# 2019 Annual Report,

# Notice of 2020 Annual Meeting &

# Proxy Statement

**To Our Stockholders, Customers and Employees:**

2019 was an exceptional year across the Hilltop family of companies, both financially and operationally. Through acquisitions and organic maturation, our company has experienced material growth over the past few years. Accordingly, a key 2019 initiative was to increase the connectivity and collaboration across the organization. To help drive this effort, management from all lines of business and the holding company completed the Momentum World Tour, visiting all major markets across 50 cities and connecting with over 3,500 employees. I continue to be blown away by the quality of our people in the field. They are the tip of the spear for Hilltop, and I want to thank them for their steadfast commitment to our clients and the communities we serve.

Hilltop generated consolidated net income of $225.3 million in 2019, with sizable profitability gains from all operating companies. These results illustrate the strength of our diversified business model, where PlainsCapital Bank, our cornerstone business, produced substantial bank earnings that were augmented by favorable market conditions and strong operational execution from PrimeLending and HilltopSecurities. Hilltop also was able to return $103.0 million of earnings to stockholders via dividends and share repurchases in 2019. Notably, in 2019 we achieved a significant milestone of surpassing $1 billion in cumulative net income since Hilltop's transformational acquisition of PlainsCapital Corporation in 2012.

In last year's letter, I acknowledged the retirement of PlainsCapital Bank's founder, Alan White, and the succession planning at HilltopSecurities, where Brad Winges succeeded Hill Feinberg as CEO. Hill continues to serve as Chairman Emeritus of HilltopSecurities and a Director of Hilltop Holdings, and Brad has done an outstanding job transitioning into his new role. Additionally, in October of 2019, we proudly announced the promotion of Steve Thompson to CEO of PrimeLending, effective January 1, 2020. Steve succeeded Todd Salmans, who remains with PrimeLending as its Chairman. I would like to thank Todd for his tremendous contribution over his past fourteen years building PrimeLending into a vibrant, industry leading mortgage company. Jerry Schaffner continues to do an exceptional job as CEO of PlainsCapital Bank and has provided unwavering leadership throughout this past year. Alan, Todd and Hill were pioneers that laid the foundation for what Hilltop is today. Because of their stewardship, we now have outstanding leadership across the Hilltop enterprise, with deep industry expertise and the capacity to grow with our shared strategic vision.

**Operating Companies:**

- PlainsCapital Bank had a strong year and delivered $182.2 in pre-tax income, primarily due to organic loan and deposit growth, a 4.00% net interest margin and meaningful efficiency improvements. The bank offers commercial banking, personal banking and wealth management products and services across Texas and continues to employ a measured approach to profitable growth by focusing on relationship-based lending and prioritizing credit quality. The bank had net charge-offs of only 0.08% of the loan portfolio in 2019 and ended the year with $11.1 billion of assets, $8.8 billion of deposits and 63 branches. In August, we announced the sale of two branches that were not core to PlainsCapital Bank, and we continue to evaluate our branch network to optimize the bank's presence throughout Texas.

- PrimeLending is a nationwide mortgage originator operating in 44 states with over 300 locations. After a challenging 2018, the mortgage company rebounded in 2019 from realizing the benefit of key efficiency initiatives taken in the prior year and capitalizing on heightened levels of refinance activity. While PrimeLending took advantage of the elevated refinance volume, we remain committed to purchase

mortgage originations, which represented 75% of total volume and has proven to be an enduring strategy. We are in the deployment phase of our new loan origination system that will drive further efficiency, as well as give our loan originators better tools to serve their customers. In 2019, PrimeLending originated $15.6 billion in mortgage loans, equating to a 14% year-over-year increase, and contributed pre-tax income of $64.7 million.

- HilltopSecurities operates through four primary lines of business: public finance services, structured finance, fixed income services, and wealth management. 2019 was the first year under the stewardship of the company's President & CEO, Brad Winges. During the year, we undertook an extensive review of HilltopSecurities' businesses and made the strategic decision to further leverage our deep expertise in municipal finance by becoming a full-service provider for public entities. By orienting operations around our public entity clients, we also decided to exit certain smaller, non-core business units. The declining rate environment in 2019 served as a catalyst for multiple business lines, resulting in increased volume and superior execution. The combination of a constructive market and the strategic actions taken led to HilltopSecurities delivering pre-tax income of $89.8 million in 2019 on net revenue of $455.7 million.

- National Lloyds is a niche property & casualty underwriter offering primarily fire and limited homeowners insurance for low value dwellings and manufactured homes in Texas, Arizona and other southern states. In 2019, National Lloyds streamlined its book of business by simplifying its product lines into three core policies and by exiting non-core states and its commercial book of business. These actions have enhanced our underwriting profitability and better position the insurance company for long-term success. Notably, on January 31, 2020, Hilltop announced the sale of National Lloyds to Align Financial Holdings. I have worked closely with National Lloyds since we acquired the company in 2007 and am incredibly proud of everyone involved with the business. The transaction is expected to close in the second quarter of 2020.

We continue to execute on our multi-year plan of lowering operating costs, driving revenue growth and building a foundation for future organic and acquisition growth. I appreciate the dedication shown across our organization and applaud the teams charged with implementing these initiatives. The actions taken through year end 2019 have resulted in approximately $45 million of incremental PPNR benefit, over half way to our goal of $84 million in run-rate PPNR improvements by year end 2021. We remain focused on maintaining a resilient balance sheet and preserving excess capital to deploy via organic growth and acquisitions. Our prudent, long-term oriented capital management will allow us to seek out attractive opportunities, while also appropriately returning capital to stockholders through dividends and share repurchases.

As I write this letter, we are in the midst of an unprecedented environment caused by the COVID-19 pandemic. Since the onset of this pandemic, we have worked hard to ensure the business continuity of Hilltop and its operating companies. Our focus continues to be on providing our employees with a safe work environment, serving the needs of our clients and preserving our financial strength. Times like these demonstrate the importance of Hilltop's sound financial position, as we have significant excess capital and maintain ample liquidity. I am confident that we will get through this together and emerge a stronger and closer company.

In closing, I would like to sincerely thank the entire Hilltop organization. I am extremely proud of our company and believe the results we generated in 2019 are a reflection of the hard work and dedication shown by each employee. I would also like to thank our clients who trust PlainsCapital, PrimeLending, HilltopSecurities and National Lloyds with their financial services needs. Finally, I would like to thank the

Hilltop Board and stockholders for their continued support. 2019 was a successful year, and though we are facing unprecedented challenges in early 2020, I believe Hilltop is well-positioned for the future.

Sincerely,

Jeremy B. Ford
President & Chief Executive Officer

Hilltop Holdings Inc.
May 22, 2020

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**Hilltop Holdings Inc.**
**6565 Hillcrest Avenue**
**Dallas, Texas 75205**
**Tel: 214.855.2177**
**Fax: 214.855.2173**
**www.hilltop-holdings.com**
**NYSE: HTH**

**NOTICE OF 2020 ANNUAL MEETING**
**AND PROXY STATEMENT**

April 29, 2020

You are cordially invited to attend our 2020 Annual Meeting of Stockholders (the "Annual Meeting") at 10:00 a.m., Dallas, Texas, local time, on July 23, 2020. The meeting will be held at the offices of Hilltop Holdings at 6565 Hillcrest Avenue, 5th Floor, Dallas, Texas 75205. Although we currently intend to hold the Annual Meeting in person, we are actively monitoring the impact that the coronavirus (COVID-19) may have on the meeting. We are committed to maintaining a safe and healthy environment at the Annual Meeting and, as a result, may determine that it is necessary or appropriate to hold the meeting solely by means of remote communication. If we take this step, details about how to participate in the Annual Meeting will be announced in advance via press release, posted on our website at http://ir.hillop-holdings.com and filed with the Securities and Exchange Commission as additional proxy material.

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 does not have 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, as applicable, Notice of 2020 Annual Meeting of Stockholders and annual report for the year ended December 31, 2019 will be provided to stockholders of record on or about June 5, 2020.

We look forward to seeing you at the meeting.

Very truly yours,

Jeremy B. Ford
President and Chief Executive Officer

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JULY 23, 2020.**

Our Proxy Statement and our annual report for the fiscal year ended December 31, 2019 are both available at www.proxyvote.com.

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**Notice of 2020 Annual Meeting of Stockholders**
**To Be Held on July 23, 2020**

| | |
|---|---|
| **WHEN:** | Thursday, July 23, 2020, at 10:00 a.m., Dallas, Texas local time |
| **WHERE:** | 6565 Hillcrest Avenue, 5th Floor<br>Dallas, Texas 75205 |
| **WHY:** | At this meeting, you will be asked to:<br>1. Elect 18 directors to serve on our Board of Directors until the 2021 annual meeting of stockholders or until their successors are duly elected and qualified;<br>2. Approve the Hilltop Holdings Inc. 2020 Equity Incentive Plan (the "2020 Equity Incentive Plan");<br>3. Approve the Hilltop Holdings Inc. Employee Stock Purchase Plan (the "Employee Stock Purchase Plan");<br>4. Conduct a non-binding advisory vote to approve executive compensation;<br>5. Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020; and<br>6. 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 28, 2020. |
| **ANNUAL REPORT:** | Our 2019 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, 2019, 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 the Annual Meeting 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 29, 2020
Dallas, Texas

Although we currently intend to hold the Annual Meeting in person, we are actively monitoring the impact that the coronavirus (COVID-19) may have on the meeting. We are committed to maintaining a safe and healthy environment at the Annual Meeting and, as a result, may determine that it is necessary or appropriate to hold the meeting solely by means of remote communication. If we take this step, details about how to participate in the Annual Meeting will be announced in advance via press release, posted on our website at http://ir.hilltop-holdings.com and filed with the SEC as additional proxy material.

**PROXY STATEMENT**
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**HILLTOP HOLDINGS INC.**
6565 Hillcrest Avenue
Dallas, Texas 75205

**PROXY STATEMENT**
**2020 Annual Meeting of Stockholders**
**To be Held on July 23, 2020**

## GENERAL INFORMATION

The Notice of Internet Availability of Proxy Materials, or this Proxy Statement and the accompanying proxy card, as applicable, Notice of 2020 Annual Meeting of Stockholders and Annual Report for the year ended December 31, 2019 will be provided to stockholders of record on or about June 5, 2020.

*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 "Securities Holdings" refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to "Hilltop Securities" refer to Hilltop Securities Inc. (a wholly owned subsidiary of Securities Holdings), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PlainsCapital), references to "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Securities Holdings) and its subsidiaries as a whole, 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 2020 Annual Meeting of Stockholders, or the Annual Meeting, which will take place at 10:00 a.m. (Dallas, Texas local time) on Thursday, July 23, 2020, at 6565 Hillcrest Avenue, 5th Floor, Dallas, Texas 75205. 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 with respect to your vote.

### 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 June 5, 2020, we will provide a Notice of Internet Availability of Proxy Materials, or the Notice, to selected stockholders of record and beneficial owners. These stockholders will 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 printing and distribution of our proxy materials.

### 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 printing and distributing our proxy materials. 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 a 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 18 directors to serve on our Board of Directors until the 2021 annual meeting of stockholders or until their successors are duly elected and qualified;
- Approve the 2020 Equity Incentive Plan;
- Approve the Employee Stock Purchase Plan;
- Conduct a non-binding advisory vote to approve executive compensation;
- Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020; 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 of the 2020 Equity Incentive Plan;
- **FOR** the approval of the Employee Stock Purchase Plan;
- **FOR** the approval, on a non-binding 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 2020.

**Who is entitled to vote?**

Holders of record of our common stock at the close of business on April 28, 2020 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 28, 2020. Our stockholders are not entitled to cumulative voting rights, and dissenters' rights are not applicable to the matters being voted upon.

**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 with 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 to you. New York Stock Exchange, or NYSE, rules prohibit your broker from voting for the election of directors, the approval of the 2020 Equity Incentive Plan, the approval of the Employee Stock Purchase Plan and the approval of 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 of our director candidates or withhold your vote as to one or more director candidates, and you may vote for or against, or abstain from voting on, the 2020 Equity Incentive Plan, the Employee Stock Purchase Plan, executive compensation and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020.

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 the 2020 Equity Incentive Plan, **FOR** the approval of the Employee Stock Purchase Plan, **FOR** the approval, on a non-binding advisory basis, of our executive compensation, and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020.

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 NYSE, 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 materials 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 2020 is considered 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 with a later date or creating a new electronic voting 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 87.

**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 "General Information— 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, a quorum must be 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 above) are counted as present for purposes of determining the presence of a quorum. On April 28, 2020, we had 90,088,336 shares of common stock outstanding.

**How many votes are needed for approval?**

*Election of Directors*

The 18 director candidates receiving the highest number of affirmative votes, or a plurality, 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, although they will be considered present for purposes of determining a quorum. Stockholders may not cumulate votes in the election of directors.

*Approval of the 2020 Equity Incentive Plan*

Approval of the adoption of the 2020 Equity Incentive Plan requires the affirmative vote of the holders of at least a majority of the shares of Hilltop common stock cast on the proposal. For purposes of the adoption of the 2020 Equity Incentive Plan, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for purposes of determining a quorum.

*Approval of the Employee Stock Purchase Plan*

Approval of the adoption of the Employee Stock Purchase Plan requires the affirmative vote of the holders of at least a majority of the shares of Hilltop common stock cast on the proposal. For purposes of the adoption of the Employee Stock Purchase Plan, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for purposes of determining a quorum.

*Advisory Vote to Approve Executive Compensation*

The affirmative vote of a majority of the votes cast on the matter is required to approve, on a non-binding advisory basis, our executive compensation. The Compensation Committee of the Board of Directors will review the results of this advisory vote 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, although they will be considered present for purposes of determining a quorum.

*Ratification of Independent Registered Public Accounting Firm*

The appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020 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 on 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 will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for purposes of determining a quorum. Because it is a routine matter, we do not expect any broker non-votes with respect to this proposal.

