary trading (with financial instruments held for less than 60 days presumed to be for proprietary trading unless an alternative purpose can be demonstrated), unless certain exemptions apply. Exempted activities include, among others, the following: 1) underwriting; 2) market making; 3) risk mitigating hedging; 4) trading in certain government securities; 5) employee compensation plans and 6) transactions entered into on behalf of and for the account of clients as agent, broker, custodian or in a trustee or fiduciary capacity. While management continues to assess compliance with the Volcker Rule, we have reviewed our processes and procedures in regard to proprietary trading and we believe we are currently complying with the provisions of the Volcker Rule regarding proprietary trading. However, it remains uncertain how the scope of applicable restrictions and exceptions will be interpreted and administered by the relevant regulators. Absent further regulatory guidance, we are required to make certain assumptions as to the degree to which our activities, processes and procedures in these areas comply with the requirements of the Volcker Rule. If these assumptions are not accurate or if our implementation of compliance processes and procedures is not consistent with regulatory expectations, we may be required to make certain changes to our business activities, processes or procedures, which could further increase our compliance and regulatory risks and costs.

Changing Regulatory Environment. The regulatory environment in which the Hilltop Broker-Dealers operate is subject to frequent change. Our business, financial condition and operating results may be adversely affected as a result of new or revised legislation or regulations imposed by the U.S. Congress, the SEC, FINRA or other U.S. and state governmental regulatory authorities. The business, financial condition and operating results of the Hilltop Broker-Dealers also may be adversely affected by changes in the interpretation and enforcement of existing laws and rules by these governmental and regulatory authorities. In the current era of heightened regulation of financial institutions, the Hilltop Broker-Dealers can expect to incur increasing compliance costs, along with the industry as a whole.

Mortgage Origination

PrimeLending and the Bank are subject to the rules and regulations of the CFPB, FHA, VA, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and Government National Mortgage Association with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, Secure and Fair Enforcement of Mortgage Licensing Act, Home Mortgage Disclosure Act, Fair Credit Reporting Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to borrowers concerning credit terms and settlement costs. PrimeLending and the Bank are also subject to regulation by the Texas Department of Banking with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products. PrimeLending and the Bank are also subject to the provisions of the Dodd-Frank Act. Among other things, the Dodd-Frank Act established the CFPB and provides mortgage reform provisions regarding a customer’s ability to repay, restrictions on variable-rate lending, loan officers’ compensation, risk retention, and new disclosure requirements. The Dodd-Frank Act also clarifies that applicable state laws, rules and regulations related to the origination, processing, selling and servicing of mortgage loans continue to apply to PrimeLending. The additional regulatory requirements affecting our mortgage origination operations will result in increased compliance costs and may impact revenue.

On August 16, 2010, the Federal Reserve Board published a final rule on loan broker compensation, pursuant to the Dodd-Frank Act, which prohibits certain compensation payments to loan brokers and the practice of steering consumers to loans not in their interest when it will result in greater compensation for a loan broker. This final rule became effective on April 1, 2011, however, the Federal Reserve Board noted in the final rule that the CFPB may clarify the rule in the future pursuant to the CFPB’s authority granted under the Dodd-Frank Act. The CFPB’s final rule addressing mortgage loan originator compensation is discussed in more detail below.

In addition, the Dodd-Frank Act directed the Federal Reserve Board to promulgate regulations requiring lenders and securitizers to retain an economic interest in the credit risk relating to loans the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability to repay standards spelled out in the Dodd-Frank Act and its implementing regulations.

On March 2, 2011, the Federal Reserve Board published a final rule implementing a provision in the Dodd-Frank Act that provides a separate, higher rate threshold for determining when the escrow requirements apply to higher-priced mortgage loans that exceed the maximum principal obligation eligible for purchase by Freddie Mac.

In January 2013, the CFPB published final rules that will impact mortgage origination and servicing. Had these final rules not been published, many of the statutory requirements in Title XIV of the Dodd-Frank Act would have become effective on January 21, 2013 without any implementing regulations. Unless noted below, these final rules became effective in January 2014.

On October 22, 2014 the Federal Reserve Board, the SEC and several other agencies collectively issued a final rule that implements the credit risk retention provisions under Section 941 of the Dodd-Frank Act.

The final rules concerning mortgage origination and servicing address the following topics:

Ability to Repay. This final rule implements the Dodd-Frank Act provisions requiring that for residential mortgages, creditors must make a reasonable and good faith determination based on verified and documented information that the consumer has a reasonable ability to repay the loan according to its terms. The final rule also establishes a presumption of compliance with the ability to repay determination for a certain category of mortgages called “qualified mortgages” meeting a series of detailed requirements. The final rule also provides a rebuttable presumption for higher-priced mortgage loans.

High-Cost Mortgage. This final rule strengthens consumer protections for high-cost mortgages (generally bans balloon payments and prepayment penalties, subject to exceptions and bans or limits certain fees and practices) and requires consumers to receive information about homeownership counseling prior to taking out a high-cost mortgage.

Appraisals for High-Risk Mortgages. The final rule permits a creditor to extend a higher-priced (subprime) mortgage loan ("HPML") only if the following conditions are met (subject to exceptions): (i) the creditor obtains a written appraisal; (ii) the appraisal is performed by a certified or licensed appraiser; and (iii) the appraiser conducts a physical property visit of the interior of the property. The rule also requires that during the application process, the applicant receives a notice regarding the appraisal process and their right to receive a free copy of the appraisal.

Copies of Appraisals. This final rule amends Regulation B that implements the Equal Credit Opportunity Act. It requires a creditor to provide a free copy of appraisal or valuation reports prepared in connection with any closed-end loan secured by a first lien on a dwelling. The final rule requires notice to applicants of the right to receive copies of any appraisal or valuation reports and creditors must send copies of the reports whether or not the loan transaction is consummated. Creditors must provide the copies of the appraisal or evaluation reports for free, however, the creditors may charge reasonable fees for the cost of the appraisal or valuation unless applicable law provides otherwise.

Escrow Requirements. This final rule implements Dodd-Frank Act changes that generally extend the required duration of an escrow account on certain higher-priced mortgage loans from a minimum of one year to a minimum of five years, subject to certain exemptions for loans made by certain creditors that operate predominantly in rural or underserved areas, as long as certain other criteria are met. This final rule became effective on June 1, 2013.

Servicing. Two final rules were published to implement laws to protect consumers from detrimental actions by mortgage servicers and to provide consumers with better tools and information when dealing with mortgage servicers. One final rule amends Regulation Z, which implements the Truth in Lending Act, and a second final rule amends Regulation X, which implements the Real Estate Settlement Procedures Act. The rules cover nine major topics implementing the Dodd-Frank Act provisions related to mortgage servicing. The final rules include a number of exemptions and other adjustments for small servicers, defined as servicers that service 5,000 or fewer mortgage loans and service only mortgage loans that they or an affiliate originated or own.

Mortgage Loan Originator Compensation. This final rule implements Dodd-Frank Act requirements, as well as revises and clarifies existing regulations and commentary on loan originator compensation. The rule also prohibits, among other things: (i) certain arbitration agreements; (ii) financing certain credit insurance in connection with a mortgage loan; (iii) compensation based on a term of a transaction or a proxy for a term of a transaction; and (iv) dual compensation from a consumer and another person in connection with the transaction. The final rule also imposes a duty on individual loan officers, mortgage brokers and creditors to be "qualified" and, when applicable, registered or licensed to the extent required under applicable State and Federal law.

Risk Retention. This final rule implements the requirements of the Dodd-Frank Act that at least one sponsor of each securitization retains at least 5% of the credit risk of the assets collateralizing asset-backed securities. Sponsors are prohibited from hedging or transferring this credit risk, and the rule applies in both public and private transactions. Securitizations backed by "qualified residential mortgages" or "servicing assets" are exempt from the rule, and the definition of "qualified residential mortgages" is subject to review of the joint regulators every five years. The rule becomes effective on December 24, 2015 with respect to asset-backed securities collateralized by residential mortgages and December 24, 2016 with respect to all other classes of asset-backed securities.

Additional rules and regulations are expected. Any additional regulatory requirements affecting PrimeLending mortgage origination operations will result in increased compliance costs and may impact revenue.

Insurance

NLC's insurance subsidiaries, NLIC and ASIC, are subject to regulation and supervision in each state where they are licensed to do business. This regulation and supervision is vested in state agencies having broad administrative power over the various aspects of the business of NLIC and ASIC.

State insurance holding company regulation. NLC controls two operating insurance companies, NLIC and ASIC, and is subject to the insurance holding company laws of Texas, the state in which those insurance companies are domiciled. These laws generally require NLC to register with the Texas Department of Insurance and periodically to furnish financial and other information about the operations of companies within its holding company structure. Generally under these laws, all transactions between an insurer and an affiliated company in its holding company structure, including sales, loans, reinsurance agreements and service agreements, must be fair and reasonable and, if satisfying a specified threshold amount or of a specified category, require prior notice and approval or non-objection by the Texas Department of Insurance.

National Association of Insurance Commissioners. The National Association of Insurance Commissioners ("NAIC") is a group consisting of state insurance commissioners that discuss issues and formulate policy with respect to regulation, reporting and accounting for insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states and, to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Certain Model Insurance Laws, Regulations and Guidelines, or Model Laws, have been promulgated by the NAIC as a minimum standard by which state regulatory systems and regulations are measured. Adoption of state laws that provide for substantially similar regulations to those described in the Model Laws is a requirement for accreditation by the NAIC.

The NAIC provides authoritative guidance to insurance regulators on current statutory accounting issues by promulgating and updating a codified set of statutory accounting practices in its Accounting Practices and Procedures Manual. The Texas Department of Insurance has generally adopted these codified statutory accounting practices.

Texas also has adopted laws substantially similar to the NAIC's risk based capital ("RBC") laws, which require insurers to maintain minimum levels of capital based on their investments and operations. Domestic property and casualty insurers are required to report their RBC based on a formula that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow the Texas Department of Insurance to identify potential inadequately capitalized companies. Under the formula, a company determines its RBC by taking into account certain risks related to its assets (including risks related to its investment portfolio and ceded reinsurance) and its liabilities (including underwriting risks related to the nature and experience of its insurance business). Among other requirements, an insurance company must maintain capital and surplus of at least 200% of the RBC computed by the NAIC's RBC model (known as the "Authorized Control Level" of RBC). At December 31, 2014, NLIC and ASIC capital and surplus levels exceeded the minimum RBC requirements that would trigger regulatory attention. In their 2014 statutory financial statements, both NLIC and ASIC complied with the NAIC's RBC reporting requirements.

The NAIC's Insurance Regulatory Information System ("IRIS") was developed to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies. IRIS identifies twelve industry ratios and specifies a range of "usual values" for each ratio. Departure from the usual values on four or more of these ratios can lead to inquiries from state insurance commissioners as to certain aspects of an insurer's business. For 2014, all ratios for both NLIC and ASIC were within the usual values with two exceptions. Both companies fell below the indicated minimum investment yield range of 3%, with NLIC at 1.9% and ASIC at 1.5%, due to the concentration in cash at each company. We expect improvement in the yields at both companies as appropriate investment opportunities are identified.

The NAIC adopted an amendment to its "Model Audit Rule" in response to the passage of the Sarbanes-Oxley Act of 2002 ("SOX"). The amendment is effective for financial statements for accounting periods after January 1, 2010. This amendment addresses auditor independence, corporate governance and, most notably, the application of certain provisions of Section 404 of SOX regarding internal control reporting. The rules relating to internal controls apply to insurers with gross direct and assumed written premiums of $500 million or more, measured at the legal entity level (rather than at the insurance holding company level), and to insurers that the domiciliary commissioner selects from among those identified as in hazardous condition, but exempts SOX compliant entities. Neither NLIC nor ASIC currently has direct and assumed written premiums of at least $500 million, but it is conceivable that this may change in the future; however, NLC must be SOX compliant because it is wholly owned by Hilltop, a public company subject to SOX compliance.

Legislative changes. From time to time, various regulatory and legislative changes have been, or are, proposed that would adversely affect the insurance industry. Among the proposals that have been, or are being, considered are the possible introduction of Federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various Model Laws adopted by the NAIC. NLC is unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on its financial condition or results of operations.

In November 2002, in response to the tightening supply in certain insurance and reinsurance markets resulting from, among other things, the September 11, 2001 terrorist attacks, the Terrorism Risk Insurance Act ("TRIA") was enacted. TRIA was modified and extended by the Terrorism Risk Insurance Extension Act of 2005 and extended again by the Terrorism Risk Insurance Program Reauthorization Act of 2007. These Acts created a Federal Program designed to ensure the availability of commercial insurance coverage for terrorist acts in the United States. This Program helped the commercial property and casualty insurance industry cover claims related to terrorism-related losses and requires such companies to offer coverage for certain acts of terrorism. As a result, NLC is prohibited from adding certain terrorism exclusions to the policies written by its insurance company subsidiaries. The 2005 Act extended the Program through 2007, but eliminated commercial auto, farm-owners and certain other commercial coverages from its scope. The Terrorism Risk Insurance Program Reauthorization Act of 2015 further extended the Program through December 31, 2020 and set the reimbursement percentage at 85%, subject to a decrease of one percentage point per calendar year until it equals 80%, and the deductible at 20%. Although NLC is protected by federally funded terrorism reinsurance as provided for in the TRIA, there is a substantial deductible that must be met, the payment of which could have an adverse effect on its financial condition and results of operations. NLC's deductible under the Program was $1.2 million for 2014 and is estimated to be $0.8 million in 2015. Potential future changes to the TRIA could also adversely affect NLC by causing its reinsurers to increase prices or withdraw from certain markets where terrorism coverage is required. NLC had no terrorism-related losses in 2014.

State insurance regulations. State insurance authorities have broad powers to regulate U.S. insurance companies. The primary purposes of these powers are to promote insurer solvency and to protect individual policyholders. The extent of regulation varies, but generally has its source in statutes that delegate regulatory, supervisory and administrative power to state insurance departments. These powers relate to, among other things, licensing to transact business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing actuarial requirements and solvency standards, regulating investments and dividends, and regulating policy forms, related materials and premium rates. State insurance laws and regulations require insurance companies to file financial statements prepared in accordance with accounting principles prescribed by insurance departments in states in which they conduct insurance business, and their operations are subject to examination by those departments.

As part of the broad authority that state insurance commissioners hold, they may impose periodic rules or regulations related to local issues or events. An example is the State of Oklahoma's prohibition on the cancellation of policies for nonpayment of premium in the wake of severe tornadic activity. Due to the extent of damage and displacement of people, inability of mail to reach policyholders and inaccessibility of entire neighborhoods, the State of Oklahoma prohibited insurance companies from canceling or non-renewing policies for a period of time following the specific event.

Periodic financial and market conduct examinations. The insurance departments in every state in which NLC's insurance companies do business may conduct on-site visits and examinations of its insurance companies at any time to review the insurance companies' financial condition, market conduct and relationships and transactions with affiliates. In addition, the Texas Department of Insurance will conduct comprehensive examinations of insurance companies domiciled in Texas every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other licensing states under guidelines promulgated by the NAIC.

The Texas Department of Insurance completed their last examinations of NLIC and ASIC through December 31, 2010 in an examination report dated May 12, 2012. This examination report contained no information of any significant compliance issues and there is no indication of any significant changes to our financial statements as a result of the examination by the domiciliary state.

State dividend limitations. The Texas Department of Insurance must approve any dividend declared or paid by an insurance company domiciled in the state if the dividend, together with all dividends declared or distributed by that insurance company during the preceding twelve months, exceeds the greater of (1) 10% of its policyholders' surplus as of December 31 of the preceding year or (2) 100% of its net income for the preceding calendar year. The greater number is known as the insurer's extraordinary dividend limit. At December 31, 2014, the extraordinary dividend limit for NLIC and ASIC was $14.9 million and $2.9 million, respectively. In addition, NLC's insurance companies may only pay dividends out of their earned surplus.

Statutory accounting principles. Statutory accounting principles ("SAP") are a comprehensive basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP rules are different from GAAP, and are intended to reflect a more conservative view of the insurer. SAP is primarily concerned with measuring an insurer's surplus to policyholders. Accordingly, SAP focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with insurance laws and regulatory provisions applicable in each insurer's domiciliary state.

While GAAP is concerned with a company's solvency, it also stresses other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenues and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as opposed to SAP. SAP, as established by the NAIC and adopted by Texas regulators, determines the statutory surplus and statutory net income of the NLC insurance companies and, thus, determines the amount they have available to pay dividends.

Guaranty associations. In Texas, and in all of the jurisdictions in which NLIC and ASIC are, or in the future may be, licensed to transact business, there is a requirement that property and casualty insurers doing business within the jurisdiction must participate in guaranty associations, which are organized to pay limited covered benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer was engaged. States generally permit member insurers to recover assessments paid through full or partial premium tax offsets.

NLC did not incur any levies in 2014, 2013 or 2012. Property and casualty insurance company insolvencies or failures may, however, result in additional guaranty fund assessments at some future date. At this time NLC is unable to determine the impact, if any, that these assessments may have on its financial condition or results of operations. NLC has established liabilities for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

National Flood Insurance Program. NLC's insurance subsidiaries voluntarily participate as Write Your Own carriers in the National Flood Insurance Program ("NFIP"). The NFIP is administered and regulated by the Federal Emergency Management Agency ("FEMA"). NLIC and ASIC operates as a fiscal agent of the Federal government in the selling and administering of the Standard Flood Insurance Policy. This involves writing the policy, the collection of premiums and the paying of covered claims. All pricing is set by FEMA and all collections are made by NLIC and ASIC.

NLIC and ASIC cede 100% of the policies written by NLIC and ASIC on the Standard Flood Insurance Policy to FEMA; however, if FEMA were unable to perform, NLIC and ASIC would have a legal obligation to the policyholders. The terms of the reinsurance agreement are standard terms, which require NLIC and ASIC to maintain its rating criteria, determine policyholder eligibility, issue policies on NLIC and ASIC's paper, endorse and cancel policies, collect from insureds and process claims. NLIC and ASIC receive ceding commissions from NFIP for underwriting administration, claims management, commission and adjuster fees.

Participation in involuntary risk plans. NLC's insurance companies are required to participate in residual market or involuntary risk plans in various states where they are licensed that provide insurance to individuals or entities that otherwise would be unable to purchase coverage from private insurers. If these plans experience losses in excess of their capitalization, they may assess participating insurers for proportionate shares of their financial deficit. These plans include the Georgia Underwriting Association, Texas FAIR Plan Association, Texas Windstorm Insurance Agency, the Louisiana Citizens Property Insurance Corporation, the Mississippi Residential Property Insurance Underwriting Association and the Mississippi Windstorm Underwriting Association. For example in 2005, following Hurricanes Katrina and Rita, the above plans levied collective assessments totaling $10.4 million on NLC's insurance subsidiaries. Additional assessments, including emergency assessments, may follow. In some of these instances, NLC's insurance companies should be able to recover these assessments through policyholder surcharges, higher rates or reinsurance. The ultimate impact hurricanes have on the Texas and Louisiana facilities is currently uncertain and future assessments can occur whenever the involuntary facilities experience financial deficits.

Other. Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, as well as subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission.

Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, operating income, expense or cash flow.

Item 1A. Risk Factors.

The following discussion sets forth what management currently believes could be the most significant regulatory, market and economic, liquidity, legal and business and operational risks and uncertainties that could impact our business, results of operations and financial condition. Other risks and uncertainties, including those not currently known to us, could also negatively impact our businesses, results of operations and financial condition. Thus, the following should not be considered a complete discussion of all of the risks and uncertainties we may face and the order of their respective significance may change.

Risks Related to our Business

We may fail to realize all of the anticipated benefits of the FNB Transaction or the SWS Merger.

Achieving the anticipated cost savings and financial benefits of the FNB Transaction, the SWS Merger and any other acquisitions we may complete will depend, in part, on our ability to successfully integrate the operations of the respective companies with our own in an efficient and effective manner. It is possible that the integration process could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees. In addition, the integration of certain operations will require the dedication of significant management resources, which may temporarily distract management's attention from our day-to-day business. Any inability to realize the full extent, or any, of the anticipated cost savings and financial benefits of the FNB Transaction or the SWS Merger, as well as any delays encountered in the integration process, could have an adverse effect on our business and results of operations, which could adversely affect our financial condition and cause a decrease in our earnings per share or decrease or delay the expected accretive effect of the acquisitions and contribute to a decrease in the price of our common stock.

If our allowance for loan losses is insufficient to cover actual loan losses, our banking segment earnings will be adversely affected.

As a lender, we are exposed to the risk that we could sustain losses because our borrowers may not repay their loans in accordance with the terms of their loans. We have historically accounted for this risk by maintaining an allowance for loan losses in an amount intended to cover Bank management's estimate of losses inherent in the loan portfolio. Under the acquisition method of accounting requirements, we were required to estimate the fair value of the loan portfolios acquired in each of the PlainsCapital Merger, the FNB Transaction and the SWS Merger as of the applicable acquisition date and write-down the recorded value of such acquired portfolio to that estimate. For most loans, this process was accomplished by computing the net present value of estimated cash flows to be received from borrowers of these loans. The allowance for loan losses that had been maintained by PlainsCapital Corporation, FNB or SWS, as applicable, prior to the transaction was eliminated in this accounting process. A new allowance for loan losses has been established for loans made by the Bank subsequent to consummation of the PlainsCapital Merger and for any decrease from that originally estimated as of the acquisition date in the estimate of cash flows to be received from the loans acquired in the PlainsCapital Merger and the FNB Transaction. We anticipate that we will establish a new allowance for loan losses for any decrease from that originally estimated as of the acquisition date in the estimate of cash flows to be received from the loans acquired in the SWS Merger.

The estimates of fair value as of the consummation of the PlainsCapital Merger, the FNB Transaction and the SWS Merger were based on economic conditions at such time and on Bank management's projections concerning both future economic conditions and the ability of the borrowers to continue to repay their loans. If management's assumptions and projections prove to be incorrect, however, the estimate of fair value may be higher than the actual fair value and we may suffer losses in excess of those estimated. Further, the allowance for loan losses established for new loans or for revised estimates may prove to be inadequate to cover actual losses, especially if economic conditions worsen.

While management will endeavor to estimate the allowance to cover anticipated losses, no underwriting and credit monitoring policies and procedures that we could adopt to address credit risk could provide complete assurance that we will not incur unexpected losses. These losses could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, federal regulators periodically evaluate the adequacy of the allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs based on judgments different from those of our Bank management. As a result, any such increase in our provision for loan losses or additional loan charge-offs could have a material adverse effect on our results of operations and financial condition.

An adverse change in real estate market values may result in losses in our banking segment and otherwise adversely affect our profitability.

At December 31, 2014, 42% of the loan portfolio of our banking segment was comprised of loans with real estate as the primary component of collateral. The real estate collateral in each case provides a source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values generally, and in Texas or California specifically, could impair the value of our collateral and our ability to sell the collateral upon any foreclosure. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. As a result, our results of operations and financial condition may be materially adversely affected by a decrease in real estate market values.

Loans acquired in the FNB Transaction may not be covered by the loss-share agreements if the FDIC determines that we have not adequately managed these loans.

Under the terms of the loss-share agreements we entered into with the FDIC in connection with the FNB Transaction, the FDIC is obligated to reimburse us for the following losses on covered loans: (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from September 13, 2013 (the "Bank Closing Date"). Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if we do not manage covered loans in accordance with the loss-share agreements. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our consolidated financial statements, based upon the timing and amount of collections on the covered loans in future periods. Any losses we experience in the assets acquired in the FNB Transaction that are not covered under the loss-share agreements could have an adverse effect on our results of operations and financial condition.

In addition, in accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC, approximately ten years following the Bank Closing Date, if the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the purchase and assumption agreement we entered into with the FDIC in connection with the FNB Transaction.

Our business and results of operations may be adversely affected by unpredictable economic, market and business conditions.

Our business and results of operations are affected by general economic, market and business conditions. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends to a degree on factors beyond our control, including:

- national and local economic conditions, such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, energy prices, bankruptcies, household income and consumer spending;
- general economic consequences of international conditions, such as weakness in the European and Asian economies and emerging markets and the impact of that weakness on the U.S. and global economies;
- the availability and cost of capital and credit;
- incidence of customer fraud; and
- federal, state and local laws affecting these matters.

The deterioration of any of these conditions, as we have experienced with past economic downturns, could adversely affect our consumer and commercial businesses and securities portfolios, our level of charge-offs and provision for credit losses, the carrying value of our deferred tax assets, the investment portfolio of our insurance segment, our capital levels and liquidity, and our results of operations.

Although the United States has recently seen improvement in certain economic indicators, including improvement in the housing market, increasing consumer confidence, continued growth in private sector employment, and improved credit availability, these improvements are relatively recent and may not be sustainable. Several factors could pose risks to the financial services industry, including political gridlock in Washington, D.C., regulatory uncertainty, continued infrastructure deterioration, and international political unrest. In addition, the current environment of heightened scrutiny of financial institutions has resulted in increased public awareness of and sensitivity to banking fees and practices. Each of these factors may adversely affect our fees and costs.

Our geographic concentration may magnify the adverse effects and consequences of any regional or local economic downturn.

We conduct our banking operations primarily in Texas. At December 31, 2014, substantially all of the real estate loans in our loan portfolio were secured by properties located in our three largest markets within Texas, with 34.8%, 26.0% and 18.6% secured by properties located in the Dallas/Fort Worth, Austin/San Antonio and Rio Grande Valley/South Texas markets, respectively. Substantially all of the real estate loans in our loan portfolio are made to borrowers who live and conduct business in Texas. Accordingly, economic conditions in Texas have a significant impact on the ability of the Bank's customers to repay loans, the value of the collateral securing loans and the stability of the Bank's deposit funding sources. Further, recent declines in crude oil prices may have a more profound effect on the economy of energy-dominant states such as Texas. At December 31, 2014, energy loans comprised 6.5% of the Bank's loan portfolio, and the Bank also has loans extended to businesses that depend on the energy industry. If crude oil prices remain at low levels for an extended period, the Bank could experience weaker energy loan demand and increased losses within its energy and Texas-related loan portfolios.

In addition, mortgage origination fee income and insurance premium volume are both dependent to a significant degree on economic conditions in Texas and California. During 2014, 23.7% and 15.0% by dollar volume of our mortgage loans originated were collateralized by properties located in Texas and California, respectively. Further, Texas insureds accounted for 69.3% of our insurance segment's gross premiums written in 2014 and 2013, respectively. Any regional or local economic downturn that affects Texas or, to a lesser extent, California, whether caused by recession, inflation, unemployment, changing oil prices or other factors, may affect us and our profitability more significantly and more adversely than our competitors that are less geographically concentrated and could have a material adverse effect on our results of operations and financial condition.

Our geographic concentration may also exacerbate the adverse effects on our insurance segment of inherently unpredictable catastrophic events.

Our insurance segment expects to have large aggregate exposures to inherently unpredictable natural and man-made disasters of great severity, such as hurricanes, hail, tornados, windstorms, wildfires and acts of terrorism. Hurricanes Ike, Katrina and Rita highlighted the challenges inherent in predicting the impact of catastrophic events. The catastrophe models utilized by our insurance segment to assess its probable maximum insurance losses generally failed to adequately project the financial impact of these hurricanes. Although our insurance segment may attempt to exclude certain losses, such as terrorism and other similar risks, from some coverage that our insurance segment writes, it may be prohibited from, or may not be successful in, doing so. The occurrence of losses from catastrophic events may have a material adverse effect on our insurance segment's ability to write new business and on its financial condition and results of operations. Increases in the values and geographic concentrations of policyholder property and the effects of inflation have resulted in increased severity of industry losses in recent years, and our insurance segment expects that these factors will increase the severity of losses in the future. Factors that may influence our insurance segment's exposure to losses from these types of events, in addition to the routine adjustment of losses, include, among others:

- exhaustion of reinsurance coverage;
- increases in reinsurance rates;
- unanticipated litigation expenses;
- unrecoverability of ceded losses;
- impact on independent agent operations and future premium income in areas affected by catastrophic events;
- unanticipated expansion of policy coverage or reduction of premium due to regulatory, legislative and/or judicial action following a catastrophic event; and
- unanticipated demand surge related to other recent catastrophic events.

Our insurance segment writes insurance primarily in the states of Texas, Oklahoma, Arizona, Tennessee, Georgia and Louisiana. In 2014, Texas accounted for 69.3%, Arizona accounted for 9.2%, Oklahoma accounted for 7.7%, Tennessee accounted for 6.0% and Georgia accounted for 3.9% of our premiums. As a result, a single catastrophe, destructive weather pattern, wildfire, terrorist attack, regulatory development or other condition or general economic trend affecting these regions or significant portions of these regions could adversely affect our insurance segment's financial condition and results of operations more significantly than other insurance companies that conduct business across a broader geographic area. Although our insurance segment purchases catastrophe reinsurance to limit its exposure to these types of catastrophes, in the event of one or more major catastrophes resulting in losses to it in excess of $140.0 million, our insurance segment's losses would exceed the limits of its reinsurance coverage.

Our risk management processes may not fully identify and mitigate exposure to the various risks that we face, including interest rate, credit, liquidity and market risk.

We continue to refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we might fail to identify or anticipate particular risks, or the systems that we use, and that are used within our business segments generally, may not be capable of identifying certain risks. Certain of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately identify and quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. As a result, we also take a qualitative approach in reducing our risk. Our qualitative approach to managing those risks could also prove insufficient, exposing us to material unanticipated losses.

Our business is subject to interest rate risk, and fluctuations in interest rates may adversely affect our earnings, capital levels and overall results.

The majority of our assets are monetary in nature and, as a result, we are subject to significant risk from changes in interest rates. Changes in interest rates may impact our net interest income in our banking segment as well as the valuation of our assets and liabilities in each of our segments. Earnings in our banking segment are significantly dependent on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect to periodically experience "gaps" in the interest rate sensitivities of our banking segment's assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our results of operations and financial condition may be adversely affected.

An increase in the general level of interest rates may also, among other things, adversely affect the demand for loans and our ability to originate loans. In particular, if mortgage interest rates increase, the demand for residential mortgage loans and the refinancing of residential mortgage loans will likely decrease, which will have an adverse effect on our income generated from mortgage origination activities. Conversely, a decrease in the general level of interest rates, among other things, may lead to prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the general level of market interest rates may adversely affect our net yield on interest-earning assets, loan origination volume and our overall results.

Our broker-dealer segment holds securities, principally fixed-income municipal bonds, to support sales, underwriting and other customer activities. If interest rates increase, the value of debt securities held in the broker-dealer segment's inventory would decrease. Rapid or significant changes in interest rates could adversely affect the segment's bond sales, underwriting activities and broker-dealer businesses. Further, the profitability of our margin and stock lending businesses depends to a great extent on the difference between interest income earned on loans and investments of customer cash balances and the interest expense paid on customer cash balances and borrowings.

Our insurance segment invested over 87% of its invested assets in fixed maturity assets such as bonds and mortgage-backed securities at December 31, 2014. Because bond trading prices decrease as interest rates rise, a significant increase in interest rates could have a material adverse effect on our insurance segment's financial condition and results of operations. On the other hand, decreases in interest rates could have an adverse effect on our insurance segment's investment income and results of operations. For example, if interest rates decline, investment of new premiums received and funds reinvested will earn less. Additionally, mortgage-backed securities typically are prepaid more quickly when interest rates fall and the holder must reinvest the proceeds at lower interest rates. In periods of increasing interest rates, mortgage-backed securities typically are prepaid more slowly, which may require our insurance segment to receive interest payments that are below the then prevailing interest rates for longer time periods than expected. The volatility of our insurance segment's claims may force it to liquidate securities, which may cause it to incur capital losses. If our insurance segment's investment portfolio is not appropriately matched with its insurance liabilities, it may be forced to liquidate investments prior to maturity at a significant loss to cover these liabilities. In addition, if we experience market disruption and volatility, such as that experienced in 2009 and 2010, we may experience additional losses on our investments and reductions in our earnings. Investment losses could significantly decrease the asset base and statutory surplus of our insurance segment, thereby adversely affecting its ability to conduct business and potentially its A.M. Best financial strength rating.

In addition, we hold securities that may be sold in response to changes in market interest rates, changes in securities' prepayment risk, increases in loan demand, general liquidity needs and other similar factors are classified as available for sale and are carried at estimated fair value, which may fluctuate with changes in market interest rates. The effects of an increase in market interest rates may result in a decrease in the value of our available for sale investment portfolio.

Market interest rates are affected by many factors outside of our control, including inflation, recession, unemployment, money supply, international disorder and instability in domestic and foreign financial markets. We may not be able to accurately predict the likelihood, nature and magnitude of such changes or how and to what extent such changes may affect our business. We also may not be able to adequately prepare for, or compensate for, the consequences of such changes. Any failure to predict and prepare for changes in interest rates, or adjust for the consequences of these changes, may adversely affect our earnings and capital levels and overall results of operations and financial condition.

Our bank lending, margin lending, stock lending, securities trading and execution and mortgage purchase businesses are all subject to credit risk.

We are exposed to credit risk in all areas of our business. The Bank is exposed to the risk that its loan customers may not repay their loans in accordance with their terms, the collateral securing the loans may be insufficient, or its loan loss reserve may be inadequate to fully compensate the Bank for the outstanding balance of the loan plus the costs to dispose of the collateral. Our mortgage warehousing activities subject us to credit risk during the period between funding by the Bank and when the mortgage company sells the loan to a secondary investor.

Our broker-dealer business is subject to credit risk if securities prices decline rapidly because the value of our collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. Our securities lending business as well as our securities trading and execution businesses subject us to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, we are subject to credit risk during the period between the execution of a trade and the settlement by the customer.

Significant failures by our customers, including correspondents, or clients to honor their obligations, together with insufficient collateral and reserves, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our banking segment is subject to funding risks associated with its high deposit concentration and its potential reliance on brokered deposits.

At December 31, 2014, the Bank's fifteen largest depositors, excluding Hilltop and First Southwest, accounted for 13.24% of the Bank's total deposits, and the Bank's five largest depositors, excluding First Southwest, accounted for 7.77% of the Bank's total deposits. Brokered deposits at December 31, 2014 accounted for 2.8% of the Bank's total deposits, and we may increase our reliance on brokered deposits in the future. The loss of one or more of our largest Bank customers, a significant decline in our deposit balances due to ordinary course fluctuations related to these customers' businesses, or, if we increase our reliance on brokered deposits, the loss of a significant amount of our brokered deposits could adversely affect our liquidity. Additionally, such circumstances could require us to raise deposit rates in an attempt to attract new deposits, or purchase federal funds or borrow funds on a short-term basis at higher rates, which would adversely affect our results of operations. Under applicable regulations, if the Bank were no longer "well capitalized," the Bank would not be able to accept brokered deposits without the approval of the FDIC.

We are heavily dependent on dividends from our subsidiaries.

We are a financial holding company engaged in the business of managing, controlling and operating our subsidiaries, including the Bank and its subsidiary, PrimeLending, NLC and its two insurance company subsidiaries, NLIC and ASIC, and our Hilltop Securities subsidiaries. We conduct no material business or other activity other than activities incidental to holding stock in the Bank, NLC and the Hilltop Securities subsidiaries. As a result, we rely substantially on the profitability of, and dividends from, these subsidiaries to pay our operating expenses, to satisfy our obligations and to pay dividends on our preferred stock. Each of the Bank, NLC and the Hilltop Securities subsidiaries is subject to significant regulatory restrictions limiting their ability to declare and pay dividends to us. Accordingly, if the Bank, NLC or the Hilltop Securities subsidiaries are unable to make cash distributions to us, then we may be unable to satisfy our obligations or make distributions on our preferred stock.

NLIC and ASIC are also subject to limitations under debt agreements limiting their ability to declare and pay dividends, including the indenture governing NLC's London Interbank Offered Rate ("LIBOR") plus 3.40% notes due 2035 and the surplus indentures governing NLIC's two LIBOR plus 4.10% and 4.05% notes due 2033 and ASIC's LIBOR plus 4.05% notes due 2034.

We are subject to extensive supervision and regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to generate income.

We are subject to extensive federal and state regulation and supervision, including that of the Federal Reserve Board, the Texas Department of Banking, the Texas Department of Insurance, the FDIC, the CFPB, the SEC and FINRA. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not stockholders or other debt holders. Insurance regulations promulgated by state insurance departments are primarily intended to protect policyholders rather than stockholders or other debt holders. Likewise, regulations promulgated by FINRA are primarily intended to protect customers of broker-dealer businesses rather than stockholders or other debt holders.

These regulations affect our lending practices, capital structure, capital requirements, investment practices, brokerage and investment advisory activities, dividend policy and growth, among other things. Failure to comply with laws, regulations or policies could result in money damages, civil money penalties or reputational damage, as well as sanctions and supervisory actions by regulatory agencies that could subject us to significant restrictions or suspensions on our business and our ability to expand through acquisitions or branching. Further, our clearing contracts generally include automatic termination provisions that are triggered in the event we are suspended from any of the national exchanges of which we are a member for failure to comply with the rules or regulations thereof. While we have implemented policies and procedures designed to prevent any such violations of laws and regulations, such violations may occur from time to time, which could have a material adverse effect on our financial condition and results of operations.

The U.S. Congress and federal regulatory agencies frequently revise banking and securities laws, regulations and policies. On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which significantly alters the regulation of financial institutions and the financial services industry. The Dodd-Frank Act established the CFPB and requires the CFPB and other federal agencies to implement many provisions of the Dodd-Frank Act. We expect that several aspects of the Dodd-Frank Act may affect our business, including, without limitation, increased capital requirements, increased mortgage regulation, restrictions on proprietary trading in securities, restrictions on investments in hedge funds and private equity funds, executive compensation restrictions and disclosure and reporting requirements. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will affect our business. Compliance with these new laws and regulations likely will result in additional costs, which could be significant and may adversely impact our results of operations, financial condition, and liquidity.

During the second quarter of 2013, the Bank received a "satisfactory" CRA rating in connection with its most recent CRA performance evaluation. A CRA rating of less than "satisfactory" adversely affects a bank's ability to establish new branches and impairs a bank's ability to commence new activities that are "financial in nature" or acquire companies engaged in these activities. Other regulatory exam ratings or findings also may adversely impact our ability to branch, commence new activities or make acquisitions.

We cannot predict whether or in what form any other proposed regulations or statutes will be adopted or the extent to which our business may be affected by any new regulation or statute. Such changes could subject our business to additional costs, limit the types of financial services and products we may offer and increase the ability of non-banks to offer competing financial services and products, among other things.

The impact of the changing regulatory capital requirements and new capital rules are uncertain.

In July 2013, the Federal Reserve Board approved a final rule that substantially amends the risk-based capital rules applicable to Hilltop and the Bank. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule includes new minimum risk-based capital and leverage ratios, which became effective on a phase-in basis for Hilltop and the Bank on January 1, 2015, and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios and results in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions. The application of more stringent capital requirements for Hilltop and the Bank could, among other things, adversely affect our results of operations and growth, require the raising of additional capital, restrict our ability to pay dividends or repurchase shares and result in regulatory actions if we were to be unable to comply with such requirements.

In addition, the Federal Reserve Board adopted a final rule in February 2014 that clarifies how companies should incorporate the Basel III regulatory capital reforms into their capital and business projections during the 2014 and subsequent cycles of capital plan submissions and stress tests required under the Dodd-Frank Act. For companies and their subsidiary banks with between $10.0 billion and $50.0 billion in total consolidated assets, the initial stress testing cycle began on October 1, 2013 and the initial nine-quarter planning horizon for stress capital projections continues through the fourth quarter of 2015, which overlaps with the implementation of the Basel III capital reforms beginning on January 1, 2015. At December 31, 2014, Hilltop and the Bank had $9.2 billion and $8.0 billion, respectively, in total consolidated assets and their average of total consolidated assets for the four most recent consecutive quarters was $9.2 billion and $8.1 billion, respectively. Accordingly, Hilltop and the Bank are not currently subject to capital planning and stress testing requirements. However, as a result of the SWS Merger, Hilltop has more than $10.0 billion in assets. If such asset level is maintained, we will become subject to the stress testing requirements, which will increase our cost of regulatory compliance. Management continues to study the implementation of Basel III regulatory capital reforms and stress testing requirements.

In July 2013 the SEC also adopted various amendments to Rules 15c3-1 and 15c3-3 under the Exchange Act related to, among other things, securities lending, certain new deductions from net capital, proprietary accounts of broker-dealer customers, certain broker-dealer insolvency events and corresponding related amendments to books and records rules.

The CFPB has issued "ability-to-repay" and "qualified mortgage" rules that may have a negative impact on our loan origination process and foreclosure proceedings, which could adversely affect our business, operating results, and financial condition.

On January 10, 2013, the CFPB issued a final rule to implement the "qualified mortgage" provisions of the Dodd-Frank Act requiring mortgage lenders to consider consumers' ability to repay home loans before extending them credit. The CFPB's "qualified mortgage" rule took effect on January 10, 2014. The final rule describes certain minimum requirements for lenders making ability-to-repay determinations, but does not dictate that they follow particular underwriting models. Lenders will be presumed to have complied with the ability-to-repay rule if they issue "qualified mortgages," which are generally defined as mortgage loans prohibiting or limiting certain risky features. Loans that do not meet the ability-to-repay standard can be challenged in court by borrowers who default and the absence of ability-to-repay status can be used against a lender in foreclosure proceedings. Any loans that we make outside of the "qualified mortgage" criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose on the underlying property. The CFPB's "qualified mortgage" rule could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive or time consuming to make these loans. Any decreases in loan origination volume or increases in compliance and foreclosure costs caused by the rule could negatively affect our business, operating results and financial condition.

Our broker-dealer business is subject to various risks associated with the securities industry, particularly those impacting the public finance industry.

Our broker-dealer business is subject to uncertainties that are common in the securities industry. These uncertainties include:

- intense competition in the public finance and other sectors of the securities industry;
- the volatility of domestic and international financial, bond and stock markets;
- extensive governmental regulation;
- litigation; and
- substantial fluctuations in the volume and price level of securities.

As a result, the revenues and operating results of our broker-dealer segment may vary significantly from quarter to quarter and from year to year. Unfavorable financial or economic conditions could reduce the number and size of transactions in which we provide financial advisory, underwriting and other services. Disruptions in fixed income and equity markets could lead to a decline in the volume of transactions executed for customers and, therefore, to declines in revenues from commissions and clearing services. Our broker-dealer business is much smaller and has much less capital than many competitors in the securities industry. In addition, FSC, Southwest Securities and SWS Financial are operating subsidiaries of Hilltop, which means that their activities are limited to those that are permissible for subsidiaries of a financial holding company.

Market fluctuations could adversely impact our broker-dealer business.

Our broker-dealer segment is subject to risks as a result of fluctuations in the securities markets. Our securities trading, market-making and underwriting activities involve the purchase and sale of securities as a principal, which subjects our capital to significant risks. Market conditions could limit our ability to sell securities purchased or to purchase securities sold in such transactions. If price levels for equity securities decline generally, the market value of equity securities that we hold in our inventory could decrease and trading volumes could decline. In addition, if interest rates increase, the value of debt securities we hold in our inventory would decrease. Rapid or significant market fluctuations could adversely affect our business, financial condition, results of operations and cash flow.

In addition, during periods of market disruption, it may be difficult to value certain assets if comparable sales become less frequent or market data becomes less observable. Certain classes of assets or loan collateral that were in active markets with significant observable data may become illiquid due to the current financial environment. In such cases, asset valuations may require more estimation and subjective judgment.

Our investment advisory business may be affected if our investment products perform poorly.

Poor investment returns and declines in client assets in our investment advisory business, due to either general market conditions or underperformance (relative to our competitors or to benchmarks) by investment products, affects our ability to retain existing assets, prevent clients from transferring their assets out of products or their accounts, or inhibit our ability to attract new clients or additional assets from existing clients. Any such poor performance could adversely affect our investment advisory business and the advisory fees that we earn on client assets.

Our portfolio trading business is highly price competitive and serves a very limited market.

Our portfolio trading business serves one small component of the capital markets group with a small customer base and a high service model, charging competitive commission rates. Consequently, growing or maintaining market share is very price sensitive. We rely upon a high level of customer service and product customization to maintain our market share; however, should prevailing market prices fall, or the size of our market segment or customer base decline, our profitability would be adversely impacted. In addition, in our portfolio trading business, we purchase securities as principal, which subjects our capital to significant risks.

Our existing correspondents may choose to perform their own clearing services, move their clearing business to one of our competitors or exit the business.

As our correspondents' operations grow, they often consider the option of performing clearing functions themselves, in a process referred to as "self-clearing." The option to convert to self-clearing operations may be attractive due to the fact that as the transaction volume of a broker-dealer grows, the cost of implementing the necessary infrastructure for self-clearing may eventually be offset by the elimination of per transaction processing fees that would otherwise be paid to a clearing firm. Additionally, performing their own clearing services allows self-clearing broker-dealers to retain their customers' margin balances, free credit balances and securities for use in margin lending activities. Furthermore, our correspondents may decide to use the clearing services of one of our competitors or exit the business. Any significant loss of correspondents due to self-clearing or because of their use of a competitor's clearing service or their exiting the business could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Several of our broker-dealer segment's product lines rely on favorable tax treatment and changes in federal tax law could impact the attractiveness of these products to our customers.

We offer a variety of services and products, such as individual retirement accounts and municipal bonds, that rely on favorable federal income tax treatment to be attractive to our customers. Should favorable tax treatment of these products be eliminated or reduced, sales of these products could be materially impacted, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our mortgage origination segment is subject to investment risk on loans that it originates.

We intend to sell, and not hold for investment, substantially all residential mortgage loans that we originate through PrimeLending. At times, however, we may originate a loan or execute an interest rate lock commitment ("IRLC") with a customer pursuant to which we agree to originate a mortgage loan on a future date at an agreed-upon interest rate without having identified a purchaser for such loan. An identified purchaser may also decline to purchase a loan for a variety of reasons. In these instances, we will bear interest rate risk on an IRLC until, and unless, we are able to find a buyer for the loan underlying such IRLC and the risk of investment on a loan until, and unless, we are able to find a buyer for such loan. In addition, if a customer defaults on a mortgage payment shortly after the loan is originated, the purchaser of the loan may have a put right, whereby the purchaser can require us to repurchase the loan at the full amount that it paid. During periods of market downturn, we have at times chosen to hold mortgage loans when the identified purchasers have declined to purchase such loans because we could not obtain an acceptable substitute bid price for such loan. The failure of mortgage loans that we hold on our books to perform adequately could have a material adverse effect on our financial condition, liquidity and results of operations.

Changes in interest rates may change the value of our mortgage servicing rights portfolio which may increase the volatility of our earnings.

We have recently expanded, and may continue to expand, our residential mortgage servicing operations within our mortgage origination segment. As a result of our mortgage servicing business, we have a portfolio of MSR assets. A MSR is the right to service a mortgage loan-collect principal, interest and escrow amounts-for a fee. We measure and carry all of our residential MSR assets using the fair value measurement method. Fair value is determined as the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers.

One of the principal risks associated with MSR assets is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. During the three months ended September 30, 2014, the mortgage origination segment began using derivative financial instruments, including interest rate swaps and swaptions, as a means to mitigate market risk associated with MSR assets. However, no hedging strategy can protect us completely, and hedging strategies may fail because they are improperly designed, improperly executed and documented or based on inaccurate assumptions and, as a result, could actually increase our risks and losses. The increasing size of our MSR portfolio may increase our interest rate risk and correspondingly, the volatility of our earnings, especially if we cannot adequately hedge the interest rate risk relating to our MSR assets.

At December 31, 2014, the mortgage origination segment’s MSR asset had a fair value of $37.4 million. All income related to retained servicing, including changes in the value of the MSR asset, is included in noninterest income. Depending on the interest rate environment, it is possible that the fair value of our MSR asset may be reduced in the future. If such changes in fair value significantly reduce the carrying value of our MSR asset, our financial condition and results of operations would be negatively affected.

Income that we recognize in connection with the purchase discount of the credit-impaired loans acquired in the PlainsCapital Merger, the FNB Transaction and the SWS Merger and accounted for under Accounting Standards Codification 310-30 could be volatile in nature and have significant effects on reported net income.

In connection with the PlainsCapital Merger and the FNB Transaction, we acquired loans at a discount of $146.6 million and $343.1 million, respectively, and we anticipate that we will record a discount on loans acquired in the SWS Merger. The PlainsCapital Merger, the FNB Transaction and the SWS Merger have each been accounted for under the acquisition method of accounting. Accordingly, these discounts are amortized and accreted to interest income on a monthly basis. The effective yield and related discount accretion on credit-impaired loans is initially determined at the acquisition date based upon estimates of the timing and amount of future cash flows as well as the amount of credit losses that will be incurred. These estimates are updated quarterly. In future periods, if actual historical results combined with future projections of these factors (amount, timing, or credit losses) differ from the initial projections, the effective yield and the amount of discount recognized will change. Volatility may increase as the variance of actual results from initial projections increases. As the acquired loans are removed from our books, the related discount will no longer be available for accretion into income. Accretion of $37.4 million and $43.7 million on loans purchased at a discount in the PlainsCapital Merger and FNB Transaction, respectively, were recorded as interest income during the year ended December 31, 2014. As of December 31, 2014, the balance of our discount on loans in the aggregate was $308.9 million, and we anticipate that we will record an additional discount on loans after accounting for the loans acquired in the SWS Merger.

We ultimately may write-off goodwill and other intangible assets resulting from business combinations.

As a result of purchase accounting in connection with our acquisition of NLC, the PlainsCapital Merger and the FNB Transaction, our consolidated balance sheet at December 31, 2014, contained goodwill of $251.8 million and other intangible assets of $59.8 million. The SWS Merger will result in additional intangible assets being recorded based on the determination of fair values of identifiable assets acquired. On an ongoing basis, we evaluate whether facts and circumstances indicate any impairment of value of intangible assets. As circumstances change, the value of these intangible assets may not be realized by us. If we determine that a material impairment has occurred, we will be required to write-off the impaired portion of intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

The accuracy of our financial statements and related disclosures could be affected if we are exposed to actual conditions different from the judgments, assumptions or estimates used in our critical accounting policies.

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in this Annual Report, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" by us because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, such events or assumptions could have a material impact on our audited consolidated financial statements and related disclosures.

We are dependent on our management team, and the loss of our senior executive officers or other key employees could impair our relationship with customers and adversely affect our business and financial results.

Our success is dependent, to a large degree, upon the continued service and skills of our existing management team and other key employees with long-term customer relationships. Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective segments. The loss of one or more of these key personnel could have an adverse impact on our business because of their skills, knowledge of the market, years of industry experience and the difficulty of finding qualified replacement personnel. In addition, we currently do not have non-competition agreements with certain members of management and other key employees. If any of these personnel were to leave and compete with us, our business, financial condition, results of operations and growth could suffer.

A decline in the market for municipal advisory services could adversely affect our business and results of operations.

Our broker-dealer segment has historically earned a significant portion of its revenues from advisory fees paid to it by its clients, in large part upon the successful completion of the client's transaction. Revenues from the public finance group of First Southwest represented the largest component of our broker-dealer segment's net revenues for the year ended December 31, 2014. Unlike other investment banks, First Southwest earns most of its revenues from its advisory fees and, to a lesser extent, from other business activities such as commissions and underwriting. New issuances in the municipal market by cities, counties, school districts, state and other governmental agencies, airports, healthcare institutions, institutions of higher education and other clients that First Southwest's public finance group serves can be subject to significant fluctuations based on by factors such as changes in interest rates, property tax bases, budget pressures on certain issuers caused by uncertain economic times and other factors. We expect that the reliance of our broker-dealer segment on advisory fees will continue for the foreseeable future, and a decline in public finance advisory engagements or the market for advisory services generally would have an adverse effect on our business and results of operations.

The soundness of other financial institutions could adversely affect our business.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different counterparties and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, credit unions, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even negative speculation about, one or more financial services institutions, or the financial services industry in general, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the receivable due us. Any such losses could be material and could materially and adversely affect our business, financial condition, results of operations or cash flows.

We depend on our computer and communications systems and an interruption in service would negatively affect our business.

Our businesses rely on electronic data processing and communications systems. The effective use of technology allows us to better serve customers and clients, increases efficiency and reduces costs. Our continued success will depend, in part, upon our ability to successfully maintain, secure and upgrade the capability of our systems, our ability to address the needs of our clients by using technology to provide products and services that satisfy their demands and our ability to retain skilled information technology employees. Significant malfunctions or failures of our computer systems, computer security, software or any other systems in the trading process (e.g., record retention and data processing functions performed by third parties, and third party software, such as Internet browsers) could cause delays in customer trading activity. Such delays could cause substantial losses for customers and could subject us to claims from customers for losses, including litigation claiming fraud or negligence. In addition, if our computer and communications systems fail to operate properly, regulations would restrict our ability to conduct business. Any such failure could prevent us from collecting funds relating to customer and client transactions, which would materially impact our cash flows. Any computer or communications system failure or decrease in computer system performance that causes interruptions in our operations could have a material adverse effect on our business, financial condition, results of operations or cash flows.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively or timely implement new technology-driven products and services or be successful in marketing these products and services to our customers and clients. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business, financial condition, results of operations or cash flows.

Negative publicity regarding us, or financial institutions in general, could damage our reputation and adversely impact our business and results of operations.