**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 and the Notice. 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 the Annual Meeting 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 28, 2020 (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 87. If you do not have an admission ticket, you must show proof of your ownership of the common stock of the Company 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 executives' authority to manage our day-to-day operations and the evaluation of executives' 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 18 persons currently serving as directors whose terms are expiring at the Annual Meeting. Mr. Brinkerhoff will not stand for re-election at the Annual Meeting.

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. Biographical information on each of our nominees is given below.

### Nominees for Election as Directors

**Charlotte Jones Anderson**
Age 53

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 74

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 55

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.

**J. Taylor Crandall**
Age 66

Mr. Crandall has served as a director of Hilltop since April 2015. Mr. Crandall is a founding Managing Partner of Oak Hill Capital Management, LLC, or 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, 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 83

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 equipment primarily for the oil and gas industry. Until the companies were sold in September 2018, he served as the Co-Manager of DCB 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 served 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 73

Mr. Feinberg serves as Chairman Emeritus of Hilltop Securities, a transition from Mr. Feinberg's previous role as Chairman of Hilltop Securities until June 30, 2019. Until February 20, 2019, he served as Chief Executive Officer of Hilltop Securities, a position he had held since 1991 with First Southwest. 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 was a member of the board of directors of Energy XXI (Bermuda) Limited, a public company that filed bankruptcy in 2016. 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**<br>Age 75 | Mr. Gerald J. 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. Gerald J. Ford served as interim Chief Executive Officer of Hilltop from January 1, 2010 until March 11, 2010. Mr. Gerald J. 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 45 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. Gerald J. 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 as Chairman of the Board of Freeport McMoRan Copper and Gold Inc. and as a director of Mechanics Bank. Mr. Gerald J. Ford previously served as Chairman of Pacific Capital Bancorp and a director of Scientific Games Corporation, First Acceptance Corporation, SWS Group, Inc. and McMoRan Exploration Co. Mr. Gerald J. 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. and Ford Financial Fund III, L.P., private equity funds. Hilltop's President and Chief Executive Officer, Jeremy B. Ford, is the son of Mr. Gerald J. Ford, and Hilltop's Executive Vice President, General Counsel and Secretary, Corey G. Prestidge, is the son-in-law of Mr. Gerald J. Ford. |
| **Jeremy B. Ford**<br>Age 45 | Mr. Jeremy B. Ford is the Chief Executive Officer of Hilltop and has served as the Chief Executive Officer or Co-Chief Executive Officer of Hilltop since March 2010. Mr. Jeremy B. Ford also has served as President and a director of Hilltop since 2010. Mr. Jeremy B. Ford has worked in the financial services industry for over 23 years, primarily focused on investments in, and acquisitions of, depository institutions and insurance and finance companies. He has been 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 (acquired by Citigroup Inc.), and Salomon Smith Barney (acquired by Citigroup Inc.). Jeremy B. 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**<br>Age 76 | 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 previously served on the board of directors of MENTOR/The National Mentoring Partnership and as Chairman of the Board of PowerOne Media LLC. He actively supports many academic and philanthropic organizations, primarily in Texas. |

**William T. Hill, Jr.**
Age 77

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.

**Lee Lewis**
Age 68

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 59

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 June 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.

**W. Robert Nichols, III**
Age 75

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 served as Chairman and President until January 2020. 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.

**Kenneth D. Russell**
Age 71

Mr. Russell has served as a director of Hilltop since August 2010. Mr. Russell currently serves as the Chief Executive Officer of First Acceptance Corporation. Prior to that, he served as the President and Chief Executive Officer of Mechanics Bank from June 2015 to October 2016. Mr. Russell has been a Principal of Ford Financial Fund II, L.P., a private equity fund based in Dallas, Texas, since 2010. Over a long career at KPMG, he rose from a staff accountant in the U.S. division to become a member of KPMG Germany's managing Board of Directors. During 20 years in KPMG LLP's Dallas office, he led the engagement efforts with the firm's regional banking, thrift and other financial service clients. In 1993, Mr. Russell joined KPMG's national office in New York and led their financial services advisory unit, which supported many of the nation's largest banks. In 2001, he joined the Managing Board for KPMG in Germany, where he served as the global lead partner in the firm's relationship with Deutsche Bank. That position entailed managing and consulting on banking operations in over 50 countries for the multi-national German bank. Mr. Russell retired from the KPMG Germany Managing Board in 2008 in order to lead a new Partner Mentoring Program for KPMG's offices throughout Europe, working to help young professionals become category and practice leaders. He also serves on the Board of Directors of First Acceptance Corporation and Mechanics Bank.

**A. Haag Sherman**
Age 54

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 of Tectonic Holdings LLC, a registered investment advisor, and Sanders Morris Harris LLC, a broker-dealer. Mr. Sherman also is the Chairman of T Bancshares, Inc. and a director of T Bank. 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. He previously served as a director of Miller Energy Resources and ZaZa Energy Corp. Mr. Sherman has served 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.

**Jonathan S. Sobel**
Age 53

Mr. Sobel has served as a director of Hilltop since July 2019. Mr. Sobel is a partner of Ford Management II, L.P. and Ford Management III, L.P., the general partner of Ford Financial Fund II, L.P. and Ford Financial Fund III, L.P., respectively, Dallas-based private equity funds. He also is the Managing Member of DTF Holdings, LLC, an investment manager to the Company and several other entities affiliated with Mr. Gerald J. Ford. Prior to forming DTF Holdings, LLC, Mr. Sobel was an employee of Goldman Sachs & Co. from 1987 to 2008, and was a Partner Managing Director from 1998 to 2008. While at Goldman Sachs, Mr. Sobel was Global Head of the Mortgage Department, Global Head of Money Markets, head of the firm's Global Bank Group, and the Chief Risk Officer for Goldman Sachs Asset Management. Mr. Sobel also was a member of Goldman Sachs' Capital, Risk and Finance Committees. He is a trustee of the Hospital for Special Surgery and the Whitney Museum. He also is a member of the Executive Committee of the Columbia College Alumni Association.

**Robert C. Taylor, Jr.**
Age 72

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 and has served as its President since its acquisition by Albertsons LLC. 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 distribution 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 70

Mr. Webb has served as a director of Hilltop since June 2005. Mr. Webb is a Co-Managing Member of Ford Financial Fund II, L.P. and Ford Financial Fund III, L.P., private equity funds based in Dallas, Texas. 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. 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, and 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 the Chairman of Mechanics Bank and a director of Prologis, Inc. He is a former director of Pacific Capital Bancorp, M&F Worldwide Corp. and Plum Creek Timber Company.

**Director Independence**

Our Board of Directors has affirmatively determined that 11 of the 18 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 NYSE. The independent directors are Charlotte Jones Anderson, Rhodes Bobbitt, Tracy A. Bolt, 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.

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 one director it determined to be independent —Mr. Littlefair — had, or a member of his immediate family or an affiliated company in which he is employed or in which he is a principal equity holder had, received a loan from the Bank in the ordinary course of business, which our Board of Directors does not view as compensation. In our management's opinion, this loan was 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 does not involve more than normal risk of collectability. This loan was repaid in full and terminated on December 3, 2019. 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 1.2% of the outstanding shares of common stock of Clean Energy Fuels Corp. at March 25, 2020. From late 2011 through December 31, 2018, the Bank purchased, in a series of transactions, an aggregate of approximately $16.4 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. The Bank did not purchase promissory notes issued by unaffiliated third parties from Clean Energy Finance, Inc. during 2019.

The Board of Directors also considered the lease transactions and relationships between companies affiliated with Ms. Anderson, a director of the Company, and the Company. The Audit Committee of the Board of Directors reviewed and approved each of these leases and determined such leases were on an arms-length basis. Accordingly, the Board of Directors determined that Ms. Anderson is, and continues to be, an independent director of the Company given, among other things, the arrangement and the immaterial nature of the leases to Ms. Anderson and the Company.

**Meeting Attendance**

Our Board of Directors met six times during 2019. No director attended fewer than 75% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors on which he or she served, if applicable, during 2019. 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. Eighteen directors, former directors, or newly elected directors, Messrs. Rhodes Bobbitt, Tracy Bolt, Joris Brinkerhoff, J. Crandall, Hill A. Feinberg, Gerald J. Ford, Jeremy B. Ford, Mark Green, William Hill, Lee Lewis, Andrew Littlefair, Robert Nichols, Clifton Robinson, Kenneth Russell, Haag Sherman, Jonathan Sobel, Robert Taylor and Carl Webb, attended the 2019 annual meeting of stockholders.

**Vote Necessary to Elect Directors**

The 18 director candidates receiving the highest number of affirmative votes, or a plurality, 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, although they will be considered present for purposes of determining a quorum. Under applicable NYSE rules, a broker or other nominee does not have 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. During 2019, the Chairman of the Board of Directors and all other directors received the following compensation for their service on the Board of Directors:

| Committee | Annual Fee for Chairperson ($) | Annual Fee for Other Members ($) |
|---|---|---|
| Board of Directors | 210,000 | 48,000 |
| Audit Committee | 70,000 | 8,000 |
| Nominating and Corporate Governance Committee | 15,000 | 5,000 |
| Compensation Committee | 15,000 | 5,000 |
| Investment Committee | 30,000 | 5,000 |
| Risk Committee | 50,000 | 8,000 |
| Merger and Acquisition Committee | 15,000 | 5,000 |
| Executive Committee (a) | — | 5,000 |

(a) Subsequent to the retirement of Mr. Alan B. White, former Co-Chief Executive Officer of the Company, on April 1, 2019, Jeremy B. Ford, President and Chief Executive Officer of the Company, was appointed chairman of the Executive Committee. Because he is an employee of the Company, no fee is or was paid to the chairman of the Executive 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, on a calendar quarterly basis, with no vesting requirements. Customarily, these payments and issuances occur by the fifth 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 a director, we pay cash to the director based upon the value of those fractional shares at the value of the shares 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.

Under our stock ownership 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, unless they are subject to certain restrictions on receiving director fees or in fees in the form of stock.

In addition to the fees paid to our Chairman of the Board of Directors described above, we also grant the Chairman of the Board of Directors a restricted stock unit, or RSU, award representing 30,000 shares each year. This RSU award cliff vests on the third anniversary of the date of grant. The RSU award agreement also provides for pro rata vesting upon termination without cause, death or disability. Commencing in 2019, all equity award agreements, including the RSU awards granted to the Chairman of the Board of Directors, contain “double trigger” provisions, which require termination without cause within the six months preceding or the twelve months following a change in control in order for the equity awards to vest in

connection with a change in control. Further discussion of the change in control payments that may be made pursuant to the 2012 Equity Incentive Plan may be found in the "Executive Compensation — Potential Payments Upon Termination or Change-in-Control" section below. The Compensation Committee evaluates the compensation of directors annually, including grants of RSUs to the Chairman of the Board of Directors. Given the experience and involvement of the Chairman of the Board of Directors, we believe that the compensation paid to the Chairman of the Board of Directors is considerably less than the cost that we would incur to employ or retain someone else of his caliber to provide guidance and advice to us as frequently as he does.

Each member of our Board of Directors is reimbursed for out-of-pocket expenses associated with his or her 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 Hilltop Holdings Inc. PAC and the NLASCO Political Action Committee, or the PACs, are separate segregated funds that were formed to make political contributions. To encourage participation in the PACs by eligible participants, for each contribution made to the PACs by an eligible individual contributor, Hilltop or NLC, as applicable, 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 PACs in a given calendar year. Under this program, no contributor to the PACs receives any financial, tax or other tangible benefit or premium from either the recipient charities or us. These programs are completely voluntary.

***2019 Director Compensation***

**Director Compensation Table for 2019**

| Name | Fees Earned or Paid in Cash ($)(a) | Stock Awards ($)(a) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|
| Charlotte Jones Anderson | 29,030 | 28,970 | — | 58,000 |
| Rhodes R. Bobbitt | 88,000 | — | — | 88,000 |
| Tracy A. Bolt | 41 | 110,959 | — | 111,000 |
| W. Joris Brinkerhoff | 53,000 | — | — | 53,000 |
| J. Taylor Crandall | 68,000 | — | — | 68,000 |
| Charles R. Cummings | 123,000 | — | — | 123,000 |
| Hill A. Feinberg | — | — | — | — |
| Gerald J. Ford (b) | 49 | 214,951 | 581,100 (c) | 796,100 |
| Jeremy B. Ford | — | — | — | — |
| J. Markham Green | 69,000 | — | — | 69,000 |
| William T. Hill, Jr. | 31,544 | 31,456 | — | 63,000 |
| Lee Lewis | 53,000 | — | — | 53,000 |
| Andrew J. Littlefair | 26,557 | 26,443 | — | 53,000 |
| W. Robert Nichols, III | 68,000 | — | — | 68,000 |
| C. Clifton Robinson (d) | 36,000 | — | — | 36,000 |
| Kenneth D. Russell | 56,000 | — | — | 56,000 |
| A. Haag Sherman | 51 | 67,949 | — | 68,000 |
| Jonathan S. Sobel (e) | 10,025 | 9,975 | — | 20,000 |
| Robert C. Taylor, Jr. | 29,030 | 28,970 | — | 58,000 |
| Carl B. Webb | 52 | 52,948 | — | 53,000 |
| Alan B. White (f) | — | — | — | — |

(a) Fees earned for services performed in 2019 include annual retainers and chairperson remuneration. Aggregate fees paid to non-employee directors for annual retainers and committee chairmanships were paid quarterly. 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, and the dollar value reported in the table represents the aggregate dollar amount of cash fees forgone.

(b) Mr. Gerald J. Ford held an aggregate 90,000 unvested RSUs as of December 31, 2019.

(c) Reflects grant date fair value of a stock award calculated in accordance with the provisions of the Stock Compensation Topic of the Accounting Standards Codification ("ASC"). Such award represents a time-based RSU that will cliff vest upon the earlier of February 27, 2022 and a change of control.