Our ability to attract and retain customers and conduct our business could be adversely affected to the extent our reputation is damaged. Reputational risk, or the risk to our business, earnings and capital from negative public opinion regarding our company, or financial institutions in general, is inherent in our business. Adverse perceptions concerning our reputation could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative perceptions concerning our reputation could lead to decreases in the level of deposits that consumer and commercial customers and potential customers choose to maintain with us. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending or foreclosure practices; sales practices; corporate governance and potential conflicts of interest; ethical failures or fraud, including alleged deceptive or unfair lending or pricing practices; regulatory compliance; protection of customer information; cyber-attacks, whether actual, threatened, or perceived; negative news about us or the financial institutions industry generally; general company performance; or from actions taken by government regulators and community organizations in response to such activities or circumstances. Furthermore, our failure to address, or the perception that we have failed to address, these issues appropriately could impact our ability to keep and attract customers and/or employees and could expose us to litigation and/or regulatory action, which could have an adverse effect on our business and results of operations.

Our operational systems and networks have been, and will continue to be, subject to an increasing risk of continually evolving cybersecurity or other technological risks, which could result in a loss of customer business, financial liability, regulatory penalties, damage to our reputation or the disclosure of confidential information.

We rely heavily on communications and information systems to conduct our business and maintain the security of confidential information and complex transactions, which subjects us to an increasing risk of cyber incidents from these activities due to a combination of new technologies and the increasing use of the Internet to conduct financial transactions, as well as a potential failure of interruption or breach in the security of these systems, including those that could result from attacks or planned changes, upgrades and maintenance of these systems. Such cyber incidents could result in failures or disruptions in our customer relationship management, securities trading, general ledger, deposits, computer systems, electronic underwriting servicing or loan origination systems. Third parties with which we do business may also be sources of cybersecurity or other technological risks.

Although we devote significant resources to maintain and regularly upgrade our systems and networks with measures such as intrusion detection and prevention systems and monitoring firewalls to safeguard critical business applications, there is no guarantee that these measures or any other measures can provide absolute security. Our computer systems, software and networks may be adversely affected by cyber incidents such as unauthorized access; loss or destruction of data (including confidential client information); account takeovers; unavailability of service; computer viruses or other malicious code; cyber-attacks; and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances, as a means to promote political ends. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to our reputation with our clients and the market, customer dissatisfaction, additional costs such as repairing systems or adding new personnel or protection technologies, regulatory penalties, exposure to litigation and other financial losses to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations.

We have been the subject of "denial of services" attacks from external sources that have limited or interrupted the availability of our online banking services. Although to date we are not aware of any material losses relating to cyber-attacks or other information security breaches, we may suffer such losses in the future. We have taken steps to improve and upgrade the security of our systems in response to such threats, but such incidents could occur again, more frequently or on a more significant scale.

In February 2014, FINRA released a report identifying principles and effective practices it expects firms to consider as they develop or enhance their cybersecurity programs. We intend to evaluate our cybersecurity program in light of the guidance in this recent report and will consider incorporating new practices as necessary to meet FINRA's expectations.

We face strong competition from other financial institutions and financial service and insurance companies, which may adversely affect our operations and financial condition.

Our banking and mortgage origination businesses face vigorous competition from banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services than we do. We also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations, each of which may offer more favorable financing than we are able to provide. In addition, some of our non-bank competitors are not subject to the same extensive regulations that govern us. The banking business in Texas has become increasingly competitive over the past several years, and we expect the level of competition we face to further increase. Our profitability depends on our ability to compete effectively in these markets. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

The financial advisory and investment banking industries also are intensely competitive industries and will likely remain competitive. Our broker-dealer business competes directly with numerous other financial advisory and investment banking firms, broker-dealers and banks, including large national and major regional firms and smaller niche companies, some of whom are not broker-dealers and, therefore, not subject to the broker-dealer regulatory framework. In addition to competition from firms currently in the industry, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations. Our broker-dealer business competes on the basis of a number of factors, including the quality of advice and service, technology, product selection, innovation, reputation client relationships and price. Many of our broker-dealer segment's competitors in the investment banking industry have a greater range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more managing directors to serve their clients' needs, greater global reach and more established relationships with their customers than our broker-dealer business. Additionally, certain competitors of our financial advisory business have reorganized or plan to reorganize from investment banks into bank holding companies which may provide them with a competitive advantage. These larger and better capitalized competitors may be more capable of responding to changes in the investment banking market, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. Increased pressure created by any current or future competitors, or by competitors of our broker-dealer business collectively, could materially and adversely affect our business and results of operations. Increased competition may result in reduced revenue and loss of market share. Further, as a strategic response to changes in the competitive environment, our broker-dealer business may from time to time make certain pricing, service or marketing decisions that also could materially and adversely affect our business and results of operations.

The insurance industry also is highly competitive and has, historically, been characterized by periods of significant price competition, alternating with periods of greater pricing discipline during which competitors focus on other factors, including service, experience, the strength of agent and policyholder relationships, reputation, speed and accuracy of claims payment, perceived financial strength, ratings, scope of business, commissions paid and policy and contract terms and conditions. Our insurance business competes with many other insurers, including large national companies which have greater financial, marketing and management resources than our insurance segment. Many of these competitors also have better ratings and market recognition than our insurance business.

In addition, a number of new, proposed or potential industry developments also could increase competition in our insurance segment's industry. These developments include changes in practices and other effects caused by the Internet (including direct marketing campaigns by our insurance segment's competitors in established and new geographic markets), which have led to greater competition in the insurance business and increased expectations for customer service. These developments could prevent our insurance business from expanding its book of business. Our insurance business also faces competition from new entrants into the insurance market. New entrants do not have historic claims or losses to address and, therefore, may be able to price policies on a basis that is not favorable to our insurance business. New competition could reduce the demand for our insurance segment's insurance products, which could have a material adverse effect on our financial condition and results of operations.

Our mortgage origination and insurance businesses are subject to seasonal fluctuations and, as a result, our results of operations for any given quarter may not be indicative of the results that may be achieved for the full fiscal year.

Our mortgage origination business is subject to several variables that can impact loan origination volume, including seasonal and interest rate fluctuations. We typically experience increased loan origination volume from purchases of homes during the second and third calendar quarters, when more people tend to move and buy or sell homes. In addition, an increase in the general level of interest rates may, among other things, adversely affect the demand for mortgage loans and our ability to originate mortgage loans. In particular, if mortgage interest rates increase, the demand for residential mortgage loans and the refinancing of residential mortgage loans will likely decrease, which will have an adverse effect on our mortgage origination activities. Conversely, a decrease in the general level of interest rates, among other things, may lead to increased competition for mortgage loan origination business. As a result of these variables, our results of operations for any single quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Generally, our insurance segment's insured risks exhibit higher losses in the second and third calendar quarters due to a seasonal concentration of weather-related events in its primary geographic markets. Although weather-related losses (including hail, high winds, tornadoes and hurricanes) can occur in any calendar quarter, the second calendar quarter, historically, has experienced the highest frequency of losses associated with these events. Hurricanes, however, are more likely to occur in the third calendar quarter of the year.

If the actual losses and loss adjustment expenses of our insurance segment exceed its loss and expense estimates, its financial condition and results of operations could be materially adversely affected.

The financial condition and results of operations of our insurance segment depend upon its ability to assess accurately the potential losses associated with the risks that it insures. Our insurance segment establishes reserve liabilities to cover the payment of all losses and loss adjustment expenses incurred under the policies that it writes. These liability estimates include case estimates, which are established for specific claims that have been reported to our insurance segment, and liabilities for claims that have been incurred but not reported ("IBNR"). Loss adjustment expenses represent expenses incurred to investigate and settle claims. To the extent that losses and loss adjustment expenses exceed estimates, NLIC and ASIC will be required to increase their reserve liabilities and reduce their income in the period in which the deficiency is identified. In addition, increasing reserves causes a reduction in policyholders' surplus and could cause a downgrade in the ratings of NLIC and ASIC. This, in turn, could diminish our ability to sell insurance policies.

The liability estimation process for our insurance segment's casualty insurance coverage possesses characteristics that make case and IBNR reserving inherently less susceptible to accurate actuarial estimation than is the case with property coverages. Unlike property losses, casualty losses are claims made by third-parties of which the policyholder may not be aware and, therefore, may be reported a significant time after the occurrence, including sometimes years later. As casualty claims most often involve claims of bodily injury, assessment of the proper case estimates is a far more subjective process than claims involving property damage. In addition, in determining the case estimate for a casualty claim, information develops slowly over the life of the claim and can subject the case estimation to substantial modification well after the claim was first reported. Numerous factors impact the casualty case reserving process, such as venue, the amount of monetary damage, legislative activity, the permanence of the injury and the age of the claimant. The effects of inflation could cause the severity of claims from catastrophes or other events to rise in the future. Increases in the values and geographic concentrations of policyholder property and the effects of inflation have resulted in increased severity of industry losses in recent years, and our insurance segment expects that these factors will increase the severity of losses in the future. As NLC observed in 2008, the severity of some catastrophic weather events, including the scope and extent of damage and the inability to gain access to damaged properties, and the ensuing shortages of labor and materials and resulting demand surge, provide additional challenges to estimating ultimate losses. Our insurance segment's liabilities for losses and loss adjustment expenses include assumptions about future payments for settlement of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above liabilities established for these costs, our insurance segment expects to be required to increase its liabilities, together with a corresponding reduction in its net income in the period in which the deficiency is identified.

Estimating an appropriate level of liabilities for losses and loss adjustment expense is an inherently uncertain process. Accordingly, actual loss and loss adjustment expenses paid will likely deviate, perhaps substantially, from the liability estimates reflected in our insurance segment's consolidated financial statements. Claims could exceed our insurance segment's estimate for liabilities for losses and loss adjustment expenses, which could have a material adverse effect on its financial condition and results of operations.

If our insurance segment cannot obtain adequate reinsurance protection for the risks it underwrites or its reinsurers do not pay losses in a timely fashion, or at all, our insurance segment will suffer greater losses from these risks or may reduce the amount of business it underwrites, which may materially adversely affect its financial condition and results of operations.

Our insurance segment purchases reinsurance to protect itself from certain risks and to share certain risks it underwrites. During 2014 and 2013, our insurance segment's personal lines ceded 10.2% and 10.2%, respectively, of its direct insurance premiums written (primarily through excess of loss, quota share and catastrophe reinsurance treaties) and its commercial lines ceded 4.6% and 4.6%, respectively, of its direct insurance premiums written (primarily through excess of loss and catastrophe reinsurance treaties). The total cost of reinsurance, inclusive of per risk excess and catastrophe, decreased 4.1% in the year ended December 31, 2014, which is partially attributable to reduced limits, lower rates and lower reinstatement premiums in 2014 of $0.1 million. Reinsurance cost generally fluctuates as a result of storm costs or any changes in capacity within the reinsurance market.

From time to time, market conditions have limited, and in some cases have prevented, insurers from obtaining the types and amounts of reinsurance that they have considered adequate for their business needs. Accordingly, our insurance segment may not be able to obtain desired amounts of reinsurance. Even if our insurance segment is able to obtain adequate reinsurance, it may not be able to obtain it from entities with satisfactory creditworthiness or negotiate terms that it deems appropriate or acceptable. Although the cost of reinsurance is, in some cases, reflected in our insurance segment's premium rates, our insurance segment may have guaranteed certain premium rates to its policyholders. Under these circumstances, if the cost of reinsurance were to increase with respect to policies for which our insurance segment guaranteed the rates, our insurance segment would be adversely affected. In addition, if our insurance segment cannot obtain adequate reinsurance protection for the risks it underwrites, it may be exposed to greater losses from these risks or it may be forced to reduce the amount of business that it underwrites for such risks, which will reduce our insurance segment's revenue and may have a material adverse effect on its results of operations and financial condition.

At December 31, 2014, our insurance segment had $4.9 million in reinsurance recoverables, including ceded paid loss recoverables, ceded losses and loss adjustment expense recoverables and ceded unearned insurance premiums. Our insurance segment expects to continue to purchase substantial reinsurance coverage in the foreseeable future. Because our insurance segment remains primarily liable to its policyholders for the payment of their claims, regardless of the reinsurance it has purchased relating to those claims, in the event that one of its reinsurers becomes insolvent or otherwise refuses to reimburse our insurance segment for losses paid, or delays in reimbursing our insurance segment for losses paid, its liability for these claims could materially and adversely affect its financial condition and results of operations.

We are subject to legal claims and litigation, including potential securities law liabilities, any of which could have a material adverse effect on our business.

We face significant legal risks in each of the business segments in which we operate, and the volume of legal claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial service companies remains high. These risks often are difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. Substantial legal liability or significant regulatory action against us or any of our subsidiaries could have a material adverse effect on our results of operations or cause significant reputational harm to us, which could seriously harm our business and prospects. Further, regulatory inquiries and subpoenas, other requests for information, or testimony in connection with litigation may require incurrence of significant expenses, including fees for legal representation and fees associated with document production. These costs may be incurred even if we are not a target of the inquiry or a party to the litigation. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Further, in the normal course of business, our broker-dealer segment has been subject to claims by customers and clients alleging unauthorized trading, churning, mismanagement, suitability of investments, breach of fiduciary duty or other alleged misconduct by our employees or brokers. We are sometimes brought into lawsuits based on allegations concerning our correspondents. As underwriters, we are subject to substantial potential liability for material misstatements and omissions in prospectuses and other communications with respect to underwritten offerings of securities. Prolonged litigation producing significant legal expenses or a substantial settlement or adverse judgment could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We may be subject to environmental liabilities in connection with the foreclosure on real estate assets securing the loan portfolio of our banking segment.

Hazardous or toxic substances or other environmental hazards may be located on the real estate that secures our loans. If we acquire such properties as a result of foreclosure, or otherwise, we could become subject to various environmental liabilities. For example, we could be held liable for the cost of cleaning up or otherwise addressing contamination at or from these properties. We could also be held liable to a governmental entity or third party for property damage, personal injury or other claims relating to any environmental contamination at or from these properties. In addition, we could be held liable for costs relating to environmental contamination at or from our current or former properties. We may not detect all environmental hazards associated with these properties. If we ever became subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be harmed.

If we fail to maintain an effective system of internal controls over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.

Effective internal controls are necessary for us to provide timely and reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. If we fail to maintain the adequacy of our internal controls, our financial statements may not accurately reflect our financial condition. Inadequate internal controls over financial reporting could impact the reliability and timeliness of our financial reports and could cause investors to lose confidence in our reported financial information, which could have a negative effect on our business and the value of our securities.

The debt agreements of our insurance segment and its controlled affiliates contain financial covenants and impose restrictions on its business.

The indenture governing NLC's LIBOR plus 3.40% notes due 2035 contains restrictions on its ability to, among other things, declare and pay dividends and merge or consolidate. In addition, this indenture contains a change of control provision, which provides that (i) if a person or group becomes the beneficial owner, directly or indirectly, of 50% or more of NLC's equity securities and (ii) if NLC's ratings are downgraded by a nationally recognized statistical rating organization (as defined in the Exchange Act), then each holder of the notes governed by such indenture has the right to require that NLC purchase such holder's notes, in whole or in part, at a price equal to 100% of the then outstanding principal amount. Likewise, the surplus indentures governing NLIC's two LIBOR plus 4.10% and 4.05% notes due 2033 and ASIC's LIBOR plus 4.05% notes due 2034 contain restrictions on dividends and mergers and consolidations. In addition, NLC has other credit arrangements with its affiliates and other third-parties.

NLC's ability to comply with these covenants may be affected by events beyond its control, including prevailing economic, financial and industry conditions. The breach of any of these restrictions could result in a default under the loan agreements or indentures governing the notes or under its other debt agreements. An event of default under its debt agreements would permit some of its lenders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If NLC were unable to repay debt to its secured lenders, these lenders could proceed against the collateral securing that debt. In addition, acceleration of its other indebtedness may cause NLC to be unable to make interest payments on the notes. Other agreements that NLC or its insurance company subsidiaries may enter into in the future may contain covenants imposing significant restrictions on their respective businesses that are similar to, or in addition to, the covenants under their respective existing agreements. These restrictions may affect NLC's ability to operate its business and may limit its ability to take advantage of potential business opportunities as they arise.

Risks Related to our Substantial Cash Position and Related Strategies for its Use

Because we intend to use a substantial portion of our remaining available cash to make acquisitions or effect a business combination, we may become subject to risks inherent in pursuing and completing any such acquisitions or business combination.

We are endeavoring to make acquisitions or effect business combinations with a substantial portion of our remaining available cash. We may not, however, be able to identify suitable targets, consummate acquisitions or effect a combination on commercially acceptable terms or, if consummated, successfully integrate personnel and operations.

The success of any acquisition or business combination will depend upon, among other things, the ability of management and our employees to integrate personnel, operations, products and technologies effectively, to retain and motivate key personnel and to retain customers and clients of targets. In addition, any acquisition or business combination we undertake may consume available cash resources, result in potentially dilutive issuances of equity securities and divert management's attention from other business concerns. Even if we conduct extensive due diligence on a target business that we acquire or with which we merge, our diligence may not surface all material issues that may adversely affect a particular target business, and we may be forced to later write-down or write-off assets, restructure our operations or incur impairment or other charges that could result in our reporting losses. Consequently, we also may need to make further investments to support the acquired or combined company and may have difficulty identifying and acquiring the appropriate resources.

We may enter, through acquisitions or a business combination, into new lines of business or initiate new service offerings subject to the restrictions imposed upon us as a regulated financial holding company. Accordingly, there is no basis for you to evaluate the possible merits or risks of the particular target business with which we may combine or that we may ultimately acquire.

Existing circumstances may result in several of our directors having interests that may conflict with our interests.

A director who has a conflict of interest with respect to an issue presented to our board will have no inherent legal obligation to abstain from voting upon that issue. We do not have provisions in our bylaws or charter that require an interested director to abstain from voting upon an issue, and we do not expect to add provisions in our charter and bylaws to this effect. Although each director has a duty to act in good faith and in a manner he or she reasonably believes to be in our best interests, there is a risk that, should interested directors vote upon an issue in which they or one of their affiliates has an interest, their vote may reflect a bias that could be contrary to our best interests. In addition, even if an interested director abstains from voting, the director's participation in the meeting and discussion of an issue in which they have, or companies with which they are associated have, an interest could influence the votes of other directors regarding the issue.

Difficult market conditions have adversely affected the yield on our available cash.

Our primary objective is to preserve and maintain the liquidity of our available cash, while at the same time maximizing yields without significantly increasing risk. The capital and credit markets have been experiencing volatility and disruption for a prolonged period. This volatility and disruption reached unprecedented levels, resulting in dramatic declines in interest rates and other yields relative to risk. This downward pressure has negatively affected the yields we receive on our available cash. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will receive any significant yield on our available cash. Further, given current market conditions, no assurance can be given that we will be able to preserve our available cash.

Risks Related to Our Common Stock

We may issue shares of preferred stock or additional shares of common stock to complete an acquisition or effect a combination or under an employee incentive plan after consummation of an acquisition or combination, which would dilute the interests of our stockholders and likely present other risks.

The issuance of shares of preferred stock or additional shares of common stock:

- may significantly dilute the equity interest of our stockholders;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded our common stock;
- could cause a change in control if a substantial number of shares of common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards; and
- may adversely affect prevailing market prices for our common stock.

Our authorized capital stock includes ten million shares of preferred stock, and we currently have 114,068 shares of Series B Preferred Stock issued and outstanding, liquidation preference $1,000 per share, to the Secretary of the Treasury pursuant to the Small Business Lending Fund ("SBLF"). Our board of directors, in its sole discretion, may designate and issue one or more additional series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our articles of incorporation, our board of directors is empowered to determine the designation and number of shares constituting each series of preferred stock, as well as any designations, qualifications, privileges, limitations, restrictions or special or relative rights of additional series. The rights of preferred stockholders may supersede the rights of common stockholders. Preferred stock could be issued with voting and conversion rights that could adversely affect the voting power of the shares of our common stock. The issuance of preferred stock could also result in a series of securities outstanding that would have preferences over the common stock with respect to dividends and in liquidation.

Our common stock price may experience substantial volatility, which may affect your ability to sell our common stock at an advantageous price.

Price volatility of our common stock may affect your ability to sell our common stock at an advantageous price. Market price fluctuations in our common stock may arise due to acquisitions, dispositions or other material public announcements, including those regarding dividends or changes in management, along with a variety of additional factors, including, without limitation, other risks identified in "Forward-looking Statements" and these "Risk Factors." In addition, the stock markets in general, including the NYSE, have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often have been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of our common stock.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

We are organized under Maryland law, which provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages, except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment and that is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, our stockholders and we may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

The Treasury's investment in us imposes restrictions and obligations upon us that could adversely affect the rights of our common stockholders.

We have sold 114,068 shares of our Series B Preferred Stock, liquidation preference $1,000 per share, for $114.1 million, to the Secretary of the Treasury pursuant to the SBLF. The shares of Series B Preferred Stock are senior to shares of our common stock with respect to dividends and liquidation preference. The terms of the Series B Preferred Stock provided for the payment of non-cumulative dividends on a quarterly basis. As long as shares of Series B Preferred Stock remain outstanding, we may not pay dividends to our common stockholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series B Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series B Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of September 27, 2011, excluding any charge-offs and redemptions of the Series B Preferred Stock.

Our charter and laws contain provisions that could discourage acquisition bids or merger proposals, which may adversely affect the market price of our common stock.

<u>Authority to Issue Additional Shares</u>. Under our charter, our board of directors may issue up to an aggregate of ten million shares of preferred stock without stockholder action. The preferred stock may be issued, in one or more series, with the preferences and other terms designated by our board of directors that may delay or prevent a change in control of us, even if the change is in the best interests of stockholders. At December 31, 2014, 114,068 shares of preferred stock were designated or outstanding.

<u>Banking Laws</u>. Any change in control of our company is subject to prior regulatory approval under the Bank Holding Company Act or the Change in Bank Control Act, which may delay, discourage or prevent an attempted acquisition or change in control of us.

<u>Insurance Laws</u>. NLIC and ASIC are domiciled in the State of Texas. Before a person can acquire control of an insurance company domiciled in Texas, prior written approval must be obtained from the Texas Department of Insurance. Acquisition of control would be presumed on the acquisition, directly or indirectly, of ten percent or more of our outstanding voting stock, unless the regulators determine otherwise. Prior to granting approval of an application to acquire control of a domestic insurer, the Texas Department of Insurance will consider several factors, such as:

- the financial strength of the acquirer;
- the integrity and management experience of the acquirer's board of directors and executive officers;
- the acquirer's plans for the management of the insurer;

- the acquirer's plans to declare dividends, sell assets or incur debt;
- the acquirer's plans for the future operations of the domestic insurer;
- the impact of the acquisition on continued licensure of the domestic insurer;
- the impact on the interests of Texas policyholders; and
- any anti-competitive results that may arise from the consummation of the acquisition of control.

These laws may discourage potential acquisition proposals for us and may delay, deter or prevent a change of control of us, including transactions that some or all of our stockholders might consider desirable.

FINRA. Any change in control of any of the Hilltop Broker-Dealers, including through acquisition, is subject to prior regulatory approval by FINRA which may delay, discourage or prevent an attempted acquisition or other change in control of such broker-dealers.

Restrictions on Calling Special Meeting, Cumulative Voting and Director Removal. Our bylaws includes a provision prohibiting the holders of less than a majority of the voting power represented by all of our shares issued, outstanding and entitled to be voted at a proposed meeting, from calling a special meeting of stockholders. Our charter does not provide for the cumulative voting in the election of directors. In addition, our charter provides that our directors may only be removed for cause and then only by an affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors. Any amendment to our charter relating to the removal of directors requires the affirmative vote of two-thirds of all of the votes entitled to be cast on the matter. These provisions of our bylaws and charter may delay, discourage or prevent an attempted acquisition or change in control of us.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and is not insured or guaranteed by the FDIC, SIPC, the Texas Department of Insurance or any other government agency. Accordingly, you should be capable of affording the loss of any investment in our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease office space for our principal executive offices in Dallas, Texas. In addition to our principal office, our various business segments conduct business at various locations.

Banking. At December 31, 2014, our banking segment conducted business at 87 locations throughout Texas, including seven support facilities. Our banking segment's principal executive offices are located in Dallas, Texas, in space leased by PlainsCapital. We lease 32 banking locations including our principal offices and we own the remaining 55 banking locations. We have options to renew leases at most locations.

Broker-dealer. Our broker-dealer segment is headquartered in Dallas, Texas and at December 31, 2014 conducted business at 25 locations in 14 states. Each of these offices is leased by First Southwest.

Mortgage Origination. Our mortgage origination segment is headquartered in Dallas, Texas and at December 31, 2014 conducted business from over 250 locations in 42 states. Each of these locations is leased by PrimeLending.

Insurance. At December 31, 2014, our insurance segment leases office space in Waco, Texas for all corporate, claims, customer service and data center operations.

After giving effect to the SWS Merger on January 1, 2015, we had leased or owned an aggregate of approximately 450 locations in 44 states.

Item 3. Legal Proceedings.

For a description of material pending legal proceedings, see the discussion set forth under the heading “Legal Matters” in Note 18 to our Consolidated Financial Statements, which is incorporated by reference herein.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Securities, Stockholder and Dividend Information

Our common stock is listed on the New York Stock Exchange under the symbol "HTH". Our common stock has no public trading history prior to February 12, 2004. Our common stock closed at $19.33 on February 25, 2015. At February 26, 2015, there were 100,296,330 shares of our common stock outstanding with 540 stockholders of record.

In connection with the PlainsCapital Merger, on November 29, 2012, we filed with the State Department of Assessments and Taxation of the State of Maryland articles supplementary for the Series B Preferred Stock, setting forth its terms. Holders of the Series B Preferred Stock are entitled to noncumulative cash dividends at a fluctuating dividend rate based on the Bank's level of qualified small business lending. The Series B Preferred Stock is non-voting, except in limited circumstances, and ranks senior to our common stock with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of Hilltop.

Subject to the restrictions discussed below, our stockholders are entitled to receive dividends when, as, and if declared by our board of directors out of funds legally available for that purpose. Our board of directors exercises discretion with respect to whether we will pay dividends and the amount of such dividend, if any. Factors that affect our ability to pay dividends on our common stock in the future include, without limitation, our earnings and financial condition, liquidity and capital resources, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our board of directors. We have not declared or paid any dividends over the past two completed fiscal years.

As a holding company, we are ultimately dependent upon our subsidiaries to provide funding for our operating expenses, debt service and dividends. Various laws limit the payment of dividends and other distributions by our subsidiaries to us, and may therefore limit our ability to pay dividends on our common stock. In addition, as long as shares of Series B Preferred Stock remain outstanding, we may not pay dividends to our common stockholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series B Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series B Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of September 27, 2011, excluding any charge-offs and redemptions of the Series B Preferred Stock.

If required payments on our outstanding junior subordinated debentures held by our unconsolidated subsidiary trusts are not made or suspended, we may be prohibited from paying dividends on our common stock. Regulatory authorities could impose administratively stricter limitations on the ability of our subsidiaries to pay dividends to us if such limits were deemed appropriate to preserve certain capital adequacy requirements. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Restrictions on Dividends and Distributions."

The following table discloses the high and low sales prices per quarter for our common stock during 2014 and 2013. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	Price Range	
	High	Low
Year Ended December 31, 2014		
First Quarter	$ 25.61	$ 22.42
Second Quarter	$ 25.08	$ 19.72
Third Quarter	$ 22.39	$ 19.32
Fourth Quarter	$ 22.20	$ 19.27
Year Ended December 31, 2013		
First Quarter	$ 14.21	$ 12.34
Second Quarter	$ 16.94	$ 12.59
Third Quarter	$ 18.71	$ 15.46
Fourth Quarter	$ 24.05	$ 17.09

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information at December 31, 2014 with respect to compensation plans under which shares of our common stock may be issued. Additional information concerning our stock-based compensation plans is presented in Note 20, Stock-Based Compensation, in the notes to our consolidated financial statements.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders*	600,000	$ 7.70	3,078,374
Total	600,000	$ 7.70	3,078,374

*Excludes shares of restricted stock granted under the 2003 equity incentive plan (the "2003 Plan"), as all such shares are vested. No exercise price is required to be paid upon the vesting of the restricted shares of common stock granted. In September 2012, our stockholders approved the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), which allows for the granting of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights and other awards to employees of Hilltop, its subsidiaries and outside directors of Hilltop. Upon the effectiveness of the 2012 Plan, no additional awards are permissible under the 2003 Plan. In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2014, 933,004 awards had been granted pursuant to the 2012 Plan, while 11,378 awards were forfeited and are eligible for reissuance. All shares outstanding under the 2003 Plan and the 2012 Plan, whether vested or unvested, are entitled to receive dividends and to vote, unless forfeited. No participant in our 2012 Plan may be granted awards in any fiscal year covering more than 1,250,000 shares of our common stock. Excludes 62,994 shares of Hilltop common stock that are issuable pursuant to awards assumed in the SWS Merger, as these awards were not assumed until January 1, 2015.

Issuer Repurchases of Equity Securities

There were no repurchases of shares of common stock during the three months ended December 31, 2014.

Recent Sales of Unregistered Securities

On October 15, 2014, we issued an aggregate of 2,292 shares of common stock under the 2012 Plan to certain non-employee directors as compensation for their service on our Board of Directors during the third quarter of 2014. The shares were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act.

Item 6. Selected Financial Data.

Our historical consolidated balance sheet data at December 31, 2014 and 2013 and our consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited historical consolidated financial statements included elsewhere in this Annual Report. The following table shows our selected historical financial data for the periods indicated. You should read our selected historical financial data, together with the notes thereto, in conjunction with the more detailed information contained in our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report. Our operating results for 2012 include the results from the operations acquired in the PlainsCapital Merger for the month of December 2012 and the operations acquired in the FNB Transaction are included in our operating results beginning September 14, 2013 (dollars in thousands, except per share data and weighted average shares outstanding).

	2014	2013	2012	2011	2010
Statement of Operations Data:					
Total interest income	$ 388,769	$ 329,075	$ 39,038	$ 11,049	$ 8,154
Total interest expense	27,628	32,874	10,196	8,985	8,971
Net interest income (loss)	361,141	296,201	28,842	2,064	(817)
Provision for loan losses	16,933	37,158	3,800	—	—
Net interest income (loss) after provision for loan losses	344,208	259,043	25,042	2,064	(817)
Total noninterest income	799,311	850,085	224,232	141,650	124,073
Total noninterest expense	965,353	911,735	255,517	155,254	124,811
Income (loss) before income taxes	178,166	197,393	(6,243)	(11,540)	(1,555)
Income tax expense (benefit)	65,608	70,684	(1,145)	(5,009)	(1,007)
Net income (loss)	112,558	126,709	(5,098)	(6,531)	(548)
Less: Net income attributable to noncontrolling interest	908	1,367	494	—	—
Income (loss) attributable to Hilltop	111,650	125,342	(5,592)	(6,531)	(548)
Dividends on preferred stock and other (1)	5,703	4,327	259	—	12,939
Income (loss) applicable to Hilltop common stockholders	$ 105,947	$ 121,015	$ (5,851)	$ (6,531)	$ (13,487)
Per Share Data:					
Net income (loss) - basic	$ 1.18	$ 1.43	$ (0.10)	$ (0.12)	$ (0.24)
Weighted average shares outstanding - basic	89,710	84,382	58,754	56,499	56,492
Net income (loss) - diluted	$ 1.17	$ 1.40	$ (0.10)	$ (0.12)	$ (0.24)
Weighted average shares outstanding - diluted	90,573	90,331	58,754	56,499	56,492
Book value per common share	$ 14.93	$ 13.27	$ 12.34	$ 11.60	$ 11.56
Tangible book value per common share	$ 11.47	$ 9.70	$ 8.37	$ 11.01	$ 10.95
Balance Sheet Data:					
Total assets	$ 9,242,416	$ 8,904,122	$ 7,286,865	$ 925,425	$ 939,641
Cash and due from banks	782,473	713,099	722,039	578,520	649,439
Securities	1,109,461	1,261,989	1,081,066	224,200	148,965
Investment in SWS common stock (2)	70,282	—	—	—	—
Loans held for sale	1,309,693	1,089,039	1,401,507	—	—
Non-covered loans, net of unearned income	3,920,476	3,514,646	3,152,396	—	—
Covered loans	642,640	1,006,369	—	—	—
Allowance for loan losses	(41,652)	(34,302)	(3,409)	—	—
Goodwill and other intangible assets, net	311,591	322,729	331,508	33,062	34,587
Total deposits	6,369,892	6,722,918	4,700,461	—	—
Notes payable	56,684	56,327	141,539	131,450	138,350
Junior subordinated debentures	67,012	67,012	67,012	—	—
Total stockholders' equity	1,461,239	1,311,922	1,146,550	655,383	653,055
Performance Ratios (3):					
Return on average stockholders' equity	8.01%	10.48%	-0.62%		
Return on average assets	1.26%	1.66%	-0.08%		
Net interest margin (taxable equivalent) (4)	4.74%	4.47%	4.64%		
Efficiency ratio (5)(6)(7)	61.17%	42.58%	NM		
Asset Quality Ratios (3):					
Total nonperforming assets to total loans and other real estate (6)	4.14%	3.70%	NM		
Allowance for loan losses to nonperforming loans (6)	74.01%	136.39%	NM		
Allowance for loan losses to total loans (6)	0.91%	0.76%	NM		
Net charge-offs to average loans outstanding (6)	0.21%	0.18%	NM		
Capital Ratios:					
Equity to assets ratio	15.80%	14.73%	15.71%	70.82%	69.50%
Tangible common equity to tangible assets	11.59%	10.19%	10.05%	69.74%	68.33%

	2014	2013	2012	2011	2010
Regulatory Capital Ratios (3):					
Hilltop - Leverage ratio (8)	14.17%	12.81%	13.08%		
Hilltop - Tier 1 risk-based capital ratio	19.02%	18.53%	17.72%		
Hilltop - Total risk-based capital ratio	19.69%	19.13%	17.81%		
Bank - Leverage ratio (8)	10.31%	9.29%	8.84%		
Bank - Tier 1 risk-based capital ratio	13.74%	13.38%	11.83%		
Bank - Total risk-based capital ratio	14.45%	14.00%	11.93%		
Other Data (9):					
Net loss and LAE ratio	57.4%	70.3%	74.4%	72.2%	60.5%
Expense ratio	31.9%	32.3%	34.4%	34.0%	36.0%
GAAP combined ratio	89.3%	102.6%	108.8%	106.2%	96.5%
Statutory surplus (10)	$ 141,989	$ 125,054	$ 120,319	$ 118,708	$ 119,297
Statutory premiums to surplus ratio	115.8%	130.7%	125.0%	119.4%	102.0%

(1) Series A preferred stock was redeemed in September 2010.
(2) For periods prior to 2014, Hilltop's investment in SWS common stock was accounted for and included within its available for sale securities portfolio.
(3) Noted measures are typically used for measuring the performance of banking and financial institutions. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Therefore, noted measures for periods prior to 2012 are not a useful measure and have been excluded.
(4) Taxable equivalent net interest income divided by average interest-earning assets. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Therefore, noted measure for 2012 reflects the ratio for the month ended December 31, 2012.
(5) Noninterest expenses divided by the sum of total noninterest income and net interest income for the year.
(6) Noted measures are typically used for measuring the performance of banking and financial institutions. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Additionally, noted measure is not meaningful ("NM") in 2012.
(7) Only considers operations of banking segment.
(8) Ratio for 2012 was calculated using the average assets for the month of December.
(9) Only considers operations of insurance segment.
(10) Statutory surplus includes combined surplus of NLIC and ASIC.

GAAP Reconciliation and Management's Explanation of Non-GAAP Financial Measures

We present two measures in our selected financial data that are not measures of financial performance recognized by GAAP. "Tangible book value per common share" is defined as our total stockholders' equity, excluding preferred stock, reduced by goodwill and other intangible assets, divided by total common shares outstanding. "Tangible common equity to tangible assets" is defined as our total stockholders' equity, excluding preferred stock, reduced by goodwill and other intangible assets divided by total assets reduced by goodwill and other intangible assets. These measures are important to investors interested in changes from period to period in tangible common equity per share exclusive of changes in intangible assets. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill and other intangible assets related to those transactions.

You should not view this disclosure as a substitute for results determined in accordance with GAAP, and our disclosure is not necessarily comparable to that of other companies that use non-GAAP measures. The following table reconciles these non-GAAP financial measures to the most comparable GAAP financial measures, "book value per common share" and "Hilltop stockholders' equity to total assets" (dollars in thousands, except per share data).

	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Book value per common share	$ 14.93	$ 13.27	$ 12.34	$ 11.60	$ 11.56
Effect of goodwill and intangible assets per share	$ (3.46)	$ (3.57)	$ (3.97)	$ (0.59)	$ (0.61)
Tangible book value per common share	$ 11.47	$ 9.70	$ 8.37	$ 11.01	$ 10.95
Hilltop stockholders' equity	$ 1,460,452	$ 1,311,141	$ 1,144,496	$ 655,383	$ 653,055
Less: preferred stock	114,068	114,068	114,068	—	—
Less: goodwill and intangible assets, net	311,591	322,729	331,508	33,062	34,587
Tangible common equity	1,034,793	874,344	698,920	622,321	618,468
Total assets	9,242,416	8,904,122	7,286,865	925,425	939,641
Less: goodwill and intangible assets, net	311,591	322,729	331,508	33,062	34,587
Tangible assets	8,930,825	8,581,393	6,955,357	892,363	905,054
Equity to assets	15.80%	14.73%	15.71%	70.82%	69.50%
Tangible common equity to tangible assets	11.59%	10.19%	10.05%	69.74%	68.33%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to help the reader understand our results of operations and financial condition and is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes thereto commencing on page F-1. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Item 1A. Risk Factors" and elsewhere in this Annual Report. See "Forward-Looking Statements." All dollar amounts in the following discussion are in thousands, except per share amounts.

Unless the context otherwise indicates, all references in this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, to the "Company," "we," "us," "our" or "ours" or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to "Hilltop" refer solely to Hilltop Holdings Inc., references to "PlainsCapital" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to "Hilltop Securities" refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to "Southwest Securities" refer to Southwest Securities, Inc. (a wholly owned subsidiary of Hilltop Securities), references to "SWS Financial" refer to SWS Financial Services, Inc. (a wholly owned subsidiary of Hilltop Securities), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PlainsCapital), references to "FNB" refer to First National Bank, references to "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Hilltop Securities) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company, LLC (a wholly owned subsidiary of First Southwest), references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, and references to "NLC" refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole.

OVERVIEW

We are a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999. Our primary line of business is to provide business and consumer banking services from offices located throughout Texas through the Bank. We also provide an array of financial products and services through our broker-dealer, mortgage origination and insurance segments.

Through December 31, 2014, the Company delivered these financial products and services through the following primary operating business units.

PlainsCapital. PlainsCapital is a financial holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, traditional banking services, residential mortgage lending, investment banking, public finance advisory, wealth and investment management, treasury management, fixed income sales, asset management, and correspondent clearing services.

NLC. NLC is a property and casualty insurance holding company, headquartered in Waco, Texas, that provides, through its subsidiaries, fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States.

At December 31, 2014, on a consolidated basis, we had total assets of $9.2 billion, total deposits of $6.4 billion, total loans, including loans held for sale, of $5.8 billion and stockholders' equity of $1.5 billion. Our operating results beginning December 1, 2012 include the banking, mortgage origination and broker-dealer (formerly financial advisory) operations acquired in the PlainsCapital Merger (defined hereafter). Accordingly, our operating results and financial condition for the years ended December 31, 2014 and 2013 are not comparable to prior years. The operations acquired in the FNB Transaction (defined hereafter) are included in the results of our banking operations beginning September 14, 2013.

Effective January 1, 2015, in connection with our acquisition of SWS Group, Inc. ("SWS"), we modified our organizational structure into three primary operating business units, PlainsCapital (banking and mortgage origination), Hilltop Securities (broker-dealer) and NLC (insurance). The PlainsCapital unit continues to include the Bank and PrimeLending, while the new Hilltop Securities unit includes First Southwest (transferred from the PlainsCapital unit effective January 1, 2015), Southwest Securities and SWS Financial (both acquired on January 1, 2015).

Company Background

In January 2007, we acquired NLC, a property and casualty insurance holding company. As a result, our subsequent primary operations through November 2012 were limited to providing fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States through NLC's wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

On November 30, 2012, we acquired PlainsCapital Corporation in a stock and cash transaction, whereby PlainsCapital Corporation merged with and into our wholly owned subsidiary, which continued as the surviving entity under the name "PlainsCapital Corporation" (the "PlainsCapital Merger"). Based on Hilltop's closing stock price on November 30, 2012, the total purchase price was $813.5 million, consisting of 27.1 million shares of common stock, $311.8 million in cash and the issuance of 114,068 shares of Hilltop Non-Cumulative Perpetual Preferred Stock, Series B ("Hilltop Series B Preferred Stock"). The fair value of assets acquired, excluding goodwill, totaled $6.5 billion, including $3.2 billion of loans, $730.8 million of investment securities and $70.7 million of identifiable intangibles. The fair value of the liabilities assumed was $5.9 billion, including $4.5 billion of deposits.

Concurrent with the consummation of the PlainsCapital Merger, Hilltop became a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999.

On September 13, 2013 (the "Bank Closing Date"), the Bank assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of Edinburg, Texas-based FNB from the Federal Deposit Insurance Corporation (the "FDIC"), as receiver, and reopened former branches of FNB acquired from the FDIC under the "PlainsCapital Bank" name (the "FNB Transaction"). Pursuant to the Purchase and Assumption Agreement by and among the FDIC as receiver for FNB, the FDIC and the Bank (the "P&A Agreement"), the Bank and the FDIC entered into loss-share agreements whereby the FDIC agreed to share in the losses of certain covered loans and covered other real estate owned ("OREO") that the Bank acquired in the FNB Transaction. The fair value of the assets acquired was $2.2 billion, including $1.1 billion in covered loans, $286.2 million in securities, $135.2 million in covered OREO and $42.9 million in non-covered loans. The Bank also assumed $2.2 billion in liabilities, consisting primarily of deposits.

On January 1, 2015, we completed our acquisition of SWS in a stock and cash transaction, whereby SWS merged with and into Hilltop Securities, formerly Peruna LLC, a wholly owned subsidiary of Hilltop formed for the purpose of facilitating this transaction (the "SWS Merger"). SWS's broker-dealer subsidiaries, Southwest Securities and SWS Financial, became subsidiaries of Hilltop Securities. Immediately following the SWS Merger, SWS's banking subsidiary, Southwest Securities, FSB ("SWS FSB"), was merged into the Bank, an indirect wholly owned subsidiary of Hilltop. As a result of the SWS Merger, each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop's closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.0 million, consisting of 10.0 million shares of common stock, $78.2 million in cash and $70.3 million associated with our existing investment in SWS common stock. Additionally, due to appraisal rights proceedings filed in connection with the SWS Merger, the merger consideration is subject to change, and therefore, preliminary at this time. The SWS Merger will be accounted for using the acquisition method of accounting, and accordingly, purchased assets, including identifiable intangible assets and assumed liabilities will be recorded at their respective acquisition date fair values using significant estimates and assumptions to value certain identifiable assets acquired and liabilities assumed.

Segment Information

Through December 31, 2014, we had two primary operating business units, PlainsCapital (financial services and products) and NLC (insurance). Within the PlainsCapital unit were three primary wholly owned operating subsidiaries: the Bank, PrimeLending and First Southwest. Under accounting principles generally accepted in the United States ("GAAP"), our business units were comprised of four reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, broker-dealer, mortgage origination and insurance. The SWS Merger has not resulted in changes to our four reportable business segments. Consistent with the segment operating results during 2013 and 2014, we anticipate that future revenues will be driven primarily from the banking segment, with the remainder being generated by our broker-dealer, mortgage origination and insurance segments. Based on historical results of PlainsCapital Corporation, which we acquired on November 30, 2012, the relative share of total revenue provided by our banking and mortgage origination segments fluctuates depending on market conditions, and operating results for the mortgage origination segment tend to be more volatile than operating results for the banking segment.

The banking segment includes the operations of the Bank and, since September 14, 2013, the operations acquired in the FNB Transaction. Beginning January 1, 2015, the banking segment will also include the operations of the former SWS FSB. The banking segment primarily provides business and consumer banking products and services from offices located throughout Texas and generates revenue from its portfolio of earning assets. The Bank's results of operations are primarily dependent on net interest income, while also deriving revenue from other sources, including service charges on customer deposit accounts and trust fees.

The broker-dealer segment has historically generated a majority of its revenues from fees and commissions earned from investment advisory and securities brokerage services at First Southwest. The principal subsidiaries of First Southwest are FSC, a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and Financial Industry Regulatory Authority, and First Southwest Asset Management, LLC, a registered investment advisor under the Investment Advisors Act of 1940. FSC holds trading securities to support sales, underwriting and other customer activities. These securities are marked to market through other noninterest income. FSC uses derivatives to support mortgage origination programs of certain non-profit housing organization clients. FSC hedges its related exposure to interest rate risk from these programs with U.S. Agency to-be-announced ("TBA") mortgage-backed securities. These derivatives are marked to market through other noninterest income. Beginning January 1, 2015, the broker-dealer segment will also include the operations of Southwest Securities and SWS Financial.

The mortgage origination segment includes the operations of PrimeLending, which offers a variety of loan products from offices in 42 states and generates revenue predominantly from fees charged on the origination of loans and from selling these loans in the secondary market.

The insurance segment includes the operations of NLC, which operates through its wholly owned subsidiaries, NLIC and ASIC. Insurance segment income is primarily generated from revenue earned on net insurance premiums less loss and loss adjustment expenses ("LAE") and policy acquisition and other underwriting expenses in Texas and other areas of the southern United States.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, and management and administrative services to support the overall operations of the Company including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs not allocated to business segments. Balance sheet amounts for remaining subsidiaries not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations."

Additional information concerning our reportable segments is presented in Note 30, Segment and Related Information, in the notes to our consolidated financial statements. The following tables present certain information about the operating results of our reportable segments (in thousands).

Year Ended December 31, 2014	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 334,377	$ 12,144	$ (12,591)	$ 3,672	$ 5,219	$ 18,320	$ 361,141
Provision for loan losses	16,916	17	—	—	—	—	16,933
Noninterest income	67,438	119,451	456,776	173,577	5,985	(23,916)	799,311
Noninterest expense	245,790	124,715	431,820	151,541	13,878	(2,391)	965,353
Income (loss) before income taxes	$ 139,109	$ 6,863	$ 12,365	$ 25,708	$ (2,674)	$ (3,205)	$ 178,166

Year Ended December 31, 2013	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 293,254	$ 12,064	$ (37,840)	$ 7,442	$ (1,597)	$ 22,878	$ 296,201
Provision for loan losses	37,140	18	—	—	—	—	37,158
Noninterest income	71,045	102,714	537,497	166,163	—	(27,334)	850,085
Noninterest expense	155,102	112,360	472,284	166,006	10,439	(4,456)	911,735
Income (loss) before income taxes	$ 172,057	$ 2,400	$ 27,373	$ 7,599	$ (12,036)	$ —	$ 197,393

Year Ended December 31, 2012	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 24,885	$ 1,191	$ (4,987)	$ 4,730	$ 39	$ 2,984	$ 28,842
Provision for loan losses	3,670	130	—	—	—	—	3,800
Noninterest income	4,601	10,909	57,618	154,147	—	(3,043)	224,232
Noninterest expense	16,130	11,078	50,296	163,585	14,487	(59)	255,517
Income (loss) before income taxes	$ 9,686	$ 892	$ 2,335	$ (4,708)	$ (14,448)	$ —	$ (6,243)

How We Generate Revenue

We generate revenue from net interest income and from noninterest income. Net interest income represents the difference between the income earned on our assets, including our loans and investment securities, and our cost of funds, including the interest paid on the deposits and borrowings that are used to support our assets. Net interest income is a significant contributor to our operating results. Fluctuations in interest rates, as well as the amounts and types of interest-earning assets and interest-bearing liabilities we hold, affect net interest income. We generated $361.1 million in net interest income during the year ended December 31, 2014, compared with net interest income of $296.2 million in 2013 and net interest income of $28.8 million in 2012. The year-over-year increases in net interest income were primarily due to the inclusion of those operations acquired as a part of the PlainsCapital Merger and FNB Transaction within our banking segment.

The other component of our revenue is noninterest income, which is primarily comprised of the following:

(i) *Investment and securities advisory fees and commissions.* Through our wholly owned subsidiary, First Southwest, we provide public finance advisory and various investment banking and brokerage services. We generated $101.9 million, $93.1 million and $11.2 million in investment advisory fees and commissions and securities brokerage fees and commissions during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

(ii) *Income from mortgage operations.* Through our wholly owned subsidiary, PrimeLending, we generate noninterest income by originating and selling mortgage loans. During the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, we generated $453.4 million, $537.3 and $57.6 million, respectively, in net gains from the sale of loans, other mortgage production income (including income associated with retained mortgage servicing rights), and mortgage loan origination fees.

(iii) *Net insurance premiums earned.* Through our wholly owned insurance subsidiary, NLC, we provide fire and limited homeowners insurance for low value dwellings and manufactured homes. We generated $164.5 million, $157.5 million and $146.7 million in net insurance premiums earned during 2014, 2013 and 2012, respectively.

In the aggregate, we generated $799.3 million, $850.1 million and $224.2 million in noninterest income during 2014, 2013 and 2012, respectively. The significant year-over-year decrease in noninterest income in 2014 compared to 2013 was primarily due to the decrease in loan origination volume within our mortgage origination segment and, to a lesser extent, the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during 2013 within our banking segment, partially offset by increases in noninterest income in our banking, insurance and broker-dealer segments. The significant year-over-year increase in noninterest income during 2013 was primarily due to the inclusion of the mortgage origination and broker-dealer operations that we acquired as a part of the PlainsCapital Merger.

We also incur noninterest expenses in the operation of our businesses. Our businesses engage in labor intensive activities and, consequently, employees' compensation and benefits represent the majority of our noninterest expenses.

Consolidated Operating Results

Net income applicable to common stockholders for the year ended December 31, 2014 was $105.9 million, or $1.17 per diluted share, compared with net income applicable to common stockholders of $121.0 million, or $1.40 per diluted share, for the year ended December 31, 2013, and net loss applicable to common stockholders of $5.9 million, or $0.10 per diluted share for the year ended December 31, 2012. The consolidated operating results for 2013 include the recognition of a bargain purchase gain related to the FNB Transaction of $12.6 million, before income taxes of $4.5 million.

As a result of the PlainsCapital Merger, the net income of PlainsCapital is included in our operating results for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012. The operations acquired in the FNB Transaction are included in our operating results beginning September 14, 2013, and are therefore not fully reflected in our consolidated statement of operations for the year ended December 31, 2013. We expect the operations acquired in the FNB Transaction to have a significant effect on the Bank's operating results in future periods. The operations, assets and liabilities acquired in the SWS Merger will be included in our balance sheet and operating results beginning January 1, 2015, and we expect them to have a significant effect on our broker-dealer segment in future periods.

Certain items included in net income for 2014, 2013 and 2012 resulted from purchase accounting associated with the PlainsCapital Merger and FNB Transaction. Income before taxes for 2014 includes net accretion of $33.9 million and $49.2 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $9.2 million and $1.0 million, respectively, compared with net accretion of $58.5 million and $10.2 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $9.8 million and $0.3 million, respectively, during 2013. Loss before taxes for 2012 includes net accretion of $5.9 million on earning assets and liabilities acquired in the PlainsCapital Merger and amortization of identifiable intangibles of $0.8 million.

We consider the ratios shown in the table below to be key indicators of our performance.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Performance Ratios:			
Return on average stockholders' equity (1)	8.01%	10.48%	-0.62%
Return on average assets (1)	1.26%	1.66%	-0.08%
Net interest margin (taxable equivalent) (2)	4.74%	4.47%	4.64%

(1) Noted measure is typically used for measuring the performance of banking and financial institutions. Our operations prior to the acquisition of PlainsCapital are limited to our insurance operations. Therefore, noted measure for 2012 is not comparable to subsequent periods.

(2) Taxable equivalent net interest income divided by average interest-earning assets.

During the year ended December 31, 2014, the consolidated taxable equivalent net interest margin of 4.74% was impacted by PlainsCapital Merger related accretion of discount on loans of $37.4 million, amortization of premium on acquired securities of $4.1 million and amortization of premium on acquired time deposits of $0.6 million. Additionally, FNB Transaction related accretion of discount on loans of $43.6 million and amortization of premium on acquired time deposits of $5.5 million also impacted the consolidated taxable equivalent net interest margin during the year ended December 31, 2014. These items increased the consolidated taxable equivalent net interest margin by 125 basis points for the year ended December 31, 2014. During the year ended December 31, 2013, the consolidated taxable equivalent net interest margin of 4.47% was impacted by PlainsCapital Merger related accretion of discount on loans of $61.8 million, amortization of premium on acquired securities of $5.7 million and amortization of premium on acquired time deposits of $2.4 million. Additionally, FNB Transaction related accretion of discount on loans of $7.5 million and amortization of premium on acquired time deposits of $2.7 million also impacted the consolidated taxable equivalent net interest margin during the year ended December 31, 2013. These items increased the consolidated taxable equivalent net interest margin by 103 basis points for the year ended December 31, 2013. The consolidated taxable equivalent net interest margin was 4.64% for the month ended December 31, 2012. The taxable equivalent net interest margin was impacted by PlainsCapital Merger related accretion of discount on loans of $6.3 million, amortization of premium on acquired securities of $0.7 million and amortization of premium on acquired time deposits of $0.4 million. These items increased the consolidated taxable equivalent interest margin by 110 basis points for the month ended December 31, 2012.

The table below provides additional details regarding our consolidated net interest income (dollars in thousands). Our operations prior to the PlainsCapital Merger were limited to our insurance operations. Therefore, the consolidated net interest income for 2012 reflects details for the month ended December 31, 2012.

	Year Ended December 31,						Month Ended December 31,		
	2014			2013			2012		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
Assets									
Interest-earning assets									
Loans, gross (1)	$ 5,461,611	$ 341,458	6.21%	$ 4,584,079	$ 284,782	6.15%	$ 4,513,214	$ 23,900	6.15%
Investment securities - taxable	1,072,564	29,206	2.72%	947,844	27,078	2.85%	675,631	1,604	2.81%
Investment securities - non-taxable (2)	182,881	7,028	3.84%	192,933	7,158	3.71%	230,733	698	2.51%
Federal funds sold and securities purchased under agreements to resell	18,120	52	0.29%	27,996	113	0.40%	54,017	106	2.35%
Interest-bearing deposits in other financial institutions	698,638	1,602	0.23%	727,284	1,848	0.25%	574,913	121	0.25%
Other	229,461	11,770	5.16%	160,320	10,479	6.58%	159,181	651	4.84%
Interest-earning assets, gross	7,663,275	391,116	5.08%	6,640,456	331,458	4.96%	6,207,689	27,080	5.04%
Allowance for loan losses	(40,516)			(22,906)			(159)		
Interest-earning assets, net	7,622,759			6,617,550			6,207,530		
Noninterest-earning assets	1,343,070			996,327			782,958		
Total assets	$ 8,965,829			$ 7,613,877			$ 6,990,488		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 4,490,748	$ 15,742	0.35%	$ 3,923,895	$ 14,877	0.38%	$ 3,233,503	$ 1,013	0.37%
Notes payable and other borrowings	934,031	11,886	1.27%	823,478	17,997	2.19%	1,048,113	1,351	1.51%
Total interest-bearing liabilities	5,424,779	27,628	0.51%	4,747,373	32,874	0.69%	4,281,616	2,364	0.65%
Noninterest-bearing liabilities									
Noninterest-bearing deposits	1,862,277			1,370,029			1,322,023		
Other liabilities	283,922			299,871			488,759		
Total liabilities	7,570,978			6,417,273			6,092,398		
Stockholders' equity	1,394,351			1,195,960			896,567		
Noncontrolling interest	500			644			1,523		
Total liabilities and stockholders' equity	$ 8,965,829			$ 7,613,877			$ 6,990,488		
Net interest income (2)		$ 363,488			$ 298,584			$ 24,716	
Net interest spread (2)			4.57%			4.27%			4.39%
Net interest margin (2)			4.74%			4.47%			4.64%

(1) Average balance includes non-accrual loans.

(2) Taxable equivalent adjustments are based on a 35% tax rate. The adjustment to interest income was $2.3 million, $2.4 million and $0.2 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

On a consolidated basis, net interest income increased $64.9 million during 2014, compared with 2013, while net interest income increased $267.4 million during 2013, compared with 2012. These increases were primarily due to the inclusion of those operations acquired as a part of the PlainsCapital Merger and FNB Transaction within our banking segment. Net interest income prior to December 2012 was limited to interest income on securities and interest expense on notes payable of the insurance segment.

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The consolidated provision for loan losses, primarily in the banking segment, was $16.9 million and $37.2 million during 2014 and 2013, respectively. During 2014 and 2013, the provision for loan losses was comprised of charges relating to newly originated loans and acquired loans without credit impairment at acquisition of $6.1 million and $33.1 million, respectively, and purchased credit impaired ("PCI") loans of $10.8 million and $4.1 million, respectively.

Consolidated noninterest income decreased $50.8 million during 2014, compared with 2013, while consolidated noninterest income increased $625.9 million during 2013, compared with 2012. These year-over-year changes included the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during 2013. The remaining changes in noninterest income between 2014 and 2013 included the reduction in net gains from sale of loans, other mortgage production income and mortgage loan origination fees within our mortgage origination segment of $83.9 million, slightly offset by increases in noninterest income in our insurance and broker-dealer segments of $7.4 million and $16.7 million, respectively. The remaining changes between 2013 and 2012 were primarily due to the inclusion of noninterest income generated from the operations of the mortgage origination and broker-dealer segments acquired in the PlainsCapital Merger. Consolidated noninterest income during 2013 also included an increase in net insurance premiums earned of $10.8 million, compared with 2012.

Our consolidated noninterest expense during 2014 increased $53.6 million, compared with 2013, while consolidated noninterest expense during 2013 increased $656.2 million, compared with 2012. The year-over-year changes between 2014 and 2013 included significant increases in noninterest expenses within our banking segment of $90.7 million, primarily due to the inclusion of those operations acquired as part of the FNB Transaction and within our broker-dealer segment of $12.4 million due to increases in professional fees and compensation costs that vary with noninterest income. These increases were partially offset by significant decreases in noninterest expenses within our mortgage origination segment of $40.5 million, primarily due to reductions in variable compensation tied to mortgage loan originations and initiatives to decrease segment operating costs, and within our insurance segment of $14.5 million due to improved claims loss experience associated with the significant decline in the severity of severe weather-related events during 2014. Changes between 2014 and 2013 within the major components of noninterest expense included increases of $10.2 million in employees' compensation and benefits, $15.4 million in occupancy and equipment and $43.6 million in other expenses partially offset by decreases of $16.3 million in loss and loss adjustment expenses. The year-over-year changes between 2013 and 2012 primarily resulted from the inclusion of employees' compensation and benefits, occupancy and equipment and other expenses specifically attributable to those segments acquired as a part of the PlainsCapital Merger. Included in employee's compensation and benefits expense during 2012 is an $8.9 million expense related to the separate retention agreements between Hilltop and two executive officers of PlainsCapital entered into in connection with the PlainsCapital Merger. Other noninterest expenses during 2012 include PlainsCapital Merger related expenses of $6.6 million. The balance of increases in our consolidated noninterest expenses between 2013 and 2012 were primarily related to loss and LAE and policy acquisition and other underwriting expenses specific to our insurance segment.

Consolidated income tax expense during 2014 and 2013 were $65.6 million and $70.7 million, respectively, reflecting effective rates of 36.8% and 35.8%, respectively. During 2012, we recorded an income tax benefit, due to losses from operations, of $1.1 million, reflecting an effective rate of 18.3%. The effective income tax rate for 2012 is not indicative of future effective income tax rates due to the inclusion of those operations acquired as a part of the PlainsCapital Merger beginning December 1, 2012.

Segment Results

Banking Segment

Income before income taxes in our banking segment for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012 was $139.1 million, $172.1 million and $9.7 million, respectively. These year-over-year changes included the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during the year ended December 31, 2013. The remaining changes in income before income taxes during the year ended December 31, 2014, compared with the year ended December 31, 2013, were primarily due to an increase in noninterest expense, partially offset by an increase in net interest income and a decrease in the provision for loan losses. The operations acquired as a part of the FNB Transaction had a significant effect on each of the components of income before income taxes during the year ended December 31, 2014, compared with the year ended December 31, 2013. The remaining changes in income before income taxes, and each of its components, are not comparable between the 2013 and 2012 periods since the operations of our banking segment was acquired as a part of the PlainsCapital Merger.

We consider the ratios shown in the table below to be key indicators of the performance of our banking segment.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Performance Ratios:			
Efficiency ratio (1)(2)	61.17%	42.58%	NM
Return on average assets (1)	1.20%	1.78%	NM
Net interest margin (taxable equivalent) (3)	5.00%	5.17%	5.83%

(1) The banking segment was acquired on November 30, 2012. Therefore, noted measure for periods prior to 2013 is not meaningful.

(2) Noninterest expenses divided by the sum of total noninterest income and net interest income for the period.

(3) Taxable equivalent net interest income divided by average interest-earning assets.

During the year ended December 31, 2014, the banking segment's taxable equivalent net interest margin of 5.00% was impacted by PlainsCapital Merger related accretion of discount on loans of $37.4 million, amortization of premium on acquired securities of $4.1 million and amortization of premium on acquired time deposits of $0.6 million. Additionally, FNB Transaction related accretion of discount on loans of $43.6 million and amortization of premium on acquired time deposits of $5.5 million also impacted the banking segment's taxable equivalent net interest margin during the year ended December 31, 2014. These items increased the banking segment's taxable equivalent net interest margin by 143 basis points for the year ended December 31, 2014. During the year ended December 31, 2013, the banking segment's taxable equivalent net interest margin of 5.17% was impacted by PlainsCapital Merger related accretion of discount on loans of $61.8 million, amortization of premium on acquired securities of $5.7 million and amortization of premium on acquired time deposits of $2.4 million. Additionally, FNB Transaction related accretion of discount on loans of $7.5 million and amortization of premium on acquired time deposits of $2.7 million also impacted the banking segment's taxable equivalent net interest margin during the year ended December 31, 2013. These items increased the banking segment's taxable equivalent net interest margin by 120 basis points for the year ended December 31, 2013. The banking segment's taxable equivalent net interest margin for the month ended December 31, 2012 of 5.83% was impacted by PlainsCapital Merger related accretion of discount on loans of $6.3 million, amortization of premium on acquired securities of $0.7 million and amortization of premium on acquired time deposits of $0.4 million. These items increased the banking segment's taxable equivalent interest margin by 140 basis points for the month ended December 31, 2012.

The table below provides additional details regarding our banking segment's net interest income (dollars in thousands).

	Year Ended December 31,						Month Ended December 31,		
	2014			2013			2012		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
Assets									
Interest-earning assets									
Loans, gross (1)	$ 4,189,895	$ 292,859	6.99%	$ 3,279,228	$ 238,314	7.27%	$ 2,886,549	$ 19,228	7.77%
Subsidiary warehouse lines of credit	912,652	34,598	3.79%	947,064	51,114	5.40%	1,261,768	5,984	5.51%
Investment securities - taxable	886,168	17,956	2.03%	792,860	14,625	1.84%	494,285	444	1.08%
Investment securities - non-taxable (2)	149,656	5,800	3.88%	158,739	5,734	3.61%	175,850	481	2.24%
Federal funds sold and securities purchased under agreements to resell	18,120	52	0.29%	26,373	75	0.28%	33,180	48	1.75%
Interest-bearing deposits in other financial institutions	527,678	1,362	0.26%	494,220	1,319	0.27%	310,747	68	0.26%
Other	45,225	1,717	3.80%	31,794	1,311	4.12%	33,594	57	2.03%
Interest-earning assets, gross	6,729,394	354,344	5.27%	5,730,278	312,492	5.45%	5,195,973	26,310	5.87%
Allowance for loan losses	(40,352)			(22,752)			248		
Interest-earning assets, net	6,689,042			5,707,526			5,196,221		
Noninterest-earning assets	1,245,722			940,880			804,190		
Total assets	$ 7,934,764			$ 6,648,406			$ 6,000,411		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 4,451,191	$ 15,801	0.35%	$ 3,900,867	$ 14,889	0.38%	$ 3,161,312	$ 1,009	0.38%
Notes payable and other borrowings	587,921	1,780	0.30%	391,111	1,340	0.34%	560,572	123	0.26%
Total interest-bearing liabilities (3)	5,039,112	17,581	0.35%	4,291,978	16,229	0.38%	3,721,884	1,132	0.36%
Noninterest-bearing liabilities									

	Year Ended December 31,						Month Ended December 31,		
	2014			2013			2012		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
Noninterest-bearing deposits	1,808,225			1,419,594			1,397,308		
Other liabilities	35,755			39,028			58,491		
Total liabilities	6,883,092			5,750,600			5,177,683		
Stockholders' equity	1,051,672			897,806			822,728		
Total liabilities and stockholders' equity	$ 7,934,764			$ 6,648,406			$ 6,000,411		
Net interest income (2)		$ 336,763			$ 296,263			$ 25,178	
Net interest spread (2)			4.92%			5.07%			5.51%
Net interest margin (2)			5.00%			5.17%			5.65%

(1) Average balance includes non-accrual loans.
(2) Taxable equivalent adjustments are based on a 35% tax rate. The adjustment to interest income was $2.0 million, $2.0 million and $0.2 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.
(3) Excludes the allocation of interest expense on PlainsCapital debt of $1.1 million, $1.0 million and $0.1 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

The banking segment's net interest margin shown above exceeds our consolidated net interest margin. Our consolidated net interest margin includes the yields and costs associated with certain items within interest-earning assets and interest-bearing liabilities in the broker-dealer segment, as well as the borrowing costs of Hilltop and PlainsCapital, both of which reduce our consolidated net interest margin. In addition, the banking segment's interest earning assets include lines of credit extended to subsidiaries. Such yields and costs are eliminated from the consolidated financial statements.

The following table summarizes the changes in the banking segment's net interest income for the periods indicated below, including the component changes in the volume of average interest-earning assets and interest-bearing liabilities and changes in the rates earned or paid on those items (in thousands). Because the operations of the banking segment acquired in the PlainsCapital Merger are not included in our results of operations for the full fiscal year ended December 31, 2012, the table summarizing the changes in our net interest income between the year ended December 31, 2013 and the month ended December 31, 2012 due to variances in the volume of our interest-earning assets and interest-bearing liabilities would not be meaningful and has therefore been omitted.

	Year Ended December 31, 2014 v. 2013		
	Change Due To (1)		
	Volume	Yield/Rate	Change
Interest income			
Loans, gross	$ 66,182	$ (11,637)	$ 54,545
Subsidiary warehouse lines of credit	(1,857)	(14,659)	(16,516)
Investment securities - taxable	1,721	1,610	3,331
Investment securities - non-taxable (2)	(328)	394	66
Federal funds sold and securities purchased under agreements to resell	(23)	—	(23)
Interest-bearing deposits in other financial institutions	89	(46)	43
Other	554	(148)	406
Total interest income (2)	66,338	(24,486)	41,852
Interest expense			
Deposits	$ 2,101	$ (1,189)	$ 912
Notes payable and other borrowings	674	(234)	440
Total interest expense	2,775	(1,423)	1,352
Net interest income (2)	$ 63,563	$ (23,063)	$ 40,500

(1) Changes attributable to both volume and yield/rate are included in yield/rate column.

(2) Taxable equivalent.

Taxable equivalent net interest income increased $40.5 million during the year ended December 31, 2014, compared with the year ended December 31, 2013. Increases in the volume of interest-earning assets, primarily loans acquired in the FNB Transaction, increased taxable equivalent net interest income by $66.4 million during the year ended December 31, 2014, compared with the year ended December 31, 2013, while increases in the volume of interest-bearing liabilities, primarily deposits assumed in the FNB Transaction, reduced taxable equivalent interest income by $2.8 million during this same period. Changes in the yields earned on interest-earning assets decreased taxable equivalent net interest income by $24.5 million during the year ended December 31, 2014, compared with the year ended December 31, 2013, primarily due to the net effects of lower yields on the loan portfolio and subsidiary warehouse lines of credit, partially offset by increased yields on the investment portfolio. Changes in rates paid on interest-bearing liabilities increased taxable equivalent interest income by $1.4 million during the year ended December 31, 2014, compared with the year ended December 31, 2013, primarily due to the amortization of premiums on time deposits acquired in the FNB Transaction.

The banking segment's noninterest income was $67.4 million, $71.0 million and $4.6 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. These year-over-year changes included the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during the year ended December 31, 2013. The remaining changes in noninterest income between the years ended December 31, 2014 and 2013 were primarily due to increases in service charges and fees on deposits assumed in the FNB Transaction, partially offset by a reduction in intercompany financing fees charged to the mortgage origination segment which are eliminated from the consolidated financial statements.

The banking segment's noninterest expenses were $245.8 million, $155.1 million and $16.1 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. Noninterest expenses were primarily comprised of employees' compensation and benefits, and occupancy expenses. The significant increase in noninterest expenses between the years ended December 31, 2014 and 2013 was primarily due to the inclusion of the operations acquired in the FNB Transaction and write downs of $19.7 million associated with covered OREO assets during the year ended December 31, 2014. The write downs to fair value of the covered OREO reflect new appraisals on certain OREO acquired in the FNB Transaction and OREO acquired from the foreclosure on certain FNB loans acquired in the FNB Transaction. Although the Bank recorded a fair value discount on the acquired assets upon acquisition, in some cases additional downward valuations were required.

These additional downward valuation adjustments reflect changes to the assumptions regarding the fair value of the OREO, including in some cases the intended use of the OREO due to the availability of more information as well as the passage of time. The process of determining fair value is subjective in nature and requires the use of significant estimates and assumptions. Although the Bank makes market-based assumptions when valuing acquired assets, new information may come to light that causes estimates to increase or decrease. When the Bank determines, based on subsequent information, that its estimates require adjustment, the Bank records the adjustment. The accounting for such adjustments requires that the decreases to fair value be recorded at the time such new information is received, while increases to fair value are recorded when the asset is subsequently sold. All of the impairments recorded during 2014 related to covered assets subject to the loss-share agreements with the FDIC.

On October 24, 2014, the Bank notified its federal and state banking regulators and affected customers that, effective January 30, 2015, it would be closing certain branch locations acquired in the FNB Transaction. Eleven of the branches closed were located in the Texas Rio Grande Valley, and the remaining two branches were located in Houston and Laredo, Texas. The Bank previously notified its federal and state banking regulators and affected customers of the November 7, 2014 closure of two other branches acquired in the FNB Transaction in the Houston market. It is anticipated that the closure of these branches will improve the operational efficiencies of the Bank. In an effort to mitigate potential deposit runoff associated with these branch closures, the Bank will continue to offer banking services to its customers through other branches operating in these markets.

Broker-Dealer Segment

Income before income taxes in our broker-dealer segment during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012 were $6.9 million, $2.4 million and $0.9 million, respectively. Most of the improvement during 2014, compared with 2013, was in fees earned from advising its public finance clients on an increased volume of debt offerings due to lower interest rates and an improving economy. However, continuing uncertainty in fixed income markets as a result of increased regulations, uncertainty in the direction of future interest rates and a lack of liquidity in the market have continued to suppress sales of fixed income securities to institutional customers. Income before income taxes, and each of its components, are not comparable between the 2013 and 2012 periods since our broker-dealer segment was acquired as a part of the PlainsCapital Merger.

The broker-dealer segment had net interest income of $12.1 million, $12.1 million and $1.2 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively, consisting of securities lending activity, customer margin loan balances and investment securities used to support sales, underwriting and other customer activities.

Noninterest income was $119.5 million, $102.7 million and $10.9 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. The majority of the broker-dealer segment's noninterest income was generated from fees and commissions earned from investment advisory and securities brokerage activities of $101.9 million, $93.1 million and $11.2 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. As discussed above, the increase during 2014, compared with 2013, was primarily from fees earned on advising public finance clients on an increased volume of debt offerings. The broker-dealer segment participates in programs in which it issues forward purchase commitments of mortgage-backed securities to certain non-profit housing clients and sells TBAs. The fair values of these derivative instruments increased $16.2 million, $11.4 million and $0.2 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. The fair value of the broker-dealer segment's trading portfolio, which is used to support sales, underwriting and other customer activities, increased $1.3 million during the year ended December 31, 2014 and decreased $1.8 million and $0.6 million during the year ended December 31, 2013 and the month ended December 31, 2012, respectively.

Noninterest expenses were $124.7 million, $112.4 million and $11.1 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. The increase in noninterest expenses of $12.3 million during 2014, compared to 2013, was primarily due to increases of $10.2 million in employees' compensation and benefits costs, and $2.3 million in litigation defense costs associated with a lawsuit pending in the state of Rhode Island. Compensation that varies with noninterest income accounted for $6.8 million of the noted increase in compensation costs. Employees' compensation and benefits and occupancy and equipment accounted for the majority of the costs incurred during all periods.

Mortgage Origination Segment

Income before income taxes in our mortgage origination segment for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012 was $12.4 million, $27.4 million and $2.3 million, respectively. The decrease in income before income taxes between the years ended December 31, 2014 and 2013 was primarily due to a decrease in noninterest income, partially offset by decreases in noninterest expense and net interest expense. Income before income taxes, and each of its components, are not comparable between the 2013 and 2012 periods since the operations of our mortgage origination segment was acquired as a part of the PlainsCapital Merger. Net interest expense of $12.6 million, $37.8 million and $5.0 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively, resulted from interest incurred on a warehouse line of credit held with the Bank as well as related intercompany financing costs, partially offset by interest income earned on loans held for sale.

The mortgage origination segment originates all of its mortgage loans through a retail channel. The following table provides certain details regarding our mortgage loan originations for the periods indicated below (dollars in thousands). Because the operations of the mortgage origination segment acquired in the PlainsCapital Merger are not included in our results of operations for the full fiscal year ended December 31, 2012, the details regarding the month ended December 31, 2012 would not be meaningful and have therefore been omitted.

	Year Ended December 31,			
	2014	% of Total	2013	% of Total
Mortgage Loan Originations - units	48,655		55,781	
Mortgage Loan Originations - volume	$ 10,363,848		$ 11,792,562	
Mortgage Loan Originations:				
Conventional	$ 6,487,825	62.60%	$ 7,505,437	63.65%
Government	2,737,415	26.41%	3,465,078	29.38%
Jumbo	863,770	8.34%	780,604	6.62%
Other	274,838	2.65%	41,443	0.35%
	$ 10,363,848	100.00%	$ 11,792,562	100.00%
Home purchases	$ 8,295,994	80.05%	$ 8,178,970	69.36%
Refinancings	2,067,854	19.95%	3,613,592	30.64%
	$ 10,363,848	100.00%	$ 11,792,562	100.00%
Texas	$ 2,453,705	23.68%	$ 2,660,810	22.56%
California	1,552,372	14.98%	2,082,184	17.66%
Florida	505,507	4.88%	456,643	3.87%
North Carolina	423,164	4.08%	618,802	5.25%

	Year Ended December 31,			
	2014	% of Total	2013	% of Total
Ohio	401,379	3.87%	383,518	3.25%
Arizona	339,830	3.28%	392,006	3.32%
Virginia	322,134	3.11%	466,531	3.96%
South Carolina	307,832	2.97%	318,109	2.70%
Washington	298,845	2.88%	360,100	3.05%
Maryland	298,577	2.88%	385,215	3.27%
All other states	3,460,503	33.39%	3,668,644	31.11%
	$ 10,363,848	100.00%	$ 11,792,562	100.00%

The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Historically, the mortgage origination segment has typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased refinancings. Changes in interest rates have historically had a lesser impact on home purchases volume than on refinancing volume.

Beginning in May 2013 and continuing through the fourth quarter of 2013, mortgage interest rates increased at a pace that, along with other factors, resulted in a decrease in the mortgage origination segment's refinancings during the last six months of 2013. Refinancing volume totaled $2.6 billion and $1.0 billion (40% and 19%, respectively, of total loan origination volume) during the first and second six months of 2013, respectively. During the first three quarters of 2014, refinancing volumes as a percentage of total loan origination volume were consistent with the last six months of 2013, ranging between 16% and 21%. During the fourth quarter 2014, refinancing volume increased to 25% of total origination volume, as interest rates decreased during that time. While total refinancing volumes decreased between 2013 and 2014 ($3.6 billion and $2.1 billion, respectively), home purchases volume of $8.3 billion during the year ended December 31, 2014 was virtually unchanged from the year ended December 31, 2013. Due to additional declines in mortgage interest rates subsequent to December 31, 2014, we anticipate refinancing as a percentage of total loan origination volume to continue to increase through the first quarter of 2015.

While the mortgage origination segment's total loan origination volume decreased 12.1% between the years ended December 31, 2014 and 2013, income before income taxes decreased 54.8% between the same periods (from $27.4 million income in 2013 to $12.4 million income in 2014), primarily due to a reduction in noninterest income, partially offset by decreases in noninterest expense and net interest expense. To address negative trends in loan origination volume resulting from changes in interest rates that began in May 2013, the mortgage origination segment reduced its non-origination employee headcount approximately 22% during the third and fourth quarters of 2013. Salaries and benefits expenses for the year ended December 31, 2014 decreased 11% as compared with the year ended December 31, 2013, as the benefits of the headcount reductions made in the third and fourth quarters of 2013 were realized in 2014. The mortgage origination segment also engaged in other initiatives to reduce segment operating costs during the third and fourth quarters of 2013 that were primarily responsible for the decrease of 6% in non-employee related expenses, including occupancy and administrative costs, during the year ended December 31, 2014, as compared with the year ended December 31, 2013.

The mortgage origination segment sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. During the six months ended June 30, 2013, the mortgage origination segment retained servicing on approximately 8% of loans sold. This rate was increased to approximately 22% during the third and fourth quarters of 2013, and approximately 31% during 2014. The related mortgage servicing rights ("MSR") asset was valued at $37.4 million on $3.8 billion of serviced loan volume at December 31, 2014, compared with a value of $20.1 million on $2.0 billion of serviced loan volume at December 31, 2013. The mortgage origination segment has also retained servicing on certain loans sold to the banking segment. The MSR value associated with these loans at December 31, 2014 was $1.2 million on $145.9 million of serviced loan volume. Gains and losses associated with this sale to the banking segment and the related MSR are eliminated in consolidation. All income related to retained servicing, including changes in the value of the MSR asset, is included in noninterest income. The mortgage origination segment's determination on whether to retain or release servicing on mortgage loans it sells is impacted by changes in mortgage interest rates, and refinancing and market activity. The mortgage origination segment may, from time to time, manage its MSR asset through different strategies, including varying the percentage of mortgage loans sold servicing released and opportunistically selling MSR assets. During the third quarter of 2014, the mortgage origination segment began using derivative financial instruments, including interest rate swaps, swaptions and forward commitments to sell mortgage-backed securities ("MBSs"), as a means to mitigate market risk associated with MSR assets. Changes in the net value of the MSR and the related derivatives resulted in a loss of $4.3 million during the year ended December 31, 2014. No similar gains or losses were recorded during the year ended December 31, 2013. In July 2014, the mortgage origination segment sold MSR assets of $11.4 million, which represented $1.0 billion of its serviced loan volume at that time.

Noninterest income was $456.8 million, $537.5 million and $57.6 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. Noninterest income was comprised of net gains on the sale of loans and other mortgage production income, and mortgage origination fees. Noninterest income decreased 15.0% during 2014 when compared with 2013 primarily as a result of a decrease of 12.1% in loan origination volume and a decrease in average loan origination margins resulting from increased pricing competition. Average loan origination margins began to decrease during the fourth quarter of 2013 and continued to decrease through the second quarter of 2014. While these average margins increased during the last six months of 2014, surpassing average margins recognized during the fourth quarter of 2013, average loan origination margins have not returned to levels recognized during the first three quarters of 2013.

Changes in the fair value of the mortgage origination segment's interest rate lock commitments ("IRLCs") and loans held for sale, and the related activity associated with forward commitments used by the mortgage origination segment to mitigate interest rate risk associated with its IRLCs and mortgage loans held for sale, are included in noninterest income. The related net fair value increased $14.3 million during the year ended December 31, 2014, compared with decreases in net fair value of $11.1 million and $8.8 million during the year ended December 31, 2013 and the month ended December 31, 2012, respectively. During the year ended December 31, 2014, the increase in net fair value was primarily a result of an increase in the volume of IRLCs and mortgage loans held during this period and an increase in the average value of individual IRLCs and mortgage loans. During both the year ended December 31, 2013 and the month ended December 31, 2012, the decrease in net fair value was primarily the result of a decrease in the volume of IRLCs and mortgage loans held during these respective periods, partially offset by an increase in the average value of individual IRLCs and mortgage loans.

Noninterest expenses were $431.8 million, $472.3 million and $50.3 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. Employees' compensation and benefits accounted for the majority of the noninterest expenses incurred. Compensation that varies with the volume of mortgage loan originations and overall segment profitability decreased $20.9 million during the year ended December 31, 2014, compared with the year ended December 31, 2013, and comprised approximately 58% and 59% of the total employees' compensation and benefits expenses during the years ended December 31, 2014 and 2013, respectively. In addition, employee salaries and benefits decreased $14.5 million during the year ended December 31, 2014, as compared with the year ended December 31, 2013, primarily as a result of headcount reductions in the third and fourth quarters of 2013. The mortgage origination segment records unreimbursed closing costs as noninterest expense when it pays a customer's closing costs in return for the customer choosing to accept a higher interest rate on the customer's mortgage loan. Unreimbursed closing costs during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012 were $32.7 million, $30.1 million and $5.9 million, respectively.

Between January 1, 2005 and December 31, 2014, the mortgage origination segment sold mortgage loans totaling $65.6 billion. These loans were sold under sales contracts that generally include provisions which hold the mortgage origination segment responsible for errors or omissions relating to its representations and warranties that loans sold meet certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. In addition, the sales contracts typically require the refund of purchased servicing rights plus certain investor servicing costs if a loan experiences an early payment default. While the mortgage origination segment sold loans prior to 2005, it has not experienced, nor does it anticipate experiencing, significant losses on loans originated prior to 2005 as a result of investor claims under these provisions of its sales contracts.

When an investor claim for indemnification of a loan sold is made, the mortgage origination segment evaluates the claim and determines if the claim can be satisfied through additional documentation or other deliverables. If the claim cannot be satisfied in that matter, the mortgage origination segment negotiates with the investor to reach a settlement of the claim. Settlements typically result in either the repurchase of a loan or reimbursement to the investor for losses incurred on the loan. Following is a summary of the mortgage origination segment's claims resolution activity relating to loans sold between January 1, 2005 and December 31, 2014 (dollars in thousands).

	Original Loan Balance		Loss Recognized	
	Amount	% of Loans Sold	Amount	% of Loans Sold
Claims resolved with no payment	$ 168,442	0.26%	$ —	0.00%
Claims resolved as a result of a loan repurchase or payment to an investor for losses incurred (1)	193,758	0.30%	25,439	0.04%
	$ 362,200	0.56%	$ 25,439	0.04%

(1) Losses incurred include refunded purchased servicing rights.

At December 31, 2014 and 2013, the mortgage origination segment's indemnification liability reserve totaled $17.6 million and $21.1 million, respectively. The related provision for indemnification losses was $3.1 million, $3.5 million and $0.4 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

Insurance Segment

Income before income taxes in our insurance segment was $25.7 million and $7.6 million during 2014 and 2013, respectively, compared with a loss before income taxes of $4.7 million during 2012. Included within noninterest income of the insurance segment during 2013 is the recognition of a non-recurring gain of $3.7 million. This non-recurring gain, which is eliminated upon consolidation, is due to our redemption during the fourth quarter of 2013 of $6.9 million in aggregate principal amount of 7.50% Senior Exchangeable Notes due 2025 (the "Notes") of HTH Operating Partnership LP, a wholly owned subsidiary of Hilltop, which were held by our insurance subsidiaries. The insurance segment is subject to claims arising out of severe weather, the incidence and severity of which are inherently unpredictable. Generally, the insurance segment's insured risks exhibit higher losses in the second and third calendar quarters due to a seasonal concentration of weather-related events in its primary geographic markets. Although weather-related losses (including hail, high winds, tornadoes and hurricanes) can occur in any calendar quarter, the second calendar quarter, historically, has experienced the highest frequency of losses associated with these events. Hurricanes, however, are more likely to occur in the third calendar quarter of the year.

The significant improvement in operating results in our insurance segment during 2014, compared with 2013, was primarily a result of growth in earned premium and improved claims loss experience associated with the significant decline in the general severity of severe weather-related events during 2014. Based on our estimates of the ultimate losses, claims associated with these storms totaled $21.7 million through December 31, 2014, with a net loss, after reinsurance, of $19.9 million during 2014. The insurance segment had positive results during 2013, despite experiencing three tornado, wind and hail storms during the second quarter of 2013. Based on estimates of the ultimate cost, two of these storms are considered catastrophic losses as they exceeded our $8 million reinsurance retention during the third quarter of 2013. The estimate of ultimate losses from these storms totaled $26.5 million through December 31, 2013 with a net loss, after reinsurance, of $22.1 million.

During 2013, the insurance segment initiated a review of the pricing of its primary products in each state of operation utilizing a consulting actuarial firm to supplement normal review processes. Based on this review, the insurance segment increased rates on certain products in several states in 2014. A state-by-state review of the insurance segment's products and pricing continues and has resulted in additional rate filings. Concurrently, business concentrations were reviewed and actions initiated, including cancellation of agents, non-renewal of policies and cessation of new business writing on certain products in problematic geographic areas. These actions have both reduced the rate of premium growth for 2014 when compared with the patterns exhibited in prior years and reduced the insurance segment's exposure to volatile weather through a lower number of insureds in these areas to improve its loss experience during 2014. The insurance segment aims to manage and diversify its business concentrations and products to minimize the effects of future weather-related events.

The insurance segment's operations resulted in combined ratios of 89.3% during 2014, compared with 102.6% and 108.8% during 2013 and 2012, respectively. The year-over-year improvement in the combined ratios was primarily driven by the increase in net earned premiums and improvement in our claims loss experience. The combined ratio is a measure of overall insurance underwriting profitability, and represents the sum of the loss and LAE ratio and the underwriting expense ratio, which are discussed in more detail below.

Noninterest income of $173.6 million, $166.2 million and $154.1 million during 2014, 2013 and 2012, respectively, included net insurance premiums earned of $164.5 million, $157.5 million and $146.7 million, respectively. The increases in earned premiums were primarily attributable to rate and volume increases in homeowners and mobile home products.

Direct insurance premiums written by major product line are presented in the table below (in thousands).

	Year Ended December 31, 2014	2013	2012	Variance 2014 vs 2013	2013 vs 2012
Direct Insurance Premiums Written:					
Homeowners	$ 76,250	$ 79,711	$ 73,943	$ (3,461)	$ 5,768
Fire	54,375	54,566	51,345	(191)	3,221
Mobile Home	37,611	34,940	30,123	2,671	4,817
Commercial	3,973	4,489	8,043	(516)	(3,554)
Other	255	276	326	(21)	(50)
	$ 172,464	$ 173,982	$ 163,780	$ (1,518)	$ 10,202

The total direct insurance premiums written for our three largest insurance product lines decreased by $1.0 million during 2014, compared with 2013, due to efforts to reduce concentrations both geographically and within specific product lines. During 2013, total direct insurance premiums written for our three largest insurance product lines increased by $13.8 million compared to 2012. This increase was due to growth in our core insurance products, partially offset by decreases of $3.5 million and $0.3 million in 2013 and 2012, respectively, related to a commercial product line that was non-renewed.

Net insurance premiums earned by major product line are presented in the table below (in thousands).

	Year Ended December 31, 2014	2013	2012	Variance 2014 vs 2013	2013 vs 2012
Net Insurance Premiums Earned:					
Homeowners	$ 72,739	$ 72,175	$ 66,233	$ 564	$ 5,942
Fire	51,871	49,407	45,990	2,464	3,417
Mobile Home	35,880	31,636	26,982	4,244	4,654
Commercial	3,790	4,065	7,204	(275)	(3,139)
Other	244	250	292	(6)	(42)
	$ 164,524	$ 157,533	$ 146,701	$ 6,991	$ 10,832

Net insurance premiums earned during 2014 and 2013 increased compared to 2013 and 2012, respectively, primarily due to the increases in net insurance premiums written of $0.9 million and $13.0 million in 2014 and 2013, respectively. During the fourth quarter of 2014, compared with the same period in 2013, net insurance premiums earned were relatively flat. This reduction in the rate of premium growth when compared with the patterns exhibited in prior quarters and years was consistent with the insurance segment's previously discussed efforts to manage and diversify its business concentrations and products to minimize the effects of future weather-related events.

Noninterest expenses of $151.5 million, $166.0 million and $163.6 million during 2014, 2013 and 2012, respectively, include both loss and LAE expenses and policy acquisition and other underwriting expenses, as well as other noninterest expenses. Loss and LAE are recognized based on formula and case basis estimates for losses reported with respect to direct business, estimates of unreported losses based on past experience and deduction of amounts for reinsurance placed with reinsurers. Loss and LAE during 2014 was $94.4 million, compared to $110.8 million and $109.2 million during 2013 and 2012, respectively. As a result, the loss and LAE ratio during 2014, 2013 and 2012 was 57.4%, 70.3% and 74.4%, respectively. These year-over-year ratio improvements were primarily a result of growth in earned premium and improved claims loss experience associated with the significant decline in the severity of severe weather-related events during 2014 and the improved containment of expected losses during 2013 from the prior year weather events.

The insurance segment seeks to generate underwriting profitability. Management evaluates NLC's loss and LAE ratio by bifurcating the losses to derive catastrophic and non-catastrophic loss ratios. The non-catastrophic loss ratio excludes Property Claims Services events that exceed $1.0 million of losses to NLC. Catastrophic events, including those that do not exceed our reinsurance retention, affect insurance segment loss ratios. During 2014, catastrophic events that did not exceed reinsurance retention accounted for $19.9 million of the total loss and loss adjustment expense, as compared to $22.3 million and $23.3 million during 2013 and 2012, respectively. The inclusion of catastrophic events increased insurance segment combined ratios by 14.1%, 14.3% and 15.8% during 2014, 2013 and 2012, respectively.

Policy acquisition and other underwriting expenses encompass all expenses incurred relative to NLC operations, and include elements of multiple categories of expense otherwise reported as noninterest expense in the consolidated statements of operations. The expense ratio during 2012 included other underwriting expenses of $1.7 million related to the write down of a policy administration system NLC was unable to successfully implement. This charge increased the expense ratio during 2012 by 1.1%.

The following table details the calculation of the underwriting expense ratio for the periods presented (dollars in thousands).

	Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
Amortization of deferred policy acquisition costs	$ 41,609	$ 40,592	$ 38,757	$ 1,017	$ 1,835
Other underwriting expenses	13,823	12,859	13,829	964	(970)
Total	55,432	53,451	52,586	1,981	865
Agency expenses	(3,023)	(2,571)	(2,073)	(452)	(498)
Total less agency expenses	$ 52,409	$ 50,880	$ 50,513	$ 1,529	$ 367
Net insurance premiums earned	$ 164,524	$ 157,533	$ 146,701	$ 6,991	$ 10,832
Expense ratio	31.9%	32.3%	34.4%	-0.4%	-2.1%

Corporate

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, and management and administrative services to support the overall operations of the Company including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs not allocated to business segments.

As a holding company, Hilltop's primary investment objectives are to preserve capital and have available cash resources to utilize in making acquisitions. Investment and interest income earned, primarily from available cash and available-for-sale securities, including our note receivable from SWS, was $5.2 million, $6.6 million and $7.0 million during 2014, 2013 and 2012, respectively. On October 2, 2014, Hilltop exercised its warrant to purchase 8,695,652 shares of SWS common stock at an exercise price of $5.75 per share (the "SWS Warrant"). The aggregate exercise price was paid by the automatic elimination of the $50.0 million aggregate principal amount note receivable from SWS. Consequently, recurring quarterly investment and interest income of $1.6 million were no longer recognized beginning in the fourth calendar quarter of 2014. This transaction is discussed in more detail within the section entitled "Liquidity and Capital Resources — SWS" below.

Interest expense of $8.2 million and $7.0 million during 2013 and 2012, respectively, was due to interest costs associated with the 7.50% Senior Exchangeable Notes due 2025 of HTH Operating Partnership LP, a wholly owned subsidiary of Hilltop. During 2013, interest expense included the recognition of a non-recurring charge of $2.1 million due to the write-off of remaining unamortized loan origination fees associated with the Notes being called for redemption during the fourth quarter of 2013.

Following the exercise of the SWS Warrant, Hilltop owned approximately 21% of the outstanding shares of SWS common stock as of October 2, 2014. Contemporaneous with the exercise of the SWS Warrant, Hilltop changed the accounting method for its investment in SWS common stock and elected to account for its investment in accordance with the provisions of the Fair Value Option Subsections of the Accounting Standards Codification ("ASC") ("Fair Value Option") as permitted by GAAP. Hilltop had previously accounted for its investment in SWS common stock as an available for sale security. Under the Fair Value Option, Hilltop's investment in SWS common stock is recorded at fair value effective October 2, 2014, with changes in fair value being recorded in other noninterest income within the consolidated statement of operations rather than as a component of other comprehensive income. Hilltop's election to apply the provisions of the Fair Value Option resulted in Hilltop recording those unrealized gains previously associated with its investment in SWS common stock of $7.2 million. For the period from October 3, 2014 through December 31, 2014, the change in fair value of Hilltop's investment in SWS common stock resulted in a loss of $1.2 million. In the aggregate, Hilltop recorded a $6.0 million net gain in other noninterest income during 2014.

Noninterest expenses of $13.9 million, $10.4 million and $14.5 million during 2014, 2013 and 2012, respectively, were primarily comprised of employees' compensation and benefits, professional fees and transaction costs associated with acquisition efforts. During 2014, noninterest expenses included year-over-year increases in professional fees, including corporate governance, legal and transaction costs, and headcount and related costs. During 2013, noninterest expenses included the recognition of a non-recurring loss of $3.7 million associated with the Notes held by our insurance segment being called for redemption during the fourth quarter of 2013. This loss was eliminated in consolidation. In addition, noninterest expenses included $1.4 million, $0.1 million and $6.4 million of transaction costs associated with acquisition efforts during 2014, 2013 and 2012, respectively. We expect to incur additional estimated SWS Merger-related transaction costs of $4.9 million during 2015.

Financial Condition

The following discussion contains a more detailed analysis of our financial condition at December 31, 2014 as compared to December 31, 2013 and 2012.

Securities Portfolio

At December 31, 2014, investment securities consisted of securities of the U.S. Treasury, U.S. government and its agencies, obligations of municipalities and other political subdivisions, primarily in the State of Texas, mortgage-backed, corporate debt, and equity securities. We have the ability to categorize investments as trading, available for sale, and held to maturity.

Trading securities are bought and held principally for the purpose of selling them in the near term and are carried at fair value, marked to market through operations and held at the Bank and First Southwest. Securities that may be sold in response to changes in market interest rates, changes in securities' prepayment risk, increases in loan demand, general liquidity needs and other similar factors are classified as available for sale and are carried at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Securities are classified as held to maturity based on the intent and ability of our management, at the time of purchase, to hold such securities to maturity. These securities are carried at amortized cost.

The table below summarizes our securities portfolio (in thousands).

	December 31, 2014	December 31, 2013	December 31, 2012
Trading securities, at fair value	$ 65,717	$ 58,846	$ 90,113
Securities available for sale, at fair value			
U.S. Treasury securities	19,613	43,528	7,185
U.S. government agencies:			
Bonds	516,241	662,732	526,237
Residential mortgage-backed securities	52,898	60,087	18,893
Collateralized mortgage obligations	87,124	120,461	97,924
Corporate debt securities	98,472	76,608	87,177
States and political subdivisions	136,785	156,835	175,759
Commercial mortgage-backed securities	640	760	1,073
Equity securities	13,762	22,079	20,428
Note receivable	—	47,909	44,160
Warrant	—	12,144	12,117
	925,535	1,203,143	990,953
Securities held to maturity, at amortized cost			
U.S. Treasury securities	25,008	—	—
U.S. government agencies:			
Residential mortgage-backed securities	29,782	—	—
Collateralized mortgage obligations	57,328	—	—
States and political subdivisions	6,091	—	—
	118,209	—	—
Total securities portfolio	$ 1,109,461	$ 1,261,989	$ 1,081,066

We had net unrealized gains of $0.8 million and $12.5 million related to the available for sale investment portfolio at December 31, 2014 and 2012, respectively, compared with a net unrealized loss of $53.7 million at December 31, 2013. The significant changes in the net unrealized gain (loss) position of our available for sale investment portfolio during 2013 and 2014 were due to the effects of increases in market interest rates beginning May 2013 that resulted in a decrease in the fair value of our debt securities until January 2014 when the effects of decreases in market interest rates resulted in an increase in the fair value of our debt securities. As previously discussed, Hilltop's election to apply the provisions of the Fair Value Option for its investment in SWS common stock effective October 2, 2014, resulted in Hilltop recording an unrealized net gain of $7.2 million associated with its investment in SWS common stock. Therefore, Hilltop's securities portfolio included its $70.3 million investment in SWS common stock in other assets within the consolidated balance sheet at December 31, 2014. This transaction is discussed in more detail within the section entitled "Liquidity and Capital Resources — SWS" below.

The market value of securities held to maturity at December 31, 2014 approximated book value.

Banking Segment

The banking segment's securities portfolio plays a role in the management of our interest rate sensitivity and generates additional interest income. In addition, the securities portfolio is used to meet collateral requirements for public and trust deposits, securities sold under agreements to repurchase and other purposes. The available for sale securities portfolio serves as a source of liquidity. Historically, the Bank's policy has been to invest primarily in securities of the U.S. government and its agencies, obligations of municipalities in the State of Texas and other high grade fixed income securities to minimize credit risk. At December 31, 2014, the banking segment's securities portfolio of $916.5 million was comprised of trading securities of $20.8 million, available for sale securities of $777.5 million and held to maturity securities of $118.2 million.

Broker-Dealer Segment

Our broker-dealer segment holds securities to support sales, underwriting and other customer activities. Because FSC is a broker-dealer, it is required to carry its securities at fair value and record changes in the fair value of the portfolio in operations. Accordingly, FSC classifies its securities portfolio of $44.9 million at December 31, 2014 as trading.

Insurance Segment

Our insurance segment's primary investment objective is to preserve capital and manage for a total rate of return. NLC's strategy is to purchase securities in sectors that represent the most attractive relative value. Our insurance segment invests the premiums it receives from policyholders until they are needed to pay policyholder claims or other expenses. At December 31, 2014, the insurance segment's securities portfolio was comprised of $148.0 million in available for sale securities and $6.2 million of other investments included in other assets within the consolidated balance sheet.

Corporate

At December 31, 2014, Hilltop's portfolio was comprised of its $70.3 million investment in SWS common stock included in other assets within the consolidated balance sheet. On January 1, 2015, Hilltop completed its acquisition of SWS in a stock and cash transaction. This transaction is discussed in more detail within the section entitled "Liquidity and Capital Resources — SWS" below.

The following table sets forth the estimated maturities of debt securities, excluding trading securities. Contractual maturities may be different (dollars in thousands, yields are tax-equivalent).

	December 31, 2014				
	One Year Or Less	One Year to Five Years	Five Years to Ten Years	Greater Than Ten Years	Total
U.S. Treasury securities:					
Amortized cost	$ 29,361	$ 10,086	$ 4,943	$ —	$ 44,390
Fair value	29,356	10,102	5,157	—	44,615
Weighted average yield	0.22%	1.12%	2.65%	—	0.70%
U.S. government agencies:					
Bonds:					
Amortized cost	6,469	5,743	16,668	493,128	522,008
Fair value	6,591	5,822	18,144	485,684	516,241
Weighted average yield	3.63%	1.60%	3.57%	2.14%	2.20%
Residential mortgage-backed securities:					
Amortized cost	2,018	1,033	3,438	74,656	81,145
Fair value	2,008	1,051	3,494	76,655	83,208
Weighted average yield	2.08%	2.23%	3.14%	3.21%	3.17%
Collateralized mortgage obligations:					
Amortized cost	—	1,034	2,682	142,903	146,619
Fair value	—	1,046	2,712	140,264	144,022
Weighted average yield	—	1.93%	1.98%	1.99%	1.98%
Corporate debt securities:					
Amortized cost	10,624	46,732	35,133	917	93,406
Fair value	10,728	50,033	36,747	964	98,472
Weighted average yield	3.77%	4.34%	3.39%	6.25%	3.94%

	December 31, 2014				
	One Year Or Less	One Year to Five Years	Five Years to Ten Years	Greater Than Ten Years	Total
States and political subdivisions:					
Amortized cost	365	4,762	11,126	125,257	141,510
Fair value	366	4,772	11,191	126,591	142,920
Weighted average yield	4.93%	1.72%	2.34%	2.56%	2.52%
Commercial mortgage-backed securities:					
Amortized cost	—	—	—	593	593
Fair value	—	—	—	640	640
Weighted average yield	—	—	—	6.24%	6.24%
Total securities portfolio:					
Amortized cost	48,837	69,390	73,990	837,454	1,029,671
Fair value	49,049	72,826	77,445	830,798	1,030,118
Weighted average yield	1.56%	3.40%	3.16%	2.28%	2.38%

Non-Covered Loan Portfolio

Consolidated non-covered loans held for investment are detailed in the table below, classified by portfolio segment and segregated between those considered to be PCI loans and all other originated or acquired loans (in thousands). PCI loans showed evidence of credit deterioration that makes it probable that all contractually required principal and interest payments will not be collected.

December 31, 2014	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,745,409	$ 13,442	$ 1,758,851
Real estate	1,670,684	24,151	1,694,835
Construction and land development	404,465	9,178	413,643
Consumer	51,009	2,138	53,147
Non-covered loans, gross	3,871,567	48,909	3,920,476
Allowance for loan losses	(31,722)	(5,319)	(37,041)
Non-covered loans, net of allowance	$ 3,839,845	$ 43,590	$ 3,883,435

December 31, 2013	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,600,450	$ 36,816	$ 1,637,266
Real estate	1,418,003	39,250	1,457,253
Construction and land development	344,734	19,817	364,551
Consumer	51,067	4,509	55,576
Non-covered loans, gross	3,414,254	100,392	3,514,646
Allowance for loan losses	(30,104)	(3,137)	(33,241)
Non-covered loans, net of allowance	$ 3,384,150	$ 97,255	$ 3,481,405

December 31, 2012	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,588,907	$ 71,386	$ 1,660,293
Real estate	1,122,667	62,247	1,184,914
Construction and land development	247,413	33,070	280,483
Consumer	26,629	77	26,706
Non-covered loans, gross	2,985,616	166,780	3,152,396
Allowance for loan losses	(3,409)	—	(3,409)
Non-covered loans, net of allowance	$ 2,982,207	$ 166,780	$ 3,148,987

Banking Segment

The loan portfolio constitutes the major earning asset of the banking segment and typically offers the best alternative for obtaining the maximum interest spread above the banking segment's cost of funds. The overall economic strength of the banking segment generally parallels the quality and yield of its loan portfolio. The banking segment's loan portfolio is presented below in two sections, "— Non-Covered Loan Portfolio" and "— Covered Loan Portfolio." The "Covered Loan Portfolio" consists of loans acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC and is discussed below. The "Non-Covered Loan Portfolio" includes all other loans held by the Bank, which we refer to as "non-covered loans," and is discussed herein.

The banking segment's total non-covered loans, net of the allowance for non-covered loan losses, were $4.7 billion, $4.2 billion and $4.1 million at December 31, 2014, 2013 and 2012, respectively. The banking segment's non-covered loan portfolio includes a $1.5 billion warehouse line of credit extended to PrimeLending, of which $1.2 billion was drawn at December 31, 2014. At December 31, 2013 and 2012, the banking segment's non-covered loan portfolio included $1.0 billion and $1.3 billion, respectively, drawn against the PrimeLending warehouse line of credit, as well as term loans to First Southwest that had outstanding balances of $23.0 million and $4.0 million, respectively. Amounts advanced against the warehouse line of credit and the First Southwest term loans are eliminated from net loans on our consolidated balance sheets.

The banking segment does not generally participate in syndicated loan transactions and has no foreign loans in its portfolio. The areas of concentration within our non-covered real estate portfolio were construction and land development loans, non-construction residential real estate loans and non-construction commercial real estate loans. At December 31, 2014, the banking segment's non-covered loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of its total non-covered loans included non-construction commercial real estate loans within the non-covered real estate portfolio. At December 31, 2014, non-construction commercial real estate loans were 23.32% of the banking segment's total non-covered loans. The banking segment's non-covered loan concentrations were within regulatory guidelines at December 31, 2014.

Broker-Dealer Segment

The loan portfolio of the broker-dealer segment consists primarily of margin loans to customers and correspondents. These loans are collateralized by the securities purchased or by other securities owned by the clients and, because of collateral coverage ratios, are believed to present minimal collectability exposure. Additionally, these loans are subject to a number of regulatory requirements as well as FSC's internal policies. The broker-dealer segment's total non-covered loans, net of the allowance for non-covered loan losses, were $378.3 million, $281.6 million and $277.0 million at December 31, 2014, 2013 and 2012, respectively. These increases were primarily attributable to increased borrowings in margin accounts held by FSC customers and correspondents.

Mortgage Origination Segment

The loan portfolio of the mortgage origination segment consists of loans held for sale, primarily single-family residential mortgages funded through PrimeLending, and IRLCs with a customer pursuant to which we agree to originate a mortgage loan on a future date at an agreed-upon interest rate. The components of the mortgage origination segment's loans held for sale and IRLCs are as follows (in thousands).

	December 31, 2014	December 31, 2013	December 31, 2012
Loans held for sale:			
Unpaid principal balance	$ 1,218,792	$ 1,037,528	$ 1,359,829
Fair value adjustment	53,360	21,555	40,908
	$ 1,272,152	$ 1,059,083	$ 1,400,737
IRLCs:			
Unpaid principal balance	$ 621,216	$ 602,467	$ 968,083
Fair value adjustment	17,057	12,151	15,150
	$ 638,273	$ 614,618	$ 983,233

The mortgage origination segment uses forward commitments to mitigate interest rate risk associated with its loans held for sale and IRLCs. The notional amounts of these forward commitments at December 31, 2014, 2013 and 2012, were $1.5 billion, $1.4 billion and $1.4 billion, respectively, while the related estimated fair values were $(11.1) million, $10.5 million and $0.7 million, respectively.