(d) Mr. Robinson resigned as a member of the Board of Directors effective September 26, 2019.

(e) Mr. Sobel was elected to the Board of Directors on July 25, 2019.

(f) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.

As described above, the 2019 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 five 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 calendar days after the public release of quarterly or annual financial information and continues until the close of business on the 10th calendar day of the last month of the fiscal quarter.

The following numbers of shares of our common stock were issued to our directors as director fees for services performed during 2019:

| Name | Number of Shares |
|---|---|
| Charlotte Jones Anderson | 1,352 |
| Tracy A. Bolt | 5,178 |
| Gerald J. Ford | 10,031 |
| William T. Hill, Jr. | 1,468 |
| Andrew J. Littlefair | 1,234 |
| A. Haag Sherman | 3,171 |
| Jonathan S. Sobel | 402 |
| Robert C. Taylor, Jr. | 1,352 |
| Carl B. Webb | 2,471 |

For further information about the stockholdings of these directors and our management, see "Security Ownership of Certain Beneficial Owners and Management" commencing on page 25 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 Nominating and Corporate Governance Committee, the Risk Committee, the Investment Committee, the Merger and Acquisition Committee, and the Executive 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. The Board of Directors has adopted a written charter for each of these committees. 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 "Investor Relations — 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 87.

### *Committee Membership*

The following table shows the current membership of, and the 2019 fiscal year meeting information for, each of the committees of the Board of Directors.

| Name | Audit Committee | Compensation Committee | Nominating and Corporate Governance Committee | Risk Committee | Investment Committee | Merger and Acquisition Committee | Executive Committee |
|---|---|---|---|---|---|---|---|
| Charlotte Jones Anderson * | | | ● | | | ● | |
| Rhodes Bobbitt * | | ● | | | Chairman | ● | |
| Tracy A. Bolt * | ● | | | Chairman | | ● | |
| W. Joris Brinkerhoff * | | ● | | | | | |
| J. Taylor Crandall * | | | ● | | | Chairman | |
| Charles R. Cummings * | Chairman | | | | | ● | |
| Hill A. Feinberg | | | | | | | ● |
| Gerald J. Ford | | | | | | | ● |
| Jeremy B. Ford | | | | | | | Chairman |
| J. Markham Green * | ● | | | ● | ● | | |
| William T. Hill, Jr. * | | ● | ● | | | ● | |
| Lee Lewis | | | | | ● | | |
| Andrew J. Littlefair * | | ● | | | | | |
| W. Robert Nichols, III * | | | Chairman | | | ● | |
| C. Clifton Robinson *† | | | | | | | |
| Kenneth D. Russell | | | | ● | | | |
| A. Haag Sherman * | | Chairman | | | ● | | |
| Jonathan S. Sobel †† | | | | | | | |
| Robert C. Taylor, Jr.* | | | ● | | | ● | |
| Carl B. Webb | | | | | | | ● |
| Alan B. White ††† | | | | | | | |
| Meetings in Fiscal 2019 | 8 | 7 | 4 | 6 | 4 | 1 | 4 |

* Denotes independent director.
† Mr. Robinson resigned as a member of the Board of Directors effective September 26, 2019.
†† Mr. Sobel was elected as a member of the Board of Directors on July 25, 2019.
††† Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.

### *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 49.
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, 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 49. 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, operational, liquidity, funding, strategic, regulatory and such other risks as necessary;
- The Company's capital and liquidity and funding; and
- The performance of the Company's enterprise risk function.

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 of the Merger and Acquisition Committee 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 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 "Investor Relations — Corporate Information — Governance Documents." A copy also may be obtained upon request from our corporate Secretary at the address listed under "Questions" on page 87.

### *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. No lead independent director is appointed at this time.

### *Risk Oversight*

Our Board of Directors and the Risk Committee of the Board of Directors oversee an enterprise-wide approach to risk management, including cybersecurity risks, 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 its enterprise risk function.

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 an evaluation of performance with a view to improving 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 his or her 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 brand management. |
| *Rhodes R. Bobbitt* | Mr. Bobbitt has an extensive investment background. This is particularly important given the investment portfolios at our subsidiaries. |
| *Tracy A. Bolt* | Mr. Bolt has significant experience concerning accounting and risk matters that is essential to our Audit Committee's, Risk Committee's and Board of Directors' oversight responsibilities. |
| *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 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 broker-dealer segment and the industry in which it operates through his extended period of service to First Southwest and Hilltop Securities. |
| *Gerald J. Ford* | Mr. Gerald J. 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 45 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 experience 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 has extensive executive officer experience and knowledge of our operations. Additionally, he has been actively involved in numerous acquisitions, including those consummated by Hilltop. |
| *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 also serves on several civic and charitable boards, which has given him invaluable experience in corporate governance matters. |
| *Lee Lewis* | Through his service on our Board of Directors and former service on 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 an owner and chief executive officer 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 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. |
| *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. |
| *Jonathan S. Sobel* | Mr. Sobel has significant experience in the banking, mortgage and broker-dealer industries, as well as risk management. He also possesses extensive knowledge regarding the Company and its operations, which makes him a valuable member of the Board of Directors. |
| *Robert C. Taylor, Jr.* | Through his service on our Board of Directors and former service on 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. |

***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 at each executive session the independent directors select the independent director to preside over such 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, the non-management directors or any group or committee 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 Corporate Secretary, 6565 Hillcrest Avenue, Dallas, Texas 75205.

All communications received as set forth in the preceding paragraph will be opened by the corporate Secretary or assistant corporate Secretary 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 corporate Secretary'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 "Investor Relations — Corporate Information — Governance Documents." Copies also may be obtained upon request by writing our corporate Secretary at the address listed under "Questions" on page 87. 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.

### *Hedging and Other Securities Transaction Policy*

The Company has adopted a written Insider Trading Policy, or the Trading Policy, which sets forth the Company's policies and procedures. Directors and 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 for directors, executive officers and certain employees. Directors and employees who are subject to trading restrictions, may enter into a trading plan under Rule 10b5-1 under 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. Such director or employee 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.

All employees also are prohibited from entering into hedging, short sale and derivative transactions and are subject to restrictions on pledging our securities. Additionally, all employees are prohibited from hedging or pledging unvested RSUs. The Trading Policy is available on our website at ir.hilltop-holdings.com under the heading "Investor Relations — Corporate Information — Governance Documents."

All employees are prohibited from hedging or pledging unvested restricted stock units.

### *Policies and Procedures for Approval of Related Party Transactions*

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.

The Company also has adopted a written Related Party Transaction Policy, or the Related Party Policy, which sets forth the Company's policies and procedures for reviewing and approving transactions with related persons – namely, our directors, executive officers, their respective immediate family members and 5% stockholders. The transactions covered by the Policy include any financial transaction, arrangement or relationship in which the Company is a participant, the related person has or will have a direct or indirect material interest and the aggregate amount involved will or may be expected to exceed $120,000 in any fiscal year.

After becoming aware of any transaction which may be subject to the Related Party Policy, the related person is required to report all relevant facts with respect to the transaction to the Chief Executive Officer or General Counsel of Hilltop. Upon determination by the Company's legal department that a transaction requires review under the Related Party Policy, the material facts of the transaction and the related person's interest in the transaction are provided to the Audit Committee. The transaction is then reviewed by the disinterested members of the Audit Committee, who determine whether approval of the transaction shall be granted. In reviewing a transaction, the Audit Committee considers facts and circumstances that it deems relevant to its determination, such as: management's assessment of the commercial reasonableness of the transaction; the materiality of the related person's direct or indirect interest in the transaction; whether the transaction may involve an actual, or the appearance of, a conflict of interest; and, if the transaction involves a director, the impact of the transaction on the director's independence.

Certain types of transactions are pre-approved in accordance with the terms of the Related Party Policy. These include transactions in the ordinary course of business involving financial products and services provided by, or to, the Company, including loans, provided that such transactions are in compliance with the Sarbanes-Oxley Act of 2002, Federal Reserve Board Regulation O and other applicable laws and regulations.

***Stockholder Rights and Protections***

The Company's Amended and Restated Charter and By-laws provide stockholders with important rights and protections, including:

- The ability to call a special meeting by stockholders holding at least 15% of the outstanding shares of our common stock, subject to a one-year ownership requirement and certain other requirements.
- No "poison pill" in effect.
- No super-majority vote requirements in our Amended and Restated Charter or By-laws (other than for an action by written consent).

The Company's Amended and Restated Charter and By-laws are available as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with SEC.

**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 Third Amended and Restated Bylaws, as summarized below on page 86 under "Stockholder Proposals for 2021," 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 Corporate Secretary" at Hilltop Holdings Inc., 6565 Hillcrest Avenue, Dallas, Texas 75205. 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 87); 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 of potential director candidates and information described above must be delivered to the corporate Secretary not earlier than the $120^{th}$ day and not later than 5:00 p.m., Dallas, Texas local time, on the $90^{th}$ 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 60 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 $120^{th}$ day prior to the date of such annual meeting and not later than 5:00 p.m., Dallas, Texas local time, on the later of the $90^{th}$ day prior to the date of such annual meeting of stockholders or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the $10^{th}$ 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 local time, on the 10$^{th}$ 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 for nomination 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.

The Nominating and Corporate Governance Committee did not receive any recommendations for director nominees from any non-management stockholder or group of stockholders that beneficially owns more than 5% of our common stock.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Principal Stockholders

The following table sets forth information regarding our common stock beneficially owned as of April 28, 2020 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 Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (a) |
|---|---|---|
| Gerald J. Ford (b)<br>6565 Hillcrest Avenue, 6th Floor<br>Dallas, Texas 75205 | 15,703,455 | 17.4 % |
| The Vanguard Group (c)<br>100 Vanguard Boulevard<br>Malvern, Pennsylvania 19355 | 6,406,191 | 7.1 % |
| Dimensional Fund Advisors LP (d)<br>Building One<br>6300 Bee Cave Road<br>Austin, Texas 78746 | 5,489,300 | 6.1 % |
| BlackRock, Inc. (e)<br>55 East 52nd Street<br>New York, New York 10055 | 5,001,634 | 5.6 % |

(a) Based on 90,088,336 shares of common stock outstanding on April 28, 2020. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 28, 2020 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. Gerald J. Ford include 60,915 shares that are owned by Turtle Creek Revocable Trust, a revocable trust for the benefit of the members of Mr. Gerald J. Ford's family, and indirectly by Mr. Gerald J. Ford as settlor and trustee of the trust. Mr. Gerald J. Ford disclaims beneficial ownership of the shares held by the trust except to the extent of his pecuniary interest therein. Also includes 15,544,674 shares owned by Diamond A Financial, LP. Mr. Gerald J. Ford is the sole member of Diamond HTH Stock Company GP, LLC, which is the sole general partner of Diamond HTH Stock Company, LP, which is the sole general partner of Diamond A Financial, LP. Mr. Gerald J. Ford is the sole limited partner of Diamond HTH Stock Company, LP. Each of Mr. Gerald J. Ford, Diamond A Financial, LP, Diamond HTH Stock Company, LP and Diamond HTH Stock Company GP, LLC may be deemed to have shared voting and dispositive power of these shares. Excludes 90,000 RSUs that will not vest within 60 days of April 28, 2020.

(c) Based on the Schedule 13G (Amendment No. 4) filed with the SEC by The Vanguard Group on February 12, 2020. According to the Schedule 13G (Amendment No. 4), The Vanguard Group has sole voting power over 70,730 shares of our common stock, shared voting power over 9,980 shares of our common stock, sole dispositive power over 6,337,361 shares of our common stock and shared dispositive power over 68,830 shares of our common stock. The Schedule 13G (Amendment No. 4) reports that Vanguard Fiduciary Trust Company, a wholly owned subsidiary of The Vanguard Group, is the beneficial owner of 58,850 shares of our common stock as a result of its serving as investment manager of collective trust accounts and that Vanguard Investments Australia, Ltd., a wholly owned subsidiary of The Vanguard Group, is the beneficial owner of 21,860 shares of our common stock as a result of its serving as investment manager of Australian investment offerings.

(d) Based on the Schedule 13G (Amendment No. 3) filed with the SEC by Dimensional Fund Advisors LP on February 12, 2020. According to the Schedule 13G (Amendment No. 3), Dimensional Fund Advisors LP has sole voting power over 5,395,393 shares of our common stock and sole dispositive power over 5,489,300 shares of our common stock. Dimensional Fund Advisors LP is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager or sub-adviser to certain other commingled funds, group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the "Funds"). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, "Dimensional") may possess voting and/or investment power over the securities of Hilltop that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of Hilltop held by the Funds. However, according to the Schedule 13G (Amendment No. 3), all securities reported are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the Schedule 13G (Amendment No. 3) disclaims that the reporting person or any of its affiliates is the beneficial owner of any securities covered by the Schedule 13G (Amendment No. 3) for any purposes other than Section 13(d) of the Securities Exchange Act of 1934.

(e) Based on the Schedule 13G (Amendment No. 1) filed with the SEC by BlackRock, Inc. on February 5, 2020. According to the Schedule 13G (Amendment No. 1), BlackRock, Inc. has sole voting power over 4,829,612 shares of our common stock and sole dispositive power over 5,001,634 shares of our common stock. According to the Schedule 13G (Amendment No. 1), BlackRock, Inc. is a parent holding company or control person, and various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of our common stock. However, no single subsidiary of BlackRock, Inc. holds an interest in our common stock that is more than five percent of our total outstanding shares of common stock.