Covered Loan Portfolio

Banking Segment

Loans acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC are referred to as "covered loans" and reported separately in our consolidated balance sheets. Under the terms of the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets (including covered loans): (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The Bank has also agreed to reimburse the FDIC for any subsequent recoveries. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. As of December 31, 2014, the Bank estimated that covered losses and reimbursable expenses exceed $240.4 million, but do not exceed $365.7 million. Unless the estimates of covered losses and reimbursable expenses exceed $365.7 million, the Bank will not record additional reimbursement receivable from the FDIC. As of December 31, 2014, the Bank had billed $75.5 million of covered net losses to the FDIC, of which 80%, or $60.4 million, are reimbursable under the loss-share agreements. As of December 31, 2014, the Bank had received aggregate reimbursements of $38.5 million from the FDIC.

In connection with the FNB Transaction, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. Based on purchase date valuations, the banking segment's portfolio of acquired covered loans had a fair value of $1.1 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses.

Covered loans held for investment are detailed in the table below and classified by portfolio segment (in thousands).

December 31, 2014	**Loans, excluding PCI Loans**	**PCI Loans**	**Total Loans**
Commercial and industrial	$ 10,345	$ 20,435	$ 30,780
Real estate	183,886	368,964	552,850
Construction and land development	13,021	45,989	59,010
Consumer	—	—	—
Covered loans, gross	207,252	435,388	642,640
Allowance for loan losses	(77)	(4,534)	(4,611)
Covered loans, net of allowance	$ 207,175	$ 430,854	$ 638,029

December 31, 2013	**Loans, excluding PCI Loans**	**PCI Loans**	**Total Loans**
Commercial and industrial	$ 28,533	$ 38,410	$ 66,943
Real estate	223,304	564,678	787,982
Construction and land development	25,376	126,068	151,444
Consumer	—	—	—
Covered loans, gross	277,213	729,156	1,006,369
Allowance for loan losses	(179)	(882)	(1,061)
Covered loans, net of allowance	$ 277,034	$ 728,274	$ 1,005,308

At December 31, 2014, the banking segment had covered loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of total covered loans in its real estate portfolio. The areas of concentration within our covered real estate portfolio were construction and land development loans, non-construction residential real estate loans and non-construction commercial real estate loans. At December 31, 2014, non-construction residential real estate loans and non-construction commercial real estate loans were 38.30% and 41.10%, respectively, of the banking segment's total covered loans. The banking segment's covered loan concentrations were within regulatory guidelines at December 31, 2014.

Loan Portfolio Maturities

Banking Segment

The following table provides information regarding the maturities of the banking segment's non-covered and covered commercial and real estate loans held for investment, net of unearned income (in thousands).

	December 31, 2014			
	Due Within One Year	Due From One To Five Years	Due After Five Years	Total
Commercial and industrial	$ 1,992,858	$ 509,995	$ 102,260	$ 2,605,113
Real estate (including construction and land development)	313,160	974,476	1,434,969	2,722,605
Total	$ 2,306,018	$ 1,484,471	$ 1,537,229	$ 5,327,718
Fixed rate loans	$ 2,162,921	$ 1,435,589	$ 1,535,952	$ 5,134,462
Floating rate loans	143,097	48,882	1,277	193,256
Total	$ 2,306,018	$ 1,484,471	$ 1,537,229	$ 5,327,718

In the table above, floating rate loans that have reached their applicable rate floor or ceiling are classified as fixed rate loans rather than floating rate loans. The majority of floating rate loans carry an interest rate tied to The Wall Street Journal Prime Rate, as published in The Wall Street Journal.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in our existing non-covered and covered loan portfolios. Management has responsibility for determining the level of the allowance for loan losses, subject to review by the Audit Committee of our Board of Directors and the Loan Review Committee of the Bank's board of directors.

It is management's responsibility at the end of each quarter, or more frequently as deemed necessary, to analyze the level of the allowance for loan losses to ensure that it is appropriate for the estimated credit losses in the portfolio consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses and the Receivables and Contingencies Topics of the Financial Accounting Standards Board ("FASB") ASC. Estimated credit losses are the probable current amount of loans that we will be unable to collect given facts and circumstances as of the evaluation date. When management determines that a loan, or portion thereof, is uncollectible, the loan, or portion thereof, is charged-off against the allowance for loan losses, or for acquired loans accounted for in pools, charged against the pool discount. Recoveries on charge-offs that occurred prior to the PlainsCapital Merger represent contractual cash flows not expected to be collected and are recorded as accretion income. Recoveries on loans charged-off subsequent to the PlainsCapital Merger are credited to the allowance for loan loss, except for recoveries on loans accounted for in pools, which are credited to the pool discount.

We have developed a methodology that seeks to determine an allowance within the scope of the Receivables and Contingencies Topics of the ASC. Each of the loans that has been determined to be impaired is within the scope of the Receivables Topic. Impaired loans that are equal to or greater than $0.5 million are individually evaluated using one of three impairment measurement methods as of the evaluation date: (1) the present value of expected future discounted cash flows on the loan, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Specific reserves are provided in our estimate of the allowance based on the measurement of impairment under these three methods, except for collateral dependent loans, which require the fair value method. All non-impaired loans are within the scope of the Contingencies Topic. Estimates of loss for the Contingencies Topic are calculated based on historical loss, adjusted for qualitative or environmental factors. The Bank uses a rolling three year average net loss rate to calculate historical loss factors. The analysis is conducted by call report category, and further disaggregates commercial and industrial loans by collateral type. The analysis considers charge-offs and recoveries in determining the loss rate; therefore net charge-off experience is used. The historical loss calculation for the quarter is calculated by dividing the current quarter net charge-offs for each loan category by the quarter ended loan category balance. The Bank utilizes a weighted average loss rate to better represent recent trends. The Bank weights the most recent four quarter average at 120% versus the oldest four quarters at 80%.

While historical loss experience provides a reasonable starting point for the analysis, historical losses are not the sole basis upon which we determine the appropriate level for the allowance for loan losses. Management considers recent qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including but not limited to:

- changes in the volume and severity of past due, nonaccrual and classified loans;
- changes in the nature, volume and terms of loans in the portfolio;
- changes in lending policies and procedures;
- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in lending management and staff;
- changes in the loan review system and the degree of oversight by the Bank's board of directors; and
- any concentrations of credit and changes in the level of such concentrations.

Changes in the volume and severity of past due, nonaccrual and classified loans, as well as changes in the nature, volume and terms of loans in the portfolio are key indicators of changes that could indicate a necessary adjustment to the historical loss factors. The magnitude of the impact of these factors on our qualitative assessment of the allowance for loan loss changes from quarter to quarter.

We design our loan review program to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes are made to reviewed loans and coordinating the delivery of the information necessary to assess the appropriateness of the allowance for loan losses. Loans are evaluated for impaired status when: (i) payments on the loan are delayed, typically by 90 days or more (unless the loan is both well secured and in the process of collection), (ii) the loan becomes classified, (iii) the loan is being reviewed in the normal course of the loan review scope, or (iv) the loan is identified by the servicing officer as a problem. We review on an individual basis all loan relationships equal to or greater than $0.5 million that exhibit probable or observed credit weaknesses, the top 25 loan relationships by dollar amount in each market we serve, and additional relationships necessary to achieve adequate coverage of our various lending markets.

Homogeneous loans, such as consumer installment loans, residential mortgage loans and home equity loans, are not individually reviewed and are generally risk graded at the same levels. The risk grade and reserves are established for each homogeneous pool of loans based on the expected net charge-offs from current trends in delinquencies, losses or historical experience and general economic conditions.

The allowance is subject to regulatory examination and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance. While we believe we have an appropriate allowance for our existing non-covered and covered portfolios at December 31, 2014, additional provisions for losses on existing loans may be necessary in the future. Within our non-covered portfolio, we recorded net charge-offs of $3.9 million, $6.3 million and $0.4 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. Our allowance for non-covered loan losses totaled $37.0 million, $33.2 million and $3.4 million at December 31, 2014, 2013 and 2012, respectively. The ratio of the allowance for non-covered loan losses to total non-covered loans held for investment at December 31, 2014, 2013 and 2012 was 0.94%, 0.95% and 0.11%, respectively.

In connection with the PlainsCapital Merger and the FNB Transaction, we acquired loans both with and without evidence of credit quality deterioration since origination. PCI loans acquired in the PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in the FNB Transaction are accounted for in pools as well as on an individual loan basis. We have established under our PCI accounting policy a framework to aggregate certain acquired loans into various loan pools based on a minimum of two layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing. The common risk characteristics used for the pooling of the FNB PCI loans are risk grade and loan collateral type. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses. Within our covered portfolio, we recorded net charge-offs of $5.6 million for the year ended December 31, 2014. Our allowance for covered loan losses totaled $4.6 million and $1.1 million at December 31, 2014 and 2013, respectively. The ratio of the allowance for covered loan losses to total covered loans held for investment at December 31, 2014 and 2013 was 0.72% and 0.11%, respectively.

Provisions for loan losses are charged to operations to record the total allowance for loan losses at a level deemed appropriate by the banking segment's management based on such factors as the volume and type of lending it conducted, the amount of non-performing loans and related collateral security, the present level of the allowance for loan losses, the results of recent regulatory examinations, generally accepted accounting principles, general economic conditions and other factors related to the ability to collect loans in its portfolio. The provision for loan losses, primarily in the banking segment, was $16.9 million, $37.2 million and $3.8 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. The increase in our provision for loan losses during 2013 and 2014, compared with 2012, was related to the accumulation of a reserve on the non-covered and covered loan portfolios subsequent to the PlainsCapital Merger and the FNB Transaction, respectively, at which time the respective acquired loan portfolios were recorded at estimated fair value with no carryover of the related allowance for loan loss. The decrease in the provision for loan losses during 2014, compared with 2013, was attributable to lower charge-offs related to the pooling of PCI loans acquired in the FNB Transaction, lower originations and lower historical losses used in the calculation of the required reserve.

The following tables present the activity in our allowance for loan losses within our non-covered and covered loan portfolios for the periods presented (in thousands). Substantially all of the activity shown below occurred within the banking segment. With respect to the covered portfolio, the year ended December 31, 2013 below refers to the period from September 14, 2013 through December 31, 2013.

	Year Ended December 31,		Month Ended
Non-Covered Portfolio	**2014**	**2013**	**December 31, 2012**
Balance, beginning of period	$ 33,241	$ 3,409	$ —
Provisions charged to operating expenses	7,747	36,093	3,800
Recoveries of non-covered loans previously charged off:			
Commercial and industrial	2,944	3,439	—
Real estate	218	282	—
Construction and land development	185	265	—
Consumer	105	61	—
Total recoveries	3,452	4,047	—
Non-covered loans charged off:			
Commercial and industrial	6,926	9,359	391
Real estate	114	209	—
Construction and land development	—	524	—
Consumer	359	216	—
Total charge-offs	7,399	10,308	391
Net charge-offs	(3,947)	(6,261)	(391)
Balance, end of period	$ 37,041	$ 33,241	$ 3,409

	Year Ended December 31,	
Covered Portfolio	**2014**	**2013**
Balance, beginning of year	$ 1,061	$ —
Provisions charged to operating expenses	9,186	1,065
Recoveries of covered loans previously charged off:		
Commercial and industrial	—	—
Real estate	—	—
Construction and land development	—	—
Consumer	—	—
Total recoveries	—	—
Covered loans charged off:		
Commercial and industrial	90	4
Real estate	5,399	—
Construction and land development	147	—
Consumer	—	—
Total charge-offs	5,636	4
Net charge-offs	(5,636)	(4)
Balance, end of year	$ 4,611	$ 1,061

The distribution of the allowance for loan losses among loan types and the percentage of the loans for that type to gross loans, excluding unearned income, within our non-covered and covered loan portfolios are presented in the table below (dollars in thousands).

	December 31,					
	2014		2013		2012	
Non-Covered Portfolio	**Reserve**	**% of Gross Non-Covered Loans**	**Reserve**	**% of Gross Non-Covered Loans**	**Reserve**	**% of Gross Non-Covered Loans**
Commercial and industrial	$ 18,999	44.86%	$ 16,865	46.58%	$ 1,845	52.67%
Real estate (including construction and land development)	17,581	53.78%	16,288	51.84%	1,559	46.48%
Consumer	461	1.36%	88	1.58%	5	0.85%
Total	$ 37,041	100.00%	$ 33,241	100.00%	$ 3,409	100.00%

	December 31,			
	2014		2013	
Covered Portfolio	**Reserve**	**% of Gross Covered loans**	**Reserve**	**% of Gross Covered Loans**
Commercial and industrial	$ 1,193	4.79%	$ 1,053	6.65%
Real estate (including construction and land development)	3,418	95.21%	8	93.35%
Consumer	—	0.00%	—	0.00%
Total	$ 4,611	100.00%	$ 1,061	100.00%

Potential Problem Loans

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. If such potential weaknesses persist without improving, the loan is subject to downgrade, typically to substandard, in three to six months. Within our non-covered loan portfolio at December 31, 2014, we had three credit relationships totaling $1.8 million of potential problem loans, which are assigned a grade of special mention within our risk grading matrix. At December 31, 2013, we had ten credit relationships totaling $24.7 million of non-covered potential problem loans. Within our covered loan portfolio at December 31, 2014, we had no credit relationships with potential problem loans assigned a grade of special mention within our risk grading matrix, compared with two credit relationships totaling $3.3 million at December 31, 2013.

Non-Performing Assets

The following table presents components of our non-covered non-performing assets (dollars in thousands).

	December 31,		
	2014	2013	2012
Non-covered loans accounted for on a non-accrual basis:			
Commercial and industrial	$ 16,648	$ 16,730	$ —
Real estate	4,707	6,511	1,756
Construction and land development	703	112	—
Consumer	—	—	—
	$ 22,058	$ 23,353	$ 1,756
Non-covered non-performing loans as a percentage of total non-covered loans	0.42%	0.51%	0.04%
Non-covered other real estate owned	$ 808	$ 4,805	$ 11,098

	December 31, 2014	December 31, 2013	December 31, 2012
Other repossessed assets	$ 361	$ 13	$ 557
Non-covered non-performing assets	$ 23,227	$ 28,171	$ 13,411
Non-covered non-performing assets as a percentage of total assets	0.25%	0.32%	0.18%
Non-covered loans past due 90 days or more and still accruing	$ 19,237	$ 7,301	$ 3,563
Troubled debt restructurings included in accruing non-covered loans	$ 2,901	$ 1,055	$ —

At December 31, 2014, total non-covered non-performing assets decreased $5.0 million to $23.2 million, compared with $28.2 million at December 31, 2013. Non-covered non-performing loans totaled $22.1 million at December 31, 2014 and $23.4 million at December 31, 2013. At December 31, 2014, non-covered non-accrual loans included twelve commercial and industrial relationships with loans of $15.0 million secured by accounts receivable, inventory, equipment, life insurance, and a total of $1.6 million in lease financing receivables. Non-covered non-accrual loans at December 31, 2014 also included $4.7 million characterized as real estate loans, including two commercial real estate loan relationships of $0.4 million and loans secured by residential real estate of $1.3 million, $3.0 million of which were classified as loans held for sale, as well as construction and land development loans of $0.7 million. Total non-covered non-performing assets increased $14.8 million to $28.2 million at December 31, 2013, compared with $13.4 million at December 31, 2012, primarily due to an increase in non-covered non-accrual PCI loans of $15.8 million. At December 31, 2013, non-covered non-accrual loans included five commercial and industrial relationships with loans of $14.0 million secured by accounts receivable, inventory, aircraft and life insurance, and a total of $1.0 million in lease financing receivables. Non-covered non-accrual loans at December 31, 2013 also included $6.5 million characterized as real estate loans, including three commercial real estate loan relationships of $2.5 million and loans secured by residential real estate of $3.5 million, substantially all of which were classified as loans held for sale, as well as construction and land development loans of $0.1 million.

Non-covered OREO decreased $4.0 million to $0.8 million at December 31, 2014, compared with $4.8 million at December 31, 2013. Changes in non-covered OREO included the disposal of twelve properties totaling $5.8 million and the addition of seven properties totaling $2.6 million. At December 31, 2014, non-covered OREO included commercial properties of $0.4 million and commercial real estate property consisting of parcels of unimproved land of $0.4 million. Non-covered OREO decreased $6.3 million to $4.8 million at December 31, 2013, compared with $11.1 million at December 31, 2012. The decrease was primarily due to the disposal of two properties totaling $5.7 million. At December 31, 2013, non-covered OREO included commercial properties of $4.2 million, commercial real estate property consisting of parcels of unimproved land of $0.5 million and residential lots under development of $0.1 million.

Non-covered loans past due 90 days or more and still accruing were $19.2 million, $7.3 million and $3.6 million at December 31, 2014, 2013 and 2012, respectively, Included in those amounts were $19.2 million, $6.8 million and $1.6 million, respectively, of loans held for sale that are subject to repurchase by PrimeLending, all of which are guaranteed by U.S. Government agencies. The remaining amounts of loans past due and still accruing at December 31, 2013 and 2012 included secured commercial and industrial loans, and a real estate loan.

At December 31, 2014, troubled debt restructurings ("TDRs") on non-covered loans totaled $10.3 million, of which $2.9 million relate to non-covered loans that are considered to be performing and non-covered non-performing loans of $7.4 million reported in non-accrual loans. At December 31, 2013, TDRs on non-covered loans totaled $11.4 million. These TDRs were comprised of $1.1 million of non-covered loans that are considered to be performing and non-covered non-performing loans of $10.3 million reported in non-accrual loans.

The following table presents components of our covered non-performing assets (dollars in thousands).

	December 31, 2014	December 31, 2013
Covered loans accounted for on a non-accrual basis:		
Commercial and industrial	$ 1,325	$ 973
Real estate	31,869	249
Construction and land development	1,029	575
Consumer	—	—
	$ 34,223	$ 1,797

	December 31, 2014		December 31, 2013	
Covered non-performing loans as a percentage of total covered loans		5.33%		0.18%
Covered other real estate owned:				
Real estate - residential	$	15,711	$	11,634
Real estate - commercial		40,889		51,897
Construction and land development - residential		21,719		36,866
Construction and land development - commercial		58,626		42,436
	$	136,945	$	142,833
Other repossessed assets	$	—	$	—
Covered non-performing assets	$	171,168	$	144,630
Covered non-performing assets as a percentage of total assets		1.85%		1.62%
Covered loans past due 90 days or more and still accruing	$	67	$	—
Troubled debt restructurings included in accruing covered loans	$	326	$	—

At December 31, 2014, covered non-performing assets increased by $26.6 million to $171.2 million, compared with $144.6 million at December 31, 2013, primarily due to an increase in covered non-accrual loans of $32.4 million. Covered non-performing loans totaled $34.2 million at December 31, 2014 and $1.8 million at December 31, 2013. At December 31, 2014, covered non-performing loans included two commercial and industrial relationships with loans of $2.1 million secured by accounts receivable and inventory, four commercial real estate loan relationships of $30.8 million, nine residential real estate loan relationships of $1.1 million, as well as construction and land development loans of $1.0 million. At December 31, 2013, covered non-performing loans of $1.8 million included one commercial and industrial relationship with loans of $1.0 million secured by accounts receivable, inventory and equipment. Covered non-accrual loans at December 31, 2013 also included one commercial real estate loan relationship of $0.2 million, as well as construction and land development loans of $0.6 million.

OREO acquired in the FNB Transaction that is subject to the FDIC loss-share agreements is referred to as "covered OREO" and reported separately in our consolidated balance sheets. Covered OREO decreased $5.9 million to $136.9 million at December 31, 2014, compared with $142.8 million at December 31, 2013. The decrease was primarily due to the disposal of 252 properties totaling $55.1 million and fair value valuation decreases of $19.7 million, partially offset by the addition of 210 properties totaling $64.9 million.

Covered loans past due 90 days or more and still accruing totaled $0.1 million at December 31, 2014 and included a secured commercial and industrial loan, a construction and land development loan, and a residential real estate loan. There were no covered loans past due 90 days or more and still accruing at December 31, 2013.

At December 31, 2014, TDRs on covered loans totaled $0.7 million, of which $0.3 million relate to covered loans that are considered to be performing and covered non-performing loans of $0.4 million included in non-accrual loans.

Insurance Losses and Loss Adjustment Expenses

At December 31, 2014 and 2013, our reserves for unpaid losses and LAE were $25.4 million and $23.0 million, respectively, net of estimated recoveries from reinsurance of $4.3 million and $4.5 million, respectively. The increase in the net reserve for unpaid losses and LAE was primarily due to increased reserves attributable to prior period adverse development associated with litigation emerging from a series of hail storms within the 2012 accident year. The liability for insurance losses and LAE represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported, less a reduction for reinsurance recoverables related to those liabilities. Separately for each of NLIC and ASIC and each line of business, our actuaries estimate the liability for unpaid losses and LAE by first estimating ultimate losses and LAE amounts for each year, prior to recognizing the impact of reinsurance. The amount of liabilities for reported claims is based primarily on a claim-by-claim evaluation of coverage, liability, injury severity or scope of property damage, and any other information considered relevant to estimating exposure presented by the claim.

The methods that our actuaries utilize to estimate ultimate loss and LAE amounts are the paid and reported loss development method and the paid and reported Bornhuetter-Ferguson method (the "BF method"). Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer and the insurer's payment of that loss. NLC's liabilities for unpaid losses represent the best estimate at a given point in time of what it expects to pay claimants, based on facts, circumstances and historical trends then known. During the loss settlement period, additional facts regarding individual claims may become known and, consequently, it often becomes necessary to refine and adjust the estimates of liability. This process is commonly referred to as loss development. To project ultimate losses and LAE, our actuaries examine the paid and reported losses and LAE for each accident year and multiply these values by a loss development factor. The selected loss development factors are based upon a review of the loss development patterns indicated in the companies' historical loss triangles (which utilize historical trends, adjusted for changes in loss costs, underwriting standards, policy provisions, product mix and other factors) and applicable insurance industry loss development factors. Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors that are subject to significant variation. Liabilities for LAE are intended to cover the ultimate cost of settling claims, including investigation and defense of lawsuits resulting from such claims.

The BF method is a procedure that weights an expected ultimate loss and LAE amount, and the result of the loss development method. This method is useful when loss data is immature or sparse because it is not as sensitive as the loss development method to unusual variations in the paid or reported amounts. The BF method requires an initial estimate of expected ultimate losses and LAE. For each year, the expected ultimate losses and LAE is based on a review of the ultimate loss ratios indicated in the companies' historical data and applicable insurance industry ultimate loss ratios. Each loss development factor, paid or reported, implies a certain percent of the ultimate losses and LAE is still unpaid or unreported. The amounts of unpaid or unreported losses and LAE by year are estimated as the percentage unpaid or unreported, times the expected ultimate loss and LAE amounts. To project ultimate losses and LAE, the actual paid or reported losses and LAE to date are added to the estimated unpaid or unreported amounts. The results of each actuarial method performed by year are reviewed to select an ultimate loss and LAE amount for each accident year. In general, more weight is given to the loss development projections for more mature accident periods and more weight is given to the BF methods for less mature accident periods.

The reserve analysis performed by our actuaries provides preliminary central estimates of the unpaid losses and LAE. At each quarter-end, the results of the reserve analysis are summarized and discussed with our senior management. The senior management group considers many factors in determining the amount of reserves to record for financial statement purposes. These factors include the extent and timing of any recent catastrophic events, historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and reported loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, and overall pricing and underwriting trends in the insurance market. We would consider reasonably likely changes in the key assumptions to have an impact on our best estimate by plus or minus 10%. At December 31, 2014, this equates to approximately plus or minus $2.5 million, or 1.76% of insurance segment equity, and 2.7% of calendar year 2014 insurance losses.

Deposits

The banking segment's major source of funds and liquidity is its deposit base. Deposits provide funding for its investment in loans and securities. Interest paid for deposits must be managed carefully to control the level of interest expense and overall net interest margin. The composition of the deposit base (time deposits versus interest-bearing demand deposits and savings), as discussed in more detail within the section entitled "Liquidity and Capital Resources — Banking Segment" below, is constantly changing due to the banking segment's needs and market conditions. Overall, average deposits totaled $6.4 billion for the year ended December 31, 2014, an increase from average deposits of $5.3 billion for the year ended December 31, 2013 and $4.6 billion for the month ended December 31, 2012. The significant year-over-year increases in average deposits were primarily due to those deposits assumed as a part of the FNB Transaction. For the periods presented below, the average rates paid associated with certificates of deposits include the effects of amortization of the deposit premiums booked as a part of the PlainsCapital Merger and the FNB Transaction.

The table below presents the average balance of, and rate paid on, consolidated deposits (dollars in thousands).

	Year Ended December 31,				Month Ended	
	2014		2013		December 31, 2012	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand deposits	$ 1,862,277	0.00%	$ 1,370,029	0.00%	$ 1,322,023	0.00%
Interest-bearing demand deposits	2,249,527	0.22%	1,930,622	0.24%	1,700,265	0.25%
Savings deposits	304,774	0.19%	247,789	0.32%	177,803	0.32%
Certificates of deposit	1,936,447	0.53%	1,745,483	0.54%	1,355,435	0.53%
	$ 6,353,025	0.25%	$ 5,293,923	0.28%	$ 4,555,526	0.26%

The maturity of consolidated interest-bearing time deposits of $100,000 or more at December 31, 2014 is set forth in the table below (in thousands).

Months to maturity:	
3 months or less	$ 279,056
3 months to 6 months	161,787
6 months to 12 months	299,525
Over 12 months	469,459
	$ 1,209,827

The banking segment experienced a decline of $464.6 million in interest-bearing time deposits of $100,000 or more at December 31, 2014 compared with December 31, 2013, primarily due to our strategic decisions to both not renew any "listing service" time deposits and offer lower renewal rates on certain time deposits acquired in the FNB Transaction to conform to the legacy Bank interest rate structure. Interest-bearing time deposits of $100,000 or more at December 31, 2013, compared with December 31, 2012 increased by $693.1 million primarily due to those deposits assumed as a part of the FNB Transaction. At December 31, 2014, there were $1.1 billion in interest-bearing time deposits scheduled to mature within one year.

Borrowings

Our borrowings are shown in the table below (dollars in thousands).

	December 31,					
	2014		2013		2012	
	Balance	Average Rate Paid	Balance	Average Rate Paid	Balance	Average Rate Paid
Short-term borrowings	$ 762,696	0.32%	$ 342,087	0.36%	$ 728,250	0.33%
Notes payable	56,684	4.27%	56,327	6.33%	141,539	5.89%
Junior subordinated debentures	67,012	3.52%	67,012	3.59%	67,012	3.53%
	$ 886,392	0.88%	$ 465,426	2.10%	$ 936,801	1.40%

Short-term borrowings consisted of federal funds purchased, securities sold under agreements to repurchase, borrowings at the Federal Home Loan Bank ("FHLB") and short-term bank loans. The $420.6 million increase in short-term borrowings at December 31, 2014 compared with December 31, 2013 was primarily due to an increase of $375.0 million in borrowings at the FHLB that had an original maturity of one year. This increase was the result of a strategic decision to lengthen the weighted-average duration of the Bank's funding in an effort to manage interest rate risk, higher funding requirements associated with the increase in our mortgage origination segment's balance on its warehouse line of credit with the Bank and a decrease in deposits acquired in the FNB Transaction. The $386.2 million decrease in short-term borrowings at December 31, 2013 compared with December 31, 2012 was primarily the result of lower funding requirements due to a reduction in our mortgage origination segment's balance on it warehouse line of credit with the Bank. Notes payable at December 31, 2014 of $56.7 million was comprised of insurance segment term notes and nonrecourse notes owed by First Southwest. The $85.2 million decrease in notes payable at December 31, 2013 compared to December 31, 2012 was primarily due to the Notes of HTH Operating Partnership LP, a wholly owned subsidiary of Hilltop, being called for redemption during the fourth quarter of 2013. The First Southwest nonrecourse notes of $4.2 million at December 31, 2014 were paid off in January 2015.

Liquidity and Capital Resources

Hilltop is a financial holding company whose assets primarily consist of the stock of its subsidiaries and invested assets. Hilltop's primary investment objectives, as a holding company, are to preserve capital and have available cash resources to utilize in making acquisitions. At December 31, 2014, Hilltop had $146.0 million in freely available cash and cash equivalents, a decrease of $17.9 million from $163.9 million at December 31, 2013. As a result of the SWS Merger, Hilltop used $78.2 million of this available cash to settle the cash portion of the merger consideration. If necessary or appropriate, we may also finance acquisitions with the proceeds from equity or debt issuances. Subject to regulatory restrictions, Hilltop may also receive dividends from its subsidiaries. The current short-term liquidity needs of Hilltop include operating expenses and dividends on preferred stock.

SWS

On October 2, 2014, Hilltop exercised its SWS Warrant in full, acquiring 8,695,652 shares of SWS common stock at an exercise price of $5.75 per share. Pursuant to the terms of the warrant and a credit agreement with SWS, the aggregate exercise price was paid by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under the credit agreement. Following the exercise of the SWS Warrant, Hilltop (i) owned 10,171,039 shares of SWS common stock, representing approximately 21% of the outstanding shares of SWS common stock and (ii) was no longer a lender under the credit agreement. Contemporaneous with the exercise of the SWS Warrant, Hilltop changed the accounting method for its investment in SWS common stock and elected to account for its investment in accordance with the provisions of the Fair Value Option as permitted by GAAP. Hilltop had previously accounted for its investment in SWS common stock as an available for sale security. Under the Fair Value Option, Hilltop's investment in SWS common stock is recorded at fair value effective October 2, 2014, with changes in fair value being recorded in other noninterest income within the consolidated statement of operations rather than as a component of other comprehensive income. Hilltop's election to apply the provisions of the Fair Value Option resulted in Hilltop recording those unrealized gains previously associated with its investment in SWS common stock of $7.2 million. For the period from October 3, 2014 through December 31, 2014, the change in fair value of Hilltop's investment in SWS common stock resulted in a loss of $1.2 million. In the aggregate, Hilltop recorded a $6.0 million net gain in other noninterest income during 2014. At December 31, 2014, Hilltop's investment in SWS common stock is included in other assets within the consolidated balance sheet and is recorded at a fair value of $70.3 million.

On January 1, 2015, we completed our acquisition of SWS in a stock and cash transaction, whereby SWS merged with and into Hilltop Securities, a wholly owned subsidiary of Hilltop formed for the purpose of facilitating this transaction. SWS's broker-dealer subsidiaries, Southwest Securities and SWS Financial, became subsidiaries of Hilltop Securities. Immediately following the SWS Merger, SWS's banking subsidiary, SWS FSB, was merged into the Bank. As a result of the SWS Merger, each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop's closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.0 million, consisting of 10.0 million shares of common stock, $78.2 million in cash and $70.3 million associated with our existing investment in SWS common stock. Additionally, due to appraisal rights proceedings filed in connection with the SWS Merger, the merger consideration is subject to change, and therefore, preliminary at this time.

Series B Preferred Stock

As a result of the PlainsCapital Merger, the outstanding shares of PlainsCapital Corporation's Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the U.S. Treasury, were converted on a one-for-one basis into shares of Hilltop Series B Preferred Stock. The terms of our Series B Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, fluctuated until December 31, 2013 based upon changes in the level of "qualified small business lending" ("QSBL") by the Bank. The shares of Hilltop Series B Preferred Stock are senior to shares of our common stock with respect to dividends and liquidation preference, and qualify as Tier 1 Capital for regulatory purposes. At both September 30, 2014 and December 31, 2013, $114.1 million of our Series B Preferred Stock was outstanding. During the three months ended December 31, 2014, we accrued dividends of $1.4 million on the Hilltop Series B Preferred Stock.

The dividend rate on the Hilltop Series B Preferred Stock is fixed at 5.0% per annum from January 1, 2014 until March 26, 2016, based upon our level of QSBL at September 30, 2013. Beginning March 27, 2016, the dividend rate on any outstanding shares of Hilltop Series B Preferred Stock will be fixed at nine percent (9%) per annum.

Loss-Share Agreements

In connection with the FNB Transaction, the Bank entered into two loss-share agreements with the FDIC that collectively cover $1.2 billion of loans and OREO acquired in the FNB Transaction, which we refer to as "covered assets". Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The Bank has also agreed to reimburse the FDIC for any subsequent recoveries. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, from the Bank Closing Date and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition and results of operations. Under capital adequacy and regulatory requirements, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, federal banking regulators released final rules for the regulation of capital and liquidity for U.S. banking organizations ("Basel III"), a new comprehensive capital framework for U.S. banking organizations that will become effective for reporting periods beginning after January 1, 2015 (subject to a phase-in period through January 2019).

In addition, under the final rules, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed to continue to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, if an institution grows to above $15 billion in assets as a result of an acquisition, or organically grows to above $15 billion in assets and then makes an acquisition, the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). All of the debentures issued to PCC Statutory Trusts I, II, III and IV (the "Trusts"), less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2014, under guidance issued by the Board of Governors of the Federal Reserve System. We anticipate that 100% of the Trusts, less the common stock of the Trusts, will qualify as Tier 1 Capital.

The final rules also provide for a number of adjustments to and deductions from the new common equity Tier 1 capital ratio, as well as changes to the calculation of risk weighted assets which is expected to increase the absolute level. Under current capital standards, the effects of accumulated other comprehensive items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including Hilltop and the Bank, may make a one-time permanent election to continue to exclude these items. Hilltop and Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from the common equity Tier 1 capital ratio to the extent that any one such category exceeds 10% of the common equity Tier 1 capital ratio or all such categories in the aggregate exceed 15% of the common equity Tier 1 capital ratio. Further, deferred tax assets which are related to operating losses and tax credit carry forward are excluded from the common equity Tier 1 capital ratio.

At December 31, 2014, Hilltop exceeded all regulatory capital requirements with a total capital to risk weighted assets ratio of 19.69%, Tier 1 capital to risk weighted assets ratio of 19.02% and a Tier 1 capital to average assets, or leverage, ratio of 14.17%. The Bank's consolidated actual capital amounts and ratios at December 31, 2014 resulted in it being considered "well-capitalized" under regulatory requirements, without giving effect to Basel III, and included a total capital to risk weighted assets ratio of 14.45%, Tier 1 capital to risk weighted assets ratio of 13.74% and a Tier 1 capital to average assets, or leverage, ratio of 10.31%. Management believes that, as of December 31, 2014, Hilltop and the Bank would meet all applicable capital adequacy requirements under the Basel III capital rules for banks with less than $15 billion in assets on a fully phased-in basis as if such requirements were currently in effect. We discuss regulatory capital requirements in more detail in Note 21 to our consolidated financial statements, as well as under the caption "Government Supervision and Regulation — Banking — BASEL III" set forth in Part I, Item I. of our Annual Report on Form 10-K.

Cash Flow Activities

Cash and cash equivalents (consisting of cash and due from banks and federal funds sold), totaled $813.1 million at December 31, 2014, an increase of $67.1 million from $746.0 million at December 31, 2013. Deposit flows, calls of investment securities and borrowed funds, and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

Cash used in operations during 2014 was $91.4 million, a decrease in cash flow of $488.1 million compared with 2013. Cash used in operations increased primarily due to reductions in cash provided by our mortgage loan origination activities. Cash provided by operations during 2013 was $396.7 million, an increase in cash flow of $281.5 million compared with 2012. Cash provided by operations increased primarily due to those operating activities acquired as a part of the PlainsCapital Merger for the year ended December 31, 2013 compared with the month ended December 31, 2012.

Cash provided by our investing activities during 2014 was $259.8 million, including net proceeds from securities in our investment portfolio of $147.7 million, net changes in loans of $103.0 million, and net sales of premises and equipment and other real estate owned of $26.2 million. Cash provided by our investment activities during 2013 was $223.9 million, including $362.7 million in net cash from the FNB Transaction and net proceeds from securities in our investment portfolio of $8.9 million, partially offset by $140.4 million for the origination of loans held for investment and net purchases of premises and equipment and other assets of $11.8 million. During 2012, cash provided by our investment activities was $12.9 million and primarily included $165.7 million in net cash from the PlainsCapital Merger, offset by $147.4 million in net purchases of securities in our investment portfolio.

Cash used in financing activities during 2014 was $101.4 million, a decrease in cash used of $499.7 million compared with 2013. The decrease in cash used in financing activities was primarily due to an increase in short-term borrowings during 2014, offset by a greater decrease in deposits, primarily due to our strategic decisions to both not renew any "listing service" time deposits and offer lower renewal rates on certain time deposits acquired in the FNB Transaction, during 2014, compared with 2013. Cash used in financing activities during 2013 increased by $620.9 million compared with 2012. The increase in cash used was primarily due to those financing activities of the banking segment acquired as a part of the PlainsCapital Merger for the year ended December 31, 2013 compared with the month ended December 31, 2012.

Banking Segment

Within our banking segment, liquidity refers to the measure of our ability to meet our customers' short-term and long-term deposit withdrawals and anticipated and unanticipated increases in loan demand without penalizing earnings. Interest rate sensitivity involves the relationships between rate-sensitive assets and liabilities and is an indication of the probable effects of interest rate fluctuations on our net interest income.

Our asset and liability group is responsible for continuously monitoring our liquidity position to ensure that assets and liabilities are managed in a manner that will meet our short-term and long-term cash requirements. Funds invested in short-term marketable instruments, the continuous maturing of other interest-earning assets, cash flows from self-liquidating investments such as mortgage-backed securities and collateralized mortgage obligations, the possible sale of available for sale securities, and the ability to securitize certain types of loans provide sources of liquidity from an asset perspective. The liability base provides sources of liquidity through deposits and the maturity structure of short-term borrowed funds. For short-term liquidity needs, we utilize federal fund lines of credit with correspondent banks, securities sold under agreements to repurchase, borrowings from the Federal Reserve and borrowings under lines of credit with other financial institutions. For intermediate liquidity needs, we utilize advances from the FHLB. To supply liquidity over the longer term, we have access to brokered certificates of deposit, term loans at the FHLB and borrowings under lines of credit with other financial institutions.

We had deposits of $6.4 billion at December 31, 2014, a decrease of $353.0 million from $6.7 billion at December 31, 2013. This decrease is primarily due to our strategic decisions to both not renew any "listing service" time deposits and offer lower renewal rates on certain time deposits acquired in the FNB Transaction to conform to the legacy PlainsCapital Bank interest rate structure. Deposit flows are affected by the level of market interest rates, the interest rates and products offered by competitors, the volatility of equity markets and other factors. At December 31, 2014, money market deposits, including brokered deposits, were $941.8 million; time deposits, including brokered deposits, were $1.7 billion; and noninterest bearing demand deposits were $2.1 billion. Money market deposits, including brokered deposits, decreased by $213.6 million from $1.2 billion and time deposits, including brokered deposits, decreased $631.6 million from $2.3 billion at December 31, 2013.

The Bank's 15 largest depositors, excluding Hilltop and First Southwest, accounted for 13.24% of the Bank's total deposits, and the Bank's five largest depositors, excluding First Southwest, accounted for 7.77% of the Bank's total deposits at December 31, 2014. The loss of one or more of our largest Bank customers, or a significant decline in our deposit balances due to ordinary course fluctuations related to these customers' businesses, could adversely affect our liquidity and might require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. We have not experienced any liquidity issues to date with respect to brokered deposits or our other large balance deposits, and we believe alternative sources of funding are available to more than compensate for the loss of one or more of these customers.

Broker-Dealer Segment

FSC relies on its equity capital, short-term bank borrowings, interest-bearing and non-interest-bearing client credit balances, correspondent deposits, securities lending arrangements, repurchase agreement financings and other payables to finance its assets and operations. FSC has credit arrangements with four unaffiliated banks of up to $305.0 million, which are used to finance securities owned, securities held for correspondent accounts, receivables in customer margin accounts and underwriting activities. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. At December 31, 2014, FSC had borrowed $123.2 million under these credit arrangements.

Mortgage Origination Segment

PrimeLending funds the mortgage loans it originates through a warehouse line of credit of up to $1.5 billion maintained with the Bank. At December 31, 2014, PrimeLending had outstanding borrowings of $1.2 billion against the warehouse line of credit. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the majority with servicing released. As these mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. In addition, PrimeLending has an available line of credit with JPMorgan Chase Bank, NA ("JPMorgan Chase") of up to $1.0 million. At December 31, 2014, PrimeLending had no borrowings under the JPMorgan Chase line of credit.

Insurance Segment

Our insurance operating subsidiary's primary investment objectives are to preserve capital and manage for a total rate of return. NLC's strategy is to purchase securities in sectors that represent the most attractive relative value. Bonds, cash and short-term investments of $214.6 million, or 91.5%, equity investments of $13.8 million and other investments of $6.2 million comprised NLC's $234.5 million in total cash and investments at December 31, 2014. NLC does not currently have any significant concentration in both direct and indirect guarantor exposure or any investments in subprime mortgages. NLC has custodial agreements with Wells Fargo Bank, N.A. and an investment management agreement with DTF Holdings, LLC.

Contractual Obligations

The following table presents information regarding our contractual obligations at December 31, 2014 (in thousands). Our reserve for losses and loss adjustment expenses does not have a contractual maturity date. However, based on historical payment patterns, the amounts presented are management's estimate of the expected timing of these payments. The timing of payments is subject to significant uncertainty. NLC maintains a portfolio of investments with varying maturities to provide adequate cash flows for such payments. Payments related to leases are based on actual payments specified in the underlying contracts. Payments related to short-term borrowings and long-term debt obligations include the estimated contractual interest payments under the respective agreements. The following table reflects First Southwest's payoff of its $4.2 million nonrecourse notes contractually due January 2035 in January 2015. The contractual obligations assumed as a part of the SWS Merger, effective January 1, 2015, are not included in the following table.

	Payments Due by Period				
	1 year or Less	More than 1 Year but Less than 3 Years	3 Years or More but Less than 5 Years	5 Years or More	Total
Reserve for losses and loss adjustment expenses	$ 20,059	$ 7,904	$ 1,605	$ 148	$ 29,716
Short-term borrowings	764,403	—	—	—	764,403
Long-term debt obligations	13,932	9,556	9,917	198,433	231,838
Capital lease obligations	1,090	2,232	2,354	10,348	16,024
Operating lease obligations	24,588	34,238	19,776	28,169	106,771
Cash portion of SWS merger consideration	78,216	—	—	—	78,216
Total	$ 902,288	$ 53,930	$ 33,652	$ 237,098	$ 1,226,968

Impact of Inflation and Changing Prices

Our consolidated financial statements included herein have been prepared in accordance with GAAP, which presently require us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the U.S. government, its agencies and various other governmental regulatory authorities.

Off-Balance Sheet Arrangements; Commitments; Guarantees

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and have recorded a liability related to such credit risk in our consolidated financial statements.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.4 billion at December 31, 2014 and outstanding financial and performance standby letters of credit of $45.1 million at December 31, 2014.

In the normal course of business, FSC executes, settles and finances various securities transactions that may expose FSC to off-balance sheet risk in the event that a customer or counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the account of FSC, use of derivatives to support certain non-profit housing organization clients, clearing agreements between FSC and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. Our significant accounting policies are presented in Note 1 to our consolidated financial statements, which are included in this Annual Report. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policies which we believe to be the most critical in preparing our consolidated financial statements relate to allowance for loan losses, amounts receivable under the loss-share agreements with the FDIC ("FDIC Indemnification Asset"), reserve for losses and loss adjustment expenses, goodwill and identifiable intangible assets, loan indemnification liability, mortgage servicing rights and acquisition accounting.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. Loans are charged to the allowance when the loss is confirmed or when a determination is made that a probable loss has occurred on a specific loan. Recoveries are credited to the allowance at the time of recovery. Throughout the year, management estimates the probable level of losses to determine whether the allowance for credit losses is appropriate to absorb losses in the existing portfolio. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be appropriate to absorb losses. Management's judgment regarding the appropriateness of the allowance for loan losses involves the consideration of current economic conditions and their estimated effects on specific borrowers; an evaluation of the existing relationships among loans, potential loan losses and the present level of the allowance; results of examinations of the loan portfolio by regulatory agencies; and management's internal review of the loan portfolio. In determining the ability to collect certain loans, management also considers the fair value of any underlying collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating or other conditions beyond our control. For additional discussion of allowance for loan losses and provisions for loan losses, see the section entitled "Allowance for Loan Losses" earlier in this Item 7.

FDIC Indemnification Asset

We have elected to account for the FDIC Indemnification Asset in accordance with FASB ASC 805. The FDIC Indemnification Asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the present value and the undiscounted cash flows we expect to collect from the FDIC will be accreted into noninterest income within the consolidated statements of operations over the life of the FDIC Indemnification Asset. The FDIC Indemnification Asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered OREO. Any increases in cash flow of the covered assets over those expected will reduce the FDIC Indemnification Asset, and any decreases in cash flow of the covered assets under those expected will increase the FDIC Indemnification Asset. Any amortization of changes in value is limited to the contractual terms of the loss-share agreements. Increases and decreases to the FDIC Indemnification Asset are recorded as adjustments to noninterest income within the consolidated statements of operations over the life of the loss-share agreements.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents our best estimate of our ultimate liability for losses and loss adjustment expenses relating to events that occurred prior to the end of any given accounting period but have not been paid, less a reduction for reinsurance recoverables related to those liabilities. Months and potentially years may elapse between the occurrence of a loss covered by one of our insurance policies, the reporting of the loss and the payment of the claim. We record a liability for estimates of losses that will be paid for claims that have been reported, which is referred to as case reserves. As claims are not always reported when they occur, we estimate liabilities for claims that have occurred but have not been reported ("IBNR").

Each of our insurance company subsidiaries establishes a reserve for all of its unpaid losses, including case reserves and IBNR reserves, and estimates for the cost to settle the claims. We estimate our IBNR reserves by estimating our ultimate liability for loss and loss adjustment expense reserves first, and then reducing that amount by the amount of cumulative paid claims and by the amount of our case reserves. The reserve analysis performed by our actuaries provides preliminary central estimates of the unpaid losses and LAE. At each quarter-end, the results of the reserve analysis are summarized and discussed with our senior management. The senior management group considers many factors in determining the amount of reserves to record for financial statement purposes. These factors include the extent and timing of any recent catastrophic events, historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and reported loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, and overall pricing and underwriting trends in the insurance market. As experience develops or new information becomes known, we increase or decrease the level of our reserves in the period in which changes to the estimates are determined. Accordingly, the actual losses and loss adjustment expenses may differ materially from the estimates we have recorded. See "Insurance Losses and Loss Adjustment Expenses" earlier in this Item 7 for additional discussion.

Goodwill and Identifiable Intangible Assets

Goodwill and other identifiable intangible assets were initially recorded at their estimated fair values at the date of acquisition. Goodwill and other intangible assets having an indefinite useful life are not amortized for financial statement purposes. In the event that facts and circumstances indicate that the goodwill and other identifiable intangible assets may be impaired, an interim impairment test would be required. Intangible assets with finite lives have been fully amortized over their useful lives. We perform required annual impairment tests of our goodwill and other intangible assets as of October 1st for our reporting units.

The goodwill impairment test is a two-step process that requires us to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of our peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment, if any, by determining an "implied fair value" of goodwill. The determination of the "implied fair value" of goodwill of a reporting unit requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is compared to its corresponding carrying value.

Our evaluation includes multiple assumptions, including estimated discounted cash flows and other estimates that may change over time. If future discounted cash flows become less than those projected by us, future impairment charges may become necessary that could have a materially adverse impact on our results of operations and financial condition in the period in which the write-off occurs.

Loan Indemnification Liability

The mortgage origination segment may be responsible for errors or omissions relating to its representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. If determined to be at fault, the mortgage origination segment either repurchases the loans from the investors or reimburses the investors' losses (a "make-whole" payment). The mortgage origination segment has established an indemnification liability for such probable losses based upon, among other things, the level of current unresolved repurchase requests, the volume of estimated probable future repurchase requests, our ability to cure the defects identified in the repurchase requests, and the severity of the estimated loss upon repurchase. Although we consider this reserve to be appropriate, there can be no assurance that the reserve will prove to be appropriate overtime to cover ultimate losses, due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters will be considered in the reserving process when known.

Mortgage Servicing Rights

The Company measures its residential mortgage servicing assets using the fair value method. Under the fair value method, the retained MSR are carried in the balance sheet at fair value and the changes in fair value are reported in earnings within other noninterest income in the period in which the change occurs. Retained MSR are measured at fair value as of the date of sale of the related mortgage loan. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income.

The model assumptions and the MSR fair value estimates are compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the MSR. The value of the MSR is also dependent upon the discount rate used in the model, which is based on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of the MSR.

Acquisition Accounting

We account for business combinations using the acquisition method, which requires an allocation of the purchase price of an acquired entity to the assets acquired, including identifiable intangibles, and liabilities assumed based on their estimated fair values at the date of acquisition. Management applies various valuation methodologies to these acquired assets and assumed liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular item being valued. Examples of such items include loans, deposits, identifiable intangible assets and certain other assets and liabilities acquired or assumed in business combinations. Management uses significant estimates and assumptions to value such items, including, among others, projected cash flows, prepayment and default assumptions, discount rates, and realizable collateral values. Purchase date valuations, which are subject to change for up to one year after the acquisition date, determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. Certain assumptions and estimates must be updated regularly in connection with the ongoing accounting for purchased loans. Valuation assumptions and estimates may also have to be revisited in connection with periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Company's results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. Market risk represents the risk of loss that may result from changes in value of a financial instrument as a result of changes in interest rates, market prices and the credit perception of an issuer. The disclosure is not meant to be a precise indicator of expected future losses, but rather an indicator of reasonably possible losses, and therefore our actual results may differ from any of the following projections. This forward-looking information provides an indicator of how we view and manage our ongoing market risk exposures.

At December 31, 2014, total notes payable outstanding on our consolidated balance sheet was $56.7 million, and was comprised entirely of indebtedness subject to variable interest rates. If LIBOR and the prime rate were to increase by one eighth of one percent (0.125%), the increase in interest expense on the variable rate debt would not have a significant impact on our future consolidated earnings or cash flows.

Banking Segment

The banking segment is engaged primarily in the business of investing funds obtained from deposits and borrowings in interest-earning loans and investments, and our primary component of market risk is sensitivity to changes in interest rates. Consequently, our earnings depend to a significant extent on our net interest income, which is the difference between interest income on loans and investments and our interest expense on deposits and borrowings. To the extent that our interest-bearing liabilities do not reprice or mature at the same time as our interest-bearing assets, we are subject to interest rate risk and corresponding fluctuations in net interest income.

There are several common sources of interest rate risk that must be effectively managed if there is to be minimal impact on our earnings and capital. Repricing risk arises largely from timing differences in the pricing of assets and liabilities. Reinvestment risk refers to the reinvestment of cash flows from interest payments and maturing assets at lower or higher rates. Basis risk exists when different yield curves or pricing indices do not change at precisely the same time or in the same magnitude such that assets and liabilities with the same maturity are not all affected equally. Yield curve risk refers to unequal movements in interest rates across a full range of maturities.

We have employed asset/liability management policies that attempt to manage our interest-earning assets and interest-bearing liabilities, thereby attempting to control the volatility of net interest income, without having to incur unacceptable levels of risk. We employ procedures which include interest rate shock analysis, repricing gap analysis and balance sheet decomposition techniques to help mitigate interest rate risk in the ordinary course of business. In addition, the asset/liability management policies permit the use of various derivative instruments to manage interest rate risk or hedge specified assets and liabilities.

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. The management of interest rate risk is performed by analyzing the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time ("GAP") and by analyzing the effects of interest rate changes on net interest income over specific periods of time by projecting the performance of the mix of assets and liabilities in varied interest rate environments. Interest rate sensitivity reflects the potential effect on net interest income resulting from a movement in interest rates. A company is considered to be asset sensitive, or have a positive GAP, when the amount of its interest-earning assets maturing or repricing within a given period exceeds the amount of its interest-bearing liabilities also maturing or repricing within that time period. Conversely, a company is considered to be liability sensitive, or have a negative GAP, when the amount of its interest-bearing liabilities maturing or repricing within a given period exceeds the amount of its interest-earning assets also maturing or repricing within that time period. During a period of rising interest rates, a negative GAP would tend to affect net interest income adversely, while a positive GAP would tend to result in an increase in net interest income. During a period of falling interest rates, a negative GAP would tend to result in an increase in net interest income, while a positive GAP would tend to affect net interest income adversely. However, it is our intent to remain relatively balanced so that changes in rates do not have a significant impact on earnings.

As illustrated in the table below, the banking segment is asset sensitive overall. Loans that adjust daily or monthly to the Wall Street Journal Prime rate comprise a large percentage of interest sensitive assets and are the primary cause of the banking segment's asset sensitivity. To help neutralize interest rate sensitivity, the banking segment has kept the terms of most of its borrowings under one year as shown in the following table (dollars in thousands).

	December 31, 2014					
	3 Months or Less	> 3 Months to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest sensitive assets:						
Loans	$ 3,079,529	$ 614,022	$ 739,362	$ 293,244	$ 654,707	$ 5,380,864
Securities	24,144	75,537	278,873	215,786	322,150	916,490
Federal funds sold and securities purchased under agreements to resell	30,602	—	—	—	—	30,602
Other interest sensitive assets	448,544	—	—	—	—	448,544
Total interest sensitive assets	3,582,819	689,559	1,018,235	509,030	976,857	6,776,500

	December 31, 2014					
	3 Months or Less	> 3 Months to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest sensitive liabilities:						
Interest bearing checking	$ 2,268,982	$ —	$ —	$ —	$ —	$ 2,268,982
Savings	299,051	—	—	—	—	299,051
Time deposits	495,527	639,870	496,333	35,926	6,016	1,673,672
Notes payable & other borrowings	414,652	225,476	1,355	727	5,163	647,373
Total interest sensitive liabilities	3,478,212	865,346	497,688	36,653	11,179	4,889,078
Interest sensitivity gap	$ 104,607	$ (175,787)	$ 520,547	$ 472,377	$ 965,678	$ 1,887,422
Cumulative interest sensitivity gap	$ 104,607	$ (71,180)	$ 449,367	$ 921,744	$ 1,887,422	
Percentage of cumulative gap to total interest sensitive assets	1.54%	-1.05%	6.63%	13.60%	27.85%	

The positive GAP in the interest rate analysis indicates that banking segment net interest income would generally rise if rates increase. Because of inherent limitations in interest rate GAP analysis, the banking segment uses multiple interest rate risk measurement techniques. Simulation analysis is used to subject the current repricing conditions to rising and falling interest rates in increments and decrements of 1%, 2% and 3% to determine the effect on net interest income changes for the next twelve months. The banking segment also measures the effects of changes in interest rates on economic value of equity by discounting projected cash flows of deposits and loans. Economic value changes in the investment portfolio are estimated by discounting future cash flows and using duration analysis. Investment security prepayments are estimated using current market information. We believe the simulation analysis presents a more accurate picture than the GAP analysis. Simulation analysis recognizes that deposit products may not react to changes in interest rates as quickly or with the same magnitude as earning assets contractually tied to a market rate index. The sensitivity to changes in market rates varies across deposit products. Also, unlike GAP analysis, simulation analysis takes into account the effect of embedded options in the securities and loan portfolios as well as any off-balance-sheet derivatives.

The table below shows the estimated impact of increases of 1%, 2% and 3% and a decrease of 0.5% in interest rates on net interest income and on economic value of equity for the banking segment at December 31, 2014 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income		Changes in Economic Value of Equity	
	Amount	Percent	Amount	Percent
+300	$ 15,201	6.16%	$ 68,676	5.36%
+200	$ 4,087	1.65%	$ 43,831	3.42%
+100	$ (2,762)	-1.12%	$ 21,591	1.68%
-50	$ 414	0.17%	$ (17,823)	-1.39%

The projected changes in net interest income and economic value of equity to changes in interest rates at December 31, 2014 were in compliance with established internal policy guidelines. These projected changes are based on numerous assumptions of growth and changes in the mix of assets or liabilities.

The historically low level of interest rates, combined with the existence of rate floors that are in effect for a significant portion of the loan portfolio, are projected to cause yields on our earning assets to rise more slowly than increases in market interest rates. As a result, in a rising interest rate environment, our interest rate margins are projected to compress until the rise in market interest rates is sufficient to allow our loan portfolio to reprice above applicable rate floors.

Broker-Dealer Segment

Our broker-dealer segment is exposed to market risk primarily due to its role as a financial intermediary in customer transactions, which may include purchases and sales of securities, use of derivatives and securities lending activities, and in our trading activities, which are used to support sales, underwriting and other customer activities. We are subject to the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates, market prices, investor expectations and changes in credit ratings of the issuer.

Our broker-dealer segment is exposed to interest rate risk as a result of maintaining inventories of interest rate sensitive financial instruments and other interest earning assets including customer and correspondent margin loans and securities borrowing activities. Our exposure to interest rate risk is also from our funding sources including customer and correspondent cash balances, bank borrowings, repurchase agreements and securities lending activities. Interest rates on customer and correspondent balances and securities produce a positive spread with rates generally fluctuating in parallel.

With respect to securities held, our interest rate risk is managed by setting and monitoring limits on the size and duration of positions and on the length of time securities can be held. Much of the interest rates on customer and correspondent margin loans are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

Derivatives are used to support certain customer programs and hedge our related exposure to interest rate risks.

Our broker-dealer segment is engaged in various brokerage and trading activities that expose us to credit risk arising from potential non-performance from counterparties, customers or issuers of securities. This risk is managed by setting and monitoring position limits for each counterparty, conducting periodic credit reviews of counterparties, reviewing concentrations of securities and conducting business through central clearing organizations.

Collateral underlying margin loans to customers and correspondents and with respect to securities lending activities is marked to market daily and additional collateral is required as necessary.

Mortgage Origination Segment

Within our mortgage origination segment, our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments, including mortgage loans held for sale, IRLCs and MSR. Changes in interest rates could also materially and adversely affect our volume of mortgage loan originations.

IRLCs represent an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. Our mortgage loans held for sale, which we hold in inventory while awaiting sale into the secondary market, and our IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment until (i) the lock commitment cancellation or expiration date or (ii) the date of sale into the secondary mortgage market. Loan commitments generally range from 20 to 60 days, and our average holding period of the mortgage loan from funding to sale is approximately 30 days. An integral component of our interest rate risk management strategy is our execution of forward commitments to sell MBSs to minimize the impact on earnings resulting from significant fluctuations in the fair value of mortgage loans held for sale and IRLCs caused by changes in interest rates.

We have recently expanded, and may continue to expand, our residential mortgage servicing operations within our mortgage origination segment. As a result of our mortgage servicing business, we have a portfolio of retained MSR. One of the principal risks associated with MSR is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. The mortgage origination segment uses derivative financial instruments, including interest rate swaps, swaptions, and forward MBS commitments, as a means to mitigate market risk associated with MSR assets. No hedging strategy can protect us completely, and hedging strategies may fail because they are improperly designed, improperly executed and documented or based on inaccurate assumptions and, as a result, could actually increase our risks and losses. The increasing size of our MSR portfolio may increase our interest rate risk and correspondingly, the volatility of our earnings, especially if we cannot adequately hedge the interest rate risk relating to our MSR.

The goal of our interest rate risk management strategy within our mortgage origination segment is not to eliminate interest rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, we have established policies and procedures, which include guidelines on the amount of exposure to interest rate changes we are willing to accept.

Insurance Segment

Within our insurance segment, our exposures to market risk relate primarily to our investment portfolio, which is exposed primarily to interest rate risk and credit risk. The fair value of our investment portfolio is directly impacted by changes in market interest rates; generally, the fair value of fixed-income investments moves inversely with movements in market interest rates. Our fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. This portfolio composition allows flexibility in reacting to fluctuations of interest rates. The portfolios of our insurance company subsidiaries are managed to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations. Additionally, the fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

Item 8. Financial Statements and Supplementary Data.

Our financial statements required by this item are submitted as a separate section of this Annual Report. See "Financial Statements," commencing on page F-1 hereof.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the supervision and participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report.

Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company's management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes during the fiscal quarter ended December 31, 2014 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as it relates to the inclusion within our control environment of new or updated controls and processes associated with covered loans, FDIC Indemnification Asset and covered OREO acquired in the FNB Transaction.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as a process designed by, or under the supervision of, our Principal Executive Officer and Principal Financial Officer and effected by our board of directors, management and other personnel 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 and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting at December 31, 2014. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our assessment, management concluded that, at December 31, 2014, our internal control over financial reporting is effective.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information called for by this Item is contained in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, and is incorporated herein by reference.

Item 11. Executive Compensation.

The information called for by this Item is contained in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this Item is contained in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, or in Item 5 of this Annual Report for the year ended December 31, 2014, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by this Item is contained in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information called for by this Item is contained in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed herewith as part of this Form 10-K.

1. Financial Statements.

2. Financial Statement Schedules.

The financial statements as of June 30, 2014 and 2013 and for each of the three years in the period ended June 30, 2014 of SWS Group, Inc., are filed as Exhibit 99.1 to this Annual Report on Form 10-K and are incorporated by reference herein.

All other financial statement schedules have been omitted because they are not required, not applicable or the information has been included in our consolidated financial statements.

3. Exhibits. See the Exhibit Index following the signature page hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HILLTOP HOLDINGS INC.

Date: February 26, 2015

By: /s/ Jeremy B. Ford
Jeremy B. Ford
President and Chief Executive Officer
(Principal Executive Officer and duly authorized officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity in which Signed	Date
/s/ Jeremy B. Ford Jeremy B. Ford	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2015
/s/ Darren Parmenter Darren Parmenter	Executive Vice President — Principal Financial Officer (Principal Financial and Accounting Officer)	February 26, 2015
/s/ Charlotte Jones Anderson Charlotte Jones Anderson	Director	February 26, 2015
/s/ Rhodes Bobbitt Rhodes Bobbitt	Director	February 26, 2015
/s/ Tracy A. Bolt Tracy A. Bolt	Director and Audit Committee Member	February 26, 2015
/s/ W. Joris Brinkerhoff W. Joris Brinkerhoff	Director	February 26, 2015
/s/ Charles R. Cummings Charles R. Cummings	Director and Chairman of Audit Committee	February 26, 2015
/s/ Hill A. Feinberg Hill A. Feinberg	Director	February 26, 2015
/s/ Gerald J. Ford Gerald J. Ford	Director	February 26, 2015
/s/ J. Markham Green J. Markham Green	Director and Audit Committee Member	February 26, 2015
Jess T. Hay	Director	
/s/ William T. Hill, Jr. William T. Hill, Jr.	Director	February 26, 2015
/s/ James R. Huffines James R. Huffines	Director	February 26, 2015
/s/ Lee Lewis Lee Lewis	Director	February 26, 2015

Signature	Capacity in which Signed	Date
Andrew J. Littlefair	Director	
/s/ W. Robert Nichols, III W. Robert Nichols, III	Director	February 26, 2015
/s/ C. Clifton Robinson C. Clifton Robinson	Director	February 26, 2015
/s/ Kenneth D. Russell Kenneth D. Russell	Director	February 26, 2015
/s/ A. Haag Sherman A. Haag Sherman	Director	February 26, 2015
/s/ Robert Taylor, Jr. Robert Taylor, Jr.	Director	February 26, 2015
/s/ Carl B. Webb Carl B. Webb	Director	February 26, 2015
/s/ Alan B. White Alan B. White	Director	February 26, 2015

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated May 8, 2012, by and among Hilltop Holdings Inc., Meadow Corporation and PlainsCapital Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 11, 2012 (File No. 001-31987) and incorporated herein by reference).
2.2	Purchase and Assumption Agreement — Whole Bank, All Deposits, dated as of September 13, 2013, by and among the Federal Deposit Insurance Corporation, receiver of First National Bank, Edinburg, Texas, PlainsCapital Bank and the Federal Deposit Insurance Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on September 19, 2013 (File No. 001-31987) and incorporated herein by reference).
2.3	Agreement and Plan of Merger by and among SWS Group, Inc., Hilltop Holdings Inc. and Peruna LLC, dated as of March 31, 2014 (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on April 1, 2014 (File No. 001-31987) and incorporated herein by reference).
3.1	Articles of Amendment and Restatement of Affordable Residential Communities Inc., dated February 16, 2004, as amended or supplemented by: Articles Supplementary, dated February 16, 2004; Corporate Charter Certificate of Notice, dated June 6, 2005; Articles of Amendment, dated January 23, 2007; Articles of Amendment, dated July 31, 2007; Corporate Charter Certificate of Notice, dated September 23, 2008; Articles Supplementary, dated December 15, 2010; Articles Supplementary, dated as of November 29, 2012 relating to Subtitle 8 election; Articles Supplementary, dated November 29, 2012 relating to Non-Cumulative Perpetual Preferred Stock, Series B, of Hilltop Holdings Inc.; and Articles of Amendment, dated March 31, 2014 (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-31987) and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of Hilltop Holdings Inc. (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on March 16, 2009 (File No. 001-31987) and incorporated herein by reference).
4.1	Form of Certificate of Common Stock of Hilltop Holdings Inc. (filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-31987) and incorporated herein by reference).
4.2	Form of Certificate of Non-Cumulative Perpetual Preferred Stock, Series B, of Hilltop Holdings Inc. (filed as Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
4.3	Corporate Charter Certificate of Notice, dated June 6, 2005 (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-3 (File No. 333-125854) and incorporated herein by reference).
4.4.1	Amended and Restated Declaration of Trust, dated as of July 31, 2001, by and among U.S. Bank National Association (successor in interest to State Street Bank and Trust Company of Connecticut, National Association), as Institutional Trustee, PlainsCapital Corporation (successor by merger to Plains Capital Corporation), and Alan B. White, George McCleskey, and Jeff Isom, as Administrators (filed as Exhibit 4.2 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.4.2	First Amendment to Amended and Restated Declaration of Trust, dated as of August 7, 2006, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Institutional Trustee (filed as Exhibit 4.3 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.4.3	Indenture, dated as of July 31, 2001, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association (successor in interest to State Street Bank and Trust Company of Connecticut, National Association), as Trustee (filed as Exhibit 4.4 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).

4.4.4	First Supplemental Indenture, dated as of August 7, 2006, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.5 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.4.5	Second Supplemental Indenture, dated as of November 30, 2012, by and among U.S. Bank National Association, as Trustee, PlainsCapital Corporation (f/k/a Meadow Corporation) and PlainsCapital Corporation (filed as Exhibit 4.5.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
4.4.6	Amended and Restated Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of August 7, 2006, by PlainsCapital Corporation (successor by merger to Plains Capital Corporation) in favor of U.S. Bank National Association, as Institutional Trustee for PCC Statutory Trust I (filed as Exhibit 4.6 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.4.7	Guarantee Agreement, dated as of July 31, 2001, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association (successor in interest to State Street Bank and Trust Company of Connecticut, National Association), as Trustee (filed as Exhibit 4.7 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.4.8	First Amendment to Guarantee Agreement, dated as of August 7, 2006, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Guarantee Trustee (filed as Exhibit 4.8 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.5.1	Amended and Restated Declaration of Trust, dated as of March 26, 2003, by and among U.S. Bank National Association, as Institutional Trustee, PlainsCapital Corporation (successor by merger to Plains Capital Corporation), and Alan B. White, George McCleskey, and Jeff Isom, as Administrators (filed as Exhibit 4.9 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.5.2	Indenture, dated as of March 26, 2003, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.10 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.5.3	First Supplemental Indenture, dated as of November 30, 2012, by and among U.S. Bank National Association, as Trustee, PlainsCapital Corporation (f/k/a Meadow Corporation) and PlainsCapital Corporation (filed as Exhibit 4.6.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
4.5.4	Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of March 26, 2003, by PlainsCapital Corporation (successor by merger to Plains Capital Corporation) in favor of U.S. Bank National Association, as Institutional Trustee for PCC Statutory Trust II (filed as Exhibit 4.11 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.5.5	Guarantee Agreement, dated as of March 26, 2003, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Guarantee Trustee (filed as Exhibit 4.12 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.6.1	Amended and Restated Declaration of Trust, dated as of September 17, 2003, by and among U.S. Bank National Association, as Institutional Trustee, PlainsCapital Corporation (successor by merger to Plains Capital Corporation), and Alan B. White, George McCleskey, and Jeff Isom, as Administrators (filed as Exhibit 4.13 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).

4.6.2	Indenture, dated as of September 17, 2003, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.14 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.6.3	First Supplemental Indenture, dated as of November 30, 2012, by and among U.S. Bank National Association, as Trustee, PlainsCapital Corporation (f/k/a Meadow Corporation) and PlainsCapital Corporation. (filed as Exhibit 4.7.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
4.6.4	Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of September 17, 2003, by PlainsCapital Corporation (successor by merger to Plains Capital Corporation) in favor of U.S. Bank National Association, as Institutional Trustee for PCC Statutory Trust III (filed as Exhibit 4.15 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.6.5	Guarantee Agreement, dated as of September 17, 2003, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and U.S. Bank National Association, as Guarantee Trustee (filed as Exhibit 4.16 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.7.1	Amended and Restated Trust Agreement, dated as of February 22, 2008, by and among PlainsCapital Corporation (successor by merger to Plains Capital Corporation), Wells Fargo Bank, N.A., as Property Trustee, Wells Fargo Delaware Trust Company, as Delaware Trustee, and Alan B. White, DeWayne Pierce, and Jeff Isom, as Administrative Trustees (filed as Exhibit 4.17 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.7.2	Junior Subordinated Indenture, dated as of February 22, 2008, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and Wells Fargo Bank, N.A., as Trustee (filed as Exhibit 4.18 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.7.3	First Supplemental Indenture, dated as of November 30, 2012, by and between PlainsCapital Corporation and Wells Fargo Bank, National Association, as Trustee. (filed as Exhibit 4.8.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
4.7.4	Plains Capital Corporation Floating Rate Junior Subordinated Note due 2038, dated as of February 22, 2008, by PlainsCapital Corporation (successor by merger to Plains Capital Corporation) in favor of Wells Fargo Bank, N.A., as Property Trustee of PCC Statutory Trust IV (filed as Exhibit 4.19 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
4.7.5	Guarantee Agreement, dated as of February 22, 2008, by and between PlainsCapital Corporation (successor by merger to Plains Capital Corporation) and Wells Fargo Bank, N.A., as Guarantee Trustee (filed as Exhibit 4.20 to the Registration Statement on Form 10 filed by PlainsCapital Corporation on April 17, 2009 (File No. 000-53629) and incorporated herein by reference).
10.1.1	First Amended and Restated Agreement of Limited Partnership of Affordable Residential Communities LP, dated February 11, 2004 (filed as Exhibit 10.1.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-31987) and incorporated herein by reference).
10.1.2	Amendment to the First Amended and Restated Agreement of Limited Partnership of Affordable Residential Communities LP, dated July 3, 2007 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 6, 2007 (File No. 001-31987) and incorporated herein by reference).
10.2.1†	Affordable Residential Communities Inc. 2003 Equity Incentive Plan (filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-11 (File No. 333-109816) and incorporated herein by reference).

10.2.2†	Form of Affordable Residential Communities Inc. 2003 Equity Incentive Plan Non-Qualified Stock Option Agreement (filed as Exhibit 10.2.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-31987) and incorporated herein by reference).
10.3	Registration Rights Agreement, dated January 31, 2007, by and between Affordable Residential Communities Inc. and C. Clifton Robinson. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 5, 2007 (File No. 001-31987) and incorporated herein by reference).
10.4†	Compensation arrangement with Jeremy B. Ford (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated herein by reference).
10.5†	Retention Agreement, dated May 8, 2012, but effective as of November 30, 2012, by and among Alan B. White, Hilltop Holdings Inc. and PlainsCapital Corporation (f/k/a Meadow Corporation) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 11, 2012 (File No. 001-31987) and incorporated herein by reference).
10.6†	Retention Agreement, dated May 8, 2012, but effective as of November 30, 2012, by and among Jerry L. Schaffner, Hilltop Holdings Inc. and PlainsCapital Corporation (f/k/a Meadow Corporation) (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 11, 2012 (File No. 001-31987) and incorporated herein by reference).
10.7†	Employment Agreement, dated as of December 4, 2014, by and between James R. Huffines and Hilltop Holdings Inc. (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on December 9, 2014 (File No. 001-31987) and incorporated herein by reference).
10.8†*	Employment Agreement, dated as of December 4, 2014, by and between Todd Salmans and Hilltop Holdings Inc.
10.9†*	Compensation arrangement with Hill A. Feinberg.
10.10†	Hilltop Holdings Inc. 2012 Equity Incentive Plan, effective September 20, 2012 (filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
10.11†	Hilltop Holdings Inc. Annual Incentive Plan, effective September 20, 2012 (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013 (File No. 001-31987) and incorporated herein by reference).
10.12	Securities Purchase Agreement, dated as of September 27, 2011, by and between PlainsCapital Corporation (successor by merger to PlainsCapital Corporation) and the Secretary of the Treasury (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by PlainsCapital Corporation on September 28, 2011 (File No. 000-53629) and incorporated herein by reference).
10.13	Repurchase Letter, dated as of September 27, 2011, by and between PlainsCapital Corporation (successor by merger to PlainsCapital Corporation) and the United Stated Department of the Treasury (filed as Exhibit 10.2 to the Current Report on Form 8-K filed by PlainsCapital Corporation on September 28, 2011 (File No. 000-53629) and incorporated herein by reference).
10.14†	Form of Restricted Stock Award Agreement (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed on May 6, 2013 (File No. 001-31987) and incorporated herein by reference).
10.15†	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated herein by reference).
10.16†	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated

	herein by reference).
10.17†	Compensation arrangement of Darren Parmenter (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated herein by reference).
10.18†	Sublease, dated December 1, 2012, by and between Hunter's Glen/Ford, LTD and Hilltop Holdings Inc. (filed as Exhibit 10.19 to the Registrant's Report on Form 10-K for the year ended December 31, 2013 filed on March 3, 2014 (File No. 001-31987) and incorporated herein by reference).
10.19†	First Amendment to Sublease, dated February 28, 2014, by and between Hunter's Glen/Ford, LTD and Hilltop Holdings Inc. (filed as Exhibit 10.20 to the Registrant's Report on Form 10-K for the year ended December 31, 2013 filed on March 3, 2014 (File No. 001-31987) and incorporated herein by reference).
21.1*	List of subsidiaries of the Registrant.
23.1*	Consent of PricewaterhouseCoopers LLP.
23.2*	Consent of Ernst & Young LLP.
23.3*	Consent of Grant Thornton LLP.
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Audited consolidated financial statements of SWS Group, Inc. as of June 30, 2014 and 2013 and for each of the three years in the period ended June 30, 2014.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.
† Exhibit is a management contract or compensatory plan.

(This page has been left blank intentionally.)

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Hilltop Holdings Inc.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Hilltop Holdings Inc. and its subsidiaries (the "Company") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We did not audit the financial statements of PrimeLending and First Southwest Company for the year ended December 31, 2012, both wholly owned subsidiaries of the Company, which statements reflect total assets of approximately $1.5 billion and $0.5 billion, respectively, of the related consolidated total as of December 31, 2012 and total net income before tax of approximately $5.7 million and $1.6 million, respectively, of the related consolidated total for the year ended December 31, 2012. The 2012 financial statements of PrimeLending and First Southwest Company were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for PrimeLending and First Southwest Company, is based solely on the reports of the other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
February 26, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
PrimeLending, a PlainsCapital Company

We have audited the consolidated financial statements of PrimeLending, a PlainsCapital Company (the Company), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statement of income, stockholder's equity, and cash flows for the period from December 1, 2012 through December 31, 2012, and the related consolidated notes to the financial statements (not presented separately herein).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PrimeLending, a PlainsCapital Company at December 31, 2012, and the results of its operations and its cash flows for the period from December 1, 2012 through December 31, 2012 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Dallas, Texas
March 15, 2013

Report of Independent Registered Public Accounting Firm

Board of Directors
First Southwest Company

We have audited the financial statements of First Southwest Company (the Company), which comprise the statement of financial condition as of December 31, 2012, and the related statements of income, changes in stockholder's equity, and cash flows for the period from December 1, 2012 through December 31, 2012 that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements (not presented separately herein).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Southwest Company as of December 31, 2012, and the results of its operations and its cash flows for the period from December 1, 2012 through December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Dallas, Texas
February 28, 2013

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 782,473	$ 713,099
Federal funds sold and securities purchased under agreements to resell	30,602	32,924
Securities:		
Trading, at fair value	65,717	58,846
Available for sale, at fair value (amortized cost of $924,755 and $1,256,862, respectively)	925,535	1,203,143
Held to maturity, at amortized cost (fair value of $118,345)	118,209	—
	1,109,461	1,261,989
Loans held for sale	1,309,693	1,089,039
Non-covered loans, net of unearned income	3,920,476	3,514,646
Allowance for non-covered loan losses	(37,041)	(33,241)
Non-covered loans, net	3,883,435	3,481,405
Covered loans, net of allowance of $4,611 and $1,061, respectively	638,029	1,005,308
Broker-dealer and clearing organization receivables	167,884	119,317
Insurance premiums receivable	25,066	25,597
Deferred policy acquisition costs	20,416	20,991
Premises and equipment, net	206,991	200,706
FDIC indemnification asset	130,437	188,291
Covered other real estate owned	136,945	142,833
Mortgage servicing rights	36,155	20,149
Other assets	453,238	279,745
Goodwill	251,808	251,808
Other intangible assets, net	59,783	70,921
Total assets	$ 9,242,416	$ 8,904,122
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 2,076,385	$ 1,773,749
Interest-bearing	4,293,507	4,949,169
Total deposits	6,369,892	6,722,918
Broker-dealer and clearing organization payables	179,042	129,678
Reserve for losses and loss adjustment expenses	29,716	27,468
Unearned insurance premiums	88,176	88,422
Short-term borrowings	762,696	342,087
Notes payable	56,684	56,327
Junior subordinated debentures	67,012	67,012
Other liabilities	227,959	158,288
Total liabilities	7,781,177	7,592,200
Commitments and contingencies (see Notes 18 and 19)		
Stockholders' equity:		
Hilltop stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized;		
Series B, liquidation value per share of $1,000; 114,068 shares issued and outstanding	114,068	114,068
Common stock, $0.01 par value, 125,000,000 and 100,000,000 shares authorized; 90,181,888 and 90,175,688 shares issued and outstanding, respectively	902	902
Additional paid-in capital	1,390,788	1,388,641
Accumulated other comprehensive income (loss)	651	(34,863)
Accumulated deficit	(45,957)	(157,607)
Total Hilltop stockholders' equity	1,460,452	1,311,141
Noncontrolling interests	787	781
Total stockholders' equity	1,461,239	1,311,922
Total liabilities and stockholders' equity	$ 9,242,416	$ 8,904,122

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Interest income:			
Loans, including fees	$ 341,458	$ 284,782	$ 23,900
Securities:			
Taxable	29,206	27,078	13,116
Tax-exempt	4,681	4,775	464
Federal funds sold and securities purchased under agreements to resell	52	113	106
Interest-bearing deposits with banks	1,602	1,848	801
Other	11,770	10,479	651
Total interest income	388,769	329,075	39,038
Interest expense:			
Deposits	15,742	14,877	1,013
Short-term borrowings	2,205	1,814	215
Notes payable	2,532	10,512	8,613
Junior subordinated debentures	2,360	2,409	212
Other	4,789	3,262	143
Total interest expense	27,628	32,874	10,196
Net interest income	361,141	296,201	28,842
Provision for loan losses	16,933	37,158	3,800
Net interest income after provision for loan losses	344,208	259,043	25,042
Noninterest income:			
Net realized gains on securities	—	4,937	112
Net gains from sale of loans and other mortgage production income	390,361	457,531	50,384
Mortgage loan origination fees	63,011	79,736	7,224
Net insurance premiums earned	164,524	157,533	146,701
Investment and securities advisory fees and commissions	101,874	93,093	11,238
Bargain purchase gain	—	12,585	—
Other	79,541	44,670	8,573
Total noninterest income	799,311	850,085	224,232
Noninterest expense:			
Employees' compensation and benefits	490,706	480,496	60,972
Loss and loss adjustment expenses	94,429	110,755	109,159
Policy acquisition and other underwriting expenses	46,942	46,289	43,658
Occupancy and equipment, net	101,697	86,248	7,360
Other	231,579	187,947	34,368
Total noninterest expense	965,353	911,735	255,517
Income (loss) before income taxes	178,166	197,393	(6,243)
Income tax expense (benefit)	65,608	70,684	(1,145)
Net income (loss)	112,558	126,709	(5,098)
Less: Net income attributable to noncontrolling interest	908	1,367	494
Income (loss) attributable to Hilltop	111,650	125,342	(5,592)
Dividends on preferred stock	5,703	4,327	259
Income (loss) applicable to Hilltop common stockholders	$ 105,947	$ 121,015	$ (5,851)
Earnings (loss) per common share:			
Basic	$ 1.18	$ 1.43	$ (0.10)
Diluted	$ 1.17	$ 1.40	$ (0.10)
Weighted average share information:			
Basic	89,710	84,382	58,754
Diluted	90,573	90,331	58,754

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	$ 112,558	$ 126,709	$ (5,098)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale, net of tax of $22,268, $(21,972) and $(3,172), respectively	40,090	(39,709)	(5,889)
Reclassification adjustment for gains included in net income, net of tax of $(2,582) $(1,793) and $0, and other	(4,576)	(3,248)	—
Comprehensive income (loss)	148,072	83,752	(10,987)
Less: comprehensive income attributable to noncontrolling interest	908	1,367	494
Comprehensive income (loss) applicable to Hilltop	$ 147,164	$ 82,385	$ (11,481)

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Hilltop Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
Balance, December 31, 2011	—	$ —	56,501	$ 565	$ 918,192	$ 13,983	$ (277,357)	$ 655,383	$ —	$ 655,383
Net loss	—	—	—	—	—	—	(5,592)	(5,592)	494	(5,098)
Other comprehensive loss	—	—	—	—	—	(5,889)	—	(5,889)	—	(5,889)
Issuance of preferred stock	114	114,068	—	—	—	—	—	114,068	—	114,068
Issuance of common stock	—	—	27,123	271	387,312	—	—	387,583	—	387,583
Stock-based compensation expense	—	—	—	—	450	—	—	450	—	450
Common stock issued to board members	—	—	4	—	50	—	—	50	—	50
Repurchase and retirement of common stock	—	—	(141)	(1)	(1,297)	—	—	(1,298)	—	(1,298)
Dividends on preferred stock	—	—	—	—	(259)	—	—	(259)	—	(259)
Acquired noncontrolling interest	—	—	—	—	—	—	—	—	1,789	1,789
Cash distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(229)	(229)
Balance, December 31, 2012	114	$ 114,068	83,487	$ 835	$ 1,304,448	$ 8,094	$ (282,949)	$ 1,144,496	$ 2,054	$ 1,146,550
Net income	—	—	—	—	—	—	125,342	125,342	1,367	126,709
Other comprehensive loss	—	—	—	—	—	(42,957)	—	(42,957)	—	(42,957)
Issuance of common stock	—	—	6,208	62	86,705	—	—	86,767	—	86,767
Stock-based compensation expense	—	—	—	—	1,671	—	—	1,671	—	1,671
Common stock issued to board members	—	—	10	—	149	—	—	149	—	149
Issuance of restricted common stock	—	—	471	5	(5)	—	—	—	—	—
Dividends on preferred stock	—	—	—	—	(4,327)	—	—	(4,327)	—	(4,327)
Cash distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(2,640)	(2,640)
Balance, December 31, 2013	114	$ 114,068	90,176	$ 902	$ 1,388,641	$ (34,863)	$ (157,607)	$ 1,311,141	$ 781	$ 1,311,922
Net income	—	—	—	—	—	—	111,650	111,650	908	112,558
Other comprehensive income	—	—	—	—	—	35,514	—	35,514	—	35,514
Stock-based compensation expense	—	—	—	—	4,653	—	—	4,653	—	4,653
Common stock issued to board members	—	—	9	—	208	—	—	208	—	208
Forfeiture of restricted common stock awards	—	—	(3)	—	(12)	—	—	(12)	—	(12)
Dividends on preferred stock	—	—	—	—	(5,703)	—	—	(5,703)	—	(5,703)
Issuance of common stock	—	—	—	—	3,001	—	—	3,001	—	3,001
Cash distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(902)	(902)
Balance, December 31, 2014	114	$ 114,068	90,182	$ 902	$ 1,390,788	$ 651	$ (45,957)	$ 1,460,452	$ 787	$ 1,461,239

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2014	2013	2012
Operating Activities			
Net income (loss)	$ 112,558	$ 126,709	$ (5,098)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for loan losses	16,933	37,158	3,800
Depreciation, amortization and accretion, net	(83,279)	(53,794)	(2,533)
Net realized gains on securities	—	(4,937)	(112)
Bargain purchase gain	—	(12,585)	—
Net gain on investment in SWS common stock	(5,985)	—	—
Deferred income taxes	(22,782)	15,829	(6,426)
Other, net	19,000	6,249	612
Net change in trading securities	(6,871)	31,267	12,900
Net change in broker-dealer and clearing organization receivables	(145,283)	21,219	43,309
Net change in other assets	(36,167)	7,465	(541)
Net change in broker-dealer and clearing organization payables	214,755	(55,247)	(46,509)
Net change in loss and loss adjustment expense reserve	2,248	(6,544)	(10,823)
Net change in unearned insurance premiums	(246)	5,824	1,937
Net change in other liabilities	57,329	(34,540)	9,025
Net gains from sale of loans	(390,361)	(457,531)	(50,384)
Loans originated for sale	(10,839,905)	(11,752,800)	(1,344,577)
Proceeds from loans sold	11,016,636	12,522,963	1,510,639
Net cash provided by (used in) operating activities	(91,420)	396,705	115,219
Investing Activities			
Proceeds from maturities and principal reductions of securities held to maturity	5,203	—	—
Proceeds from sales, maturities and principal reductions of securities available for sale	315,166	381,890	77,445
Purchases of securities held to maturity	(123,520)	—	—
Purchases of securities available for sale	(49,156)	(372,998)	(224,893)
Net change in loans	103,031	(140,437)	10,673
Purchases of premises and equipment and other assets	(43,186)	(33,066)	(17,412)
Proceeds from sales of premises and equipment and other real estate owned	69,400	21,233	1,377
Net cash paid (received) for Federal Home Loan Bank and Federal Reserve Bank stock	(17,114)	4,600	—
Net cash from acquisitions	—	362,695	165,679
Net cash provided by investing activities	259,824	223,917	12,869
Financing Activities			
Net change in deposits	(518,417)	(210,491)	207,997
Net change in short-term borrowings	420,609	(386,163)	(185,812)
Proceeds from notes payable	3,000	2,000	—
Payments on notes payable	(2,643)	(3,262)	(766)
Payments to repurchase common stock	—	—	(1,298)
Dividends paid on preferred stock	(5,619)	(2,985)	—
Net cash distributed to noncontrolling interest	(902)	(2,640)	(229)
Other, net	2,620	2,482	(40)
Net cash provided by (used in) financing activities	(101,352)	(601,059)	19,852
Net change in cash and cash equivalents	67,052	19,563	147,940
Cash and cash equivalents, beginning of year	746,023	726,460	578,520
Cash and cash equivalents, end of year	$ 813,075	$ 746,023	$ 726,460
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$ 28,846	$ 31,805	$ 10,371
Cash paid for income taxes, net of refunds	$ 26,859	$ 73,802	$ (184)
Supplemental Schedule of Non-Cash Activities			
Conversion of available for sale investment to SWS common stock	$ 71,502	$ —	$ —
Redemption of senior exchangeable notes for common stock	$ —	$ 83,950	$ —
Conversion of loans to other real estate owned	$ 67,542	$ 25,639	$ —
Preferred stock issued in acquisition	$ —	$ —	$ 114,068
Common stock issued in acquisition	$ —	$ —	$ 387,583

See accompanying notes.

1. Summary of Significant Accounting and Reporting Policies

Nature of Operations

Hilltop Holdings Inc. (“Hilltop” and, collectively with its subsidiaries, the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999. On November 30, 2012, Hilltop acquired PlainsCapital Corporation pursuant to a plan of merger whereby PlainsCapital Corporation merged with and into a wholly owned subsidiary of Hilltop (the “PlainsCapital Merger”), which continued as the surviving entity under the name “PlainsCapital Corporation” (“PlainsCapital”).

The Company has two primary operating business units, PlainsCapital and National Lloyds Corporation (“NLC”). PlainsCapital is a financial holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, an array of financial products and services. In addition to traditional banking services, PlainsCapital provides residential mortgage lending, investment banking, public finance advisory, wealth and investment management, treasury management, fixed income sales, asset management, and correspondent clearing services. NLC is a property and casualty insurance holding company that provides, through its subsidiaries, fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States.

The operating results of Hilltop for the year ended December 31, 2012 include the results from the operations acquired in the PlainsCapital Merger for the month ended December 31, 2012. Certain disclosures within the notes to consolidated financial statements are specific to financial products and services of PlainsCapital and its subsidiaries and therefore include information at December 31, 2014 and 2013 and relating to the post-acquisition years ended December 31, 2014 and 2013 and one month period ended December 31, 2012.

On September 13, 2013 (the “Bank Closing Date”), PlainsCapital Bank (the “Bank”) assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of Edinburg, Texas-based First National Bank (“FNB”) from the Federal Deposit Insurance Corporation (the “FDIC”), as receiver, and reopened former FNB branches acquired from the FDIC under the “PlainsCapital Bank” name (the “FNB Transaction”). Pursuant to the Purchase and Assumption Agreement (the “P&A Agreement”), the Bank and the FDIC entered into loss-share agreements whereby the FDIC agreed to share in the losses of certain covered loans and covered other real estate owned (“OREO”) that the Bank acquired, as further described in Note 2 to the consolidated financial statements. The acquisition of FNB’s expansive branch network allowed the Bank to increase its presence in Texas to include the Rio Grande Valley, Houston, Corpus Christi, Laredo and El Paso markets, among others.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates regarding the allowance for loan losses, the fair values of financial instruments, the amounts receivable under the loss-share agreements with the FDIC (“FDIC Indemnification Asset”), reserves for losses and loss adjustment expenses, the mortgage loan indemnification liability, and the potential impairment of assets are particularly subject to change. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements.

The presentation of the Company’s historical consolidated financial statements has been modified and certain items in the 2012 financial statements have been reclassified to conform to the current period presentation, which is more consistent with that of a financial institution that provides an array of financial products and services.

Hilltop owns 100% of the outstanding stock of PlainsCapital. PlainsCapital owns 100% of the outstanding stock of the Bank and 100% of the membership interest in PlainsCapital Equity, LLC. The Bank owns 100% of the outstanding stock of PrimeLending, a PlainsCapital Company (“PrimeLending”), PCB-ARC, Inc. and RGV-ARC, Inc. The Bank has a 100% membership interest in First Southwest Holdings, LLC (“First Southwest”) and PlainsCapital Securities, LLC.

Hilltop also owns 100% of NLC, which operates through its wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC, the controlling and sole managing member of PrimeLending Ventures, LLC ("Ventures").

The principal subsidiaries of First Southwest are First Southwest Company, LLC ("FSC"), a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and the Financial Industry Regulatory Authority and a member of the New York Stock Exchange ("NYSE"), and First Southwest Asset Management, LLC, a registered investment advisor under the Investment Advisors Act of 1940.

The consolidated financial statements include the accounts of the above-named entities. All significant intercompany transactions and balances have been eliminated. Noncontrolling interests have been recorded for minority ownership in entities that are not wholly owned and are presented in compliance with the provisions of Noncontrolling Interest in Subsidiary Subsections of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

On October 2, 2014, as discussed in Note 4 to the consolidated financial statements, Hilltop exercised the SWS Warrant (defined hereafter) in full and paid the aggregate exercise price by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under the credit agreement. Consequently, Hilltop owned approximately 21% of the outstanding shares of SWS Group, Inc. ("SWS") common stock. Contemporaneous with the exercise of the SWS Warrant, Hilltop changed the accounting method for its investment in SWS common stock and elected to account for its investment in accordance with the provisions of the Fair Value Option Subsections of the ASC ("Fair Value Option") as permitted by GAAP. Hilltop had previously accounted for its investment in SWS common stock as an available for sale security. Under the Fair Value Option, Hilltop's investment in SWS common stock is recorded at fair value effective October 2, 2014, with changes in fair value being recorded in other noninterest income within the consolidated statement of operations rather than as a component of other comprehensive income. Hilltop's election to apply the provisions of the Fair Value Option resulted in Hilltop recording those unrealized gains previously associated with its investment in SWS common stock of $7.2 million. For the period from October 3, 2014 through December 31, 2014, the change in fair value of Hilltop's investment in SWS common stock resulted in a loss of $1.2 million. In the aggregate, Hilltop recorded a $6.0 million net gain in other noninterest income within the consolidated statement of operations during 2014. At December 31, 2014, Hilltop's investment in SWS common stock is included in other assets within the consolidated balance sheet and is recorded at fair value.

PlainsCapital also owns 100% of the outstanding common securities of PCC Statutory Trusts I, II, III and IV (the "Trusts"), which are not included in the consolidated financial statements under the requirements of the Variable Interest Entities Subsections of the ASC, because the primary beneficiaries of the Trusts are not within the consolidated group.

Acquisition Accounting

Acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell (reverse repurchase agreements or reverse repos) are treated as collateralized financings and are carried at the amounts at which the securities will subsequently be resold as specified in the agreements. PlainsCapital is in possession of collateral with a fair value equal to or in excess of the contract amounts.

Securities

Management classifies securities at the time of purchase and reassesses such designation at each balance sheet date. Transfers between categories from these reassessments are rare. Securities held for resale to facilitate principal transactions with customers, as well as certain securities acquired in the PlainsCapital Merger, are classified as trading, and are carried at fair value, with changes in fair value reflected in the consolidated statements of operations. Hilltop reports interest income on trading securities as interest income on securities and other changes in fair value as other noninterest income.

Securities held but not intended to be held to maturity or on a long-term basis are classified as available for sale. Securities included in this category are those that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes. Securities available for sale are carried at fair value. Unrealized holding gains and losses on securities available for sale, net of taxes, are reported in other comprehensive income (loss) until realized. Premiums and discounts are recognized in interest income using the effective interest method and consider any optionality that may be embedded in the security.

Purchases and sales (and related gain or loss) of securities are recorded on the trade date, based on specific identification. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the other-than-temporary impairment ("OTTI") is related to credit losses. The amount of the OTTI related to other factors is recognized in other comprehensive income (loss). In estimating OTTI, management considers in developing its best estimate of cash flows, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the historic and implied volatility of the security, (iv) failure of the issuer to make scheduled interest payments and (v) changes to the rating of the security by a rating agency.

Loans Held for Sale

Loans held for sale consist primarily of single-family residential mortgages funded through PrimeLending. These loans are generally on the consolidated balance sheet for no more than 30 days. Substantially all mortgage loans originated by PrimeLending are sold in the secondary market, the majority with servicing released. Mortgage loans held for sale are carried at fair value under the provisions of the Fair Value Option. Changes in the fair value of the loans held for sale are recognized in earnings and fees and costs associated with origination are recognized as incurred. The specific identification method is used to determine realized gains and losses on sales of loans, which are reported as net gains (losses) in noninterest income. Loans sold are subject to certain indemnification provisions with investors, including the repurchase of loans sold and repayment of certain sales proceeds to investors under certain conditions. In addition, certain mortgage loans guaranteed by U.S. Government agencies and sold into Government National Mortgage Association ("GNMA") pools may, under certain conditions specified in the government programs, become subject to repurchase by PrimeLending. Such loans subject to repurchase no longer qualify for sale accounting and are reported as loans held for sale in the consolidated balance sheets.

Loans

Originated Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal reduced by unearned income, net unamortized deferred fees and an allowance for loan losses. Unearned income on installment loans and interest on other loans is recognized using the effective interest method. Net fees received for providing loan commitments and letters of credit that result in loans are deferred and amortized to interest income over the life of the related loan, beginning with the initial borrowing. Net fees on commitments and letters of credit that are not expected to be funded are amortized to noninterest income over the commitment period. Income on direct financing leases is recognized on a basis that achieves a constant periodic rate of return on the outstanding investment.

Impaired loans include non-accrual loans, troubled debt restructurings and partially charged-off loans. The accrual of interest on impaired loans is discontinued when, in management's opinion, there is a clear indication that the borrower's cash flow may not be sufficient to meet principal and interest payments as they become due according to the terms of the loan agreement, which is generally when a loan is 90 days past due unless the loan is both well secured and in the process of collection. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against income. If the ultimate collectability of principal, wholly or partially, is in doubt, any payment received on a loan on which the accrual of interest has been suspended is applied to reduce principal to the extent necessary to eliminate such doubt. Once the collection of the remaining recorded loan balance is fully expected, interest income is recognized on a cash basis.

The Bank originates loans to customers primarily in Texas. Although the Bank has diversified loan and leasing portfolios and, generally, holds collateral against amounts advanced to customers, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the region and of the industries in which its debtors operate, which consist primarily of energy, agribusiness, wholesale/retail trade, construction and real estate. PrimeLending originates loans to customers in its offices, which are located throughout the United States. Substantially all mortgage loans originated by PrimeLending are sold in the secondary market, the majority with servicing released, although PrimeLending does retain servicing in certain circumstances. FSC makes loans to customers through margin transactions. FSC controls risk by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines, which may vary based upon market conditions. Securities owned by customers and held as collateral for margin loans are not included in the consolidated financial statements.

Acquired Loans

Management has defined the loans acquired in a business combination as acquired loans. Acquired loans are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those without credit impairment at acquisition. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased credit impaired ("PCI") loans acquired in the PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in the FNB Transaction are accounted for both in pools and on an individual loan basis. The Company has established under its PCI accounting policy a framework to aggregate certain acquired loans into various loan pools based on a minimum of two layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing. The common risk characteristics used for the pooling of the FNB PCI loans are risk grade and loan collateral type.

PCI loans showed evidence of credit deterioration that makes it probable that all contractually required principal and interest payments will not be collected. Their fair value was initially based on an estimate of cash flows, both principal and interest, expected to be collected, discounted at prevailing market rates of interest. Management estimated cash flows using key assumptions such as default rates, loss severity rates assuming default, prepayment speeds and estimated collateral values. The excess of cash flows expected to be collected from a loan or pool over its estimated fair value at acquisition is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loan or pool. Subsequent to acquisition, management must update these estimates of cash flows expected to be collected at each reporting date. These updates require the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value.

The Bank accretes the discount for PCI loans for which it can predict the timing and amount of cash flows. PCI loans for which a discount is accreted are considered performing.

Allowance for Loan Losses

Originated Loans

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses includes allowance allocations calculated in accordance with the Receivables and Contingencies Topics of the ASC. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank's control, including the performance of the Bank's loan portfolio, the economy and changes in interest rates.

The Bank's allowance for loan losses consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans; (ii) general historical valuation allowances calculated based on historical loan loss experience for homogenous loans with similar collateral; and (iii) valuation allowances to adjust general reserves based on recent economic conditions and other qualitative risk factors both internal and external to the Bank.

Acquired Loans

Purchased loans acquired in a business combination are recorded at their estimated fair value on their purchase date with no carryover of the related allowance for loan losses. Loans without evidence of credit impairment at acquisition are subsequently evaluated for any required allowance at each reporting date. An allowance for loan losses is calculated using a methodology similar to that described above for originated loans. The allowance as determined for each loan collateral type is compared to the remaining fair value discount for that loan collateral type. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan and once the discount is depleted, losses are applied against the allowance established for that loan.

For PCI loans, cash flows expected to be collected are recast at each reporting date for each loan or pool. These evaluations require the continued use and updating of key assumptions and estimates such as default rates, loss severity given default and prepayment speed assumptions, similar to those used for the initial fair value estimate. Management judgment must be applied in developing these assumptions. If expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield which will be taken into income over the remaining life of the loan or pool.

Assets Segregated for Regulatory Purposes

Under certain conditions, FSC may be required to segregate cash and securities in a special reserve account for the benefit of customers under Rule 15c3-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Assets segregated under the provisions of the Exchange Act are not available for general corporate purposes. FSC was required to segregate $76.0 million in cash and securities at December 31, 2014, which is included in other assets within the consolidated balance sheet. At December 31, 2013, FSC was not required to segregate cash and securities.

FSC was not required to segregate cash or securities in a special reserve account for the benefit of proprietary accounts of introducing broker-dealers at December 31, 2014 and 2013.

Broker-Dealer and Clearing Organization Transactions

Amounts recorded in broker-dealer and clearing organization receivables and payables include securities lending activities, as well as amounts related to securities transactions for either FSC customers or for the account of FSC. Securities-borrowed and securities-loaned transactions are generally reported as collateralized financings except where letters of credit or other securities are used as collateral. Securities-borrowed transactions require FSC to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, FSC receives collateral in the form of cash or other assets in an amount generally in excess of the market value of securities loaned. FSC monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Interest income and interest expense associated with collateralized financings is included in the accompanying consolidated statements of operations.

Insurance Premiums Receivable

Insurance premiums receivable include premiums written and not yet collected. NLC routinely evaluates the receivable balance to determine if an allowance for uncollectible amounts is necessary. At December 31, 2014 and 2013, NLC determined that no valuation allowance was necessary.

Deferred Policy Acquisition Costs

Costs of acquiring insurance vary with and are primarily related to the successful acquisition of new and renewal business, primarily consisting of commissions, premium taxes and underwriting expenses, and are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. Proceeds from reinsurance transactions that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. Future investment income is considered in determining the recoverability of deferred policy acquisition costs. NLC regularly reviews the categories of acquisition costs that are deferred and assesses the recoverability of this asset. A premium deficiency and a corresponding charge to income is recognized if the sum of the expected loss and loss adjustment expenses, unamortized policy acquisition costs, and maintenance costs exceed related unearned insurance premiums and anticipated investment income. At December 31, 2014 and 2013, there was no premium deficiency.

Reinsurance

In the normal course of business, NLC seeks to reduce the loss that may arise from catastrophes or other events that could cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. NLC routinely evaluates the receivable balance to determine if any uncollectible balances exist.

Net insurance premiums earned, losses and loss adjustment expenses ("LAE") and policy acquisition and other underwriting expenses are reported net of the amounts related to reinsurance ceded to other companies. Amounts recoverable from reinsurers related to the portions of the liability for losses and LAE and unearned insurance premiums ceded to them are included in other assets within the consolidated balance sheets. Reinsurance assumed from other companies, including assumed premiums written and earned and losses and LAE, is accounted for in the same manner as direct insurance written.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed principally on the straight-line method over the estimated useful lives of the assets, which range between 3 and 40 years. Gains or losses on disposals of premises and equipment are included in results of operations.

FDIC Indemnification Asset

The Company has elected to account for the FDIC Indemnification Asset in accordance with FASB ASC 805. The FDIC Indemnification Asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into noninterest income within the consolidated statements of operations over the life of the FDIC Indemnification Asset. The FDIC Indemnification Asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered OREO. Any increases in cash flow of the covered assets over those expected will reduce the FDIC Indemnification Asset, and any decreases in cash flow of the covered assets under those expected will increase the FDIC Indemnification Asset. Any amortization of changes in value is limited to the contractual term of the loss-share agreements. Increases and decreases to the FDIC Indemnification Asset are recorded as adjustments to noninterest income within the consolidated statements of operations over the life of the loss-share agreements.

Covered Other Real Estate Owned

Acquired OREO subject to FDIC loss-share agreements is referred to as “covered OREO” and reported separately in the consolidated balance sheets. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral’s fair value, less selling costs. Covered OREO was initially recorded at its estimated fair value based on similar market comparable valuations, less estimated selling costs. Subsequently, loan collateral transferred to OREO is recorded at its net realizable value. Any subsequent valuation adjustments due to declines in fair value of the covered OREO will be charged to noninterest expense, and will be partially offset by noninterest income representing the corresponding increase to the FDIC Indemnification Asset for loss reimbursements. Any recoveries of previous valuation decreases will be credited to noninterest expense with a corresponding charge to noninterest income for the portion of the recovery that is due to the FDIC.

Other Real Estate Owned

Real estate acquired through foreclosure is included in other assets within the consolidated balance sheets and is carried at management’s estimate of fair value less costs to sell. Any excess of recorded investment over fair value less cost to sell is charged against the allowance for loan losses when property is initially transferred to OREO. Subsequent to the initial transfer to OREO, valuation adjustments are charged against earnings. Valuation adjustments, revenue and expenses from operations of the properties and resulting gains or losses on sale are included in other noninterest expense within the consolidated statements of operations.

Debt Issuance Costs

The Company capitalizes debt issuance costs associated with financing of debt. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the repayment term of the loans. Debt issuance costs of $2.3 million and $0.2 million in 2013 and 2012 were amortized and included in interest expense within the consolidated statements of operations. In November 2013, the total remaining unamortized balance of $2.1 million was expensed as a result of the redemption of all outstanding 7.5% Senior Exchangeable Notes due 2025 (“the Notes”), as further described in Note 13 to the consolidated financial statements.

Goodwill

Goodwill, which represents the excess of cost over the fair value of the net assets acquired, is allocated to reporting units and tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount should be assessed. The Company performs required annual impairment tests of its goodwill and other intangible assets as of October 1st for each of its reporting units. Prior to testing goodwill for impairment, the Company has the option to assess on a qualitative basis whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If determined, based on its assessment of qualitative factors that it is more likely than not that fair value of a reporting unit is less than its carrying amount, the Company will proceed to test goodwill for impairment as a part of a two-step process. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Company's intangible assets primarily relate to core deposits, trade names, customer and agent relationships and noncompete agreements. Intangible assets with definite useful lives are generally amortized on the straight-line method over their estimated lives, although certain intangibles, including core deposits and customer and agent relationships, are amortized on an accelerated basis. Amortization of intangible assets is recorded in other noninterest expense within the consolidated statements of operations. Intangible assets with indefinite useful lives are tested for impairment annually, or more often if events or circumstances indicate there may be impairment, and not amortized until their lives are determined to be definite. Intangible assets with definite useful lives, premises and equipment, and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Mortgage Servicing Rights

The Company determines its classes of residential mortgage servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its servicing assets at fair value and reports changes in fair value through earnings. Fair value adjustments that encompass market-driven valuation changes and the runoff in value that occurs from the passage of time are each separately reported.

Retained mortgage servicing rights ("MSR") are measured at fair value as of the date of sale of the related mortgage loan. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income.

The model assumptions and the MSR fair value estimates are compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the MSR. The value of the MSR is also dependent upon the discount rate used in the model, which is based on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of the MSR.