**Security Ownership of Management**

The following table sets forth information regarding the number of shares of our common stock beneficially owned as of April 28, 2020, 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., 6565 Hillcrest Avenue, Dallas, Texas 75205. 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 | 12,693 | * |
| Rhodes Bobbitt | 126,059 (b) | * |
| Tracy A. Bolt | 31,744 | * |
| W. Joris Brinkerhoff | 25,228 | * |
| J. Taylor Crandall | — | * |
| Charles R. Cummings | 37,476 | * |
| Hill A. Feinberg | 753,034 (c) | * |
| Gerald J. Ford<br>6565 Hillcrest Avenue, 6th Floor<br>Dallas, Texas 75205 | 15,703,455 (d) | 17.4% |
| Jeremy B. Ford | 777,944 (e) | * |
| William B. Furr | 41,223 (f) | * |
| J. Markham Green | 114,763 | * |
| William T. Hill, Jr. | 34,624 (g) | * |
| Lee Lewis | 656,199 (h) | * |
| Andrew J. Littlefair | 15,770 | * |
| W. Robert Nichols, III | 11,000 (i) | * |
| Kenneth D. Russell | — | * |
| Todd L. Salmans | 37,549 (j) | * |
| A. Haag Sherman | 20,598 | * |
| Jonathan S. Sobel | 822 | * |
| Robert C. Taylor, Jr. | 38,158 | * |
| Carl B. Webb | 118,794 | * |
| Alan B. White | 346,126 (k) | * |
| M. Bradley Winges | — | * |
| All Directors and Executive Officers, as a group (26 persons) | 18,795,994 (l) | 20.9% |

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

(a) Based on 90,088,336 shares of common stock outstanding on April 28, 2020. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 28, 2020 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) 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. Excludes 16,110 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020.

(d) The shares of common stock beneficially owned by Mr. Gerald J. Ford include 60,915 shares that are owned by Turtle Creek Revocable Trust, a revocable trust for the benefit of the members of Mr. Gerald J. Ford's family, and indirectly by Mr. Gerald J. Ford as settlor of the trust. Mr. Gerald J. Ford disclaims beneficial ownership of the shares held by the trust except to the extent of his pecuniary interest therein. Also includes 15,544,674 shares owned by Diamond A Financial, LP. Mr. Gerald J. Ford is the sole member of Diamond HTH Stock Company GP, LLC, which is the sole general partner of Diamond HTH Stock Company, LP, which is the sole general partner of Diamond A Financial, LP. Mr. Gerald J. Ford is the sole limited partner of Diamond HTH Stock Company, LP. Each of Mr. Gerald J. Ford, Diamond A Financial, LP, Diamond HTH Stock Company, LP and Diamond HTH Stock Company GP, LLC may be deemed to have shared voting and dispositive power of these shares. Excludes 90,000 restricted stock units, or RSUs, that will not vest within 60 days of April 28, 2020.

(e) Jeremy B. Ford is a beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, LP (see footnote (d)). Excludes 289,441 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020 and 15,544,674 shares of common stock held by Diamond A Financial, LP.

(f) Excludes 74,415 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020.

(g) Includes 14,550 shares of common stock held in a SEP IRA account for the benefit of Mr. Hill.

(h) 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.

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

(j) Excludes 34,746 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020.

(k) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors. Excludes 5,482 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020.

(l) Represents 26 persons. Excludes 800,811 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 28, 2020.

## 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, as of April 28, 2020:

| Name | Age | Position | Officer Since |
|---|---|---|---|
| Keith E. Bornemann | 47 | Executive Vice President, Principal Accounting Officer and Corporate Controller | 2017 |
| Jeremy B. Ford | 45 | President and Chief Executive Officer | 2010 |
| William B. Furr | 42 | Executive Vice President, Chief Financial Officer | 2016 |
| Darren E. Parmenter | 57 | Executive Vice President, Chief Administrative Officer | 2007 |
| Corey G. Prestidge | 46 | Executive Vice President, General Counsel and Secretary | 2008 |
| Jerry L. Schaffner | 62 | President and Chief Executive Officer of PlainsCapital Bank | 2012 |
| Stephen Thompson | 58 | President and Chief Executive Officer of PrimeLending | 2020 |
| M. Bradley Winges | 52 | President and Chief Executive Officer of Hilltop Securities | 2019 |

#### *Business Experience of Executive Officers*

Information concerning the business experience of Mr. Jeremy B. Ford is set forth above under "Proposal One — Election of Directors — Nominees for Election as Directors" beginning on page 6.

*Keith E. Bornemann.* Mr. Bornemann has served as the Executive Vice President and Principal Accounting Officer of Hilltop since November 2017 and Corporate Controller of Hilltop since February 2017. He also served as Senior Vice President and Director of Accounting and Reporting of Hilltop from January 2016 to January 2017 and Vice President of Financial Reporting of Hilltop from January 2013 to January 2016. Prior to joining Hilltop in 2013, Mr. Bornemann was the Vice President and Corporate Controller at First Acceptance Corporation and spent nine years working for the accounting firm Ernst & Young LLP.

*William B. Furr.* Mr. Furr has served as the Chief Financial Officer of Hilltop since September 2016. Prior to joining Hilltop, Mr. Furr served as Executive Vice President and Community Bank Chief Financial Officer for KeyCorp from November 2012 to August 2016. Before joining KeyCorp, Mr. Furr served in various financial leadership roles at Regions Financial Corporation and Bank of America Corporation.

*Darren E. Parmenter.* Mr. Parmenter has served as Executive Vice President and Chief Administrative Officer of Hilltop since September 2016. Mr. Parmenter previously served as Executive Vice President and Principal Financial Officer of Hilltop from February 2014 to September 2016 and 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.

*Jerry L. Schaffner*. Mr. Schaffner has served as the President and Chief Executive Officer of PlainsCapital Bank since November 2010. He currently serves as a director of PlainsCapital 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.

*Stephen Thompson*. Mr. Thompson has served as the President and Chief Executive Officer of PrimeLending since January 2020, a continuation of his previous role as President of PrimeLending since 2017. Mr. Thompson joined PrimeLending in 2011 and has held the roles of Regional Production Leader, Divisional Production Leader and National Production Leader. Mr. Thompson has over 30 years of mortgage banking experience.

*M. Bradley Winges.* Mr. Winges has served as the President and Chief Executive Officer of Hilltop Securities since February 2019. Prior to joining Hilltop Securities, Mr. Winges most recently served as Senior Executive Managing Director at Piper Jaffray, where he had worked since February 1991. While at Piper Jaffray, he was a member of the firm's leadership team and held the roles of Head of Fixed Income Services and Firm Investments and Trading, President of Piper Jaffray Investment Management, Firm Risk Management, Head of Hopewood Lane Trading, Co-Head of Piper Jaffray Financial Products, Head of Municipal Sales and Trading and Institutional Municipal Sales Representative. Mr. Winges also is a member of the Board of the Bond Dealers of America and a committee member of the Fixed Income Market Structure at the SEC.

***Terms of Office and Relationships***

Our executive officers are elected by our Board of Directors annually or, as necessary, to fill vacancies or newly created offices. Each executive officer holds office until his successor is duly elected and qualified 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 6 and under "Management — Executive Officers — Business Experience of Executive Officers" on page 27, (a) there are no familial relationships among any of our current directors or executive officers and (b) none of our director nominees hold, or in the last five years have held, 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**

This Compensation Discussion and Analysis, or this CD&A, section reviews the compensation program for our named executive officers, or NEOs, which include our principal executive officers, principal financial officer and our three other most highly-compensated executive officers who served during the year ended December 31, 2019.

For 2019, our NEOs were:

| Named Executive Officer | Title/Role |
|---|---|
| Jeremy B. Ford | President and Chief Executive Officer |
| William B. Furr | Executive Vice President, Chief Financial Officer |
| M. Bradley Winges | President and Chief Executive Officer of Hilltop Securities |
| Todd L. Salmans (a) | Chairman of PrimeLending |
| Alan B. White (b) | Former Vice Chairman and Co-Chief Executive Officer |
| Hill A. Feinberg (c) | Chairman Emeritus of Hilltop Securities |

(a) Mr. Salmans was Chief Executive Officer of PrimeLending through December 31, 2019.
(b) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.
(c) Mr. Feinberg was Chief Executive Officer of Hilltop Securities through February 19, 2019, and Chairman of Hilltop Securities through June 30, 2019.

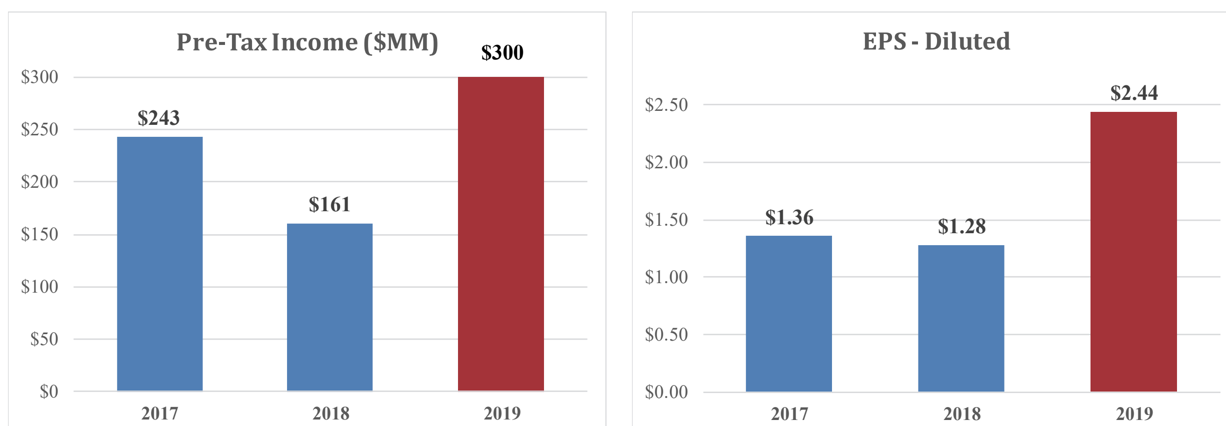
**Executive Summary**

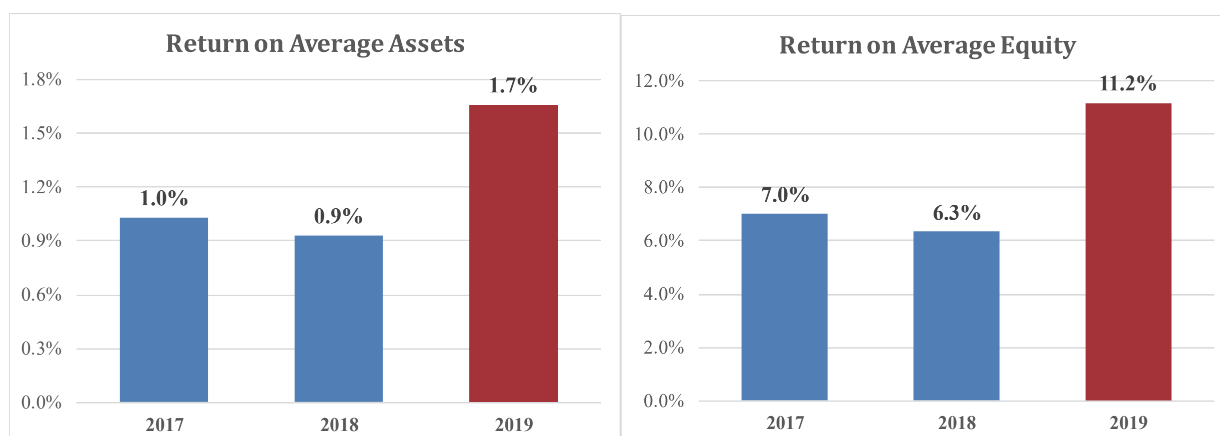
***2019 Business Highlights***

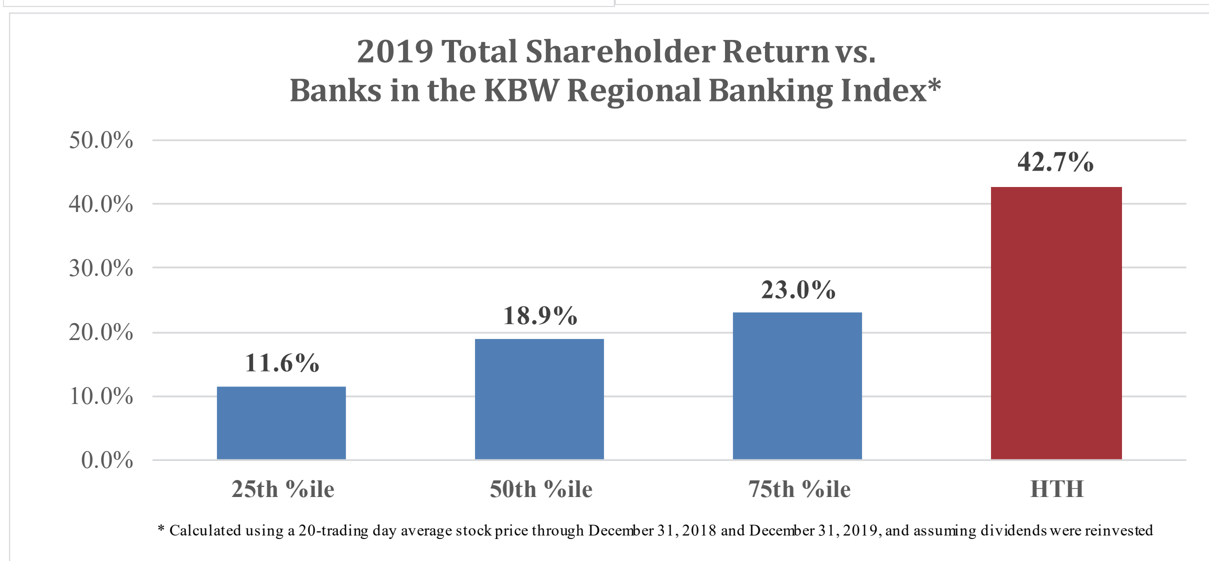
2019 was an exceptional year for Hilltop, with robust financial results and key organizational enhancements that position us for further growth.

***Key Financial Results***

The charts below illustrate our strong financial and market performance in 2019. Additional details regarding our results can be found in our Annual Report on Form 10-K for the year ended December 31, 2019.






In addition to the results shown above, we also achieved the following in 2019:

- Average loans grew by $376 million, or 6%, and average deposits grew by $525 million, or 6%, compared to December 31, 2018.
- Mortgage origination volume increased by 14% to $15.6 billion as the business capitalized on the rate environment.
- Hilltop Securities reported a pre-tax margin of 19.7% in 2019 compared to 9.2% in 2018, as Structured Finance, Capital Markets and Public Finance all realized significant net revenue growth.
- Book value per share at December 31, 2019 grew by 11% versus the prior year to $23.20.
- Hilltop maintained strong capital levels with a Tier 1 Leverage Ratio of 12.71% and a Common Equity Tier 1 Capital Ratio of 16.70% at December 31, 2019.
- Net charge-offs equated to $5.6 million, or 8 basis points of average loans held for investment, for the full year 2019.

***<u>Strategic Highlights</u>***

During 2019, we had several key accomplishments in support of our business strategy:

- We launched our Platform for Growth and Efficiency in January 2019, designed to deliver $84 million in run-rate Pre-Provision Net Revenue ("PPNR") improvements by the year end 2021, and we achieved approximately $45 million of our goal through year-end 2019 through actions including:
  - Streamlining our mortgage operations;

- ➢ Enhancing our capital markets / securitized products platform;
- ➢ Executing on targeted leadership changes and succession planning;
- ➢ Implementing multiple enhanced programs for our strategic sourcing efforts; and
- ➢ Consolidating functions across our organization.

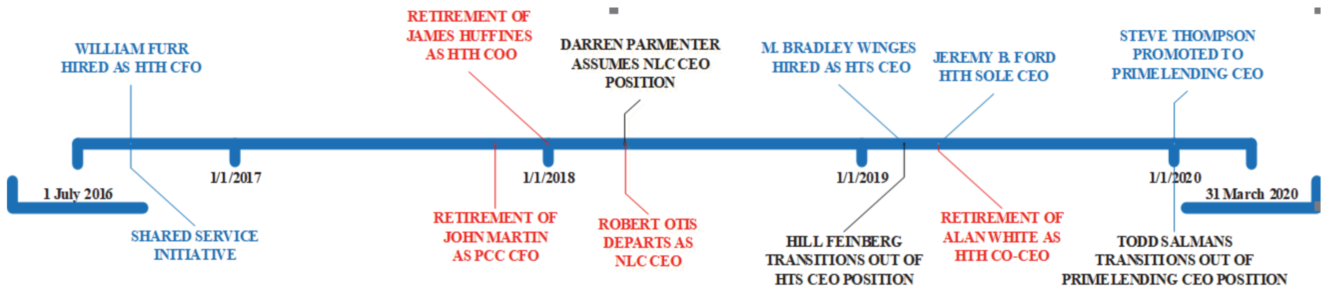
- We conducted a thorough sales process for our NLC business, which resulted in the announcement on January 31, 2020, to sell NLC to Align Financial for $150 million, subject to purchase price adjustments. A sale at $150 million will represent a premium to book value. The sale will enable Hilltop to focus time, effort and capital on our core businesses in support of our vision to be a premier regional bank holding company. This sale remains subject to regulatory approvals.

***Leadership Transitions***

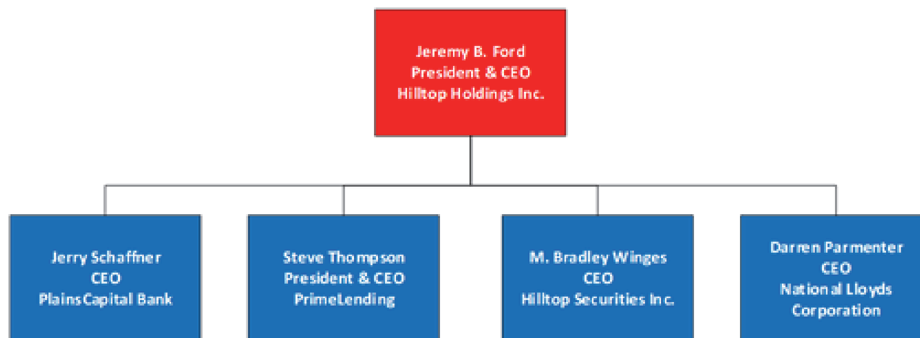
We also completed several leadership transitions successfully in 2019 through continued effective succession planning including:

- Mr. Jeremy B. Ford becoming our sole Chief Executive Officer effective April 1, 2019, following the departure of Mr. White.
- Mr. Winges becoming President and Chief Executive Officer of Hilltop Securities effective February 20, 2019, in connection with the transition of Mr. Feinberg to the role of Chairman (effective February 20, 2019) and Chairman Emeritus (effective July 1, 2019) of Hilltop Securities.
- Mr. Steve Thompson becoming President and Chief Executive Officer of PrimeLending effective January 1, 2020, in connection with the transition of Mr. Salmans to the role of Chairman of PrimeLending.

In connection with the commencement of our shared service initiative in 2016, we developed a succession plan for anticipated leadership transitions. Below is a timeline of management changes since July 1, 2016, which reflects the successful execution of that succession plan.

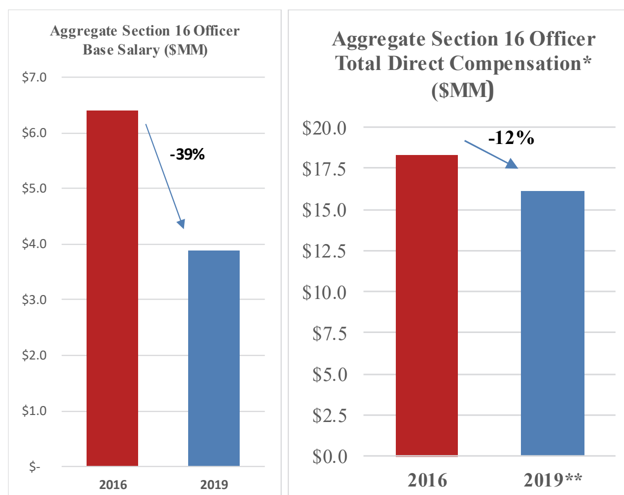



The execution of our succession plan and the implementation of shared services has resulted in the following current reporting structure for our operating subsidiaries:



***Executive Compensation Highlights***

Over the past several years, we have completed leadership transitions, including those noted above, and streamlined our executive team. As illustrated in the graphs to the right, these changes have resulted, and are expected to continue to result, in a substantial reduction in total executive compensation expense as compared to 2016. It is important to note that even with 2019 results triggering maximum annual incentive payouts, aggregate Section 16 officer compensation in 2019 was lower than aggregate Section 16 officer compensation in 2016, when annual incentive payouts were below maximum levels. Additionally, these leadership transitions have resulted in the termination of certain legacy compensation arrangements and allowed us to align all of our executive team with our pay-for-performance compensation program outlined in this CD&A.




* 2019 Annual Incentive Compensation payout was at maximum based upon strong business results for 2019. Total Direct Compensation includes base salary, annual incentive payouts and the grant date value of equity awards.

***Our 2019 Executive Compensation Program***

The Compensation Committee, or, as used in this CD&A, the Committee, has the responsibility to establish, implement and monitor adherence with our compensation philosophy. The Committee ensures that the total compensation paid to executive officers is fair, reasonable, market competitive, performance-based and aligned with stockholder interests. The Committee administers the Company’s executive compensation program in light of our unique structure and acquisition activity. As a holding company that conducts its operations through its subsidiaries, we provide performance-based compensation to the chief executives of each of our business units that is based on both the results of the business unit and the consolidated Company.

**Elements of Total Direct Compensation**

<u>**Base Salary**</u>

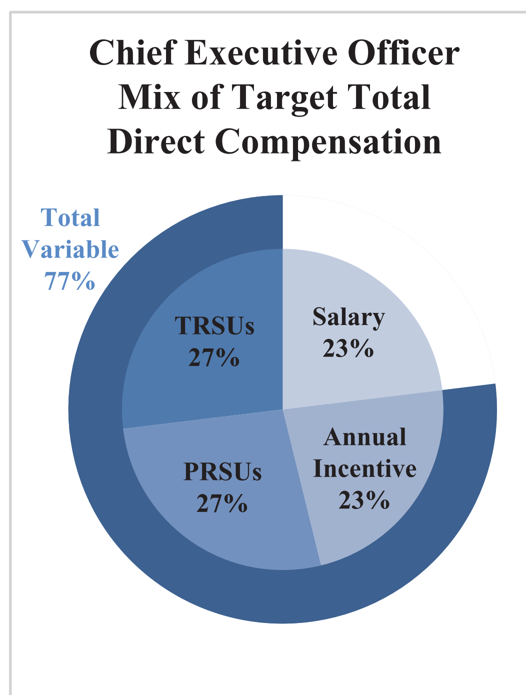
- Intended to compensate the individual fairly for the responsibility level of the position held.

<u>**Annual Incentives**</u>

- Variable component of pay intended to motivate and reward the individual's contributions to achieving our short-term/annual objectives;
- Payouts are determined based on financial results (weighted 70%) and each executive's performance with respect to strategic and individual goals (weighted 30%); and
- Financial results are based on our consolidated net income and, for executives of our subsidiaries, the net income of their respective business unit.

<u>**Long-Term Incentives**</u>

- Variable component of pay intended to retain, motivate and reward the individual's contributions to achieving our long-term objectives and creating stockholder value;
- Delivered through an equal grant value mix of Performance-Based Restricted Stock Units, or PRSUs, and Time-Based Restricted Stock Units, or TRSUs; and
- The vesting of PRSUs varies based on performance results with respect to cumulative EPS goals over a three-year period, with a modifier based on our 3-year total shareholder return, or TSR, relative to other banks in the KBW Regional Banking Index.




As illustrated in the chart, total variable compensation represents 77% of the Chief Executive Officer's total direct compensation.

**Governance Highlights**

The Committee maintains strong governance features for our executive compensation program as outlined below and further discussed in this CD&A.

| What We Do | | What We Don't Do | |
|---|---|---|---|
| ☑ | We tie a significant portion of NEO compensation to our performance through a balance of annual and long-term incentives with multiple performance measures | ☒ | Executive officers are prohibited from entering into hedging, short sale and derivative transactions and are subject to restrictions on pledging our securities |
| ☑ | We maintain robust stock ownership guidelines for executive officers and directors | ☒ | We do not provide for any excise tax gross-ups in any new employment agreements |
| ☑ | We require all equity awards to executive officers to be held for one year following vesting | ☒ | Commencing at the beginning of 2019, RSU grants have double trigger (as opposed to single trigger) change of control provisions |
| ☑ | We maintain a clawback policy for incentive compensation | ☒ | We do not pay dividends on unvested equity awards |
| ☑ | We subject annual incentives to downward adjustment for improper risk taking or significant compliance issues | ☒ | We do not provide excessive perquisites |
| ☑ | We annually conduct a risk assessment of our compensation programs | | |
| ☑ | We retain an independent compensation consultant reporting directly to the Committee | | |

***Role of Stockholder Say-on-Pay Votes and Stockholder Engagement***

The Company provides its stockholders with the opportunity to cast an annual non-binding advisory vote on executive compensation. At the Company's annual meeting of stockholders held in July 2019, over 72% of the votes cast (excluding abstentions and broker non-votes) on the say-on-pay proposal were voted in favor of the proposal. The Committee recognized this result as similar to the 73% support received in 2018 and continued to seek to understand stockholder perspectives on our executive compensation program.

From our stockholder outreach conducted in prior years, we understand the negative votes on our executive compensation program were driven by concerns with the legacy employment arrangements for Mr. White, our former Co-Chief Executive Officer, including the payments made in connection with his departure in April 2019 that were discussed in last year's CD&A. In our outreach efforts previously conducted, we have explained that these arrangements were based on the retention agreement that we entered into with Mr. White upon our acquisition of PlainsCapital Corporation in 2012 and subsequently amended in 2016 upon his promotion to Co-Chief Executive Officer of the Company. The severance provisions were designed to keep Mr. White whole for amounts which would otherwise have been due to him immediately upon any termination of his employment following our acquisition of PlainsCapital, and these provisions were negotiated in connection

with our acquisition of PlainsCapital, the company Mr. White founded. The Committee intends to avoid similar provisions in any new employment arrangement going forward.

The Committee remains committed to understanding the perspectives of our stockholders on our executive compensation program and being responsive to their feedback. During our previously conducted stockholder outreach, stockholders generally conveyed that they were supportive of the design of our executive compensation program. Following Mr. White's retirement in April 2019, all of our NEOs are subject to compensation arrangements consistent with our current performance-based compensation philosophy described in this CD&A. The Committee will continue to consider the outcome of the Company's say-on-pay votes and stockholder feedback when making future compensation decisions for the NEOs.

**Compensation Program Philosophy and Objectives**

Our compensation program continues to focus on performance-based pay that reflects our achievements on an annual basis and our ability to deliver long-term value to our stockholders. The Committee regularly reviews the Company's compensation programs to ensure they are consistent with sound business practices, regulatory requirements, emerging industry trends and stockholder interests.

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

- ***Compensation opportunities should be competitive with market practices.*** We are committed to providing competitive total annual compensation opportunities 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.

- ***A significant portion of compensation should be performance-based.*** Our executive compensation program emphasizes pay-for-performance. Both our annual and long-term incentives are earned based on a combination of corporate, business unit and individual performance. Our annual incentive compensation also can be reduced 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 is delivered in the form of RSUs to support our goals for alignment, ownership and retention. Half of the RSUs awarded vest upon achievement of predefined performance goals. The percentage of these awards that vest is based first on cumulative EPS over a three-year period and then multiplied by a modifier based on our total stockholder return, or TSR, relative to members of the KBW Regional Banking Index during the same period. The calculation for the vesting of performance RSUs is as follows:

| 3-Year EPS (50% to 150%) | X | 3-Year TSR (80% to 120%) | = | Payout Percentage (40% to 180%) |
|---|---|---|---|---|

- ***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 fixed and performance-based pay, including cash and equity compensation and short- and long-term incentive compensation. We believe this approach effectively aligns our pay with performance, while discouraging inappropriate risk taking.