Derivative Financial Instruments

The Company's hedging policies permit the use of various derivative financial instruments, including forward commitments, and interest rate swaps and swaptions, to manage interest rate risk or to hedge specified assets and liabilities. The Company's derivative financial instruments also include interest rate lock commitments ("IRLCs") executed with its customers that allow those customers to obtain a mortgage loan on a future date at an agreed-upon interest rate. The IRLCs, forward commitments, and interest rate swaps and swaptions meet the definition of a derivative under the provisions of the Derivatives and Hedging Topic of the ASC.

Derivatives are recorded at fair value in the consolidated balance sheets. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. If derivative instruments are designated as hedges of fair values, the change in the fair value of both the derivative instrument and the hedged item are included in current earnings. Changes in the fair value of derivatives designated as hedges of cash flows are recorded in other comprehensive income (loss). Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the line item where the hedged item's effect on earnings is recorded.

Reserve for Losses and Loss Adjustment Expenses

The liability for losses and LAE includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently. The liability for losses and loss adjustment expenses has not been reduced for reinsurance recoverable.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Stock-Based Compensation

Stock-based compensation expense for all share-based awards granted is based on the grant date fair value estimated in accordance with the provisions of the Stock Compensation Topic of the ASC. The Company recognizes these compensation costs for only those awards expected to vest over the service period of the award.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $4.6 million, $5.3 million and $0.4 million during 2014, 2013 and 2012, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recorded for the estimated future tax effects of the temporary difference between the tax basis and book basis of assets and liabilities reported in the accompanying consolidated balance sheets. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities. Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively.

Benefits from uncertain tax positions are recognized in the consolidated financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority having full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the reporting period in which that threshold is no longer met. The Company did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. At December 31, 2014, the net unrecognized tax benefit was $0.4 million. If the Company were to prevail on all uncertain tax positions, the effect would be a benefit to the Company's effective tax rate. Due to uncertainties in any tax audit outcome, estimates of the ultimate settlement of unrecognized tax positions may change and the actual tax benefits may differ significantly from the estimate.

Deferred tax assets, including net operating loss and tax credit carry forwards, are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that any portion of these tax attributes will not be realized. Periodic reviews of the carrying amount of deferred tax assets are made when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Based on that evaluation, management determined at December 31, 2014 that it was appropriate to establish a valuation allowance on the portion of the deferred tax asset associated with its capital losses from investments that could not be carried back to prior tax years. The Company has no valuation allowance on the remainder of its deferred tax assets at December 31, 2014 or 2013.

Cash Flow Reporting

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as the amount included in the consolidated balance sheets caption "Cash and due from banks" and the portion of the amount in the caption "Federal funds sold and securities purchased under agreements to resell" that represents federal funds sold. Cash equivalents have original maturities of three months or less.

Basic and Diluted Net Income (Loss) Per Share

Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share pursuant to the two-class method prescribed by the Earnings Per Share Topic of the ASC. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. During 2013, as discussed in Note 20 to the consolidated financial statements, Hilltop issued Restricted Stock Awards which qualify as participating securities.

Net earnings, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. Basic earnings per common share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. During 2014, stock options and RSUs are the only potentially dilutive non-participating instruments issued by Hilltop, while potentially dilutive non-participating instruments during 2013 included stock options, RSUs and the Notes, which were called for redemption during the fourth quarter of 2013. Next, the Company determines and includes in the diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

2. Acquisitions

FNB Transaction

On the Bank Closing Date, the Bank assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of FNB from the FDIC in an FDIC-assisted transaction. As part of the P&A Agreement, the Bank and the FDIC entered into loss-share agreements covering future losses incurred on certain acquired loans and OREO. The Company refers to acquired commercial and single family residential loan portfolios and OREO that are subject to the loss-share agreements as “covered loans” and “covered OREO”, respectively, and these assets are presented as separate line items in the Company’s consolidated balance sheets. Collectively, covered loans and covered OREO are referred to as “covered assets”. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The Bank has also agreed to reimburse the FDIC for any subsequent recoveries. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, from the Bank Closing Date, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. The asset arising from the loss-share agreements, referred to as the “FDIC Indemnification Asset,” is measured separately from the covered loan portfolio because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

In accordance with the loss-share agreements, the Bank may be required to make a “true-up” payment to the FDIC approximately ten years following the Bank Closing Date if the FDIC’s initial estimate of losses on covered assets is greater than the actual realized losses. The “true-up” payment is calculated using a defined formula set forth in the P&A Agreement.

The operations of FNB are included in the Company’s operating results beginning September 14, 2013. For the period from September 14, 2013 through December 31, 2013, FNB’s operations included net interest income of $32.0 million, other revenues of $20.4 million and net income of $18.5 million. Such operating results included a bargain purchase gain of $12.6 million, before taxes of $4.5 million, and are not necessarily indicative of future operating results. FNB’s results of operations prior to the Bank Closing Date are not included in the Company’s consolidated operating results.

During 2013, transaction-related expenses of $0.1 million associated with the FNB Transaction are included in noninterest expense within the consolidated statement of operations. Such expenses were for professional services and other incremental costs associated with the integration of FNB’s operations.

The FNB Transaction was accounted for using the acquisition method of accounting and, accordingly, purchased assets, including identifiable intangible assets and assumed liabilities, were recorded at their respective fair values as of the Bank Closing Date using significant estimates and assumptions to value certain identifiable assets acquired and liabilities assumed. The amounts are subject to adjustments based upon final settlement with the FDIC. The terms of the P&A Agreement provide for the FDIC to indemnify the Bank against claims with respect to liabilities and assets of FNB or any of its affiliates not assumed or otherwise purchased by the Bank and with respect to certain other claims by third parties.

A summary of the net assets received from the FDIC in the FNB Transaction and the estimated fair value adjustments resulting in the bargain purchase gain are presented below (in thousands).

Cost basis net assets on September 13, 2013	$ 215,000
Cash payment received from the FDIC	45,000
Fair value adjustments:	
Securities	(3,341)
Loans	(343,068)
Premises and equipment	3,565
Other real estate owned	(79,273)
FDIC indemnification asset	185,680
Other intangible assets	4,270
Deposits	(8,282)
Other	(6,966)
Bargain purchase gain	$ 12,585

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer or the acquirer may be required to make a payment to the FDIC. In the FNB Transaction, cost basis net assets of $215.0 million and an initial cash payment received from the FDIC of $45.0 million were transferred to the Bank. This initial cash payment from the FDIC is subject to adjustment and settlement. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

The FDIC bid form provided a list of properties (branches and support facilities) owned by FNB for sale at fixed prices. The Bank purchased 44 properties owned by FNB in connection with its bid for an aggregate purchase price of $59.5 million. For those properties owned by FNB that the Bank declined to purchase in its bid, the Bank had exclusive options to purchase those properties following the Bank Closing Date. In connection with those options, the Bank purchased an additional seven properties owned by FNB during 2013, for an aggregate purchase price of $4.9 million. The Bank also had an option to assume the leases of properties leased by FNB. The Bank was required to purchase all data management equipment and, other certain special assets, furniture, fixtures and equipment, in each case at an appraised value for any properties purchased or leased by the Bank. The Bank paid $10.3 million to the FDIC during 2013 for furniture, fixtures and data management equipment. The Bank was required to pay rent to the FDIC on properties owned or leased by FNB and furniture and equipment at such properties until it surrendered such properties to the FDIC.

The resulting fair values of the identifiable assets acquired, and liabilities assumed, of FNB at September 13, 2013 are summarized in the following table (in thousands).

Cash and due from banks	$ 362,695
Securities	286,214
Non-covered loans	42,884
Covered loans	1,116,583
Premises and equipment	78,399
FDIC indemnification asset	185,680
Covered other real estate owned	135,187
Other assets	26,300
Other intangible assets	4,270
Total identifiable assets acquired	2,238,212
Deposits	(2,211,740)
Other liabilities	(13,887)
Total liabilities assumed	(2,225,627)
Net identifiable assets acquired/bargain purchase gain	$ 12,585

The Bank acquired loans both with and without evidence of credit quality deterioration since origination. Based on purchase date valuations, the Bank's portfolio of acquired loans had a fair value of $1.2 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses. Acquired loans were segregated between those considered to be PCI loans and those without credit impairment at acquisition. The following table presents details on acquired loans at the Bank Closing Date (in thousands).

	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 47,874	$ 47,751	$ 95,625
Real estate	242,998	611,219	854,217
Construction and land development	26,669	158,247	184,916
Consumer	19,095	5,614	24,709
Total	$ 336,636	$ 822,831	$ 1,159,467

The following table presents information about the acquired PCI loans at the Bank Closing Date (in thousands).

Contractually required principal and interest payments	$ 1,533,667
Nonaccretable difference	542,241
Cash flows expected to be collected	991,426
Accretable difference	168,595
Fair value of loans acquired with a deterioration of credit quality	$ 822,831

The following table presents information about the acquired loans without credit impairment at the Bank Closing Date (in thousands).

Contractually required principal and interest payments	$ 466,754
Contractual cash flows not expected to be collected	43,783
Fair value at acquisition	336,636

PlainsCapital Merger

After the close of business on November 30, 2012, Hilltop acquired PlainsCapital Corporation in a stock and cash transaction. PlainsCapital Corporation merged with and into a wholly owned subsidiary of Hilltop, which continued as the surviving entity under the name "PlainsCapital Corporation". Based on Hilltop's closing stock price on November 30, 2012, the total purchase price was $813.5 million, consisting of 27.1 million shares of common stock, $311.8 million in cash and the issuance of 114,068 shares of Hilltop Non-Cumulative Perpetual Preferred Stock, Series B (the "Hilltop Series B Preferred Stock") in exchange on a one-for-one basis for the outstanding shares of PlainsCapital Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the United States Department of the Treasury (the "U.S. Treasury").

The PlainsCapital Merger was accounted for using the acquisition method of accounting, and accordingly, purchased assets, including identifiable intangible assets, and assumed liabilities were recorded at their respective acquisition date fair values. The components of the consideration paid are shown in the following table (in thousands).

Fair value of consideration paid:	
Common stock issued	$ 387,584
Preferred stock issued	114,068
Cash	311,805
Total consideration paid	$ 813,457

The resulting fair values of the identifiable assets acquired, and liabilities assumed, of PlainsCapital at December 1, 2012 are summarized in the following table (in thousands).

Cash and due from banks	$ 393,132
Federal funds sold and securities purchased agreements to resell	84,352
Securities	730,779
Loans held for sale	1,520,833
Loans, net	3,195,309
Broker-dealer and clearing organization receivables	149,457
Premises and equipment	96,886
Other intangible assets	70,650

Other assets	241,876
Total identifiable assets acquired	6,483,274
Deposits	4,463,069
Broker-dealer and clearing organization payables	263,894
Short-term borrowings	914,062
Notes payable	10,855
Junior subordinated debentures	67,012
Other liabilities	180,998
Total liabilities assumed	5,899,890
Net identifiable assets acquired	583,384
Goodwill resulting from the acquisition	230,073
Net assets acquired	$ 813,457

The amount of goodwill recorded in connection with the PlainsCapital Merger is not deductible for tax purposes. For further information regarding goodwill recorded in connection with the PlainsCapital Merger, refer to Note 9, Goodwill and Other Intangible Assets.

During 2012, transaction expenses of $6.6 million associated with the PlainsCapital Merger are included in noninterest expense within the consolidated statement of operations. Such expenses were for professional services and other incremental costs associated with the integration of PlainsCapital's operations.

In connection with the PlainsCapital Merger, Hilltop acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses. Acquired loans were segregated between those considered to be PCI loans and those without credit impairment at acquisition. The following table presents details on acquired loans at the acquisition date (in thousands).

	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,684,706	$ 74,911	$ 1,759,617
Real estate	1,077,295	63,866	1,141,161
Construction and land development	232,313	34,008	266,321
Consumer	28,131	79	28,210
Total	$ 3,022,445	$ 172,864	$ 3,195,309

The following table presents information about the PCI loans at acquisition (in thousands).

Contractually required principal and interest payments	$ 252,818
Nonaccretable difference	61,527
Cash flows expected to be collected	191,291
Accretable difference	18,427
Fair value of loans acquired with a deterioration of credit quality	$ 172,864

The following table presents information about the acquired loans without credit impairment at acquisition (in thousands).

Contractually required principal and interest payments	$ 3,498,554
Contractual cash flows not expected to be collected	92,526
Fair value at acquisition	3,022,445

Pro Forma Results of Operations

The operations acquired in the FNB Transaction are included in the Company's operating results beginning September 14, 2013. The purchase of assets and assumption of certain liabilities of FNB from the FDIC, as receiver, was sufficiently significant to require disclosure of historical financial statements and related pro forma financial disclosure. Due to the nature and magnitude of the FNB Transaction, coupled with the federal assistance and protection resulting from the FDIC loss-share agreements, historical financial information of FNB is not relevant to future operations. The Company has omitted certain historical financial information and the related pro forma financial information of FNB pursuant to the guidance provided in Staff Accounting Bulletin Topic 1.K, Financial

Statements of Acquired Troubled Financial Institutions ("SAB 1:K"), and a request for relief granted by the SEC. SAB 1:K provides relief from the requirements of Rule 3-05 of Regulation S-X in certain instances, such as the FNB Transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution for which audited financial statements are not reasonably available and in which federal assistance is so pervasive as to substantially reduce the relevance of such information to an assessment of future operations. Therefore, no additional historical pro forma information regarding FNB is provided below.

The results of operations acquired in the PlainsCapital Merger have been included in the Company's consolidated financial results since December 1, 2012. The following table discloses the impact of PlainsCapital on the Company's results of operations (excluding the impact of acquisition-related merger and restructuring charges discussed below) since the acquisition date through December 31, 2012 (in thousands). The table also presents pro forma results had the PlainsCapital Merger taken place on January 1, 2011 and includes the estimated impact of purchase accounting adjustments. The purchase accounting adjustments reflect the impact of recording the acquired loans at fair value, including the estimated accretion of the purchase discount on the loan portfolio. Accretion estimates were based on the acquisition date purchase discount on the loan portfolio, as it was not practicable to determine the amount of discount that would have been recorded based on economic conditions that existed on January 1, 2011. The pro forma results do not include any potential operating cost savings as a result of the PlainsCapital Merger. Further, certain costs associated with any restructuring or integration activities are also not reflected in the pro forma results. Pro forma results include any acquisition-related merger and restructuring charges incurred during the period. The pro forma results are not indicative of what would have occurred had the PlainsCapital Merger taken place on the indicated date.

	PlainsCapital Acquisition Date through December 31, 2012	Pro Forma Combined Twelve Months Ended December 31, 2012
Net interest income	$ 24,029	$ 221,635
Other revenues	70,085	901,347
Net income	8,361	75,138

3. Fair Value Measurements

Fair Value Measurements and Disclosures

The Company determines fair values in compliance with The Fair Value Measurements and Disclosures Topic of the ASC (the "Fair Value Topic"). The Fair Value Topic defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Fair Value Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Fair Value Topic assumes that transactions upon which fair value measurements are based occur in the principal market for the asset or liability being measured. Further, fair value measurements made under the Fair Value Topic exclude transaction costs and are not the result of forced transactions.

The Fair Value Topic creates a fair value hierarchy that classifies fair value measurements based upon the inputs used in valuing the assets or liabilities that are the subject of fair value measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs, as indicated below.

- *Level 1 Inputs*: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

- *Level 2 Inputs*: Observable inputs other than Level 1 prices. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, prepayment speeds, default rates, credit risks, loss severities, etc.), and inputs that are derived from or corroborated by market data, among others.

- *Level 3 Inputs*: Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. Level 3 inputs include pricing models and discounted cash flow techniques, among others.

Fair Value Option

The Company has elected to measure substantially all of PrimeLending's mortgage loans held for sale and retained MSR at fair value, under the provisions of the Fair Value Option. The Company elected to apply the provisions of the Fair Value Option to these items so that it would have the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. At December 31, 2014, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.27 billion, and the unpaid principal balance of those loans was $1.22 billion. At December 31, 2013, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.06 billion, and the unpaid principal balance of those loans was $1.04 billion. The interest component of fair value is reported as interest income on loans in the accompanying consolidated statements of operations.

On October 2, 2014, as discussed in Note 1 to the consolidated financial statements, Hilltop elected to measure its investment in SWS common stock under the provisions of the Fair Value Option. At December 31, 2014, the fair value of Hilltop's investment in SWS common stock was $70.3 million and is included in other assets within the consolidated balance sheet.

The Company holds a number of financial instruments that are measured at fair value on a recurring basis, either by the application of the Fair Value Option or other authoritative pronouncements. The fair values of those instruments are determined primarily using Level 2 inputs, as further described below.

Available For Sale Securities — Most securities available for sale are reported at fair value using Level 2 inputs. The Company obtains fair value measurements from independent pricing services. As the Company is responsible for the determination of fair value, control processes are designed to ensure that the fair values received from independent pricing services are reasonable and the valuation techniques and assumptions used appear reasonable and consistent with prevailing market conditions. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the financial instruments' terms and conditions, among other things. For public common and preferred equity stocks, the determination of fair value uses Level 1 inputs based on observable market transactions. Regarding the note receivable from SWS and the SWS Warrant prior to October 2, 2014, the determination of fair value used Level 3 inputs such as internal or external fund manager valuations based on unobservable inputs including recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals.

Trading Securities — Trading securities are reported at fair value using either Level 1 or Level 2 inputs in the same manner as discussed previously for securities available for sale.

Loans Held for Sale — Mortgage loans held for sale are reported at fair value, as discussed above, using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices. These instruments are held for relatively short periods, typically no more than 30 days. As a result, changes in instrument-specific credit risk are not a significant component of the change in fair value. Mortgage loans that are non-performing, including monitored loans, are reported at fair value using Level 3 inputs.

Derivatives — Derivatives are reported at fair value using either Level 2 or Level 3 inputs. PrimeLending and FSC use dealer quotes to value forward purchase commitments and forward sale commitments, respectively, executed for both hedging and non-hedging purposes. PrimeLending also issues IRLCs to its customers and FSC issues forward purchase commitments to its clients that are valued based on the change in the fair value of the underlying mortgage loan from inception of the IRLC or purchase commitment to the balance sheet date, adjusted for projected loan closing rates. PrimeLending determines the value of the underlying mortgage loan as discussed in "Loans Held for Sale", above. FSC determines the value of the underlying mortgage loan from prices of comparable securities used to value forward sale commitments. Additionally, PrimeLending uses dealer quotes to value interest rate swaps and swaptions executed to hedge its MSR asset and First Southwest entered into a derivative option agreement ("Fee Award Option") valued using discounted cash flow and probability of exercise. The Fee Award Option was exercised during the fourth quarter of 2014.

Mortgage servicing rights asset — The MSR asset is reported at fair value using Level 3 inputs. Fair value is determined by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the MSR asset is impacted by a variety of factors. Prepayment rates and discount rates, the most significant unobservable inputs, are discussed further in Note 10 to the consolidated financial statements.

Investment in SWS Common Stock — The investment in SWS common stock is reported at fair value using quoted market prices for SWS's common stock as traded on the NYSE, which is considered a Level 1 input.

The following tables present information regarding financial assets and liabilities measured at fair value on a recurring basis (in thousands).

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 39	$ 65,678	$ —	$ 65,717
Available for sale securities	13,762	911,773	—	925,535
Loans held for sale	—	1,263,135	9,017	1,272,152
Derivative assets	—	23,805	—	23,805
MSR asset	—	—	36,155	36,155
Investment in SWS common stock	70,282	—	—	70,282
Trading liabilities	—	48	—	48
Derivative liabilities	—	12,849	—	12,849

December 31, 2013	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 33	$ 58,813	$ —	$ 58,846
Available for sale securities	22,079	1,121,011	60,053	1,203,143
Loans held for sale	—	1,031,988	27,729	1,059,717
Derivative assets	—	23,564	—	23,564
MSR asset	—	—	20,149	20,149
Trading liabilities	—	46	—	46
Derivative liabilities	—	139	5,600	5,739

The following table includes a rollforward for those financial instruments measured at fair value using Level 3 inputs (in thousands).

	Balance at Beginning of Year	Purchases/ Additions	Sales/ Reductions	Transfers into Level 3	Total Gains or Losses (Realized or Unrealized)		Balance at End of Year
					Included in Net Income	Included in Other Comprehensive Income (Loss)	
Year ended December 31, 2014							
Available for sale securities	$ 60,053	$ —	$ (61,283)	$ —	$ 1,848	$ (618)	$ —
Loans held for sale	27,729	24,851	(44,597)	—	1,034	—	9,017
MSR asset	20,149	35,056	(11,387)	—	(7,663)	—	36,155
Derivative liabilities	(5,600)	(177)	6,827	—	(1,050)	—	—
Total	$ 102,331	$ 59,730	$ (110,440)	$ —	$ (5,831)	$ (618)	$ 45,172
Year ended December 31, 2013							
Available for sale securities	$ 56,277	$ —	$ —	$ —	$ 2,166	$ 1,610	$ 60,053
Loans held for sale	—	—	—	27,729	—	—	27,729
MSR asset	2,080	13,886	—	—	4,183	—	20,149
Derivative liabilities	(4,490)	—	—	—	(1,110)	—	(5,600)
Total	$ 53,867	$ 13,886	$ —	$ 27,729	$ 5,239	$ 1,610	$ 102,331
Year ended December 31, 2012							
Available for sale securities	$ 60,377	$ —	$ —	$ —	$ 1,867	$ (5,967)	$ 56,277
MSR asset	—	2,204	—	—	(124)	—	2,080
Derivative liabilities	—	(4,455)	—	—	(35)	—	(4,490)
Total	$ 60,377	$ (2,251)	$ —	$ —	$ 1,708	$ (5,967)	$ 53,867

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. The available for sale securities noted in the table above reflect Hilltop's note receivable from SWS and the SWS Warrant. On October 2, 2014, as discussed in Note 1 to the consolidated financial statements, Hilltop exercised the SWS Warrant in full and paid the aggregate exercise price by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under the credit agreement. Excluding these available for sale securities and derivative liabilities representing the Fee Award Option entered into by First Southwest, the unrealized gains (losses) relate to financial instruments still held at December 31, 2014.

For Level 3 financial instruments measured at fair value on a recurring basis at December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows.

Financial instrument	Valuation Technique	Unobservable Input	Weighted Average / Range
Loans held for sale	Discounted cash flow / Market comparable	Projected price	82 - 92%
Mortgage servicing rights asset	Discounted cash flow	Constant prepayment rate	12.17%
		Discount rate	11.01%

The fair value of certain loans held for sale that are either non-standard (i.e. loans that cannot be sold through normal sale channels) or non-performing is measured using unobservable inputs. The fair value of such loans is generally based upon estimates of expected cash flows using unobservable inputs including listing prices of comparable assets, uncorroborated expert opinions, and/or management's knowledge of underlying collateral.

The MSR asset, as discussed previously, is valued by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the MSR asset is impacted by a variety of factors. Prepayment rates and discount rates, the most significant unobservable inputs, are discussed further in Note 10 to the consolidated financial statements.

The Company had no transfers between Levels 1 and 2 during the periods presented.

The following table presents the changes in fair value for instruments that are reported at fair value under the Fair Value Option (in thousands).

	Year Ended December 31, 2014			Year Ended December 31, 2013			Year Ended December 31, 2012		
	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	$ 31,805	$ —	$ 31,805	$ (19,353)	$ —	$ (19,353)	$ (3,297)	$ —	$ (3,297)
Investment in SWS common stock	—	5,985	5,985	—	—	—	—	—	—
Mortgage servicing rights asset	(7,663)	—	(7,663)	4,183	—	4,183	(124)	—	(124)
Time deposits	—	—	—	—	12	12	—	7	7

The Company also determines the fair value of certain assets and liabilities on a non-recurring basis. In particular, the fair value of all of the assets and liabilities purchased in the PlainsCapital Merger was determined at the acquisition date, while fair value of all assets acquired and liabilities assumed in the FNB Transaction was determined at the Bank Closing Date. In addition, facts and circumstances may dictate a fair value measurement when there is evidence of impairment. Assets and liabilities measured on a non-recurring basis include the items discussed below.

Impaired Loans — The Company reports impaired loans based on the underlying fair value of the collateral through specific allowances within the allowance for loan losses. PCI loans with a fair value of $172.9 million and $822.8 million were acquired by the Company upon completion of the PlainsCapital Merger and the FNB Transaction, respectively. Substantially all PCI loans acquired in the FNB Transaction are covered by FDIC loss-share agreements. The fair value of PCI loans was determined using Level 3 inputs, including estimates of expected cash flows that incorporated significant unobservable inputs regarding default rates, loss severity rates assuming default, prepayment speeds and estimated collateral values. At December 31, 2014, these inputs included estimated weighted average default rates, loss severity rates and prepayment speed assumptions of 47%, 51% and 0%, respectively, for those PCI loans acquired in the PlainsCapital Merger and 63%, 38% and 4%, respectively, for those PCI loans acquired in the FNB Transaction. The resulting weighted average expected loss on PCI loans associated with each of the PlainsCapital Merger and the FNB Transaction was 24%.

The Company obtains updated appraisals of the fair value of collateral securing impaired collateral dependent loans at least annually, in accordance with regulatory guidelines. The Company also reviews the fair value of such collateral on a quarterly basis. If the quarterly review indicates that the fair value of the collateral may have deteriorated, the Company will order an updated appraisal of the fair value of the collateral. Since the Company obtains updated appraisals when evidence of a decline in the fair value of collateral exists, it typically does not adjust appraised values.

Other Real Estate Owned — The Company reports OREO at fair value less estimated cost to sell. Any excess of recorded investment over fair value, less cost to sell, is charged against either the allowance for loan losses or the related PCI pool discount when property is initially transferred to OREO. Subsequent to the initial transfer to OREO, downward valuation adjustments are charged against earnings. The Company determines fair value primarily using independent appraisals of OREO properties. The resulting fair value measurements are classified as Level 2 or Level 3 inputs, depending upon the extent to which unobservable inputs determine the fair value measurement. The Company considers a number of factors in determining the extent to which specific fair value measurements utilize unobservable inputs, including, but not limited to, the inherent subjectivity in appraisals, the length of time elapsed since the receipt of independent market price or appraised value, and current market conditions. At December 31, 2014, the most significant unobservable input used in the determination of fair value of OREO was a discount to independent appraisals for estimated holding periods of OREO properties. Such discount was 1% per month for estimated holding periods of 6 to 24 months. Level 3 inputs were used to determine the fair value of a large group of smaller balance properties that were acquired in the FNB Transaction. In the FNB Transaction, the Bank acquired OREO of $135.2 million, all of which is covered by FDIC loss-share agreements. At December 31, 2014 and 2013, the estimated fair value of covered OREO was $136.9 million and $142.8 million, respectively, and the underlying fair value measurements utilize Level 2 and Level 3 inputs. The fair value of non-covered OREO at December 31, 2014 and 2013 was $0.8 million and $4.8 million, respectively, and is included in other assets within the consolidated balance sheets. During the reported periods, all fair value measurements for non-covered OREO utilized Level 2 inputs.

The following table presents information regarding certain assets and liabilities measured at fair value on a non-recurring basis for which a change in fair value has been recorded during reporting periods subsequent to initial recognition (in thousands).

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Gains (Losses) for the Year Ended December 31, 2014	2013
Non-covered impaired loans........	$ —	$ —	$ 26,823	$ 26,823	$ (2,182)	$ (3,558)
Covered impaired loans	—	—	55,213	55,213	(3,652)	—
Non-covered other real estate owned......................................	—	409	—	409	(372)	430
Covered other real estate owned......................................	—	47,198	15,855	63,052	(19,672)	—

The Fair Value of Financial Instruments Subsection of the ASC requires disclosure of the fair value of financial assets and liabilities, including the financial assets and liabilities previously discussed. The methods for determining estimated fair value for financial assets and liabilities measured at fair value on a recurring or non-recurring basis are discussed above. For other financial assets and liabilities, the Company utilizes quoted market prices, if available, to estimate the fair value of financial instruments. Because no quoted market prices exist for a significant portion of the Company's financial instruments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the estimates provided herein do not necessarily indicate amounts which could be realized in a current transaction. Further, as it is management's intent to hold a significant portion of its financial instruments to maturity, it is not probable that the fair values shown below will be realized in a current transaction.

Because of the wide range of permissible valuation techniques and the numerous estimates which must be made, it may be difficult to make reasonable comparisons of the Company's fair value information to that of other financial institutions. The aggregate estimated fair value amount should in no way be construed as representative of the underlying value of Hilltop and its subsidiaries. The following methods and assumptions are typically used in estimating the fair value disclosures for financial instruments:

Cash and Cash Equivalents — For cash and due from banks and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Held to Maturity Securities — For securities held to maturity, estimated fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale — Loans held for sale consist primarily of certain mortgage loans held for sale that are subject to purchase by related parties. Such loans are reported at fair value, as discussed above, using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices.

Loans — The fair value of non-covered and covered loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Broker-Dealer and Clearing Organization Receivables — The carrying amount approximates their fair value.

FDIC Indemnification Asset — The fair value of the FDIC Indemnification Asset is based on Level 3 inputs, including the discounted value of expected future cash flows under the loss-share agreements. The discount rate contemplates the credit worthiness of the FDIC as counterparty to this asset, and considers an incremental discount rate risk premium reflective of the inherent uncertainty associated with the timing of the cash flows.

Deposits — The estimated fair value of demand deposits, savings accounts and NOW accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The carrying amount for variable-rate certificates of deposit approximates their fair values.

Broker-Dealer and Clearing Organization Payables — The carrying amount approximates their fair value.

Short-Term Borrowings — The carrying amounts of federal funds purchased, borrowings under repurchase agreements, Federal Home Loan Bank ("FHLB") and other short-term borrowings approximate their fair values.

Debt — The fair values are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar types of borrowing arrangements.

The following tables present the carrying values and estimated fair values of financial instruments not measured at fair value on either a recurring or non-recurring basis (in thousands).

		Estimated Fair Value			
December 31, 2014	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 813,075	$ 813,075	$ —	$ —	$ 813,075
Held to maturity securities	118,209	—	118,345	—	118,345
Loans held for sale	37,541	—	37,541	—	37,541
Non-covered loans, net	3,883,435	—	378,425	3,528,769	3,907,194
Covered loans, net	638,029	—	—	767,751	767,751
Broker-dealer and clearing organization receivables	167,884	—	167,884	—	167,884
FDIC indemnification asset	130,437	—	—	130,437	130,437
Other assets	59,432	—	43,937	15,495	59,432
Financial liabilities:					
Deposits	6,369,892	—	6,365,555	—	6,365,555
Broker-dealer and clearing organization payables	179,042	—	179,042	—	179,042
Short-term borrowings	762,696	—	762,696	—	762,696
Debt	123,696	—	117,028	—	117,028
Other liabilities	2,144	—	2,144	—	2,144

		Estimated Fair Value			
December 31, 2013	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 746,023	$ 746,023	$ —	$ —	$ 746,023
Loans held for sale	29,322	—	29,322	—	29,322
Non-covered loans, net	3,481,405	—	281,712	3,119,319	3,401,031
Covered loans, net	1,005,308	—	—	997,371	997,371
Broker-dealer and clearing organization receivables	119,317	—	119,317	—	119,317
FDIC indemnification asset	188,291	—	—	188,291	188,291
Other assets	66,055	—	43,946	22,109	66,055
Financial liabilities:					
Deposits	6,722,918	—	6,722,909	—	6,722,909
Broker-dealer and clearing organization payables	129,678	—	129,678	—	129,678

December 31, 2013	Carrying Amount	Estimated Fair Value Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Short-term borrowings	342,087	—	342,087	—	342,087
Debt	123,339	—	114,671	—	114,671
Other liabilities	3,362	—	3,362	—	3,362

The deferred income amounts arising from unrecognized financial instruments are not significant. These financial instruments also have contractual interest rates at or above current market rates. Therefore, no fair value disclosure is provided for these items.

4. Securities

The amortized cost and fair value of available for sale and held to maturity securities are summarized as follows (in thousands). No securities were classified as held to maturity at December 31, 2013.

December 31, 2014	Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 19,382	$ 264	$ (33)	$ 19,613
U.S. government agencies:				
Bonds	522,008	1,749	(7,516)	516,241
Residential mortgage-backed securities	51,363	1,672	(137)	52,898
Collateralized mortgage obligations	89,291	133	(2,300)	87,124
Corporate debt securities	93,406	5,125	(59)	98,472
States and political subdivisions	135,419	2,083	(717)	136,785
Commercial mortgage-backed securities	593	47	—	640
Equity securities	13,293	469	—	13,762
Totals	$ 924,755	$ 11,542	$ (10,762)	$ 925,535

December 31, 2013	Available for Sale Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$ 43,684	$ 82	$ (238)	$ 43,528
U.S. government agencies:				
Bonds	717,909	550	(55,727)	662,732
Residential mortgage-backed securities	59,936	735	(584)	60,087
Collateralized mortgage obligations	124,502	349	(4,390)	120,461
Corporate debt securities	72,376	4,610	(378)	76,608
States and political subdivisions	162,955	388	(6,508)	156,835
Commercial mortgage-backed securities	691	69	—	760
Equity securities	20,067	2,012	—	22,079
Note receivable	42,674	5,235	—	47,909
Warrant	12,068	76	—	12,144
Totals	$ 1,256,862	$ 14,106	$ (67,825)	$ 1,203,143

December 31, 2014	Held to Maturity Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$ 25,008	$ —	$ (6)	$ 25,002
U.S. government agencies:				
Residential mortgage-backed securities	29,782	528	—	30,310
Collateralized mortgage obligations	57,328	—	(430)	56,898
States and political subdivisions	6,091	47	(3)	6,135
Totals	$ 118,209	$ 575	$ (439)	$ 118,345

At December 31, 2013, available for sale securities included 1,475,387 shares of SWS common stock, a $50.0 million aggregate principal amount note issued by SWS and a warrant to purchase 8,695,652 shares of SWS common stock (the "SWS Warrant"). SWS issued the note in July 2011 under a credit agreement pursuant to a senior unsecured loan from Hilltop. The note bore interest at a rate of 8.0% per annum, was prepayable by SWS subject to certain conditions after three years, and had a maturity of five years. The SWS Warrant provided for the purchase of 8,695,652 shares of SWS common stock at an exercise price of $5.75 per share, subject to anti-dilution adjustments. On October 2, 2014, Hilltop exercised the SWS Warrant in full and paid the aggregate exercise price by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under the credit agreement. Consequently, Hilltop owned 10,171,039 shares of SWS common stock, representing approximately 21% of the outstanding shares of SWS common stock as of October 4, 2014, and is no longer a lender under the credit agreement. As discussed in Note 1 to the consolidated financial statements, Hilltop's investment in SWS common stock is accounted for under the provisions of the Fair Value Option effective October 2, 2014. Hilltop's election to apply the provisions of the Fair Value Option resulted in Hilltop recording those unrealized gains previously associated with its investment in SWS common stock of $7.2 million. At December 31, 2014, Hilltop's investment in SWS common stock is included in other assets within the consolidated balance sheet and is recorded at a fair value of $70.3 million.

Information regarding available for sale securities that were in an unrealized loss position is shown in the following table (dollars in thousands).

	December 31, 2014			December 31, 2013		
Available for Sale	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
U.S. treasury securities:						
Unrealized loss for less than twelve months	4	$ 7,703	$ 27	6	$ 12,748	$ 238
Unrealized loss for twelve months or longer	1	1,706	6	—	—	—
	5	9,409	33	6	12,748	238
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	3	34,847	153	35	526,817	45,274
Unrealized loss for twelve months or longer	22	373,035	7,363	5	90,931	10,453
	25	407,882	7,516	40	617,748	55,727
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	—	—	—	2	2,194	54
Unrealized loss for twelve months or longer	4	11,056	137	3	9,309	530
	4	11,056	137	5	11,503	584
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	3	7,141	40	7	84,054	4,320
Unrealized loss for twelve months or longer	8	61,108	2,260	2	4,995	70
	11	68,249	2,300	9	89,049	4,390
Corporate debt securities:						
Unrealized loss for less than twelve months	—	—	—	7	10,754	378
Unrealized loss for twelve months or longer	1	1,939	59	—	—	—
	1	1,939	59	7	10,754	378
States and political subdivisions:						
Unrealized loss for less than twelve months	7	4,432	7	46	30,245	669
Unrealized loss for twelve months or longer	81	54,178	710	150	96,882	5,839
	88	58,610	717	196	127,127	6,508
Total available for sale:						
Unrealized loss for less than twelve months	17	54,123	227	103	666,812	50,933
Unrealized loss for twelve months or longer	117	503,022	10,535	160	202,117	16,892
	134	$ 557,145	$ 10,762	263	$ 868,929	$ 67,825

	December 31, 2014			December 31, 2013		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Held to Maturity						
U.S. treasury securities:						
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	1	$ 25,002	$ 6	—	$ —	$ —
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	1	25,002	6	—	—	—
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	2	56,898	430	—	—	—
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	2	56,898	430	—	—	—
States and political subdivisions:						
Unrealized loss for less than twelve months	4	1,899	3	—	—	—
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	4	1,899	3	—	—	—
Total held to maturity:						
Unrealized loss for less than twelve months	7	83,799	439	—	—	—
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	7	$ 83,799	$ 439	—	$ —	$ —

During 2014, 2013 and 2012, the Company did not record any other-than-temporary impairments. While all of the investments are monitored for potential other-than-temporary impairment, the Company's analysis and experience indicate that these available for sale investments generally do not present a significant risk of other-than-temporary-impairment, as fair value should recover over time. Factors considered in the Company's analysis include the reasons for the unrealized loss position, the severity and duration of the unrealized loss position, credit worthiness, and forecasted performance of the investee. While some of the securities held in the investment portfolio have decreased in value since the date of acquisition, the severity of loss and the duration of the loss position are not believed to be significant enough to warrant other-than-temporary impairment of the securities. The Company does not intend, nor is it likely that the Company will be required, to sell these securities before the recovery of the cost basis. Therefore, management does not believe any other-than-temporary impairments exist at December 31, 2014.

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and fair value of securities, excluding trading and available for sale equity securities, at December 31, 2014 are shown by contractual maturity below (in thousands).

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 24,639	$ 24,881	$ 25,008	$ 25,002
Due after one year through five years	69,196	72,671	—	—
Due after five years through ten years	64,048	67,345	1,195	1,194
Due after ten years	612,332	606,214	4,896	4,941
	770,215	771,111	31,099	31,137
Residential mortgage-backed securities	51,363	52,898	29,782	30,310
Collateralized mortgage obligations	89,291	87,124	57,328	56,898
Commercial mortgage-backed securities	593	640	—	—
	$ 911,462	$ 911,773	$ 118,209	$ 118,345

The Company realized a net gain of $2.1 million and net losses of $2.8 million and $0.7 million from its trading securities portfolio during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively, which are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of $895.5 million and $1.0 billion (with a fair value of $890.3 million and $938.1 million, respectively) at December 31, 2014 and 2013, were pledged to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

Mortgage-backed securities and collateralized mortgage obligations consist principally of GNMA, Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") pass-through and participation certificates. GNMA securities are guaranteed by the full faith and credit of the United States, while FNMA and FHLMC securities are fully guaranteed by those respective United States government-sponsored agencies, and conditionally guaranteed by the full faith and credit of the United States.

At December 31, 2014 and 2013, NLC had investments on deposit in custody for various state insurance departments with carrying values of $9.2 million and $9.4 million, respectively.

5. Non-Covered Loans and Allowance for Non-Covered Loan Losses

Non-covered loans refer to loans not covered by the FDIC loss-share agreements. Covered loans are discussed in Note 6 to the consolidated financial statements. Non-covered loans summarized by portfolio segment are as follows (in thousands).

	December 31, 2014	December 31, 2013
Commercial and industrial	$ 1,758,851	$ 1,637,266
Real estate	1,694,835	1,457,253
Construction and land development	413,643	364,551
Consumer	53,147	55,576
	3,920,476	3,514,646
Allowance for non-covered loan losses	(37,041)	(33,241)
Total non-covered loans, net of allowance	$ 3,883,435	$ 3,481,405

The Bank has lending policies in place with the goal of establishing an asset portfolio that will provide a return on stockholders' equity sufficient to maintain capital to assets ratios that meet or exceed established regulations. Loans are underwritten with careful consideration of the borrower's financial condition, the specific purpose of the loan, the primary sources of repayment and any collateral pledged to secure the loan.

Underwriting procedures address financial components based on the size or complexity of the credit. The financial components include, but are not limited to, current and projected cash flows, shock analysis and/or stress testing, and trends in appropriate balance sheet and statement of operations ratios. Collateral analysis includes a complete description of the collateral, as well as determining values, monitoring requirements, loan to value ratios, concentration risk, appraisal requirements and other information relevant to the collateral being pledged. Guarantor analysis includes liquidity and cash flow analysis based on the significance the guarantors are expected to serve as secondary repayment sources. The Bank's underwriting standards are governed by adherence to its loan policy. The loan policy provides for specific guidelines by portfolio segment, including commercial and industrial, real estate, construction and land development, and consumer loans. Within each individual portfolio segment, permissible and impermissible loan types are explicitly outlined. Within the loan types, minimum requirements for the underwriting factors listed above are provided.

The Bank maintains a loan review department that reviews credit risk in response to both external and internal factors that potentially impact the performance of either individual loans or the overall loan portfolio. The loan review process reviews the creditworthiness of borrowers and determines compliance with the loan policy. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel. Results of these reviews are presented to management and the Bank's board of directors.

In connection with the PlainsCapital Merger and the FNB Transaction, the Company acquired non-covered loans both with and without evidence of credit quality deterioration since origination. The following table presents the carrying values and the outstanding balances of the non-covered PCI loans (in thousands).

	December 31, 2014	December 31, 2013
Carrying amount	$ 48,909	$ 100,392
Outstanding balance	67,740	141,983

Changes in the accretable yield for the non-covered PCI loans were as follows (in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Balance, beginning of period	$ 17,601	$ 17,553	$ 18,427
Additions	—	622	—
Reclassifications from (to) nonaccretable difference, net (1)	15,225	18,793	—
Disposals of loans	(4,927)	(3,692)	(22)
Accretion	(15,085)	(15,675)	(852)
Balance, end of period	$ 12,814	$ 17,601	$ 17,553

(1) Reclassifications from nonaccretable difference are primarily due to net increases in expected cash flows in the quarterly recasts. Reclassifications to nonaccretable difference occur when accruing loans are moved to nonaccrual and expected cash flows are no longer predictable and the accretable yield is eliminated.

The remaining nonaccretable difference for non-covered PCI loans was $18.4 million and $38.6 million at December 31, 2014 and 2013, respectively.

Impaired loans exhibit a clear indication that the borrower's cash flow may not be sufficient to meet principal and interest payments, which is generally when a loan is 90 days past due unless the asset is both well secured and in the process of collection. Non-covered impaired loans include non-accrual loans, troubled debt restructurings ("TDRs"), PCI loans and partially charged-off loans.

Non-covered impaired loans include non-accrual loans, TDRs, PCI loans and partially charged-off loans. The amounts shown in following tables include loans accounted for on an individual basis, as well as acquired loans accounted for in pools ("Pooled Loans"). For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level. Non-covered impaired loans are summarized by class in the following tables (in thousands).

December 31, 2014	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 51,036	$ 14,096	$ 11,783	$ 25,879	$ 3,341
Unsecured	4,120	92	68	160	—
Real estate:					
Secured by commercial properties	29,865	7,243	15,536	22,779	1,878
Secured by residential properties	4,701	1,583	1,390	2,973	85
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	16,108	8,062	1,819	9,881	154
Consumer	5,785	171	1,967	2,138	282
	$ 111,615	$ 31,247	$ 32,563	$ 63,810	$ 5,740

December 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 63,636	$ 21,540	$ 17,147	$ 38,687	$ 3,126
Unsecured	11,865	336	1,204	1,540	15
Real estate:					
Secured by commercial properties	49,437	20,317	16,070	36,387	339
Secured by residential properties	5,407	1,745	1,648	3,393	39
Construction and land development:					
Residential construction loans	33	—	—	—	—
Commercial construction loans and land development	48,628	15,337	4,592	19,929	39
Consumer	7,946	4,509	—	4,509	—
	$ 186,952	$ 63,784	$ 40,661	$ 104,445	$ 3,558

Average investment in non-covered impaired loans is summarized by class in the following table (in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013
Commercial and industrial:		
Secured	$ 30,626	$ 51,670
Unsecured	802	2,432
Real estate:		
Secured by commercial properties	29,517	45,887
Secured by residential properties	2,984	4,862
Construction and land development:		
Residential construction loans	—	354
Commercial construction loans and land development	14,849	26,090
Consumer	3,324	2,293
	$ 82,102	$ 133,588

Non-covered non-accrual loans, excluding those classified as held for sale, are summarized by class in the following table (in thousands).

	December 31, 2014	December 31, 2013
Commercial and industrial:		
Secured	$ 16,488	$ 15,430
Unsecured	160	1,300
Real estate:		
Secured by commercial properties	438	2,638
Secured by residential properties	1,253	398
Construction and land development:		
Residential construction loans	—	—
Commercial construction loans and land development	703	112
Consumer	—	—
	$ 19,042	$ 19,878

At December 31, 2014 and 2013, non-covered non-accrual loans included non-covered PCI loans of $6.6 million and $15.8 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these non-covered PCI loans can no longer be reasonably estimated. In addition to the non-covered non-accrual loans in the table above, $3.0 million and $3.5 million of real estate loans secured by residential properties and classified as held for sale were in non-accrual status at December 31, 2014 and 2013, respectively.

Interest income including recoveries and cash payments recorded on non-covered impaired loans was $3.3 million, $3.2 million and $0.9 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

The Bank classifies loan modifications as TDRs when it concludes that it has both granted a concession to a debtor and that the debtor is experiencing financial difficulties. Loan modifications are typically structured to create affordable payments for the debtor and can be achieved in a variety of ways. The Bank modifies loans by reducing interest rates and/or lengthening loan amortization schedules. The Bank also reconfigures a single loan into two or more loans (“A/B Note”). The typical A/B Note restructure results in a “bad” loan which is charged off and a “good” loan or loans the terms of which comply with the Bank’s customary underwriting policies. The debt charged off on the “bad” loan is not forgiven to the debtor.

The outstanding balance of TDRs granted in the twelve months ended December 31, 2014 and 2013, respectively, is shown in the following tables (in thousands). There were no TDRs granted during the month ended December 31, 2012. At December 31, 2014 and 2013, the Bank had $0.5 million and $0.5 million in unadvanced commitments to borrowers whose loans have been restructured in TDRs.

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2014	**A/B Note**	**Interest Rate Adjustment**	**Payment Term Extension**	**Total Modification**
Commercial and industrial:				
Secured	$ —	$ —	$ 2,465	$ 2,465
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	317	317
Secured by residential properties	—	—	248	248
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	128	128
Consumer	—	—	—	—
	$ —	$ —	$ 3,158	$ 3,158

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2013	**A/B Note**	**Interest Rate Adjustment**	**Payment Term Extension**	**Total Modification**
Commercial and industrial:				
Secured	$ —	$ —	$ 10,390	$ 10,390
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	279	279
Secured by residential properties	—	—	777	777
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ —	$ —	$ 11,446	$ 11,446

There were no TDRs granted in the twelve months preceding December 31, 2014 and 2013, for which a payment was at least 30 days past due in 2014 and 2013, respectively.

An analysis of the aging of the Bank's non-covered loan portfolio is shown in the following tables (in thousands).

December 31, 2014	**Loans Past Due 30-59 Days**	**Loans Past Due 60-89 Days**	**Loans Past Due 90 Days or More**	**Total Past Due Loans**	**Current Loans**	**PCI Loans**	**Total Loans**	**Accruing Loans (Non-PCI) Past Due 90 Days or More**
Commercial and industrial:								
Secured	$ 6,073	$ 964	$ 8,022	$ 15,059	$ 1,620,000	$ 13,374	$ 1,648,433	$ —
Unsecured	35	3	—	38	110,312	68	110,418	—
Real estate:								
Secured by commercial properties	67	—	—	67	1,173,504	22,341	1,195,912	—
Secured by residential properties	454	1,187	—	1,641	495,472	1,810	498,923	—
Construction and land development:								
Residential construction loans	175	—	—	175	64,871	—	65,046	—
Commercial construction loan s and land development	4,319	—	575	4,894	334,525	9,178	348,597	—
Consumer	414	37	—	451	50,558	2,138	53,147	—
	$ 11,537	$ 2,191	$ 8,597	$ 22,325	$ 3,849,242	$ 48,909	$ 3,920,476	$ —

December 31, 2013	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ 2,171	$ 277	$ 1,354	$ 3,802	$ 1,492,793	$ 35,372	$ 1,531,967	$ 272
Unsecured	333	9	60	402	103,453	1,444	105,299	59
Real estate:								
Secured by commercial properties	192	—	132	324	1,044,437	36,255	1,081,016	—
Secured by residential properties	1,045	36	203	1,284	371,958	2,995	376,237	203
Construction and land development:								
Residential construction loans	415	—	—	415	64,664	—	65,079	—
Commercial construction loan s and land development	41	881	112	1,034	278,621	19,817	299,472	—
Consumer	201	60	—	261	50,806	4,509	55,576	—
	$ 4,398	$ 1,263	$ 1,861	$ 7,522	$ 3,406,732	$ 100,392	$ 3,514,646	$ 534

In addition to the non-covered loans shown in the table above, $19.2 million and $6.8 million of loans included in loans held for sale were 90 days past due and accruing interest at December 31, 2014 and 2013, respectively. These loans, which are guaranteed by U.S. government agencies and were previously sold into GNMA loan pools, are subject to repurchase by PrimeLending.

Management tracks credit quality trends on a quarterly basis related to: (i) past due levels, (ii) non-performing asset levels, (iii) classified loan levels, (iv) net charge-offs, and (v) general economic conditions in the state and local markets.

The Bank utilizes a risk grading matrix to assign a risk grade to each of the loans in its portfolio. A risk rating is assigned based on an assessment of the borrower's management, collateral position, financial capacity, and economic factors. The general characteristics of the various risk grades are described below.

Pass — "Pass" loans present a range of acceptable risks to the Bank. Loans that would be considered virtually risk-free are rated Pass — low risk. Loans that exhibit sound standards based on the grading factors above and present a reasonable risk to the Bank are rated Pass — normal risk. Loans that exhibit a minor weakness in one or more of the grading criteria but still present an acceptable risk to the Bank are rated Pass — high risk.

Special Mention — "Special Mention" loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the loans and weaken the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to require adverse classification.

Substandard — "Substandard" loans are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Many substandard loans are considered impaired.

PCI — "PCI" loans exhibited evidence of credit deterioration at acquisition that made it probable that all contractually required principal payments would not be collected.

The following tables present the internal risk grades of non-covered loans, as previously described, in the portfolio by class (in thousands).

December 31, 2014	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,566,208	$ 1,105	$ 67,746	$ 13,374	$ 1,648,433
Unsecured	110,256	—	94	68	110,418
Real estate:					
Secured by commercial properties	1,151,454	712	21,405	22,341	1,195,912
Secured by residential properties	492,549	—	4,564	1,810	498,923
Construction and land development:					
Residential construction loans	65,046	—	—	—	65,046
Commercial construction loans and land development	338,078	—	1,341	9,178	348,597
Consumer	50,968	—	41	2,138	53,147
	$ 3,774,559	$ 1,817	$ 95,191	$ 48,909	$ 3,920,476

December 31, 2013	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,450,734	$ 16,840	$ 29,021	$ 35,372	$ 1,531,967
Unsecured	103,674	12	169	1,444	105,299
Real estate:					
Secured by commercial properties	1,038,930	4,436	1,395	36,255	1,081,016
Secured by residential properties	367,758	—	5,484	2,995	376,237
Construction and land development:					
Residential construction loans	65,079	—	—	—	65,079
Commercial construction loans and land development	275,808	3,384	463	19,817	299,472
Consumer	51,052	1	14	4,509	55,576
	$ 3,353,035	$ 24,673	$ 36,546	$ 100,392	$ 3,514,646

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in the existing portfolio of loans. Management has responsibility for determining the level of the allowance for loan losses, subject to review by the Audit Committee of the Company's Board of Directors and the Loan Review Committee of the Bank's board of directors.

It is management's responsibility at the end of each quarter, or more frequently as deemed necessary, to analyze the level of the allowance for loan losses to ensure that it is appropriate for the estimated credit losses in the portfolio consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses and the Receivables and Contingencies Topics of the ASC. Estimated credit losses are the probable current amount of loans that the Company will be unable to collect given facts and circumstances as of the evaluation date. When management determines that a loan or portion thereof is uncollectible, the loan, or portion thereof, is charged off against the allowance for loan losses, or for acquired loans accounted for in pools, charged against the pool discount. Recoveries on charge-offs that occurred prior to the PlainsCapital Merger represent contractual cash flows not expected to be collected and are recorded as accretion income. Recoveries on loans charged-off subsequent to the PlainsCapital Merger are credited to the allowance for loan loss, except for recoveries on loans accounted for in pools, which are credited to the pool discount. The Bank's loan portfolio is designated into two populations: acquired loans and originated loans. The allowance for loan losses is calculated separately for acquired and originated loans.