### Elements of our Executive Compensation Program

This section describes the 2019 compensation arrangements for our NEOs who served through the end of 2019. Compensation for Mr. White, whose employment ended during 2019, and Mr. Feinberg, whose position changed in 2019, are discussed separately below.

***Base Salary***

We provide base salaries for each NEO commensurate with the services he provides to us. 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 executive officers of the Company and its peers and any increased level of responsibility, among other items. The following table lists the base salaries for our NEOs in 2018 and 2019:

| | Base Salaries | | |
|---|---|---|---|
| **Name** | **2018** | **2019** | **% Increase** |
| Jeremy B. Ford | $ 750,000 | $ 750,000 | — |
| William B. Furr | $ 450,000 | $ 485,000 (a) | 7.8 % |
| M. Bradley Winges | $ — | $ 500,000 (b) | — |
| Todd L. Salmans | $ 750,000 | $ 750,000 | — |

(a) Mr. Furr's base salary increase became effective on April 1, 2019. The increase was approved by the Committee in February 2019 based on Mr. Furr's performance, including the successful implementation of strategic plans, and market data for his position.
(b) Mr. Winges's base salary was established in connection with the commencement of his employment on February 20, 2019.

Mr. Salmans's base salary was reduced to $500,000 effective January 1, 2020, in connection with his transition to the role of Chairman of PrimeLending. In February 2020, the Committee assessed base salaries of the other NEOs and decided to provide the following increases beginning on March 29, 2020: $25,000 for Mr. Jeremy B. Ford (new salary $775,000) and $15,000 for Mr. Furr (new salary $500,000). These increases were determined to be appropriate given performance by these individuals and relative to market data for their respective positions.

***Annual Incentive Program***

***<u>Target Incentive Opportunities</u>***

Target incentive awards are defined at the start of the year in consideration of market data provided by the Committee's consultant, each NEO's total compensation package and the entity's budgetary considerations. The Committee increased the annual incentive target (as a percent of salary) for Mr. Furr following a review of market practices and in order to place more emphasis on pay-for-performance. The following table sets forth information concerning Annual Incentive Plan opportunities for 2019:

| | Annual Incentive Opportunity | | | |
|---|---|---|---|---|
| | | Target | | |
| **Name** | **Threshold ($)** | **Amount ($)** | **% of Base Salary** | **Maximum ($) (a)** |
| Jeremy B. Ford | 375,000 | 750,000 | 100 % | 1,125,000 |
| William B. Furr | 217,500 | 435,000 | 90 % | 652,500 |
| M. Bradley Winges | — | 1,000,000 (b) | 200 % | 1,500,000 |
| Todd L. Salmans | 375,000 | 750,000 | 100 % | 1,125,000 |

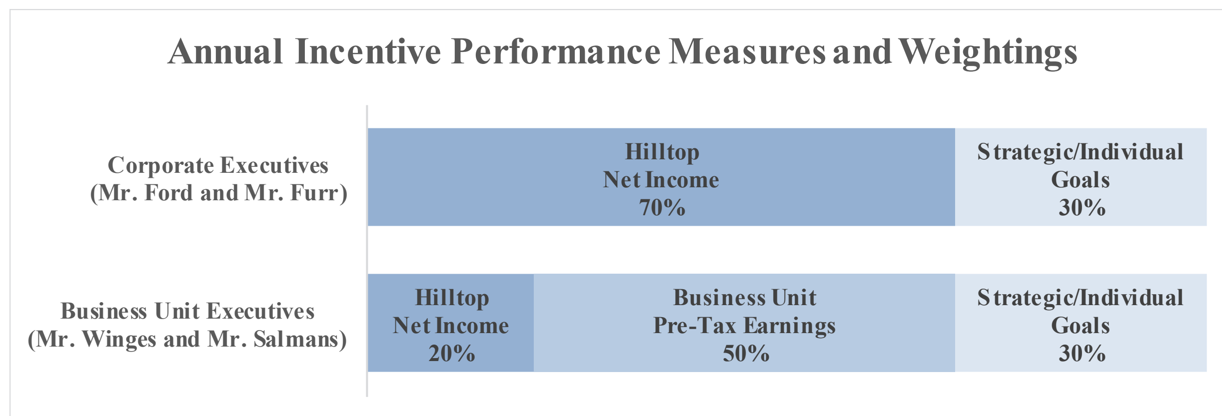
(a) Awards are capped at 150% of the target amount.
(b) Pursuant to Mr. Winges's employment agreement, he was guaranteed $1.0 million of his incentive award for his first year of employment during 2019. No further guarantees were provided with respect to his incentive awards going forward.

***<u>Plan Structure and Performance Measures</u>***

Each NEO had pre-defined performance objectives based upon measurable performance of both the Company and the individual. At least 70% of each executive's incentive was based on the net income of the Company and/or their relevant

business unit. The Committee and management believe that by using these metrics we are encouraging profitable top line growth and value for stockholders without creating excessive risk.

The measures and weights of the performance objectives for 2019 are summarized in the following graph:




In addition to the above criteria, all payouts under the Annual Incentive Plan are subject to forfeiture and clawback in the event of any improper risk management or non-compliance with applicable laws and regulations.

***2019 Goals and Results***

The Committee, in its sole discretion, determines the final amount of each participant's annual cash incentive award based on attainment of the applicable performance goals and assessments of individual and strategic performance.

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 ranged from 50% for threshold performance to a maximum of 150% for stretch performance.

Early in 2019, the Committee established earnings goals for Hilltop and each business unit. Our 2019 goals were intended to be realistic and reasonable but challenging in order to drive performance. At the end of the fiscal year, the Committee determined a payout based on net income performance. 2019 performance goals and actual net income performance were as follows (dollars in millions):

| 2019 Performance Goal (a) | Threshold ($) | Target ($) | Maximum ($) | Actual ($) | Achievement (b) |
|---|---|---|---|---|---|
| Hilltop Adjusted Net Income | 82.2 | 137.0 | 205.5 | 232.9 | 150 % |
| Hilltop Securities Pre-Tax Income | 29.3 | 48.8 | 73.2 | 91.5 | 150 % |
| PrimeLending Pre-Tax Income | 13.3 | 22.2 | 27.7 | 71.2 | 150 % |

(a) The Compensation Committee establishes goals and determines performance results based on adjusted non-GAAP results that exclude the impact of items including leadership changes, business realignment and efficiencies that are not indicative of ongoing operations.
(b) Awards are capped at 150% of the target amount under the plan.

The individual and strategic objectives for the NEOs are developed through an iterative process between the Committee and management. Management develops an initial set of recommendations based upon the business needs. The Committee reviews the proposed goals and revises/amends them at its discretion, ensuring that goals are aligned with the Board of Director's strategic focus.

The following strategic and individual goals, among others, were established for the NEOs in 2019:

| **Executive** | Key Objectives | Key Outcomes |
|---|---|---|
| Jeremy B. Ford | • Provide leadership of succession plans for subsidiaries<br>• Execute Strategic Plan to drive revenue growth and manage expenses<br>• Execute platform initiatives, including subsidiary compensation plans, enhanced business operations, strategic sourcing and shared services<br>• Execute capital management through M&A sourcing and shareholder returns<br>• Lead strategic projects | • Provided effective leadership through successful succession transitions<br>• Executed Strategic Plan and platform initiatives, including institutionalizing compensation programs across HTH<br>• Delivered quantifiable benefits of efficiency initiatives, capital management and M&A |
| William B. Furr | • Provide leadership for implementation of multiple systems<br>• Execute implementation of CECL for 2020<br>• Enhance strategies for Government Deposits and Mortgage Banking<br>• Provide leadership of cost reduction initiatives and Finance shared services optimization | • Provided effective leadership of Finance function<br>• Successfully led implementation of multiple significant efficiency initiatives and CECL<br>• Delivered quantifiable benefits of efficiency projects and balance sheet optimization |
| M. Bradley Winges | • Transition into CEO role of Hilltop Securities<br>• Develop and execute future state plan for Hilltop Securities<br>• Actively support Hilltop shared services initiatives | • Effectively transitioned into Hilltop Securities CEO role<br>• Developed and executed on strategic plan<br>• Restructured core business and expense base<br>• Delivered quantifiable benefits from future state plan |
| Todd L. Salmans | • Drive PrimeLending strategic plan, budget and initiatives<br>• Foster growth initiatives in focus areas<br>• Drive succession planning and talent management<br>• Actively support Hilltop shared services initiatives | • Provided effective leadership of PrimeLending<br>• Executed seamless succession plan to new PrimeLending CEO<br>• Fostered growth initiatives, drove culture improvements and oversaw implementation of strategic priorities |

The Committee evaluated the individual performance of each executive, including the factors noted in the table above, and recognized the results of each executive that drove the Company's outstanding performance in 2019. Based upon these evaluations of each NEO's individual performance in 2019, the Committee awarded each NEO the maximum of 150% for his strategic and individual goals. The Committee also assessed risk and compliance performance for each NEO and determined that no reductions were warranted.

Based on the above financial and individual performance measures and the Committee's discretion, the 2019 annual cash incentive payments were awarded as follows relative to the 2019 target value:

| Name | 2019 Annual Incentive Payment ($) | % of 2019 Target Annual Incentive |
|---|---|---|
| Jeremy B. Ford | 1,125,000 | 150 % |
| William B. Furr | 652,500 | 150 % |
| M. Bradley Winges | 1,500,000 | 150 % |
| Todd L. Salmans | 1,125,000 | 150 % |

See "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table — Annual Incentive Plan" for more information with respect to our stockholder-approved Annual Incentive Plan.

***Long-Term Incentives***

As described above, we believe that a portion of each NEO'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, the Committee determined that the award vehicle mix should provide an equal mix of PRSUs and TRSUs.

PRSUs granted in 2019 will be earned and cliff vest subject to certain performance goals being met after the three-year performance period from January 1, 2019 through December 31, 2021. The PRSUs provide that the percentage of performance-based shares that will vest at the end of the performance period will be determined based on Hilltop's cumulative EPS relative to pre-established performance objectives, multiplied by a modifier that is determined based on Hilltop's TSR relative to banks in the KBW Regional Banking Index. The EPS component of the performance calculation ranges from 50% at threshold (for results at 75% of the EPS goal) to 150% at maximum (for results at 125% of the EPS goal), and the TSR modifier ranges as follows:

| Performance | Rank | Modifier |
|---|---|---|
| Below Threshold | Below 25$^{th}$ percentile | 80% |
| Threshold | 25$^{th}$ percentile or below | 80% |
| Target | 50$^{th}$ percentile | 100% |
| Stretch | 75$^{th}$ percentile or above | 120% |

Accordingly, the total number of shares earned from the performance awards can range from 40% to 180% of the target number of PRSUs granted. No shares will be awarded if EPS results are below threshold. The calculation for the vesting of PRSUs is as follows:

3-Year EPS (50% to 150%) X 3-Year TSR (80% to 120%) = Payout Percentage (40% to 180%)

For example, if EPS is above stretch performance and Relative TSR is below threshold, the payout percentage would be as follows:

3-Year EPS (150%) X 3-Year TSR (80%) = Payout Percentage (120%)

TRSUs cliff vest on the third anniversary of the date of grant.

All shares of common stock delivered pursuant to the RSUs are subject to a one-year holding period requirement after vesting. Since the adoption of the 2012 Equity Incentive Plan, all equity-based awards, including those made to the NEOs, have been made pursuant to the 2012 Equity Incentive Plan. All equity-based awards made to the NEOs are approved by the

Committee and not pursuant to delegated authority. Further discussion of the 2012 Equity Incentive Plan pursuant to which such RSUs were awarded is found under "Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table" below.

***2019 Long-Term Incentive Grants***

In 2019, 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 RSUs on February 27, 2019, to the following NEOs as set forth below:

| Name | TRSUs Awarded | PRSUs Awarded (at Target) | Total RSUs Awarded |
|---|---|---|---|
| Jeremy B. Ford | 45,173 | 45,173 | 90,346 |
| William B. Furr | 11,358 | 11,358 | 22,716 |
| Todd L. Salmans | 10,325 | 10,325 | 20,650 |

Mr. Winges received equity grants in 2019 in connection with the negotiations for him to join Hilltop Securities as the Chief Executive Officer. Based on the terms of his employment agreement, on February 20, 2019 he received an equity grant of 83,000 TRSUs to offset compensation forfeited from his prior employer, and an additional 10,363 TRSUs as a sign-on award. These awards cliff vest on the third anniversary of the date of grant. The employment agreement also provided that if Mr. Winges had been terminated without "cause" or due to death or disability within one year of the effective date of his employment agreement, he would have received a payment of $2,000,000 less any salary and incentives received during his employment, and this payment would be in lieu of any shares vesting from the grant of TRSUs.

On September 5, 2019, Mr. Furr received an additional grant of 13,600 TRSUs that will cliff vest on the third anniversary of the date of grant. The additional TRSUs were granted in connection with Mr. Furr agreeing to extend his employment agreement for three years, including the addition of a 24-month customer non-solicitation provision and an increase in the employee non-solicitation provision from twelve months to 24 months.

***2020 Long-Term Incentive Grants***

On February 20, 2020, the Committee continued the same mix of long-term incentive awards and approved a grant of RSUs to the NEOs, as set forth below:

| Name | TRSUs Awarded | PRSUs Awarded (at Target) | Total RSUs Awarded |
|---|---|---|---|
| Jeremy B. Ford | 67,782 | 67,781 | 135,563 |
| William B. Furr | 11,297 | 11,297 | 22,594 |
| M. Bradley Winges | 13,557 | 13,556 | 27,113 |

In determining the grant values for 2020, the Committee gave consideration to the Company's exceptional results in 2019 that were well above the maximum performance levels allowed for in the Annual Incentive Plan (150% cap on target amount). In particular, the Committee gave special consideration to Mr. Ford's leadership in driving the Company's financial performance and successful execution of multiple key strategic priorities, as well as him assuming the role of the sole Chief Executive Officer. The consideration given by the Committee described above is expected to be non-recurring; however, such considerations will be evaluated by the Committee as it deems necessary.