Originated Loans

The Company has developed a methodology that seeks to determine an allowance within the scope of the Receivables and Contingencies Topics of the ASC. Each of the loans that has been determined to be impaired is within the scope of the Receivables Topic. Impaired loans that are equal to or greater than $0.5 million are individually evaluated using one of three impairment measurement methods as of the evaluation date: (1) the present value of expected future discounted cash flows on the loan, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Specific reserves are provided in the estimate of the allowance based on the measurement of impairment under these three methods, except for collateral dependent loans, which require the fair value method. All non-impaired loans are within the scope of the Contingencies Topic. Estimates of loss for the Contingencies Topic are calculated based on historical loss, adjusted for qualitative or environmental factors. The Bank uses a rolling three year average net loss rate to calculate historical loss factors. The analysis is conducted by call report category, and further disaggregates commercial and industrial loans by collateral type. The analysis considers charge-offs and recoveries in determining the loss rate; therefore net charge-off experience is used. The historical loss calculation for the quarter is calculated by dividing the current quarter net charge-offs for each loan category by the quarter ended loan category balance. The Bank utilizes a weighted average loss rate to better represent recent trends. The Bank weights the most recent four quarter average at 120% versus the oldest four quarters at 80%.

While historical loss experience provides a reasonable starting point for the analysis, historical losses are not the sole basis upon which the Company determines the appropriate level for the allowance for loan losses. Management considers recent qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including but not limited to:

- changes in the volume and severity of past due, nonaccrual and classified loans;
- changes in the nature, volume and terms of loans in the portfolio;
- changes in lending policies and procedures;

- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in lending management and staff;
- changes in the loan review system and the degree of oversight by the Bank's board of directors; and
- any concentrations of credit and changes in the level of such concentrations.

Changes in the volume and severity of past due, nonaccrual and classified loans, as well as changes in the nature, volume and terms of loans in the portfolio are key indicators of changes that could indicate a necessary adjustment to the historical loss factors. The magnitude of the impact of these factors on the qualitative assessment of the allowance for loan loss changes from quarter to quarter.

The loan review program is designed to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes be made to reviewed loans and coordinating the delivery of the information necessary to assess the appropriateness of the allowance for loan losses. Loans are evaluated for impaired status when: (i) payments on the loan are delayed, typically by 90 days or more (unless the loan is both well secured and in the process of collection), (ii) the loan becomes classified, (iii) the loan is being reviewed in the normal course of the loan review scope, or (iv) the loan is identified by the servicing officer as a problem.

Homogeneous loans, such as consumer installment loans, residential mortgage loans and home equity loans, are not individually reviewed and are generally risk graded at the same levels. The risk grade and reserves are established for each homogeneous pool of loans based on the expected net charge-offs from current trends in delinquencies, losses or historical experience and general economic conditions. At December 31, 2014 and 2013, there were no material delinquencies in these types of loans.

Acquired Loans

Loans acquired in a business combination are recorded at their estimated fair value on their purchase date and with no carryover of the related allowance for loan losses. Loans without evidence of credit impairment at acquisition are subsequently evaluated for any required allowance at each reporting date. An allowance for loan losses is calculated using a methodology similar to that described above for originated loans. The allowance as determined for each loan collateral type is compared to the remaining fair value discount for that loan collateral type. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan and once the discount is depleted, losses are applied against the allowance established for that loan.

PCI loans acquired in the PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in the FNB Transaction are accounted for both in pools and at the individual loan level. Cash flows expected to be collected are recast quarterly for each loan or pool. These evaluations require the continued use and updating of key assumptions and estimates such as default rates, loss severity given default and prepayment speed assumptions, similar to those used for the initial fair value estimate. Management judgment must be applied in developing these assumptions. If expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan or pool increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield which will be taken into income over the remaining life of the loan.

The allowance for both originated and acquired loans is subject to regulatory examinations and determinations as to appropriateness, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance.

Changes in the allowance for non-covered loan losses, distributed by portfolio segment, are shown below (in thousands).

Year Ended December 31, 2014	**Commercial and Industrial**	**Real Estate**	**Construction and Land Development**	**Consumer**	**Total**
Balance, beginning of year	$ 16,865	$ 8,331	$ 7,957	$ 88	$ 33,241
Provision charged to operations	6,116	2,696	(1,692)	627	7,747
Loans charged off	(6,926)	(114)	—	(359)	(7,399)
Recoveries on charged off loans	2,944	218	185	105	3,452
Balance, end of year	$ 18,999	$ 11,131	$ 6,450	$ 461	$ 37,041

Year Ended December 31, 2013	**Commercial and Industrial**	**Real Estate**	**Construction and Land Development**	**Consumer**	**Total**
Balance, beginning of year	$ 1,845	$ 977	$ 582	$ 5	$ 3,409
Provision charged to operations	20,940	7,281	7,634	238	36,093
Loans charged off	(9,359)	(209)	(524)	(216)	(10,308)
Recoveries on charged off loans	3,439	282	265	61	4,047
Balance, end of year	$ 16,865	$ 8,331	$ 7,957	$ 88	$ 33,241

Month Ended December 31, 2012	Commercial and Industrial		Real Estate		Construction and Land Development		Consumer		Total	
Balance, beginning of period	$	—	$	—	$	—	$	—	$	—
Provision charged to operations		2,236		977		582		5		3,800
Loans charged off		(391)		—		—		—		(391)
Recoveries on charged off loans		—		—		—		—		—
Balance, end of period	$	1,845	$	977	$	582	$	5	$	3,409

The non-covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2014	Commercial and Industrial		Real Estate		Construction and Land Development		Consumer		Total	
Loans individually evaluated for impairment	$	11,842	$	1,420	$	703	$	—	$	13,965
Loans collectively evaluated for impairment		1,733,567		1,669,264		403,762		51,009		3,857,602
PCI Loans		13,442		24,151		9,178		2,138		48,909
	$	1,758,851	$	1,694,835	$	413,643	$	53,147	$	3,920,476

December 31, 2013	Commercial and Industrial		Real Estate		Construction and Land Development		Consumer		Total	
Loans individually evaluated for impairment	$	2,273	$	373	$	112	$	—	$	2,758
Loans collectively evaluated for impairment		1,598,177		1,417,630		344,622		51,067		3,411,496
PCI Loans		36,816		39,250		19,817		4,509		100,392
	$	1,637,266	$	1,457,253	$	364,551	$	55,576	$	3,514,646

The allowance for non-covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2014	Commercial and Industrial		Real Estate		Construction and Land Development		Consumer		Total	
Loans individually evaluated for impairment	$	421	$	—	$	—	$	—	$	421
Loans collectively evaluated for impairment		15,658		9,168		6,296		179		31,301
PCI Loans		2,920		1,963		154		282		5,319
	$	18,999	$	11,131	$	6,450	$	461	$	37,041

December 31, 2013	Commercial and Industrial		Real Estate		Construction and Land Development		Consumer		Total	
Loans individually evaluated for impairment	$	421	$	—	$	—	$	—	$	421
Loans collectively evaluated for impairment		13,724		7,953		7,918		88		29,683
PCI Loans		2,720		378		39		—		3,137
	$	16,865	$	8,331	$	7,957	$	88	$	33,241

6. Covered Assets and Indemnification Asset

As discussed in Note 2 to the consolidated financial statements, the Bank assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of FNB in an FDIC-assisted transaction on September 13, 2013. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The Bank has also agreed to reimburse the FDIC for any subsequent recoveries. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, from the Bank Closing Date, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. The asset arising from the loss-share agreements, referred to as the "FDIC Indemnification Asset," is measured separately from the covered loan portfolio because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement.

Covered Loans and Allowance for Covered Loan Losses

Loans acquired in the FNB Transaction that are subject to a loss-share agreement are referred to as "covered loans" and reported separately in the consolidated balance sheets. Covered loans are reported exclusive of the cash flow reimbursements that may be received from the FDIC.

The Bank's portfolio of acquired covered loans had a fair value of $1.1 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses. Acquired covered loans were preliminarily segregated between those considered to be PCI loans and those without credit impairment at acquisition.

In connection with the FNB Transaction, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. The Company's accounting policies for acquired covered loans, including covered PCI loans, are consistent with that of acquired non-covered loans, as described in Note 5 to the consolidated financial statements. The Company has established under its PCI accounting policy a framework to aggregate certain acquired covered loans into various loan pools based on a minimum of two layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

The following table presents the carrying value of the covered loans summarized by portfolio segment (in thousands).

	December 31, 2014	December 31, 2013
Commercial and industrial	$ 30,780	$ 66,943
Real estate	552,850	787,982
Construction and land development	59,010	151,444
Consumer	—	—
Total covered loans	642,640	1,006,369
Allowance for covered loans	(4,611)	(1,061)
Total covered loans, net of allowance	$ 638,029	$ 1,005,308

The following table presents the carrying value and the outstanding contractual balance of the covered PCI loans (in thousands).

	December 31, 2014	December 31, 2013
Carrying amount	$ 435,388	$ 729,156
Outstanding balance	685,393	1,022,514

Changes in the accretable yield for the covered PCI loans were as follows (in thousands).

	Year Ended December 31, 2014	Period from September 14, 2013 through December 31, 2013
Balance, beginning of period	$ 156,548	$ —
Additions	—	167,974
Reclassifications from (to) nonaccretable difference, net (1)	105,470	3,492
Transfer of loans to covered OREO (2)	7,703	4,407
Accretion	(76,228)	(19,325)
Balance, end of period	$ 193,493	$ 156,548

(1) Reclassifications from nonaccretable difference are primarily due to net increases in expected cash flows in the quarterly recasts. Reclassifications to nonaccretable difference occur when accruing loans are moved to nonaccrual and expected cash flows are no longer predictable and the accretable yield is eliminated.

(2) Transfer of loans to covered OREO is the difference between the value removed from the pool and the expected cash flows for the loan.

The remaining nonaccretable difference for covered PCI loans was $382.5 million and $517.9 million at December 31, 2014 and 2013, respectively.

Covered impaired loans include non-accrual loans, TDRs, PCI loans and partially charged-off loans. Substantially all covered impaired loans are PCI loans. The amounts shown in following tables include Pooled Loans, as well as loans accounted for on an individual basis. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level.

Covered impaired loans are summarized by class in the following tables (in thousands).

December 31, 2014	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 26,447	$ 7,436	$ 6,636	$ 14,072	$ 265
Unsecured	14,111	2,107	4,697	6,804	882
Real estate:					
Secured by commercial properties	387,302	193,111	35,142	228,253	2,381
Secured by residential properties	235,505	129,571	12,918	142,489	937
Construction and land development:					
Residential construction loans	2,749	1,018	354	1,372	69
Commercial construction loans and land development	94,949	45,646	—	45,646	—
Consumer	—	—	—	—	—
	$ 761,063	$ 378,889	$ 59,747	$ 438,636	$ 4,534

December 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 43,957	$ 28,611	$ —	$ 28,611	$ —
Unsecured	16,280	9,008	882	9,890	882
Real estate:					
Secured by commercial properties	528,825	365,346	—	365,346	—
Secured by residential properties	289,094	199,581	—	199,581	—
Construction and land development:					
Residential construction loans	8,920	5,280	—	5,280	—
Commercial construction loans and land development	183,117	121,363	—	121,363	—
Consumer	—	—	—	—	—
	$ 1,070,193	$ 729,189	$ 882	$ 730,071	$ 882

Average investment in covered impaired loans is summarized by class in the following table (in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013
Commercial and industrial:		
Secured	$ 21,296	$ 14,260
Unsecured	8,347	4,945
Real estate:		
Secured by commercial properties	296,780	182,653

	Year Ended December 31,	
	2014	2013
Secured by residential properties	170,931	99,686
Construction and land development:		
Residential construction loans	3,039	2,353
Commercial construction loans and land development	83,505	60,682
Consumer	—	—
	$ 583,898	$ 364,579

Covered non-accrual loans, excluding those classified as held for sale, are summarized by class in the following table (in thousands).

	December 31,	
	2014	2013
Commercial and industrial:		
Secured	$ 442	$ 91
Unsecured	883	882
Real estate:		
Secured by commercial properties	30,823	40
Secured by residential properties	1,046	209
Construction and land development:		
Residential construction loans	1,018	575
Commercial construction loans and land development	11	—
Consumer	—	—
	$ 34,223	$ 1,797

At December 31, 2014, covered non-accrual loans included covered PCI loans of $31.2 million for which discount accretion has been suspended because the extent and timing of cash flows from these covered PCI loans can no longer be reasonably estimated.

Interest income recorded on covered accruing impaired loans and on covered non-accrual loans during 2014 and 2013 was nominal. Except as noted above, covered PCI loans are considered to be performing due to the application of the accretion method.

The Bank classifies loan modifications of covered loans as TDRs in a manner consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. The outstanding balance of TDRs granted in the twelve months ended December 31, 2014 is shown in the following table (in thousands). Pooled Loans are not in the scope of the disclosure requirements for TDRs. There were no TDRs granted during the year ended December 31, 2013. At December 31, 2014, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2014	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ —	$ —
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	—	—
Secured by residential properties	369	326	—	695
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ 369	$ 326	$ —	$ 695

An analysis of the aging of the Bank's covered loan portfolio is shown in the following tables (in thousands).

December 31, 2014	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ —	$ —	$ 454	$ 454	$ 8,681	$ 13,630	$ 22,765	$ 11
Unsecured	10	—	—	10	1,200	6,805	8,015	—
Real estate:								
Secured by commercial properties	876	—	105	981	41,576	227,772	270,329	—
Secured by residential properties	3,089	493	405	3,987	137,342	141,192	282,521	48
Construction and land development:								
Residential construction loans	—	—	896	896	390	354	1,640	—
Commercial construction loans and land development	39	25	8	72	11,663	45,635	57,370	8
Consumer	—	—	—	—	—	—	—	—
	$ 4,014	$ 518	$ 1,868	$ 6,400	$ 200,852	$ 435,388	$ 642,640	$ 67

December 31, 2013	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ 3,904	$ 10	$ 81	$ 3,995	$ 20,918	$ 28,520	$ 53,433	$ —
Unsecured	10	259	—	269	3,351	9,890	13,510	—
Real estate:								
Secured by commercial properties	999	—	40	1,039	63,780	365,306	430,125	—
Secured by residential properties	1,679	678	209	2,566	155,919	199,372	357,857	—
Construction and land development:								
Residential construction loans	1,861	—	576	2,437	5,026	4,705	12,168	—
Commercial construction loans and land development	244	20	—	264	17,649	121,363	139,276	—
Consumer	—	—	—	—	—	—	—	—
	$ 8,697	$ 967	$ 906	$ 10,570	$ 266,643	$ 729,156	$ 1,006,369	$ —

The Bank assigns a risk grade to each of its covered loans in a manner consistent with the existing loan review program and risk grading matrix used for non-covered loans, as described in Note 5 to the consolidated financial statements. The following tables present the internal risk grades of covered loans in the portfolio by class (in thousands).

December 31, 2014	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 7,712	$ —	$ 1,423	$ 13,630	$ 22,765
Unsecured	1,210	—	—	6,805	8,015
Real estate:					
Secured by commercial properties	35,973	—	6,584	227,772	270,329
Secured by residential properties	133,756	—	7,573	141,192	282,521
Construction and land development:					
Residential construction loans	268	—	1,018	354	1,640
Commercial construction loans and land development	9,501	—	2,234	45,635	57,370
Consumer	—	—	—	—	—
	$ 188,420	$ —	$ 18,832	$ 435,388	$ 642,640

December 31, 2013	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 24,152	$ —	$ 761	$ 28,520	$ 53,433
Unsecured	3,040	—	580	9,890	13,510
Real estate:					
Secured by commercial properties	59,343	3,310	2,166	365,306	430,125
Secured by residential properties	155,439	—	3,046	199,372	357,857
Construction and land development:					
Residential construction loans	6,087	—	1,376	4,705	12,168
Commercial construction loans and land development	17,806	—	107	121,363	139,276
Consumer	—	—	—	—	—
	$ 265,867	$ 3,310	$ 8,036	$ 729,156	$ 1,006,369

The Bank's impairment methodology for the covered loans is consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. To the extent there is experienced or projected credit deterioration on the acquired covered loan pools subsequent to amounts estimated at the previous quarterly recast date and expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan or pool increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield which will be taken into income over the remaining life of the loan.

Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to the acquisition date in a manner consistent with the allowance for non-covered loan losses.

Changes in the allowance for covered loan losses, distributed by portfolio segment, are shown below (in thousands). The year ended December 31, 2013 below refers to the period from September 14, 2013 through December 31, 2013.

Year Ended December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 1,053	$ 8	$ —	$ —	$ 1,061
Provision charged to operations	230	8,725	231	—	9,186
Loans charged off	(90)	(5,399)	(147)	—	(5,636)
Recoveries on charged off loans	—	—	—	—	—
Balance, end of year	$ 1,193	$ 3,334	$ 84	$ —	$ 4,611

Year Ended December 31, 2013	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ —	$ —	$ —	$ —	$ —
Provision charged to operations	1,057	8	—	—	1,065
Loans charged off	(4)	—	—	—	(4)
Recoveries on charged off loans	—	—	—	—	—
Balance, end of year	$ 1,053	$ 8	$ —	$ —	$ 1,061

The covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ 801	$ —	$ 801
Loans collectively evaluated for impairment	10,345	183,886	12,220	—	206,451
PCI Loans	20,435	368,964	45,989	—	435,388
	$ 30,780	$ 552,850	$ 59,010	$ —	$ 642,640

December 31, 2013	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	28,533	223,304	25,376	—	277,213
PCI Loans	38,410	564,678	126,068	—	729,156
	$ 66,943	$ 787,982	$ 151,444	$ —	$ 1,006,369

The allowance for covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	46	16	15	—	77
PCI Loans	1,147	3,318	69	—	4,534
	$ 1,193	$ 3,334	$ 84	$ —	$ 4,611

December 31, 2013	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	171	8	—	—	179
PCI Loans	882	—	—	—	882
	$ 1,053	$ 8	$ —	$ —	$ 1,061

Covered Other Real Estate Owned

A summary of the activity in covered OREO is as follows (in thousands).

	Year Ended December 31, 2014	Period from September 14, 2013 through December 31, 2013
Balance, beginning of period	$ 142,833	$ —
Fair value of assets acquired as of Bank Closing Date	—	135,187
Additions to covered OREO	64,934	19,185
Dispositions of covered OREO	(51,150)	(11,539)
Valuation adjustments in the period	(19,672)	—
Balance, end of period	$ 136,945	$ 142,833

During 2014, the Bank wrote down certain covered OREO assets to fair value to reflect new appraisals on certain OREO acquired in the FNB Transaction and OREO acquired from the foreclosure on certain loans acquired in the FNB Transaction. Although the Bank recorded a fair value discount on the acquired assets upon acquisition, in some cases additional downward valuations were required.

These additional downward valuation adjustments reflect changes to the assumptions regarding the fair value of the OREO, including in some cases the intended use of the OREO due to the availability of more information as well as the passage of time. The process of determining fair value is subjective in nature and requires the use of significant estimates and assumptions. Although the Bank makes market-based assumptions when valuing acquired assets, new information may come to light that causes estimates to increase or decrease. When the Bank determines, based on subsequent information, that its estimates require adjustment, the Bank records the adjustment. The accounting for such adjustments requires that the decreases to fair value be recorded at the time such new information is received, while increases to fair value are recorded when the asset is subsequently sold. All of the impairments recorded during 2014 related to covered assets subject to the loss-share agreements with the FDIC.

A summary of the activity in the FDIC Indemnification Asset is as follows (in thousands).

	Year Ended December 31, 2014	Period from September 14, 2013 through December 31, 2013
Balance, beginning of period	$ 188,291	$ —
Fair value of assets acquired as of Bank Closing Date	—	185,680
FDIC Indemnification Asset accretion (amortization)	3,445	1,699
Transfers to due from FDIC and other	(61,299)	912
Balance, end of period	$ 130,437	$ 188,291

As of December 31, 2014, the Bank had billed $60.4 million to the FDIC, which represented covered losses and expenses through September 30, 2014, of which $38.5 million had been collected as of December 31, 2014. The remaining $21.9 million was received during January 2015.

7. Cash and Due from Banks

Cash and due from banks consisted of the following (in thousands).

	December 31, 2014	December 31, 2013
Cash on hand	$ 47,947	$ 59,451
Clearings and collection items	76,381	64,193
Deposits at Federal Reserve Bank	425,704	364,709
Deposits at Federal Home Loan Bank	1,500	1,500
Deposits in FDIC-insured institutions	230,941	223,246
	$ 782,473	$ 713,099

The amounts above include interest-bearing deposits of $628.3 million and $565.3 million at December 31, 2014 and 2013, respectively. Cash on hand and deposits at the Federal Reserve Bank satisfy regulatory reserve requirements at December 31, 2014.

8. Premises and Equipment

The components of premises and equipment are summarized as follows (in thousands).

	December 31, 2014	December 31, 2013
Land and premises	$ 122,560	$ 121,211
Furniture and equipment	142,255	107,644
	264,815	228,855
Less accumulated depreciation and amortization	(57,824)	(28,149)
	$ 206,991	$ 200,706

The amounts shown above include assets recorded under capital leases of $6.6 million and $7.1 million, net of accumulated amortization of $1.2 million and $0.6 million at December 31, 2014 and 2013, respectively.

Occupancy expense was reduced by rental income of $2.4 million, $1.8 million and $0.1 million during 2014, 2013 and 2012, respectively. Depreciation and amortization expense on premises and equipment, which includes amortization of capital leases, amounted to $30.7 million, $24.8 million and $1.9 million in 2014, 2013 and 2012, respectively.

9. Goodwill and Other Intangible Assets

At both December 31, 2014 and 2013, the carrying amount of goodwill of $251.8 million was comprised of $24.0 million recorded in connection with the acquisition of NLC, and as discussed in Note 2 to the consolidated financial statements, $227.8 million recorded in connection with the PlainsCapital Merger.

Other intangible assets of $59.8 million and $70.9 million at December 31, 2014 and 2013, respectively, include an indefinite lived intangible asset with an estimated fair value of $3.0 million related to state licenses acquired as a part of the NLC acquisition in January 2007.

The Company tests goodwill and other intangible assets having an indefinite useful life for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. Goodwill impairment testing is performed at the reporting unit level, which is one level below an operating segment. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The Company performs required annual impairment tests of its goodwill and other intangible assets as of October 1st for each of its reporting units.

The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. The Company has estimated fair values of reporting units based on both a market and income approach using historic, normalized actual and forecast results.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

At October 1, 2014, the Company determined that the estimated fair value of each of its reporting units exceeded its carrying value and therefore the second step as described above was not performed. Based on this evaluation, the Company concluded that the goodwill and other identifiable intangible assets were fully realizable at December 31, 2014.

The Company's evaluation includes multiple assumptions, including estimated discounted cash flows and other estimates that may change over time. If future discounted cash flows become less than those projected by the Company, future impairment charges may become necessary that could have a materially adverse impact on the Company's results of operations and financial condition. As quoted market prices in active stock markets are relevant evidence of fair value, a significant decline in the Company's common stock trading price may indicate an impairment of goodwill.

The carrying value of intangible assets subject to amortization was as follows (in thousands).

December 31, 2014	**Estimated Useful Life (Years)**	**Gross Intangible Assets**	**Accumulated Amortization**	**Net Intangible Assets**
Core deposits	7-12	$ 38,770	$ (12,104)	$ 26,666
Trademarks and trade names	10-20	20,000	(3,723)	16,277
Noncompete agreements	4-6	11,650	(4,794)	6,856
Customer contracts and relationships	8-12	14,100	(7,729)	6,371
Agent relationships	13	3,600	(2,987)	613
		$ 88,120	$ (31,337)	$ 56,783

December 31, 2013	**Estimated Useful Life (Years)**	**Gross Intangible Assets**	**Accumulated Amortization**	**Net Intangible Assets**
Core deposits	7-12	$ 38,770	$ (6,159)	$ 32,611
Trademarks and trade names	10-20	20,000	(2,589)	17,411
Noncompete agreements	4-6	11,650	(2,492)	9,158
Customer contracts and relationships	8-12	14,100	(6,210)	7,890
Agent relationships	13	3,600	(2,749)	851
		$ 88,120	$ (20,199)	$ 67,921

Amortization expense related to intangible assets during 2014, 2013 and 2012 was $11.1 million, $11.1 million and $2.0 million, respectively.

The estimated aggregate future amortization expense for intangible assets at December 31, 2014 is as follows (in thousands).

2015	$ 11,020
2016	10,182
2017	9,254
2018	7,429
2019	6,489
Thereafter	12,409
	$ 56,783

10. Mortgage Servicing Rights

The following tables present the changes in fair value of the Company's MSR and other information related to the serviced portfolio (dollars in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Balance, beginning of period	$ 20,149	$ 2,080	$ —
Additions	35,056	13,886	2,204
Sales	(11,387)	—	—
Changes in fair value:			
Due to changes in model inputs or assumptions (1)	(5,267)	4,782	(51)
Due to customer payments	(2,396)	(599)	(73)
Balance, end of period	$ 36,155	$ 20,149	$ 2,080

	December 31, 2014	December 31, 2013
Mortgage loans serviced for others	$ 3,645,220	$ 1,965,883
MSR as a percentage of serviced mortgage loans	0.99%	1.02%

(1) Primarily represents changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates and the refinement of other MSR model assumptions.

The key assumptions used in measuring the fair value of the Company's MSR were as follows.

	December 31, 2014	December 31, 2013
Weighted average constant prepayment rate	12.17%	9.72%
Weighted average discount rate	11.01%	12.37%
Weighted average life (in years)	6.3	7.6

A sensitivity analysis of the fair value of the Company's MSR to certain key assumptions is presented in the following table (in thousands).

	December 31, 2014	December 31, 2013
Constant prepayment rate:		
Impact of 10% adverse change	$ (1,648)	$ (601)
Impact of 20% adverse change	(3,169)	(1,170)
Discount rate:		
Impact of 100 basis point adverse change	(1,431)	(631)
Impact of 200 basis point adverse change	(2,753)	(1,236)

This sensitivity analysis presents the effect of hypothetical changes in key assumptions on the fair value of the MSR. The effect of such hypothetical change in assumptions generally cannot be extrapolated because the relationship of the change in one key assumption to the change in the fair value of the MSR is not linear. In addition, in the analysis, the impact of an adverse change in one key assumption is calculated independent of any impact on other assumptions. In reality, changes in one assumption may change another assumption.

Contractually specified servicing fees, late fees and ancillary fees earned of $13.3 million, $3.2 million and $0.4 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively, were included in other noninterest income within the consolidated statements of operations.

11. Deposits

Deposits are summarized as follows (in thousands).

	December 31, 2014	December 31, 2013
Noninterest-bearing demand	$ 2,076,385	$ 1,773,749
Interest-bearing:		
NOW accounts	1,242,110	1,083,596
Money market	861,851	878,578
Brokered - money market	79,937	276,760
Demand	136,886	47,636
Savings	299,051	357,325
Time	1,575,910	2,110,947
Brokered - time	97,762	194,327
	$ 6,369,892	$ 6,722,918

At December 31, 2014, the scheduled maturities of interest-bearing time deposits are as follows (in thousands).

2015	$ 1,066,373
2016	179,185
2017	380,913
2018	41,185
2019 and thereafter	6,016
	$ 1,673,672

12. Short-term Borrowings

Short-term borrowings are summarized as follows (in thousands).

	December 31, 2014	December 31, 2013
Federal funds purchased	$ 128,100	$ 137,225
Securities sold under agreements to repurchase	136,396	107,462
Federal Home Loan Bank notes	375,000	—
Short-term bank loans	123,200	97,400
	$ 762,696	$ 342,087

Federal funds purchased and securities sold under agreements to repurchase generally mature daily, on demand, or on some other short-term basis. The Bank and FSC execute transactions to sell securities under agreements to repurchase with both customers and broker-dealers. Securities involved in these transactions are held by the Bank, FSC or the dealer.

Information concerning federal funds purchased and securities sold under agreements to repurchase is shown in the following tables (dollars in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Average balance during the period	$ 319,806	$ 281,067	$ 277,470
Average interest rate during the period	0.17%	0.19%	0.25%
Maximum month-end balance during the period	535,232	415,730	355,350

	December 31, 2014	December 31, 2013
Average interest rate at end of period	0.15%	0.16%
Securities underlying the agreements at end of period:		
Carrying value	$ 166,734	$ 144,991
Estimated fair value	$ 163,852	$ 138,719

FHLB notes mature over terms not exceeding 365 days and are collateralized by FHLB Dallas stock, nonspecified real estate loans and certain specific commercial real estate loans. At December 31, 2014, the Bank had available collateral of $1.4 billion, substantially all of which was blanket collateral. Other information regarding FHLB notes is shown in the following tables (dollars in thousands).

	Year Ended December 31, 2014	Year Ended December 31, 2013	Month Ended December 31, 2012
Average balance during the period	$ 261,550	$ 106,415	$ 301,613
Average interest rate during the period	0.18%	0.13%	0.14%
Maximum month-end balance during the period	575,000	525,000	250,000

	December 31, 2014	December 31, 2013
Average interest rate at end of period	0.16%	—

FSC uses short-term bank loans periodically to finance securities owned, margin loans to customers and correspondents, and underwriting activities. Interest on the borrowings varies with the federal funds rate. The weighted average interest rate on the borrowings at December 31, 2014 and 2013 was 1.07% and 1.15%, respectively.

13. Notes Payable

Notes payable consisted of the following (in thousands).

	December 31, 2014	December 31, 2013
NLIC note payable due May 2033, three-month LIBOR plus 4.10% (4.35% at December 31, 2014) with interest payable quarterly	$ 10,000	$ 10,000
NLIC note payable due September 2033, three-month LIBOR plus 4.05% (4.30% at December 31, 2014) with interest payable quarterly	10,000	10,000
ASIC note payable due April 2034, three-month LIBOR plus 4.05% (4.30% at December 31, 2014) with interest payable quarterly	7,500	7,500
First Southwest nonrecourse notes, due January 2035 with interest payable quarterly	4,184	6,827
Insurance company note payable due March 2035, three-month LIBOR plus 3.40% (3.65% at December 31, 2014) with interest payable quarterly	20,000	20,000
Insurance company line of credit due December 31, 2015, 3.25% plus a calculated index rate (4.00% at December 31, 2014) with interest payable quarterly	5,000	2,000
	$ 56,684	$ 56,327

NLIC, ASIC and Insurance Company Notes Payable

The NLIC and ASIC notes payable to unaffiliated companies are each subordinated in right of payment to all policy claims and other indebtedness of NLIC and ASIC, respectively. Further, all payments of principal and interest require the prior approval of the Insurance Commissioner of the State of Texas and are only payable to the extent that the statutory surplus of NLIC exceeds $30 million and ASIC exceeds $15 million.

The NLIC, ASIC and Insurance Company loan agreements relating to the notes payable contain various covenants pertaining to limitations on additional debt, dividends, officer and director compensation, and minimum capital requirements. The Company was in compliance with the covenants at December 31, 2014.

NLC has entered into an indenture relating to the NLIC, ASIC and Insurance Company notes payable which provides that (i) if a person or group becomes the beneficial owner directly or indirectly of 50% or more of its equity securities and (ii) if NLC's ratings are downgraded by a nationally recognized statistical rating organization (as defined in the Exchange Act), then each holder of the notes governed by such indenture has the right to require that NLC purchase such holder's notes in whole or in part at a price equal to 100% of the outstanding principal amount.

First Southwest Nonrecourse Notes

In 2005, First Southwest participated in a monetization of future cash flows totaling $95.3 million from several tobacco companies owed to a law firm under a settlement agreement ("Fee Award"). In connection with the transaction, a special purpose entity that is consolidated with First Southwest issued $30.3 million of nonrecourse notes to finance the purchase of the Fee Award, to establish a reserve account and to fund issuance costs. Cash flows from the settlement are the sole source of payment for the notes. The notes carry an interest rate of 8.58% that can increase to 10.08% under certain credit conditions. The First Southwest nonrecourse notes were paid off in January 2015.

Insurance Company Line of Credit

The Company's insurance subsidiary has a line of credit with a financial institution which allows for borrowings by NLC of up to $7.5 million and is collateralized by substantially all of NLC's assets. The loan agreements relating to the line of credit contain various financial and other covenants which must be maintained until all indebtedness to the financial institution is repaid. The Company was in compliance with the covenants at December 31, 2014.

Principal Maturities

At December 31, 2014, notes payable outstanding of $56.7 million includes scheduled maturities of $5.0 million during 2015 and $51.7 million during 2033 and thereafter.

Senior Exchangeable Notes Due 2025

In August 2005, HTH Operating Partnership LP, a wholly owned subsidiary of Hilltop ("OP"), entered into an Indenture under which OP issued $96.6 million aggregate principal amount of 7.5% Senior Exchangeable Notes due 2025, or the Notes, to qualified institutional buyers in a private transaction. On October 15, 2013, OP called for redemption all outstanding Notes on November 14, 2013 (the "Redemption Date"). The outstanding Notes at October 15, 2013 of $90.9 million, including $6.9 million aggregate principal amount held by the Company's insurance company subsidiaries, were redeemed at a redemption price equal to the principal amount of the Notes, plus accrued and unpaid interest up to, but excluding, the Redemption Date. At any time prior to the Redemption Date, holders of the Notes could exchange the Notes for shares of Hilltop common stock at the rate of 73.94998 shares per $1,000 principal amount of the Notes (or approximately $13.52 per share). In lieu of delivery of Hilltop common stock upon the exercise by a holder of its exchange right, OP could elect to pay such holder of the Notes an amount in cash (or a combination of Hilltop common stock and cash) in respect of all or a portion of such holder's Notes equal to the closing price of Hilltop's common stock for the five consecutive trading days commencing on and including the third business day following the exercise of such exchange right. As of the closing of the redemption, the Notes held by third party investors were exchanged for 6,208,005 shares of Hilltop common stock and an aggregate cash payment of $11.1 million was made in exchange for the Notes held by the Company's insurance company subsidiaries.

The Notes were senior unsecured obligations of OP and were exchangeable, at the option of the holders, into shares of Hilltop common stock at an initial exchange rate of 69.8812 shares per $1,000 principal amount of the Notes (equal to an initial exchange price of approximately $14.31 per share), subject to adjustment and, in the event of specified corporate transactions involving Hilltop or OP, an additional make-whole premium. Upon exchange, OP had the option to deliver, in lieu of shares of common stock, cash or a combination of cash and shares of common stock. The Notes were treated as a combined instrument at the date of issuance and not bifurcated to separately account for any embedded derivative instruments principally because, in accordance with ASC 815, *Derivatives and Hedging,* (i) the conversion feature is indexed to Hilltop's common stock and would be classified in stockholders' equity if it were a freestanding derivative and (ii) the put and call option features were clearly and closely related to the Notes at fixed conversion amounts.

According to the terms of the Notes, their initial exchange rate was adjustable for certain events, including the issuance to all holders of Hilltop common stock of rights entitling them to purchase Hilltop common stock at less than their current market price. Accordingly, as a result of a rights offering in January 2007, in which all holders of Hilltop common stock were offered the right to purchase shares at $8.00 per share, the initial exchange rate of the Notes was adjusted to 73.94998 shares per $1,000 principal amount of the Notes (equal to an exchange rate of $13.52 per share).

In November 2011, Hilltop's insurance company subsidiaries purchased $6.9 million, par value, of the Notes in open market transactions at an average cost of 107.26% of par.

On October 15, 2013, Hilltop entered into a First Supplemental Indenture pursuant to which Hilltop guaranteed the obligations of OP under the Indenture.

14. Junior Subordinated Debentures and Trust Preferred Securities

PlainsCapital has four statutory Trusts, three of which were formed under the laws of the state of Connecticut and one of which, PCC Statutory Trust IV, was formed under the laws of the state of Delaware. The Trusts were created for the sole purpose of issuing and selling preferred securities and common securities, using the resulting proceeds to acquire junior subordinated debentures issued by PlainsCapital (the "Debentures"). Accordingly, the Debentures are the sole assets of the Trusts, and payments under the Debentures are the sole revenue of the Trusts. All of the common securities are owned by PlainsCapital; however, PlainsCapital is not the primary beneficiary of the Trusts. Accordingly, the Trusts are not included in the Company's consolidated financial statements.

The Trusts have issued $65,000,000 of floating rate preferred securities and $2,012,000 of common securities and have invested the proceeds from the securities in floating rate Debentures of PlainsCapital. Information regarding the PlainsCapital Debentures is shown in the following table (in thousands).

Investor	Issue Date	Amount
PCC Statutory Trust I	July 31, 2001	$ 18,042
PCC Statutory Trust II	March 26, 2003	$ 18,042
PCC Statutory Trust III	September 17, 2003	$ 15,464
PCC Statutory Trust IV	February 22, 2008	$ 15,464

The stated term of the Debentures is 30 years with interest payable quarterly. The rate on the Debentures, which resets quarterly, is 3-month LIBOR plus an average spread of 3.22%. The total average interest rate at December 31, 2014 was 3.47%. The term, rate and other features of the preferred securities are the same as the Debentures. PlainsCapital's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee of the Trust's obligations under the preferred securities.

15. Income Taxes

The significant components of the income tax provision (benefit) are as follows (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	$ 85,303	$ 51,441	$ 4,346
State	3,087	3,414	935
	88,390	54,855	5,281
Deferred:			
Federal	(21,851)	14,573	(5,649)
State	(931)	1,256	(777)
	(22,782)	15,829	(6,426)
	$ 65,608	$ 70,684	$ (1,145)

The income tax provision (benefit) differs from the amount that would be computed by applying the statutory Federal income tax rate of 35% to income (loss) before income taxes as a result of the following (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Computed tax at federal statutory rate	$ 62,358	$ 69,088	$ (2,185)
Tax effect of:			
Tax-exempt income, net	(2,085)	(2,042)	(151)
State income taxes	1,401	3,035	103
Valuation allowance	1,950	—	—
Nondeductible expenses	2,201	2,363	352
Minority interest	(318)	(479)	(174)

	Year Ended December 31,		
	2014	2013	2012
Nondeductible transaction costs	102	—	1,151
Prior year return to provision adjustment	360	(1,141)	(150)
Other	(361)	(140)	(91)
	$ 65,608	$ 70,684	$ (1,145)

The components of the tax effects of temporary differences that give rise to the net deferred tax asset included in other assets within the consolidated balance sheets are as follows (in thousands).

	December 31,	
	2014	2013
Deferred tax assets:		
Net operating loss carryforward	$ 15,919	$ 15,919
Covered loans	53,195	47,770
Purchase accounting adjustment - loans	15,110	27,997
Allowance for loan losses	15,255	12,383
Compensation and benefits	22,498	16,946
Indemnification agreements	6,631	8,308
Foreclosed property	13,458	13,589
Capital loss carryforward	1,950	—
Net unrealized change in securities and other investments	—	19,428
Other	14,793	16,216
	158,809	178,556
Deferred tax liabilities:		
Premises and equipment	13,567	13,269
FDIC Indemnification Asset	38,546	67,841
Intangible assets	18,989	22,708
Derivatives	9,368	9,428
Net unrealized change in securities and other investments	260	—
Loan servicing	13,531	7,480
Other	19,646	17,972
	113,907	138,698
Total net deferred tax asset	44,902	39,858
Less valuation allowance	(1,950)	—
Net deferred tax asset	$ 42,952	$ 39,858

At December 31, 2014 and 2013, the Company had net operating loss carryforwards for Federal income tax purposes of $45.5 million. The net operating loss carryforwards are subject to separate return limitations on their usage. These net operating loss carry-forwards expire in 2023 and later years. The Company expects to realize its current deferred tax asset for these net operating loss carryforwards through the implementation of certain tax planning strategies, core earnings, and reversal of timing differences. The Company recorded a valuation allowance of $1.9 million during 2014 against its gross deferred tax asset for capital loss carryforwards. The amount of the deferred tax asset considered realizable, however, could increase during the carryforward period if unexpected capital gains are recognized. The Company has no valuation allowance on the remainder of its deferred tax assets at December 31, 2014 or 2013.

GAAP requires the measurement of uncertain tax positions. Uncertain tax positions are the difference between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes. At December 31, 2014, the total amount of gross unrecognized tax benefits established in the current year was $0.6 million, of which $0.4 million if recognized, would favorably impact the Company's effective tax rate. There were no uncertain tax positions at December 31, 2013. The Company does not anticipate a significant change in the unrecognized tax benefits within the next twelve months.

The Company files income tax returns in U.S. federal and numerous state jurisdictions. The Company is subject to tax audits in numerous jurisdictions in the U.S. until the applicable statute of limitations expires. The Company is no longer subject to U.S. federal tax examinations for tax years prior to 2011. The Company is open for various state tax audits for tax years 2010 and later. The Company is currently under income tax examination by several state authorities for tax years 2010, 2011 and 2012. The Company does not expect any significant liability to arise as a result of the examinations.

16. Employee Benefits

Hilltop and its subsidiaries have benefit plans that provide for elective deferrals by employees under Section 401(k) of the Internal Revenue Code. Employee contributions are determined by the level of employee participation and related salary levels per Internal Revenue Service regulations. Hilltop and its subsidiaries match a portion of employee contributions to the plan based on entity-specific factors including the level of normal operating earnings and the amount of eligible employees' contributions and salaries. In addition, Hilltop, PlainsCapital and the Bank make additional contributions to employees' 401(k) accounts based on achievement of certain corporate objectives. The amount charged to operating expense for these matching contributions totaled $8.8 million, $7.5 million and $0.7 million during 2014, 2013 and 2012, respectively.

In connection with the PlainsCapital Merger, PlainsCapital terminated its employee stock ownership plan ("ESOP") and distributed the assets held by the ESOP (consisting of cash and shares of Hilltop common stock) to ESOP participants.

Effective upon the completion of the PlainsCapital Merger, the Company recorded a liability of $8.9 million associated with separate retention agreements entered into between Hilltop and two executive officers of PlainsCapital.

The Bank purchased $15.0 million of flexible premium universal life insurance in 2001 to help finance the annual expense incurred in providing various employee benefits. At December 31, 2014 and 2013, the carrying value of the policies included in other assets was $24.8 million and $24.5 million, respectively. For the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, the Bank recorded income of $0.4 million, $0.4 million and $0.1 million, respectively, related to the policies that was reported in other noninterest income within the consolidated statement of operations.

17. Related Party Transactions

Pursuant to a Management Services Agreement, as amended, Diamond A Administration Company LLC, or Diamond A, an affiliate of Gerald J. Ford, the current Chairman of the Board of Hilltop and the beneficial owner of 17.2% of Hilltop common stock at December 31, 2014, provided certain management services to the Company, including, among others, financial and acquisition evaluation, and office space to Hilltop. The services and office space were provided at a cost of $91,500 per month, plus reasonable out-of-pocket expenses. The services provided under this agreement include those of Hilltop directors, including Gerald J. Ford, Kenneth Russell and Carl B. Webb. Prior to Jeremy B. Ford assuming the role of Chief Executive Officer of Hilltop, he provided services to Hilltop under the Management Services Agreement. Hilltop also agreed to indemnify and hold harmless Diamond A for its performance or provision of these services, except for gross negligence and willful misconduct. Further, Diamond A's maximum aggregate liability for damages under this agreement is limited to the amounts paid to Diamond A under this agreement during twelve months prior to that cause of action. In connection with the PlainsCapital Merger on November 30, 2012, the Management Services Agreement was terminated. However, pursuant to a Sublease Agreement, Diamond A currently provides office space to Hilltop at a cost of $24,030 per month. This Sublease Agreement continues in effect until July 31, 2018 or such earlier date that the base lease expires.

Jeremy B. Ford, a director and the Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. Diamond A Financial, L.P. owned 17.2% of the outstanding Hilltop common stock at December 31, 2014. He also is a director and the Secretary of Diamond A Administration Company, LLC, which has provided management services and office space to Hilltop as described the preceding paragraph. Diamond A Administration Company, LLC is owned by Hunter's Glen/Ford, Ltd., a limited partnership in which a trust for the benefit of Jeremy B. Ford is a 46% limited partner.

Jeremy B. Ford is the son of Gerald J. Ford. Corey G. Prestidge, Hilltop's General Counsel and Secretary, is the son-in-law of Gerald J. Ford. Accordingly, Messrs. Jeremy Ford and Corey Prestidge are brothers-in-law.

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers and their affiliates (collectively referred to as related parties) totaling $32.7 million and $8.0 million at December 31, 2014 and 2013, respectively. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. For such loans during 2014, total principal additions were $11.9 million, total principal payments were $10.4 million and additions due to changes in status as a related party were $23.2 million.

At December 31, 2014 and 2013, the Bank held deposits of related parties of $161.9 million and $154.0 million, respectively.

A related party is the lessor in an operating lease with the Bank. The Bank's minimum payment under the lease is $0.5 million annually through 2028, for an aggregate remaining obligation of $7.0 million.

The Bank purchases loans from a company for which a related party serves as a director, president and chief executive officer. At both December 31, 2014 and 2013, the outstanding balance of the purchased loans was $6.0 million. The loans were purchased with recourse to the company in the ordinary course of business and the related party had no direct financial interest in the transactions.

PlainsCapital Equity, LLC is a limited partner in certain limited partnerships that have received loans from the Bank. The Bank made those loans in the normal course of business, using underwriting standards and offering terms that are substantially the same as those used or offered to non-affiliated borrowers. At December 31, 2014 and 2013, the Bank had outstanding loans of $0.2 million and $3.0 million, respectively, in which PlainsCapital Equity, LLC had a limited partnership interest. The investment of PlainsCapital Equity, LLC in these limited partnerships was $3.8 million and $3.7 million at December 31, 2014 and 2013, respectively.

18. Commitments and Contingencies

The Bank acts as agent on behalf of certain correspondent banks in the purchase and sale of federal funds that aggregated $7.5 million at December 31, 2013. At December 31, 2014, there were no such amounts outstanding.

Legal Matters

The Company is subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. The Company evaluates these contingencies based on information currently available, including advice of counsel. The Company establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. Some of the Company's exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates of possible loss contingencies however, the Company does not take into account the availability of insurance coverage. When it is practicable, the Company estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. When the Company is able to estimate such possible losses, and when it estimates that it is reasonably possible it could incur losses, in excess of amounts accrued, the Company is required to make a disclosure of the aggregate estimation. However, as available information changes, the matters for which the Company is able to estimate, as well as the estimates themselves will be adjusted, accordingly.

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified, unsupported, or uncertain damages; damages other than compensatory, such as punitive damages; a matter presenting meaningful legal uncertainties, including novel issues of law; multiple defendants and jurisdictions; whether discovery has begun or not or discovery is not complete; meaningful settlement discussions have not commenced; and whether the claim involves a class action and if so, how the class is defined. As a result of some of these factors, the Company may be unable to estimate reasonably possible losses with respect to some or all of the pending and threatened litigation and claims asserted against the Company.

Each of Hilltop, Hilltop Securities Holdings LLC ("Hilltop Securities"), formerly Peruna LLC (wholly owned subsidiary of Hilltop), SWS and the individual members of the board of directors of SWS have been named as defendants in two purported stockholder class action lawsuits arising out of the merger. Both lawsuits were filed in Delaware Chancery Court (*Joseph Arceri v. SWS Group, Inc. et al* and *Chaile Steinberg v. SWS Group, Inc. et al* filed April 8, 2014 and April 11, 2014, respectively). On May 13, 2014, the Delaware Chancery Court consolidated the two actions (the "Consolidated Action") for all purposes. On June 10, 2014, plaintiffs filed a consolidated amended complaint. The complaint generally alleges, among other things, that the SWS board of directors breached its fiduciary duties to stockholders by failing to take steps to maximize stockholder value or to engage in a fair sale process before approving the merger, that the SWS board of directors labored under conflicts of interest, that certain provisions of the merger agreement unduly restrict SWS's ability to negotiate with other potential bidders, and that the other defendants aided and abetted the SWS board of director's breaches of fiduciary duty. The complaint further alleges, among other things, that the proxy statement/prospectus filed by Hilltop on May 29, 2014 omits or misstates certain material information. The complaints seek relief that includes, among other things, an injunction prohibiting the consummation of the merger, rescission to the extent the merger terms have already been implemented, damages for the alleged breaches of fiduciary duty, and the payment of plaintiffs' attorneys' fees and costs.

On November 13, 2014, the parties to the Consolidated Action entered into a memorandum of understanding (the "MOU") reflecting the terms of an agreement, subject to final approval by the Court and certain other conditions, to settle the Consolidated Action. Pursuant to the MOU, defendants, without admitting any wrongdoing, agreed to make certain supplemental disclosures requested by plaintiffs in the Consolidated Action, as set forth in SWS's Current Report on Form 8-K dated November 14, 2014. In addition, Hilltop agreed to forbear from asserting certain rights under the Agreement and Plan of Merger, dated as of March 31, 2014, by and among Hilltop, Hilltop Securities and SWS. The MOU further contemplates that, following confirmatory discovery, the parties will enter into a stipulation of settlement, which will be subject to customary conditions, including court approval following notice to the former stockholders of SWS. If the parties enter into a stipulation of settlement, a hearing will be scheduled at which the court will consider the fairness, reasonableness and adequacy of the settlement. There can be no assurance that the parties will ultimately enter into a stipulation of settlement, that the applicable court will approve any proposed settlement, or that any eventual settlement will be under the same terms as those contemplated by the MOU.

Following completion of Hilltop's acquisition of SWS, several purported holders of shares of SWS common stock, representing a total of approximately 8.43 million shares of common stock of SWS, filed petitions in the Court of Chancery of the State of Delaware seeking appraisal for their shares pursuant to Section 262 of the Delaware General Corporation Law. The actions are captioned as follows: *Highland Select Equity Master Fund, L.P. et al. v. SWS Group, Inc. et al.*, C.A. No. 10554-VCG; *Lone Star Value Investors, LP et al. v. SWS Group, Inc. et al.*, C.A. No. 10572-VCG; *Merlin Partners, LP et al. v. SWS Group, Inc. et al.*, C.A. No. 10578-VCG. The Company believes these claims are without merit and intends to vigorously defend these actions.

On or about November 2, 2012, FSC, along with thirteen other defendants, was named in a lawsuit pending in the state of Rhode Island Superior Court styled Rhode Island Economic Development Corporation v. Wells Fargo Securities, LLC, et al. FSC is included in connection with its role as financial advisor to the State of Rhode Island, specifically in connection with the Rhode Island Economic Development Corporation's issuance of $75 million in bonds to finance a loan to 38 Studios, LLC. FSC intends to defend itself vigorously in this action.

The Company is involved in information-gathering requests and investigations (both formal and informal), as well as reviews, examinations and proceedings (collectively, "Inquiries") by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding certain of its businesses, business practices and policies, as well as the conduct of persons with whom it does business. Additional Inquiries will arise from time to time. In connection with those Inquiries, the Company receives document requests, subpoenas and other requests for information. The Inquiries, including the Inquiry described below, could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on the Company's consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in the Company's business practices, and could result in additional expenses and collateral costs, including reputational damage.

As a part of an industry-wide inquiry, PrimeLending received a subpoena from the Office of Inspector General of the U.S. Department of Housing and Urban Development regarding mortgage-related practices, including those relating to origination practices for loans insured by the Federal Housing Administration (the "FHA"). On August 20, 2014, PrimeLending received a Civil Investigative Demand from the United States Department of Justice (the "DOJ") related to this Inquiry. According to the Civil Investigative Demand, the DOJ is conducting an investigation to determine whether PrimeLending has violated the False Claims Act in connection with originating and underwriting single-family residential mortgage loans insured by the FHA. No allegations have been asserted against PrimeLending. PrimeLending cannot predict the ultimate outcome of this investigation, and cannot make a reasonable estimate of potential liability, if any, at this time. PrimeLending is cooperating with the investigation and continues to respond to the Civil Investigative Demand.

While the final outcome of litigation and claims exposures or of any Inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and Inquiries will not have a material effect on the Company's business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be material to the Company's business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

Other Contingencies

The mortgage origination segment may be responsible for errors or omissions relating to its representations and warranties that each loan sold meets certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. If determined to be at fault, the mortgage origination segment either repurchases the affected loan from the investor or reimburses the investor's losses. The mortgage origination segment has established an indemnification liability reserve for such probable losses.

Generally, the mortgage origination segment first becomes aware that an investor believes a loss has been incurred on a sold loan when it receives a written request from the investor to repurchase the loan or reimburse the investor's losses. Upon completing its review of the investor's request, the mortgage origination segment establishes a specific claims reserve for the loan if it concludes its obligation to the investor is both probable and reasonably estimable.

An additional reserve has been established for probable investor losses that may have been incurred, but not yet reported to the mortgage origination segment based upon a reasonable estimate of such losses. Factors considered in the calculation of this reserve include, but are not limited to, the total volume of loans sold exclusive of specific investor requests, actual investor claim settlements and the severity of estimated losses resulting from future claims, and the mortgage origination segment's history of successfully curing defects identified in investor claim requests. While the mortgage origination segment's sales contracts typically include borrower early payment default repurchase provisions, these provisions have not been a primary driver of investor claims to date, and therefore, are not a primary factor considered in the calculation of this reserve.

At December 31, 2014 and 2013, the mortgage origination segment's indemnification liability reserve totaled $17.6 million and $21.1 million, respectively. The provision for indemnification losses was $3.1 million, $3.5 million and $0.4 million during the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively.

The following tables provide for a roll-forward of claims activity for loans put-back to the mortgage origination segment based upon an alleged breach of a representation or warranty with respect to a loan sold and related indemnification liability reserve activity (in thousands).