Mr. Salmans did not receive an equity grant in 2020 due to his transition out of the role of Chief Executive Officer for PrimeLending. Mr. Feinberg did not receive equity grants in either 2019 or 2020 due to his transition to Chairman Emeritus of Hilltop Securities.

***Payout of the 2017-2019 PRSUs***

The following table provides the calculation of the payout for the PRSUs granted in 2017, which resulted in 120% of the target number of shares being earned. Similar to the 2019 awards described above, payouts for the PRSUs granted in 2017 cliff vested in early 2020 based on three-year cumulative EPS performance multiplied by a modifier of the payout based on our three-year TSR relative to the banks in the KBW Regional Banking Index.

| Metric | Threshold | Target | Maximum | Actual |
|---|---|---|---|---|
| Cumulative EPS | $ 3.00 | $ 4.00 | $ 5.00 | $ 5.08 |
| *% of Target Payout* | *50%* | *100%* | *150%* | *150%* |
| Relative TSR percentile ranking | 25th | 50th | 75th | 13th |
| *Modifier* | *80%* | *100%* | *120%* | *80%* |
| **Final Payout** | | | | ***120%*** |

***2019 Compensation for Former Executives***

Pursuant to his Separation and Release Agreement, Mr. White received his base salary through April 1, 2019. He did not participate in the 2019 Annual Incentive Program or receive any equity grants in 2019. Mr. White did receive additional payments in connection with his termination as described below under "Severance and Other Post-Termination Arrangements."

Pursuant to the Retention Agreement entered into with Mr. Feinberg in connection with his transition from the role of President and Chief Executive Officer of Hilltop Securities to Chairman and then Chairman Emeritus of Hilltop Securities (discussed in more detail below under "Severance and Other Post-Termination Arrangements"), Mr. Feinberg received a base salary of $500,000 in 2019 and a one-time payment of $900,000 in March 2019 for his 2018 performance, which was in accordance with his incentive award. Given the tenure Mr. Feinberg held his role and his knowledge of the operations and personnel of Hilltop Securities, the Feinberg Retention Agreement was designed to compensate Mr. Feinberg for the assistance being provided to Mr. Winges in the transition. Mr. Feinberg provided significant support to Mr. Winges throughout 2019 and continues to do so. Mr. Feinberg did not receive any equity grants in 2019 or 2020 in light of his transition to Chairman Emeritus of Hilltop Securities.

***Perquisites and Other Benefits***

We provide various perquisites and other benefits to certain NEOs. Mr. Jeremy B. Ford is provided access to company aircraft for personal use and such personal use is treated as income to him.. Prior to his departure, Mr. White was provided personal access to company aircraft. Messrs. White and Salmans were provided with a monthly car allowance and reimbursement for country club membership dues. In addition, Mr. White is provided bank-owned life insurance. Otherwise, our NEOs generally 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 generally available to all employees. See "Executive Compensation — All Other Compensation Table" below.

**Severance and Other Post-Termination Arrangements**

We generally do not currently maintain any severance or change in control programs other than the change in control provisions in our 2012 Equity Incentive Plan (with exceptions noted below). We have, however, historically paid severance, the amount of which is generally determined based on both 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 NEOs. Absent the negotiation of specific agreements with the NEOs, severance benefits would be provided on the same basis as provided to other employees of the Company.

***Furr Employment Agreement***

Pursuant to our employment agreement with Mr. Furr, as amended, upon termination of his employment by us other than for cause, Mr. Furr is entitled receive 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, provided that Mr. Furr executes and delivers a release to the Company. 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, provide that Mr. Furr executes and delivers a release to the Company. 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 Internal Revenue Code, or the Code, then the benefits payable will be reduced to $1 below the parachute limit.

As noted above, Mr. Furr’s employment agreement was amended on August 30, 2019, to extend the term of the agreement to August 31, 2022, add a customer non-solicitation provision and extend the employee non-solicitation provision, among other changes to be consistent with other employment agreements with the Company.

***Winges Employment Agreement***

The Company entered into an employment agreement with Mr. Winges effective upon commencement of his employment with us on February 20, 2019, which will remain in effect until February 20, 2022. Pursuant to the employment agreement, Mr. Winges is entitled to an annual base salary of $500,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Committee, or whomever is delegated such authority by the Board, and (2) any long-term incentive award programs adopted by the Committee, or whomever is delegated such authority by the Board. With respect to calendar year 2019, the employment agreement provided that Mr. Winges is entitled to a minimum annual cash incentive bonus of $1,000,000 and the value of his long-term incentive award to be granted in 2020 will be at least $500,000.

Additionally, pursuant to his employment agreement, Mr. Winges received a sign-on cash bonus of $1,500,000 on the effective date of his employment. This sign-on bonus was paid to offset bonus compensation forfeited at his prior employer. As discussed in more detail below, this sign-on bonus also would have offset any amounts payable if Mr. Winges had been terminated in the first year of his employment. Mr. Winges’s employment agreement also provides for the reimbursement of up to $400,000 of out-of-pocket costs related to Mr. Winges’s relocation to Dallas, Texas and a gross-up of any such expenses not deductible by him. We believed this amount to be reasonable given our requirement that he move to the Dallas, Texas metroplex on an expedited basis.

As discussed above, the employment agreement provided for a grant of 83,000 TRSUs to offset compensation forfeited from his prior employer. The employment agreement provided that if Mr. Winges had been terminated without “cause” or due to death or disability within one year of the effective date of his employment agreement, he would have received a payment of $2,000,000 less any salary and incentives received during his employment, and this payment would be in lieu of any shares vesting from the grant of TRSUs. Following the first anniversary of his employment, if he is terminated without cause he will receive a lump-sum cash payment equal to one 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, provided that Mr. Winges executes and delivers a release to the Company. Any unvested portion of the equity grant of 83,000 TRSUs awarded to offset compensation forfeited from his former employer also will vest in full if such termination, or a termination as a result of death or disability, occurs on or after the first anniversary of the effective date of his employment.

If Mr. Winges’s employment is terminated without “Cause” following the first anniversary of his employment and within the 12 months immediately following, or the six months immediately preceding, a “Change in Control,” Mr. Winges 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, provided that Mr. Winges executes

and delivers a release to the Company. Any unvested RSU awards also will vest if Mr. Winges is terminated without “Cause” within the 12 months immediately following, or the six months immediately preceding, a “Change in Control.” Notwithstanding, any amounts payable to Mr. Winges upon a “Change in Control” shall not constitute a “parachute payment” and will be reduced accordingly.

The Employment Agreement also includes, among other things, customary non-competition, non-solicitation, non-disparagement, confidentiality and arbitration provisions.

***Salmans Retention Agreement***

On October 25, 2019, the Company entered into a retention agreement with Mr. Salmans to set forth the terms of his ongoing role with PrimeLending. The retention agreement provided that, as of January 1, 2020, Mr. Salmans would resign as Chief Executive Officer of PrimeLending and from all other positions with the Company and its subsidiaries, other than as Chairman of the Board of Directors of PrimeLending. Pursuant to the Retention Agreement, Mr. Salmans will continue to serve as the Chairman of the Board of Directors of PrimeLending.

For his services, Mr. Salmans is entitled to receive an annual salary of $500,000. Mr. Salmans also was entitled to receive a one-time cash payment of $1,250,000 on January 31, 2020. The one-time payment was designed to promote the execution of the succession planning, as well as provide compensation for work performed to transition the role of Chief Executive Officer of PrimeLending to Mr. Thompson. As of January 1, 2020, Mr. Salmans is not entitled to participate in the Company’s annual incentive cash bonus program and long-term incentive award program; provided, however, (i) he remained entitled to receive his annual incentive bonus pursuant to his performance under the annual incentive bonus program for fiscal 2019, and (ii) the RSUs previously granted to him will continue to vest until he resigns or is terminated. Additionally, following his resignation or termination, Mr. Salmans will be paid an amount equal to the cost of COBRA for his immediate family and himself for a period of twelve months. Mr. Salmans may resign or be terminated at any time.

Mr. Salmans’s Retention Agreement also includes, among other things, customary non-competition, non-solicitation, non-disparagement, confidentiality and arbitration provisions.

***White Separation and Release Agreement***

On February 21, 2019, the Company entered into a Separation and Release Agreement, or the Separation Agreement, with Mr. White in connection with his termination of employment effective April 1, 2019, or the Retirement Date. Pursuant to the Separation Agreement, effective as of the Retirement Date, Mr. White resigned from all positions with the Company and its subsidiaries, including, without limitation, Vice-Chairman of the Board of Directors of the Company and Co-Chief Executive Officer of the Company. The Separation Agreement also provided that the Retention Agreement by and between the Company and Mr. White, as amended, or the White Retention Agreement, terminated on the Retirement Date, except for certain provisions that address, among other items, non-competition, non-solicitation, confidential information and arbitration. Additional information about the White Retention Agreement is provided below under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table.”

Pursuant to the Separation Agreement, and in accordance with the White Retention Agreement, Mr. White is entitled to receive, subject to any delay required under Section 409A of the Code, the payments listed below. These payments were in accordance with the provisions of the White Retention Agreement, which was originally negotiated in connection with our acquisition of PlainsCapital, the company founded by Mr. White, and the terms of the original White Retention Agreement were approved, on a non-binding, advisory basis by PlainsCapital stockholders in connection with the acquisition.

- Salary up to and including the Retirement Date;
- $1,450,000 as a cash bonus based upon the Company’s 2018 performance;
- Commencing 60 days following the Retirement Date, $5,770,000, which amounts to two times his annual base salary and average three-year bonus, in installments over two years following the Retirement Date in accordance with current payroll practices of the Company;

- $6,672,372 that constitutes the payment due under Mr. White's employment agreement with PlainsCapital plus interest thereon, which has been held in a separate interest-bearing account since the acquisition of PlainsCapital Corporation by the Company;
- $23,000 for COBRA assistance; and
- Continued payment of premiums with respect to a Split-Dollar Life Insurance Policy, which policy is for the benefit of Mr. White and the Company.

In addition, the Separation Agreement provided that all of Mr. White's unvested RSUs continued to vest, or remained eligible for vesting on a pro rata basis, through April 1, 2019. The unvested portion of the RSUs, based upon pro rata vesting as of April 1, 2019, were forfeited. The Separation Agreement also contained a mutual release between Mr. White and the Company.

***Feinberg Retention Agreement***

On February 19, 2019, the Company entered into a Retention Agreement with Hill A. Feinberg, or the Feinberg Retention Agreement, to set forth the terms of his ongoing role with Hilltop Securities. The Feinberg Retention Agreement provides that, as of February 20, 2019, Mr. Feinberg resigned as President and Chief Executive Officer of Hilltop Securities and from all other positions with the Company and its subsidiaries, other than as Chairman of the Board of Directors of Hilltop Securities, as a member of the Board of Directors of the Company and a member of Executive Committee of the Board of Directors of the Company. Pursuant to the Feinberg Retention Agreement, he continued to serve as the Chairman of the Board of Directors of Hilltop Securities until June 30, 2019, at which time he became Chairman Emeritus of Hilltop Securities and resigned from his membership on the Executive Committee of the Board of Directors of the Company.

For his services, Mr. Feinberg is entitled to receive an annual salary of $500,000 per year, plus the excess of commission payouts over his annual salary in any given calendar year. Under the terms of the agreement, Mr. Feinberg also received a one-time payment of $900,000 in March 2019 and a one-time payment of $500,000 on March 12, 2020. Mr. Feinberg may resign or be terminated at any time. Mr. Feinberg will no longer participate in the Annual Incentive Plan or be granted additional equity awards.

***Incentive Plans***

The 2012 Equity Incentive Plan, under which we have granted awards to the NEOs, contains specific termination and change in control provisions. We originally 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 under "Executive Compensation — Potential Payments Upon Termination or Change-in-Control") 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. For equity grants after January 1, 2019, all equity award agreements contain "double trigger" provisions, which require termination without cause within the six months preceding or the twelve months following a change in control for the equity awards to vest in connection with a change in control. Further discussion of the change in control payments that may be made pursuant to the 2012 Equity Incentive Plan may be found in the "Executive Compensation — 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 on any awards made pursuant to such plan.

## Executive Compensation Process

### *Role of the Compensation Committee*

The Committee is responsible for reviewing and approving all aspects of the compensation programs for our NEOs 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 Officer, as well as assessing his individual performance.

In setting the compensation of our NEOs, the Committee, in its discretion, considers (i) the transferability of managerial skills, (ii) the relevance of each NEO's experience to other potential employees, and (iii) the readiness of the NEO to assume a different or more significant role, either within our organization or with another organization. When the Committee makes pay-related decisions, the Committee considers our acquisition and growth strategy, our desire to attract, retain and motivate 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 the "Board Committees" section above.

### *Role of the Chief Executive Officer in Compensation Decisions*

The Chief Executive Officer provides input and recommendations to the Committee regarding compensation decisions for his direct reports, including the other NEOs. 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 and payouts, specific individual performance objectives, and individual performance assessments. The Chief Executive Officer makes recommendations based on his 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 Officer's recommendations when determining any compensation changes affecting our 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 2019, the Committee continued its engagement of Meridian Compensation Partners, LLC, or Meridian, as its independent compensation consultant. Meridian is engaged directly by the Committee.

Pursuant to its engagement, 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 NEOs. A representative of Meridian generally attends meetings of the Committee, is available to participate in executive sessions of the Committee 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 these and other factors. The Compensation Committee evaluated whether the work provided by Meridian raised any conflict of interest, and determined that Meridian has been independent throughout its service for the Committee and no conflict of interest was raised by the work of Meridian described in this Proxy Statement.