	Representation and Warranty Specific Claims Activity - Origination Loan Balance		
	Year Ended December 31,		Month Ended
	2014	2013	December 31, 2012
Balance, beginning of period	$ 51,912	$ 39,693	$ 35,217
Claims made	50,558	40,001	6,463
Claims resolved with no payment	(29,257)	(17,746)	(1,565)
Repurchases	(15,439)	(6,255)	(422)
Indemnification payments	(3,868)	(3,781)	—
Balance, end of period	$ 53,906	$ 51,912	$ 39,693

	Indemnification Liability Reserve Activity		
	Year Ended December 31,		Month Ended
	2014	2013	December 31, 2012
Balance, beginning of period	$ 21,121	$ 18,964	$ 18,544
Additions for new sales	3,109	3,539	420
Repurchases	(1,593)	(251)	(31)
Early payment defaults	(143)	(528)	(51)
Indemnification payments	(1,708)	(1,003)	—
Change in estimate	(3,167)	400	82
Balance, end of period	$ 17,619	$ 21,121	$ 18,964

	December 31,	
	2014	2013
Reserve for Indemnification Liability:		
Specific claims	$ 7,912	$ 12,179
Incurred but not reported claims	9,707	8,942
Total	$ 17,619	$ 21,121

Although management considers the total indemnification liability reserve to be appropriate, there may be changes in the reserve over time to address incurred losses, due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters is considered in the reserving process when probable and estimable.

In connection with the FNB Transaction, the Bank entered into two loss-share agreements with the FDIC that collectively cover $1.2 billion of loans and OREO acquired in the FNB Transaction. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of losses on the first $240.4 million of losses incurred;

(ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The Bank has also agreed to reimburse the FDIC for any subsequent recoveries. The loss-share agreements for commercial and single family residential loans are in effect for 5 years and 10 years, respectively, from the Bank Closing Date and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. As of December 31, 2014, the Bank estimated that covered losses and reimbursable expenses exceed $240.4 million, but do not exceed $365.7 million. Unless the estimates of covered losses and reimbursable expenses exceed $365.7 million, the Bank will not record additional reimbursement receivable from the FDIC. As of December 31, 2014, the Bank had billed $75.5 million of covered net losses to the FDIC, of which 80%, or $60.4 million, are reimbursable under the loss-share agreements. As of December 31, 2014, the Bank had received aggregate reimbursements of $38.5 million from the FDIC.

As discussed in Note 16 to the consolidated financial statements, effective upon completion of the PlainsCapital Merger, Hilltop entered into separate retention agreements with two executive officers of PlainsCapital, one having an initial term of three years (with automatic one-year renewals at the end of two years and each anniversary thereof) and the other having an initial term of two years (with automatic one-year renewals at the end of the first year and each anniversary thereof). Each of these retention agreements provides for severance pay benefits if the executive officer's employment is terminated without "cause".

In addition to these retention agreements, Hilltop and its subsidiaries maintain employment contracts with certain officers that provide for benefits in the event of a "change in control" as defined in these agreements.

Hilltop and its subsidiaries lease space, primarily for branch facilities and automated teller machines, under noncancelable operating leases with remaining terms, including renewal options, of 1 to 15 years and under capital leases with remaining terms of 11 to 15 years. Rental expense under the operating leases was $31.4 million, $29.2 million and $2.9 million in 2014, 2013 and 2012, respectively. Future minimum lease payments under these agreements follow (in thousands).

	Operating Leases	Capital Leases
2015	$ 24,588	$ 1,090
2016	19,677	1,103
2017	14,561	1,129
2018	12,565	1,167
2019	7,211	1,187
Thereafter	28,169	10,348
Total minimum lease payments	$ 106,771	16,024
Amount representing interest		(6,126)
Present value of minimum lease payments		$ 9,898

19. Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit that involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. The contract amounts of those instruments reflect the extent of involvement (and therefore the exposure to credit loss) the Bank has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Because some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.4 billion at December 31, 2014 and outstanding financial and performance standby letters of credit of $45.1 million at December 31, 2014.

The Bank uses the same credit policies in making commitments and standby letters of credit as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, in these transactions is based on management's credit evaluation of the borrower. Collateral held varies but may include real estate, accounts receivable, marketable securities, interest-bearing deposit accounts, inventory, and property, plant and equipment.

In the normal course of business, FSC executes, settles, and finances various securities transactions that may expose FSC to off-balance sheet risk in the event that a customer or counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the account of FSC, use of derivatives to support certain non-profit housing organization clients, clearing agreements between FSC and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

20. Stock-Based Compensation

Pursuant to the Hilltop Holdings 2012 Equity Incentive Plan (the "2012 Plan"), the Company may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights and other awards to employees of the Company, its subsidiaries and outside directors of the Company. Upon the approval by stockholders and effectiveness of the 2012 Plan in September 2012, no additional awards were permissible under the 2003 Equity Incentive Plan (the "2003 Plan"). In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2014, 3,078,374 shares of common stock remain available for issuance pursuant to the 2012 Plan.

During 2014, the Compensation Committee of the Board of Directors of the Company awarded certain executives and key employees an aggregate of 444,175 restricted stock units ("RSUs") pursuant to the 2012 Plan, of which 434,864 remain outstanding at December 31, 2014. At December 31, 2014, 364,827 of the outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 70,037 outstanding RSUs vest based upon the achievement of certain performance goals over a three-year period. These RSUs are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods. The weighted average grant date fair value related to these RSUs was $23.16 per share. At December 31, 2014, unrecognized compensation expense related to these RSUs was $7.9 million, which will be amortized through December 2017. The RSUs are not transferable, and the shares of common stock issuable upon conversion of vested RSUs are generally subject to transfer restrictions for a period of one year following conversion, subject to certain exceptions. In addition, the applicable RSU award agreements provide for accelerated vesting under certain conditions.

During 2013, the Compensation Committee of the Board of Directors of the Company awarded certain executives and key employees a total of 471,000 restricted shares of common stock ("Restricted Stock Awards") pursuant to the 2012 Plan, of which 466,000 remain outstanding at December 31, 2014. These Restricted Stock Awards generally cliff vest on the third anniversary of the grant date and are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods. The weighted average grant date fair value related to these Restricted Stock Awards was $13.32 per share. At December 31, 2014, unrecognized compensation expense related to these Restricted Stock Awards was $2.7 million, which will be amortized through September 2016. The award agreements governing these Restricted Stock Awards provide for accelerated vesting under certain conditions.

During 2014, 2013 and 2012, Hilltop granted 9,519, 9,343 and 5,183 shares of common stock, respectively, to independent members of the Company's Board of Directors for services rendered to the Company pursuant to the 2012 Plan.

Stock options granted on November 2, 2011 to two senior executives pursuant to the 2003 Plan to purchase an aggregate of 600,000 shares of the Company's common stock (the "Stock Option Awards") at an exercise price of $7.70 per share were outstanding at December 31, 2014. These Stock Option Awards vest in five equal installments beginning on the grant date, with the remainder vesting on each grant date anniversary through 2015. At December 31, 2014, unrecognized compensation expense related to these Stock Option Awards was $49 thousand, which will be amortized through October 2015. These Stock Option Awards expire on November 2, 2016. The fair value for these Stock Option Awards granted was estimated using the Black-Scholes option pricing model with an expected volatility of 25%, a risk-free interest rate of 0.96%, a dividend yield rate of zero, a five-year expected life of the options and a forfeiture rate of 15%.

Compensation expense related to the plans was $4.7 million, $1.7 million and $0.5 million during 2014, 2013 and 2012, respectively.

21. Regulatory Matters

Bank

The Bank and Hilltop are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct, material effect on the consolidated financial statements. The regulations require us to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the companies to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

In July 2013, federal banking regulators released final rules for the regulation of capital and liquidity for U.S. banking organizations, establishing a new comprehensive capital framework ("Basel III") for U.S. banking organizations that will become effective for reporting periods beginning after January 1, 2015 (subject to a phase-in period through January 2019).

In addition, under the final rules, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed to continue to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, if an institution grows to above $15 billion in assets as a result of an acquisition, or organically grows to above $15 billion in assets and then makes an acquisition, the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2014, under guidance issued by the Board of Governors of the Federal Reserve System.

Management believes that, as of December 31, 2014, Hilltop and the Bank would meet all applicable capital adequacy requirements under the Basel III capital rules for banks with less than $15 billion in assets on a fully phased-in basis as if such requirements were currently in effect.

During September 2013, Hilltop and PlainsCapital contributed capital of $35.0 million and $25.0 million, respectively, to the Bank to provide additional capital in connection with the FNB Transaction.

The following table shows the Bank's and Hilltop's consolidated actual capital amounts and ratios compared to the regulatory minimum capital requirements and the Bank's regulatory minimum capital requirements needed to qualify as a "well-capitalized" institution (dollars in thousands), without giving effect to the final Basel III capital rules.

	Actual		Minimum Capital Requirements		To Be Well Capitalized Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Tier 1 capital (to average assets):						
Bank	$ 845,656	10.31%	$ 328,025	4%	$ 410,031	5%
Hilltop	1,231,724	14.17%	347,619	4%	N/A	N/A
Tier 1 capital (to risk-weighted assets):						
Bank	845,656	13.74%	246,099	4%	369,148	6%
Hilltop	1,231,724	19.02%	259,078	4%	N/A	N/A
Total capital (to risk-weighted assets):						
Bank	888,744	14.45%	492,198	8%	615,247	10%
Hilltop	1,275,023	19.69%	518,157	8%	N/A	N/A
December 31, 2013						
Tier 1 capital (to average assets):						
Bank	$ 762,364	9.29%	$ 328,275	4%	$ 410,344	5%
Hilltop	1,112,424	12.81%	347,480	4%	N/A	N/A
Tier 1 capital (to risk-weighted assets):						
Bank	762,364	13.38%	227,984	4%	341,976	6%
Hilltop	1,112,424	18.53%	240,159	4%	N/A	N/A
Total capital (to risk-weighted assets):						
Bank	797,771	14.00%	455,968	8%	569,960	10%
Hilltop	1,148,736	19.13%	480,318	8%	N/A	N/A

To be considered "adequately capitalized" (as defined) under regulatory requirements, the Bank must maintain minimum Tier 1 capital to total average assets and Tier 1 capital to risk-weighted assets ratios of 4%, and a total capital to risk-weighted assets ratio of 8%. Based on the actual capital amounts and ratios shown in the previous table, the Bank's ratios place it in the "well capitalized" (as defined) capital category under regulatory requirements.

A reconciliation of equity capital to Tier 1 and total capital (as defined) is as follows (in thousands).

	December 31, 2014		December 31, 2013	
	Bank	Hilltop	Bank	Hilltop
Total equity capital	$ 1,104,048	$ 1,460,452	$ 985,519	$ 1,311,141
Add:				
Minority interests	787	787	781	781
Trust preferred securities	—	65,000	—	65,000
Net unrealized holding losses on securities available for sale and held in trust	3,484	(651)	42,901	34,863
Deduct:				
Goodwill and other disallowed intangible assets	(259,048)	(290,052)	(264,822)	(297,174)
Other	(3,615)	(3,812)	(2,015)	(2,187)
Tier 1 capital (as defined)	845,656	1,231,724	762,364	1,112,424
Add: Allowable Tier 2 capital				
Allowance for loan losses	43,088	43,088	35,407	35,407
Net unrealized holding losses on equity securities	—	211	—	905
Total capital (as defined)	$ 888,744	$ 1,275,023	$ 797,771	$ 1,148,736

Broker-Dealer

Pursuant to the net capital requirements of the Exchange Act, FSC has elected to determine its net capital requirements using the alternative method. Accordingly, FSC is required to maintain minimum net capital, as defined in Rule 15c3-1 promulgated under the Exchange Act, equal to the greater of $250,000 or 2% of aggregate debit balances, as defined in Rule 15c3-3 promulgated under the Exchange Act. At December 31, 2014, FSC had net capital of $64.3 million (the minimum net capital requirement was $5.3 million), net capital maintained by FSC was 24% of aggregate debits, and net capital in excess of the minimum requirement was $59.0 million.

Mortgage Origination

As a mortgage originator, PrimeLending is subject to minimum net worth requirements established by the United States Department of Housing and Urban Development ("HUD") and the GNMA. On an annual basis, PrimeLending submits audited financial statements to HUD and GNMA documenting PrimeLending's compliance with its minimum net worth requirements. In addition, PrimeLending monitors compliance on an ongoing basis and, as of December 31, 2014, PrimeLending's net worth exceeded the amounts required by both HUD and GNMA.

Insurance

The statutory financial statements of the Company's insurance subsidiaries, which are domiciled in the State of Texas, are presented on the basis of accounting practices prescribed or permitted by the Texas Department of Insurance. Texas has adopted the National Association of Insurance Commissioners' ("NAIC") statutory accounting practices as the basis of its statutory accounting practices with certain differences that are not significant to the insurance company subsidiaries' statutory equity.

A summary of statutory capital and surplus and statutory net income (loss) of each insurance subsidiary is as follows (in thousands).

	December 31,	
	2014	2013
Capital and surplus:		
National Lloyds Insurance Company	$ 113,023	$ 98,602
American Summit Insurance Company	28,966	26,452

	Year Ended December 31,		
	2014	2013	2012
Statutory net income (loss):			
National Lloyds Insurance Company	$ 14,893	$ 3,583	$ (3,858)
American Summit Insurance Company	2,554	521	972

Regulations of the Texas Department of Insurance require insurance companies to maintain minimum levels of statutory surplus to ensure their ability to meet their obligations to policyholders. At December 31, 2014, the Company's insurance subsidiaries had statutory surplus in excess of the minimum required.

The NAIC has adopted a risk based capital ("RBC") formula for insurance companies that establishes minimum capital requirements indicating various levels of available regulatory action on an annual basis relating to insurance risk, asset credit risk, interest rate risk and business risk. The RBC formula is used by the NAIC and certain state insurance regulators as an early warning tool to identify companies that require additional scrutiny or regulatory action. At December 31, 2014, the Company's insurance subsidiaries' RBC ratio exceeded the level at which regulatory action would be required.

22. Stockholders' Equity

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2014, $225.6 million of its earnings was available for dividend declaration without prior regulatory approval.

At December 31, 2014, the maximum aggregate dividend that may be paid to NLC from its insurance company subsidiaries in 2015 without regulatory approval is $17.8 million.

Series B Preferred Stock

As discussed in Note 2, and as a result of the PlainsCapital Merger, the outstanding shares of PlainsCapital's Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the U.S. Treasury, were converted on a one-for-one basis into shares of Hilltop Series B Preferred Stock. The terms of the Hilltop Series B Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, fluctuated until December 31, 2013 based upon changes in the level of "qualified small business lending" ("QSBL") by the Bank. The shares of Hilltop Series B Preferred Stock are senior to shares of Hilltop common stock with respect to dividends and liquidation preference, and qualify as Tier 1 Capital for regulatory purposes. At both December 31, 2014 and 2013, $114.1 million of Hilltop Series B Preferred Stock was outstanding.

The dividend rate on the Hilltop Series B Preferred Stock is fixed at 5.0% from January 1, 2014 until March 26, 2016, based upon the level of QSBL at September 30, 2013. Beginning March 27, 2016, the dividend rate on any outstanding shares of Hilltop Series B Preferred Stock will be fixed at nine percent (9%) per annum.

The terms of the Hilltop Series B Preferred Stock restrict Hilltop's ability to pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment on its common stock and other Hilltop capital stock ranking junior to the Hilltop Series B Preferred Stock, and on other preferred stock and other stock ranking on a parity with the Hilltop Series B Preferred Stock, in the event that Hilltop does not declare dividends on the Hilltop Series B Preferred Stock during any dividend period.

As long as shares of Hilltop Series B Preferred Stock remain outstanding, Hilltop may not pay dividends to its common stockholders (nor may Hilltop repurchase or redeem any shares of its common stock) during any quarter in which the Company fails to declare and pay dividends on the Hilltop Series B Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Hilltop Series B Preferred Stock, Hilltop may only declare and pay dividends on its common stock (or repurchase shares of Hilltop common stock), if, after payment of such dividend, the dollar amount of Hilltop's Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of September 27, 2011, excluding any charge-offs and redemptions of the Hilltop Series B Preferred Stock.

The Company may redeem the Hilltop Series B Preferred Stock at any time at its option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, subject to the approval of the Company's federal banking regulator.

23. Other Noninterest Income and Expense

The following tables show the components of other noninterest income and expense (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Other noninterest income:			
Change in fair value of FSC derivatives	$ 16,228	$ 11,427	$ 238
Commission and insurance agency income	3,380	2,765	2,159
Direct bill fees and insurance service fee income	5,719	5,697	5,174
FDIC Indemnification Asset accretion	3,445	1,699	—
Net gain (loss) from trading securities portfolio	2,126	(2,773)	(646)
Net gain on investment in SWS common stock	5,985	—	—
Rent and other income from other real estate owned	5,703	625	—

	Year Ended December 31,		
	2014	2013	2012
Revenue from check and stored value cards	7,614	4,682	276
Service charges on depositor accounts	16,730	11,376	724
Trust fees	6,330	5,050	411
Other	6,281	4,122	237
	$ 79,541	$ 44,670	$ 8,573

Other noninterest expense:			
Accounting fees	$ 5,247	$ 5,455	$ 2,269
Acquisition costs	1,406	117	6,570
Amortization of intangible assets	11,138	11,087	1,986
Data processing	23,096	17,922	4,033
Funding fees	2,521	4,403	593
Management fees	—	—	1,025
Marketing	21,372	17,257	2,245
Other professional services	39,310	32,526	5,004
Printing, stationery and supplies	4,902	4,583	735
Repossession and foreclosure	17,621	3,546	47
Telecommunications	11,249	8,350	834
Unreimbursed loan closing costs	32,669	30,095	5,944
Other	61,048	52,606	3,083
	$ 231,579	$ 187,947	$ 34,368

24. Derivative Financial Instruments

The Company uses various derivative financial instruments to mitigate interest rate risk. The Bank’s interest rate risk management strategy involves effectively managing the re-pricing characteristics of certain assets and liabilities to mitigate potential adverse impacts from changes in interest rates on the net interest margin. PrimeLending has interest rate risk relative to IRLCs and its inventory of mortgage loans held for sale. PrimeLending is exposed to such rate risk from the time an IRLC is made to an applicant to the time the related mortgage loan is sold. To mitigate interest rate risk, PrimeLending executes forward commitments to sell mortgage-backed securities (“MBSs”). Additionally, PrimeLending has interest rate risk relative to its MSR asset. During the three months ended September 30, 2014, PrimeLending began using derivative instruments, including interest rate swaps and swaptions, to hedge this risk. FSC uses forward commitments to both purchase and sell MBSs to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions.

Non-Hedging Derivative Instruments and the Fair Value Option

As discussed in Note 3 to the consolidated financial statements, the Company has elected to measure substantially all mortgage loans held for sale at fair value under the provisions of the Fair Value Option. The election provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying complex hedge accounting provisions. The fair values of PrimeLending’s IRLCs, forward commitments, and interest rate swaps and swaptions are recorded in other assets or other liabilities, as appropriate, and changes in the fair values of these derivative instruments are recorded as a component of net gains from sale of loans and other mortgage production income. The fair value of PrimeLending’s derivative instruments decreased $16.3 million during the year ended December 31, 2014, compared with an increase of $8.2 million during the year ended December 31, 2013 and a decrease of $5.9 million during the month ended December 31, 2012. Changes in fair value are attributable to changes in the volume of IRLCs, mortgage loans held for sale, commitments to purchase and sell MBSs and MSR, and changes in market interest rates. Changes in market interest rates also conversely affect the value of PrimeLending’s mortgage loans held for sale and its MSR asset, which are measured at fair value under the Fair Value Option. The effect of the change in market interest rates on PrimeLending’s loans held for sale and MSR asset is discussed in Note 3 to the consolidated financial statements. The fair values of FSC’s derivative instruments are recorded in other assets or other liabilities, as appropriate, and the fair values of FSC’s derivatives increased $16.2 million, $11.4 million and $0.2 million for the years ended December 31, 2014 and 2013 and the month ended December 31, 2012, respectively. The changes in fair value were recorded as a component of other noninterest income.

Derivative positions are presented in the following table (in thousands).

	December 31, 2014		December 31, 2013	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments:				
IRLCs	$ 621,216	$ 17,057	$ 602,467	$ 12,151
Commitments to purchase MBSs	510,553	6,040	236,305	(109)
Commitments to sell MBSs	1,968,768	(12,566)	1,645,332	11,383
Interest rate swaps and swaptions	83,000	425	—	—
Fee Award Option	—	—	20,432	(5,600)

PrimeLending has advanced cash collateral totaling $6.6 million and $1.3 million to offset net liability derivative positions on its commitments to sell MBSs at December 31, 2014 and 2013, respectively. In addition, PrimeLending has advanced cash collateral totaling $3.3 million in initial margin on its interest rate swaps and swaptions at December 31, 2014. These amounts are included in other assets within the consolidated balance sheets.

25. Balance Sheet Offsetting

Certain financial instruments, including resale and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheets and/or subject to master netting arrangements or similar agreements. The following tables present the assets and liabilities subject to enforceable master netting arrangements, repurchase agreements, or similar agreements with offsetting rights (in thousands).

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2014						
Securities borrowed:						
Institutional counterparties	$ 152,899	$ —	$ 152,899	$ (152,899)	$ —	$ —
Interest rate swaps and swaptions:						
Institutional counterparties	425	—	425	—	—	425
Forward MBS derivatives:						
Institutional counterparties	41	—	41	—	—	41
	$ 153,365	$ —	$ 153,365	$ (152,899)	$ —	$ 466
December 31, 2013						
Securities borrowed:						
Institutional counterparties	$ 107,365	$ —	$ 107,365	$ (107,365)	$ —	$ —
Forward MBS derivatives:						
Institutional counterparties	11,489	(76)	11,413	—	(286)	11,127
	$ 118,854	$ (76)	$ 118,778	$ (107,365)	$ (286)	$ 11,127

	Gross Amounts of Recognized Liabities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged	Net Amount
December 31, 2014						
Securities loaned:						
Institutional counterparties.............	$ 117,822	$ —	$ 117,822	$ (117,822)	$ —	$ —
Repurchase agreements:						
Customer counterparties.............	136,396	—	136,396	(136,396)	—	—
Forward MBS derivatives:						
Institutional counterparties.............	12,829	(223)	12,606	—	(6,137)	6,469
	$ 267,047	$ (223)	$ 266,824	$ (254,218)	$ (6,137)	$ 6,469
December 31, 2013						
Securities loaned:						
Institutional counterparties.............	$ 74,913	$ —	$ 74,913	$ (74,913)	$ —	$ —
Repurchase agreements:						
Customer counterparties.............	107,462	—	107,462	(107,462)	—	—
Forward MBS derivatives:						
Institutional counterparties.............	30	—	30	—	(17)	13
	$ 182,405	$ —	$ 182,405	$ (182,375)	$ (17)	$ 13

26. Broker-Dealer and Clearing Organization Receivables and Payables

Broker-dealer and clearing organization receivables and payables consisted of the following (in thousands).

	December 31, 2014	December 31, 2013
Receivables:		
Securities borrowed..........	$ 152,899	$ 107,365
Securities failed to deliver	3,497	7,160
Clearing organizations	11,471	4,698
Due from dealers.............	17	94
	$ 167,884	$ 119,317
Payables:		
Securities loaned	$ 117,822	$ 74,913
Correspondents	51,930	44,852
Securities failed to receive	5,960	5,523
Clearing organizations	3,330	4,390
	$ 179,042	$ 129,678

27. Deferred Policy Acquisition Costs

Policy acquisition expenses, primarily commissions, premium taxes and underwriting expenses related to the successful issuance of a new or renewal policy incurred by NLC are deferred and charged against income ratably over the terms of the related policies. A summary of the activity in deferred policy acquisition costs is as follows (in thousands).

	Year Ended December 31,	
	2014	2013
Balance, beginning of year	$ 20,991	$ 19,812
Acquisition expenses capitalized	41,034	41,771
Amortization charged to income	(41,609)	(40,592)
Balance, end of year	$ 20,416	$ 20,991

Amortization is included in policy acquisition and other underwriting expenses in the accompanying consolidated statements of operations.

28. Reserve for Losses and Loss Adjustment Expenses

A rollforward of NLC's reserve for unpaid losses and LAE is as follows (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Balance, beginning of year	$ 27,468	$ 34,012	$ 44,835
Less reinsurance recoverables	(4,508)	(10,385)	(25,083)
Net balance, beginning of year	22,960	23,627	19,752
Incurred related to:			
Current year	86,642	110,096	109,328
Prior years	7,787	659	(169)
Total incurred	94,429	110,755	109,159
Payments related to:			
Current year	(73,841)	(96,284)	(90,743)
Prior years	(18,147)	(15,138)	(14,541)
Total payments	(91,988)	(111,422)	(105,284)
Net balance, end of year	25,401	22,960	23,627
Plus reinsurance recoverables	4,315	4,508	10,385
Balance, end of year	$ 29,716	$ 27,468	$ 34,012

The increase in the NLC's reserves at December 31, 2014 as compared with December 31, 2013 of $2.2 million is primarily due to increased reserves attributable to the prior period adverse development. This prior period adverse development totaled $7.8 million during 2014 and was primarily related to litigation emerging from a series of hail storms within the 2012 accident year.

29. Reinsurance Activity

NLC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk. Substantial amounts of business are ceded, and these reinsurance contracts do not relieve NLC from its obligations to policyholders. Such reinsurance includes quota share, excess of loss, catastrophe, and other forms of reinsurance on essentially all property and casualty lines of insurance. Net insurance premiums earned, losses and LAE and policy acquisition and other underwriting expenses are reported net of the amounts related to reinsurance ceded to other companies. Amounts recoverable from reinsurers related to the portions of the liability for losses and LAE and unearned insurance premiums ceded to them are reported as assets. Failure of reinsurers to honor their obligations could result in losses to NLC; consequently, allowances are established for amounts deemed uncollectible as NLC evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31 2014, reinsurance receivables have a carrying value of $4.9 million, which is included in other assets within the consolidated balance sheet. There was no allowance for uncollectible accounts at December 31, 2014, based on NLC's quality requirements.

Reinsurers with a balance in excess of 5% of the Company's outstanding reinsurance receivables at December 31, 2014 are listed below (in thousands).

	Balances Due From Reinsurers	A.M. Best Rating
Federal Emergency Management Agency	$ 3,476	N/A
Everest Re	480	A+
Lloyd's Syndicate # 2001	432	A+
R+V Versicherung AG	360	N/A
General Reinsurance	320	A++
Lloyd's Syndicate #2791	273	N/A
	$ 5,341	

The effects of reinsurance on premiums written and earned are summarized as follows (in thousands).

	Year Ended December 31,					
	2014		2013		2012	
	Written	Earned	Written	Earned	Written	Earned
Premiums from direct business	$ 172,464	$ 173,496	$ 173,982	$ 168,942	$ 163,780	$ 162,383
Reinsurance assumed	9,746	8,960	7,987	7,202	6,422	5,882
Reinsurance ceded	(17,845)	(17,932)	(18,528)	(18,611)	(19,751)	(21,564)
Net premiums	$ 164,365	$ 164,524	$ 163,441	$ 157,533	$ 150,451	$ 146,701

The effects of reinsurance on incurred losses are as follows (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Loss and LAE incurred	$ 97,011	$ 117,089	$ 115,347
Reinsurance recoverables	(2,582)	(6,334)	(6,188)
Net loss and LAE incurred	$ 94,429	$ 110,755	$ 109,159

Multi-line excess of loss coverage

In addition to the catastrophe reinsurance noted below, both NLIC and ASIC participate in an excess of loss program placed with various reinsurers. This program is limited to each risk with respect to property and liability in the amount of $500,000 for each of NLIC and ASIC. Each of NLIC and ASIC retain $500,000 in this program.

Catastrophic coverage

NLC's liabilities for losses and loss adjustment expenses include liabilities for reported losses, liabilities for incurred but not reported, or IBNR, losses and liabilities for loss adjustment expenses, or LAE, less a reduction for reinsurance recoverables related to those liabilities. The amount of liabilities for reported claims is based primarily on a claim-by-claim evaluation of coverage, liability, injury severity or scope of property damage, and any other information considered relevant to estimating exposure presented by the claim. The amounts of liabilities for IBNR losses and LAE are estimated on the basis of historical trends, adjusted for changes in loss costs, underwriting standards, policy provisions, product mix and other factors. Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors that are subject to significant variation. Liabilities for LAE are intended to cover the ultimate cost of settling claims, including investigation and defense of lawsuits resulting from such claims. Based upon the contractual terms of the reinsurance agreements, reinsurance recoverables offset, in part, NLC's gross liabilities.

At December 31, 2014, NLC had catastrophic excess of loss reinsurance coverage of losses per event in excess of $8 million retention by NLIC and $1.5 million retention by ASIC. ASIC maintained an underlying layer of coverage, providing $6.5 million in excess of its $1.5 million retention to bridge to the primary program. The reinsurance in excess of $8 million is comprised of four layers of protection: $17 million in excess of $8 million retention; $25 million in excess of $25 million loss; $50 million in excess of $50 million loss and $40 million in excess of $100 million loss. NLIC and ASIC retain no participation in any of the layers, beyond the first $8 million and $1.5 million, respectively. At December 31, 2014, total retention for any one catastrophe that affects both NLIC and ASIC was limited to $8 million in the aggregate.

Effective July 1, 2013, NLC renewed its catastrophic reinsurance contract for its third and fourth layers of reinsurance for a two year period. In the contract renewal, the coverage provided by the fourth layer changed to reflect the reduction of exposure in Texas primarily as a result of NLIC exiting the Texas coast and reducing its exposure in Harris County, Texas. The coverage provides $40 million in excess of $100 million loss, resulting in catastrophic excess of loss reinsurance coverage up to $140 million. Effective January 1, 2014, NLC renewed its reinsurance contract for its first and second layers of reinsurance for an eighteen month period.

Effective January 1, 2015, NLC renewed its underlying excess of loss contract that provides $10 million aggregate coverage for sub-catastrophic events. NLC retains a 9% participation in this coverage.

During 2014, NLC experienced no significant catastrophes that resulted in losses in excess of retention at NLIC, compared to two significant catastrophes during 2013 and one significant catastrophe during 2012. NLC did not experience any significant catastrophe that resulted in losses in excess of retention at ASIC during 2014, 2013 or 2012. There were eight tornado, hail and wind storms during 2014 that fit the coverage criteria for the underlying excess of loss contract providing aggregate coverage for sub-catastrophic events. These events had a gross incurred loss total of $21.7 million, which developed a reinsured recoverable of $1.8 million at the 66% subscription level. The two tornado, hail and wind storms that exceeded retention in 2013 had incurred losses of $18.3 million. The Texas hail storm that exceeded retention in 2012 had incurred losses of $8.3 million. These losses have no effect on net loss and LAE incurred because the catastrophic events exceeded retention levels and are fully recoverable. The primary financial effect beyond the reinsurance retention is additional reinstatement premium payable to the affected reinsurers. Reinstatement premiums during 2014, 2013 and 2012 of $0.2 million, $0.3 million and $0.5 million, respectively, are recorded as ceded premiums.

30. Segment and Related Information

The Company currently has four reportable business segments that are organized primarily by the core products offered to the segments' respective customers. These segments reflect the manner in which operations are managed and the criteria used by the Company's chief operating decision maker function to evaluate segment performance, develop strategy and allocate resources. The chief operating decision maker function consists of the President and Chief Executive Officer of the Company and the Chief Executive Officer of PlainsCapital.

The banking segment includes the operations of the Bank, which, since September 14, 2013, includes the operations acquired in the FNB Transaction. The broker-dealer (formerly financial advisory) segment is composed of First Southwest. The mortgage origination segment is composed of PrimeLending. The insurance segment is composed of NLC.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, and management and administrative services to support the overall operations of the Company including, but not limited to, certain executive management, corporate relations, legal, finance and acquisition costs not allocated to business segments.

Balance sheet amounts for remaining subsidiaries not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations." The following tables present certain information about reportable segment revenues, operating results, goodwill and assets (in thousands).

Year Ended December 31, 2014	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 334,377	$ 12,144	$ (12,591)	$ 3,672	$ 5,219	$ 18,320	$ 361,141
Provision for loan losses	16,916	17	—	—	—	—	16,933
Noninterest income	67,438	119,451	456,776	173,577	5,985	(23,916)	799,311
Noninterest expense	245,790	124,715	431,820	151,541	13,878	(2,391)	965,353
Income (loss) before income taxes	$ 139,109	$ 6,863	$ 12,365	$ 25,708	$ (2,674)	$ (3,205)	$ 178,166

Year Ended December 31, 2013	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 293,254	$ 12,064	$ (37,840)	$ 7,442	$ (1,597)	$ 22,878	$ 296,201
Provision for loan losses	37,140	18	—	—	—	—	37,158
Noninterest income	71,045	102,714	537,497	166,163	—	(27,334)	850,085
Noninterest expense	155,102	112,360	472,284	166,006	10,439	(4,456)	911,735
Income (loss) before income taxes	$ 172,057	$ 2,400	$ 27,373	$ 7,599	$ (12,036)	$ —	$ 197,393

Year Ended December 31, 2012	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 24,885	$ 1,191	$ (4,987)	$ 4,730	$ 39	$ 2,984	$ 28,842
Provision for loan losses	3,670	130	—	—	—	—	3,800
Noninterest income	4,601	10,909	57,618	154,147	—	(3,043)	224,232
Noninterest expense	16,130	11,078	50,296	163,585	14,487	(59)	255,517
Income (loss) before income taxes	$ 9,686	$ 892	$ 2,335	$ (4,708)	$ (14,448)	$ —	$ (6,243)
December 31, 2014							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 8,036,729	$ 758,636	$ 1,498,846	$ 328,693	$ 1,522,655	$ (2,903,142)	$ 9,242,416
December 31, 2013							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 7,981,517	$ 520,412	$ 1,249,091	$ 308,160	$ 1,316,398	$ (2,471,456)	$ 8,904,122

31. Earnings (Loss) per Common Share

The following table presents the computation of basic and diluted earnings (loss) per common share (in thousands, except per share data).

	Year Ended December 31, 2014	2013	2012
Basic earnings (loss) per share:			
Income (loss) applicable to Hilltop common stockholders	$ 105,947	$ 121,015	$ (5,851)
Less: income applicable to participating shares	(547)	(672)	—
Net earnings (loss) available to Hilltop common stockholders	$ 105,400	$ 120,343	$ (5,851)
Weighted average shares outstanding - basic	89,710	84,382	58,754
Basic earnings (loss) per common share	$ 1.18	$ 1.43	$ (0.10)
Diluted earnings (loss) per share:			
Income (loss) applicable to Hilltop common stockholders	$ 105,947	$ 121,015	$ (5,851)
Add: interest expense on senior exchangeable notes (net of tax)	—	5,059	—
Net earnings (loss) available to Hilltop common stockholders	$ 105,947	$ 126,074	$ (5,851)
Weighted average shares outstanding - basic	89,710	84,382	58,754
Effect of potentially dilutive securities	863	5,949	—
Weighted average shares outstanding - diluted	90,573	90,331	58,754
Diluted earnings (loss) per common share	$ 1.17	$ 1.40	$ (0.10)

During 2012, the computation of diluted loss per common share did not include 6,208,000 equivalent shares issuable upon conversion of the Notes as the equivalent exchange rate per share was in excess of the average stock prices for the noted period. Additionally, options to purchase 688,000 weighted average outstanding shares of Hilltop's common stock were not included in the computation of diluted loss per common share during 2012, as their inclusion would have been anti-dilutive.

32. Condensed Financial Statements of Parent

Condensed financial statements of Hilltop (parent only) follow (in thousands). Investments in subsidiaries are determined using the equity method of accounting.

Condensed Statements of Operations and Comprehensive Income (Loss)

	Year Ended December 31, 2014	2013	2012
Investment income	$ 5,219	$ 6,635	$ 7,035
Interest expense	—	8,232	6,996
Net gain on investment in SWS common stock	5,985	—	—
General and administrative expense	13,878	10,439	14,488
Loss before income taxes, equity in undistributed earnings of subsidiaries and preferred stock activity	(2,674)	(12,036)	(14,449)
Income tax benefit	(592)	(4,680)	(3,313)
Equity in undistributed earnings of subsidiaries	114,640	134,065	6,038
Net income (loss)	$ 112,558	$ 126,709	$ (5,098)
Other comprehensive income (loss), net	35,514	(43,418)	(4,900)
Comprehensive income (loss)	$ 148,072	$ 83,291	$ (9,998)

Condensed Balance Sheets

	December 31, 2014	2013	2012
Assets			
Cash and cash equivalents	$ 145,948	$ 163,856	$ 204,754
Securities, available for sale	—	69,023	64,082
Investment in subsidiaries	1,218,182	1,069,226	944,546
Investment in SWS common stock	70,282	—	—
Other assets	88,243	14,293	27,743
Total assets	$ 1,522,655	$ 1,316,398	$ 1,241,125
Liabilities and Stockholders' Equity			
Accounts payable and accrued expenses	$ 62,203	$ 5,257	$ 5,779
Notes payable	—	—	90,850
Stockholders' equity	1,460,452	1,311,141	1,144,496
Total liabilities and stockholders' equity	$ 1,522,655	$ 1,316,398	$ 1,241,125

Condensed Statements of Cash Flows

	Year Ended December 31, 2014	2013	2012
Operating Activities			
Net income (loss)	$ 112,558	$ 126,709	$ (5,098)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(114,640)	(134,065)	(6,038)
Deferred income taxes	156	8,850	(1,011)
Net gain on investment in SWS common stock	(5,985)	—	—
Loss on redemption of senior exchangeable notes	—	3,733	—
Other, net	(1,379)	132	(3,370)
Net cash provided by (used in) operating activities	(9,290)	5,359	(15,517)
Investing Activities			
Advance to subsidiary	(6,000)	—	—
Capital contribution to subsidiary	—	(35,000)	—
Cash paid for acquisition	—	—	(311,805)
Net cash used in investing activities	(6,000)	(35,000)	(311,805)
Financing Activities			
Payments to repurchase common stock	—	—	(1,298)
Redemption of senior exchangeable notes	—	(11,088)	—
Dividends paid on preferred stock	(5,619)	(2,985)	—

	Year Ended December 31,		
	2014	2013	2012
Other, net	3,001	2,816	—
Net cash used in financing activities	(2,618)	(11,257)	(1,298)
Net change in cash and cash equivalents	(17,908)	(40,898)	(328,620)
Cash and cash equivalents, beginning of year	163,856	204,754	533,374
Cash and cash equivalents, end of year	$ 145,948	$ 163,856	$ 204,754
Supplemental Schedule of Non-Cash Activities			
Conversion of available for sale investment in SWS common stock	$ 71,502	$ —	$ —
Redemption of senior exchangeable notes for common stock	$ —	$ 83,950	$ —
Preferred stock issued in acquisition	$ —	$ —	$ 114,068
Common stock issued in acquisition	$ —	$ —	$ 387,583

During September 2013, Hilltop contributed capital of $35.0 million to the Bank to provide additional capital in connection with the FNB Transaction.

As discussed in Note 1 to the consolidated financial statements, Hilltop's investment in SWS common stock is accounted for under the provisions of the Fair Value Option effective October 2, 2014. Hilltop had previously accounted for its investments in SWS as available for sale securities. Under the Fair Value Option, Hilltop's investment in SWS common stock is recorded at fair value, with changes in fair value being recorded in other noninterest income within Hilltop's condensed statement of operations rather than as a component of other comprehensive income. Hilltop's election to apply the provisions of the Fair Value Option resulted in Hilltop recording those unrealized gains previously associated with its investment in SWS common stock of $7.2 million. For the period from October 3, 2014 through December 31, 2014, the change in fair value of Hilltop's investment in SWS common stock resulted in a loss of $1.2 million. In the aggregate, Hilltop recorded a $6.0 million net gain in income within Hilltop's condensed statement of operations during 2014.

33. Recently Issued Accounting Standards

In November 2014, the FASB issued ASU 2014-17 to provide companies with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. If the election is made in a subsequent period, the application of this guidance would be considered a change in accounting principle. The amendments in this ASU are effective as of November 18, 2014. The adoption will not have a significant impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14 to reduce diversity in practice by clarifying how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. The amendment is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014 and may be adopted using either a modified retrospective transition method or a prospective transition method. The Company adopted the amendment as of January 1, 2015 using the prospective transition method and does not expect the amendment to have a significant effect on its future consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 which clarifies the principles for recognizing revenue from contracts with customers. The amendment outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The amendment is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2016 and may be adopted using either a full retrospective transition method or a modified retrospective transition method. Early adoption is not permitted. The Company is currently evaluating the provisions of the amendment and the impact on its future consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08 which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The amendment is intended to reduce the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity's operations and financial results and will permit companies to have continuing cash flows and significant continuing involvement with the disposed component. The amendment is effective for disposals (or classifications as held for sale) and acquired businesses or nonprofit activities that are classified as held for sale upon acquisition that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. As such, the Company will evaluate the provisions of the amendment as it relates to any potential disposals or acquisitions beginning on or after January 1, 2015.

In January 2014, the FASB issued ASU No. 2014-04 to clarify that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014 and may be adopted using either a modified retrospective transition method or a prospective transition method. The Company adopted the amendment as of January 1, 2015 using the prospective transition method and does not expect the amendment to have a significant effect on its future consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 to require an entity to present an unrecognized tax benefit, or portion thereof, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendment became effective for the Company on January 1, 2014, and its adoption did not have any effect on the Company's consolidated financial statements as the amendment is to be applied prospectively to all unrecognized tax benefits that exist at the balance sheet date.

34. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information is summarized as follows (in thousands, except per share data).

	Year Ended December 31, 2014				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 99,316	$ 93,217	$ 104,408	$ 91,828	$ 388,769
Interest expense	7,802	7,457	5,962	6,407	27,628
Net interest income	91,514	85,760	98,446	85,421	361,141
Provision for loan losses	4,125	4,033	5,533	3,242	16,933
Noninterest income	213,795	212,135	203,281	170,100	799,311
Noninterest expense	246,768	254,744	251,212	212,629	965,353
Income before income taxes	54,416	39,118	44,982	39,650	178,166
Income tax provision	20,950	14,010	16,294	14,354	65,608
Net income	33,466	25,108	28,688	25,296	112,558
Less: Net income attributable to noncontrolling interest	325	296	177	110	908
Income attributable to Hilltop	$ 33,141	$ 24,812	$ 28,511	$ 25,186	$ 111,650
Dividends on preferred stock	1,425	1,426	1,426	1,426	5,703
Income applicable to Hilltop common stockholders	$ 31,716	$ 23,386	$ 27,085	$ 23,760	$ 105,947
Earnings per common share:					
Basic	$ 0.35	$ 0.26	$ 0.30	$ 0.26	$ 1.18
Diluted	$ 0.35	$ 0.26	$ 0.30	$ 0.26	$ 1.17

	Year Ended December 31, 2013				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 98,601	$ 79,702	$ 76,168	$ 74,604	$ 329,075
Interest expense	10,002	7,786	7,743	7,343	32,874
Net interest income	88,599	71,916	68,425	67,261	296,201
Provision for loan losses	2,206	10,658	11,289	13,005	37,158
Noninterest income	182,479	215,095	239,233	213,278	850,085
Noninterest expense	219,752	216,592	260,400	214,991	911,735
Income before income taxes	49,120	59,761	35,969	52,543	197,393
Income tax provision	18,090	20,115	13,309	19,170	70,684
Net income	31,030	39,646	22,660	33,373	126,709
Less: Net income attributable to noncontrolling interest	160	339	568	300	1,367
Income attributable to Hilltop	$ 30,870	$ 39,307	$ 22,092	$ 33,073	$ 125,342
Dividends on preferred stock	1,342	1,133	1,149	703	4,327
Income applicable to Hilltop common stockholders	$ 29,528	$ 38,174	$ 20,943	$ 32,370	$ 121,015
Earnings per common share:					
Basic	$ 0.34	$ 0.45	$ 0.25	$ 0.39	$ 1.43
Diluted	$ 0.34	$ 0.43	$ 0.24	$ 0.39	$ 1.40

35. Subsequent Events

On January 1, 2015, Hilltop completed its acquisition of SWS in a stock and cash transaction, whereby SWS merged with and into Hilltop Securities, a wholly owned subsidiary of Hilltop formed for the purpose of facilitating this transaction (the "SWS Merger"). SWS's broker-dealer subsidiaries, Southwest Securities, Inc. ("Southwest Securities") and SWS Financial Services, Inc. ("SWS Financial"), became subsidiaries of Hilltop Securities. Immediately following the SWS Merger, SWS's banking subsidiary, Southwest Securities, FSB, was merged into the Bank, an indirect wholly owned subsidiary of Hilltop. As a result of the SWS Merger, each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop's closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.0 million, consisting of 10.0 million shares of common stock, $78.2 million in cash and $70.3 million associated with Hilltop's existing investment in SWS common stock. Additionally, due to appraisal rights proceedings filed in connection with the SWS Merger, the merger consideration is subject to change, and is therefore, preliminary as of the date of this report. The SWS Merger will be accounted for using the acquisition method of accounting, and accordingly, purchased assets, including identifiable intangible assets and assumed liabilities will be recorded at their respective acquisition date fair values. Because of (i) the short time period between the acquisition date and the date the Company's financial statements were issued (February 26, 2015) and (ii) the work of third party specialists engaged to assist in valuing certain assets and liabilities, along with management's review and approval, not being complete, the Company used significant estimates and assumptions to value certain identifiable assets acquired and liabilities assumed. The acquisition date valuations related to loans, premises and equipment, intangible assets, assumed liabilities and taxes are considered preliminary and could differ significantly when finalized.

A summary of the preliminary estimated fair values of the identifiable assets acquired, and liabilities assumed, of SWS at January 1, 2015 are summarized in the following table (in thousands).

Cash and due from banks	$ 118,538
Federal funds sold and securities purchased agreements to resell	44,741
Assets segregated for regulatory purposes	181,610
Securities	707,476
Non-covered loans, net	854, 778
Broker-dealer and clearing organization receivables	1,261,022
Other assets	118,910
Total identifiable assets acquired	3,287,075
Deposits	(1,287,394)
Broker-dealer and clearing organization payables	(1,113,075)
Short-term borrowings	(164,240)

Advances from Federal Home Loan Bank		(76,643)
Other liabilities		(216,411)
Total liabilities assumed		(2,857,763)
Preliminary estimated bargain purchase gain		(80,326)
		348,986
Less Hilltop existing investment in SWS		(70,282)
Net identifiable assets acquired	$	278,704

The following table discloses the impact of SWS on the Company's results of operations (excluding the impact of acquisition-related merger and restructuring charges discussed below). The table also presents unaudited pro forma results had the SWS Merger taken place on January 1, 2014 and includes the estimated impact of purchase accounting adjustments (in thousands). The purchase accounting adjustments reflect the impact of recording the acquired loans at fair value, including the estimated accretion of the purchase discount on the loan portfolio. The unaudited pro forma results do not include any potential operating cost savings as a result of the SWS Merger. Further, certain costs associated with any restructuring or integration activities are also not reflected in the unaudited pro forma results. Unaudited pro forma results exclude nonrecurring items resulting directly from the SWS Merger and that do not have a continuing impact on results of operations.

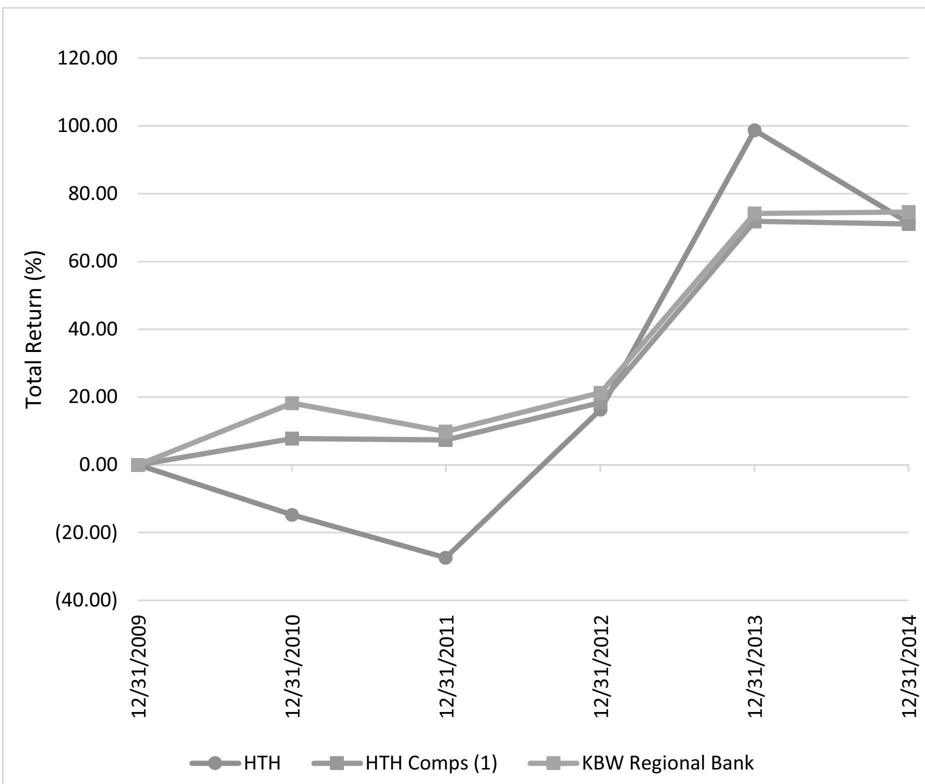
The unaudited pro forma results are not indicative of what would have occurred had the SWS Merger taken place on the indicated date.

		Twelve Months Ended December 31, 2014
Net interest income	$	420,894
Other revenues		1,005,701
Net income		110,279

In connection with the SWS Merger, FSC and its related entities also became subsidiaries of Hilltop Securities. First Southwest, Southwest Securities and SWS Financial will continue to operate as separate broker-dealers, under coordinated leadership, until such time as the necessary regulatory approvals are obtained and systems integrations are complete.

STOCK PERFORMANCE GRAPH

Our common stock is listed on the New York Stock Exchange under the symbol "HTH." The following graph assumes $100 invested on December 31, 2009, and compares (a) the yearly percentage change in the cumulative total stockholder return on our common stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends, assuming dividend reinvestment, during the period commencing on the first day of trading, and ending on December 31, 2014, and (B) the difference between our share price at the end and the beginning of the periods presented by (ii) the share price at the beginning of the periods presented) with (b) the KBW Regional Banking Index, and (c) our selected peer group of the following institutions: 1st Source Corporation; BancFirst Corporation; Banner Corporation; Capital Bank; Financial Corp.; Community Trust Bancorp, Inc.; First Financial Bankshares, Inc.; First Financial Holdings, Inc.; First Midwest Bancorp, Inc.; IBERIABANK Corporation; International Banchares Corp.; MB Financial, Inc.; Old National Bancorp; Park National Corporation; Pinnacle Financial Partners, Inc.; Texas Capital Bancshares, Inc.; Southside Bancshares, Inc.; Sterling Financial Corporation; Westamerica Bancorporation; Trustmark Corporation; and Umpqua Holdings Corporation.



Date	HTH	HTH Selected Peer Group	KBW Regional Bank
12/31/2014	71.39	71.07	74.55
12/31/2013	98.71	71.89	74.20
12/31/2012	16.32	18.39	21.26
12/30/2011	(27.41)	7.34	9.78
12/31/2010	(14.78)	7.77	18.22

CORPORATE INFORMATION

Corporate Headquarters

200 Crescent Court, Suite 1330
Dallas, Texas 75201
Telephone: (214) 855-2177
Facsimile: (214) 855-2173
www.hilltop-holdings.com

Transfer Agent and Registrar

American Stock Transfer & Trust Company
New York, New York
Toll free: (800) 937-5449
Telephone: (718) 921-8124

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Dallas, Texas

Stock Symbol

Common Stock: HTH
New York Stock Exchange

Available Information

Hilltop Holdings Inc. makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, press releases, the Code of Business Conduct and Ethics and other company information. Such information will be furnished upon written request to:

Hilltop Holdings Inc.
200 Crescent Court, Suite 1330
Dallas, Texas 75201
Attn: Investor Relations

This information also is available on our website, www.hilltop-holdings.com. Reports we file with the Securities and Exchange Commission also are available at wwww.sec.gov.

Board of Directors

Gerald J. Ford – Chairman
Alan B. White – Vice Chairman
Charlotte Jones Anderson
Rhodes Bobbitt
Tracy A. Bolt
W. Joris Brinkerhoff
J. Taylor Crandall
Charles R. Cummings
Hill A. Feinberg
Jeremy B. Ford
J. Markham Green
William T. Hill, Jr.
James R. Huffines
Lee Lewis
Andrew J. Littlefair
W. Robert Nichols, III
C. Clifton Robinson
Kenneth D. Russell
A. Haag Sherman
Robert C. Taylor, Jr.
Carl B. Webb

Executive Officers

Jeremy B. Ford
President and Chief Executive Officer

Darren E. Parmenter
Executive Vice President – Principal Financial Officer

Corey G. Prestidge
Executive Vice President, General Counsel and Secretary

Alan B. White
Chief Executive Officer of PlainsCapital Corporation

James R. Huffines
Chief Operating Officer of PlainsCapital Corporation

John A. Martin
Chief Financial Officer of PlainsCapital Corporation

Jerry L. Schaffner
Chief Executive Officer of PlainsCapital Bank

Todd L. Salmans
Chief Executive Officer of PrimeLending

Hill A. Feinberg
Chief Executive Officer of First Southwest Company

HILLTOP
HOLDINGS

200 Crescent Court, Suite 1330
Dallas, Texas 75201
Telephone: (214) 855-2177
Facsimile: (214) 855-2173