***Peer Group and Benchmarking Approach***

The Committee regularly assesses the components of the executive compensation program with advice from its independent compensation consultant. In October 2018, Meridian provided an analysis of base salary, annual incentive and long-term incentive practices of comparable companies in the financial industry. Meridian considered individual compensation elements as well as the total compensation package. This analysis was considered by the Committee when it established 2019 pay opportunities for executives.

In performing this analysis, Meridian developed market data using publicly-disclosed compensation information from a peer group of comparable financial institutions, as well as compensation surveys. Survey data reflected financial institutions of similar size to Hilltop and our operating subsidiaries. The Committee did not review the specific companies included in the survey data.

The compensation peer group includes institutions of generally similar asset size and, to the extent possible, organizations with significant other operating segments and non-interest income. In evaluating the peer group, the Committee considers that our combination of businesses adds complexity relative to other banks with similar asset sizes.

The following banks were included in the peer group for Meridian's market study in October 2018:

| | | |
|---|---|---|
| Atlantic Union Bankshares Corporation | LegacyTexas Financial Group, Inc. | Texas Capital Bancshares, Inc. |
| BancorpSouth Bank | Old National Bancorp | TowneBank |
| First Financial Bankshares, Inc. | Pinnacle Financial Partners, Inc. | Trustmark Corporation |
| First Midwest Bancorp, Inc. | Prosperity Bancshares, Inc. | UMB Financial Corporation |
| Hancock Whitney Corporation | Simmons First National Corporation | Umpqua Holdings Corporation |
| IBERIABANK Corporation | South State Corporation | WesBanco, Inc. |
| Independent Bank Group, Inc. | TCF Financial Corporation | Wintrust Financial Corporation |
| International Bancshares Corporation | | |

With Meridian's assistance, the Committee reviewed the peer group in July 2019 and determined to make changes to the group based upon merger and acquisition and other activity among the peers.

The review resulted in the following changes to the peer group:

| Removed | Added |
|---|---|
| Atlantic Union Bankshares Corporation | Ameris Bancorp |
| IBERIABANK Corporation | BancFirst Corporation |
| LegacyTexas Financial Group, Inc. | Cadence Bancorporation |
| Old National Bancorp | Commerce Bancshares, Inc. |
| Pinnacle Financial Partners, Inc. | First Financial Bancorp. |
| TCF Financial Corporation | Flagstar Bancorp, Inc. |
| Wintrust Financial Corporation | Renasant Corporation |

***Risk Considerations in Our Compensation Program***

We do not believe that our compensation policies and practices for 2019 give rise to risks that are reasonably likely to have a material adverse effect on our Company. In reaching this conclusion for 2019, we considered the following factors:

- Base salary is fixed and the only compensation components that are variable are the annual incentives and PRSUs awarded to NEOs, which were awarded based upon attainment of pre-determined levels of earnings.
- Annual Incentive Plan payments to the NEOs were determined or approved following the completion of the audit of the Company's consolidated 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 its decisions.
- We have a balanced program that includes multiple performance goals, rewards short-term and multi-year performance, pays in cash and equity and provides a meaningful portion of pay in stock, which is tied to our long-term performance.
- Annual Incentive Plan and 2012 Equity Incentive Plan awards are subject to clawback and adjustments for improper risk taking 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.

**Executive Compensation Programs and Policies**

***Stock Ownership Guidelines***

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, unless they are subject to certain restrictions on receiving director fees, or fees in the form of stock. 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 the stock ownership guidelines, we 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 and unearned performance shares 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 this holding requirement, provided his or her total stock ownership level does not fall below the ownership guidelines.

In addition, all awards of RSUs granted since February 2014 to NEOs are, subject to certain exceptions, required to be held for one year after vesting.

As of April 29, 2020, all NEOs are on track to meet the ownership guidelines.

***Clawback Policy***

Our compensation program also includes a clawback from any annual cash or long-term incentive award for improper risk taking and significant compliance issues. Under our clawback policy, the Company may recover all or a portion of any annual cash or equity incentive award from our NEOs in the event we are required to restate our financial statements due to errors, omissions, fraud or misconduct. Annual Incentive Plan and 2012 Equity 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.

***Trading Controls and Hedging, Short Sale and Pledging Policies***

Executive officers, including the NEOs, 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 NEOs, may enter into a trading plan under Rule 10b5-1 under 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 NEO 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, short sale and derivative transactions and are subject to restrictions on pledging our securities. All employees are prohibited from hedging or pledging unvested RSUs.

***Tax Considerations***

Section 162(m) of the Code imposes a $1.0 million limit on the tax-deductibility of compensation paid to certain named executive officers. Prior to the Tax Cuts and Jobs Act of 2017, or the Tax Legislation, exceptions were 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 historically considered the implications of Section 162(m) of the Code in the design of its executive compensation programs. The Committee, however, reserved the flexibility, where appropriate, to approve compensation arrangements that may not have been tax deductible to the Company, such as base salary and awards of TRSUs.

The performance-based exception from 162(m) deductibility limits have been repealed, effective for taxable years beginning after December 31, 2017. The Tax Legislation included certain transition relief for historical arrangements that were in place as of November 2, 2017, so long as such arrangements were not materially modified after that date. To the extent that compensation is payable pursuant to such a historical arrangement, if the Company determines that Section 162(m) of the Code will apply to any such awards, the Company generally intends that the terms of those awards will not be materially modified and will be constructed so as to constitute qualified performance-based compensation and, as such, will be exempt from the $1,000,000 limitation on deductible compensation. The Committee continues to reserve flexibility to provide compensation arrangements that it believes are consistent with its compensation philosophy even if the arrangements will result in non-deductible compensation.

**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:

A. 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 2019, 2018 and 2017 by the NEOs, who were either serving in such capacities on December 31, 2019, during 2019, or are reportable pursuant to applicable SEC regulations.

**Summary Compensation Table**
Fiscal Years 2019, 2018 and 2017

| Name and principal position | Year | Salary ($) | Bonus (a) ($) | Stock Awards (b) ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation (c) ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (d) ($) | All Other Compensation (e) ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Jeremy B. Ford | 2019 | 750,000 | — | 1,718,833 | — | 1,125,000 | — | 91,172 | 3,685,005 |
| President and | 2018 | 729,327 | — | 1,576,229 | — | 625,000 | — | 91,923 | 3,022,479 |
| Chief Executive Officer | 2017 | 718,500 | — | 1,582,502 | — | 790,000 | — | 70,310 | 3,161,312 |
| Alan B. White | 2019 | 395,962 | — | — | — | — | 96,295 | 9,891,905 | 10,384,163 |
| Former Vice Chairman and | 2018 | 1,409,615 | 1,450,000 | 699,444 | — | — | 77,795 | 173,225 | 3,810,079 |
| Co-Chief Executive Officer (f) | 2017 | 1,387,500 | 1,450,000 | 702,209 | — | — | 44,519 | 170,383 | 3,754,611 |
| William B. Furr | 2019 | 475,577 | — | 757,212 | — | 652,500 | — | 10,580 | 1,895,869 |
| Executive Vice President and | 2018 | 435,096 | — | 384,679 | — | 390,000 | — | 11,230 | 1,221,005 |
| Chief Financial Officer | 2017 | 425,000 | — | 351,119 | — | 425,000 | — | 117,270 | 1,318,389 |
| M. Bradley Winges | 2019 | 419,231 | 2,500,000 (h) | 1,801,906 (i) | — | 500,000 | — | 577,219 | 5,798,356 |
| President and Chief Executive | 2018 | — | — | — | — | — | — | — | — |
| Officer of Hilltop Securities (g) | 2017 | — | — | — | — | — | — | — | — |
| Todd L. Salmans | 2019 | 750,000 | — | 392,866 | — | 1,125,000 | — | 50,755 | 2,318,621 |
| Chairman of | 2018 | 735,577 | — | 349,722 | — | 500,000 | — | 47,318 | 1,632,617 |
| PrimeLending | 2017 | 750,000 | — | 351,119 | — | 825,000 | — | 43,095 | 1,969,214 |
| Hill A. Feinberg | 2019 | 500,000 | 900,000 (j) | — | — | — | — | 7,416 | 1,407,416 |
| Chairman Emeritus of | 2018 | 490,385 | — | 399,689 | — | 900,000 | — | 11,582 | 1,801,656 |
| Hilltop Securities | 2017 | 500,000 | — | 351,119 | — | 900,000 | — | 25,176 | 1,776,295 |

(a) Represents bonuses paid for services during 2019, 2018 and 2017, as applicable.

(b) Reflects the grant date fair value calculated in accordance with the provisions of the Stock Compensation Topic of the ASC, in accordance with the assumptions described in Note 21 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. The value of performance-based stock awards is based on the probable outcome of the applicable performance conditions. The following table presents the value of performance-based awards included in the table above based on the achievement of both probable and maximum outcomes:

| | | Performance-Based Stock Awards | |
|---|---|---|---|
| Name | Year | (Probable Achievement) ($) | (Maximum Achievement) ($) |
| Jeremy B. Ford | 2019 | 843,832 | 1,265,747 |
| | 2018 | 787,479 | 1,181,219 |
| | 2017 | 793,747 | 1,190,621 |
| Alan B. White | 2019 | — | — |
| | 2018 | 349,440 | 524,160 |
| | 2017 | 352,198 | 528,297 |
| William B. Furr | 2019 | 212,167 | 318,251 |
| | 2018 | 192,172 | 288,258 |
| | 2017 | 176,099 | 264,148 |
| M. Bradley Winges | 2019 | — | — |
| | 2018 | — | — |
| | 2017 | — | — |
| Todd L. Salmans | 2019 | 192,871 | 289,307 |
| | 2018 | 174,720 | 262,080 |
| | 2017 | 176,099 | 264,148 |
| Hill A. Feinberg | 2019 | — | — |
| | 2018 | 199,683 | 299,525 |
| | 2017 | 176,099 | 264,148 |

(c) For 2019, represents cash awards earned under the Annual Incentive Plan for services during 2019, but paid in March 2020. For 2018, represents cash awards earned under the Annual Incentive Plan for services during 2018, but paid in March 2019. For 2017, represents cash awards earned under the Annual Incentive Plan for services during 2017, but paid in March 2018.

(d) Represents interest earned on non-qualified deferred compensation contributions to Mr. White during 2019, 2018 and 2017, as applicable. For additional information, see "— Non-Qualified Deferred Compensation."

(e) Includes amounts paid during 2019, 2018 and 2017, as applicable, for group life insurance premiums, auto allowance, gym and club expenses, use of a company car and aircraft, moving expenses, and cellular phone reimbursement. For Mr. White, reflects payments pursuant to the Separation Agreement, and in accordance with the White Retention Agreement. The table following these footnotes sets forth a breakdown of all other compensation included in the "Summary Compensation Table" for the NEOs.

(f) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.

(g) Mr. Winges began serving as President and Chief Executive Officer of Hilltop Securities effective February 20, 2019.

(h) Includes sign-on bonus of $1.5 million and guaranteed annual cash incentive award for 2019 under his employment contract of $1.0 million.
(i) Includes sign-on grants of equity of 10,363 time-based restricted stock units and 83,000 time-based restricted stock units to offset compensation forfeited by Mr. Winges for terminating his employment with his former employer.
(j) Represents bonus paid pursuant to the Feinberg Retention Agreement.

| | | All Other Compensation | | | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Year** | **Perquisites and Personal Benefits (a) ($)** | **Gross-Ups or Other Amounts Reimbursed for the Payment of Taxes ($)** | **Company Contributions to Defined Contribution Plans ($)** | **Insurance Policies (b) ($)** | **Other ($)** | **Total All Other Compensation ($)** |
| Jeremy B. Ford | 2019 | 80,502 | — | 9,500 | 1,170 | — | 91,172 |
| | 2018 | 81,893 | — | 9,250 | 780 | — | 91,923 |
| | 2017 | 60,164 | 366 | 9,000 | 780 | — | 70,310 |
| Alan B. White (c) | 2019 | 14,170 | 117 | 9,500 | 58,323 | 9,809,795 (d) | 9,891,905 |
| | 2018 | 98,163 | — | 9,250 | 65,812 | — | 173,225 |
| | 2017 | 95,699 | 80 | 9,000 | 65,604 | — | 170,383 |
| William B. Furr | 2019 | 300 | — | 9,500 | 780 | — | 10,580 |
| | 2018 | 1,200 | — | 9,250 | 780 | — | 11,230 |
| | 2017 | 71,659 | 36,161 | 9,000 | 450 | — | 117,270 |
| M. Bradley Winges | 2019 | 343,694 | 222,990 | 9,500 | 1,035 | — | 577,219 |
| | 2018 | — | — | — | — | — | — |
| | 2017 | — | — | — | — | — | — |
| Todd L. Salmans | 2019 | 33,839 | — | 9,500 | 7,416 | — | 50,755 |
| | 2018 | 22,000 | — | 9,250 | 16,068 | — | 47,318 |
| | 2017 | 22,000 | 2,189 | 9,000 | 9,906 | — | 43,095 |
| Hill A. Feinberg | 2019 | — | — | — | 7,416 | — | 7,416 |
| | 2018 | — | — | 4,167 | 7,415 | — | 11,582 |
| | 2017 | — | 108 | 9,000 | 16,068 | — | 25,176 |

(a) Year 2019: For Mr. Jeremy B. Ford, reflects $1,200 gym membership allowance and personal use of company airplane of $79,302. For Mr. White, reflects car allowance of $9,000, personal use of company airplane of $4,873 and personal use of company automobile of $296. For Mr. Furr, reflects a cellular phone reimbursement of $300. For Mr. Salmans, reflects a car allowance of $12,000 and club expenses of $21,839. For Mr. Winges, reflects taxable moving expenses of $343,694, which were provided for in his employment agreement. Personal use of company aircraft is calculated on a per mile basis utilizing SIFL rates published by the IRS.
(b) Reflects group term life insurance premiums paid during 2017 for Messrs. Ford, Furr, Feinberg and Salmans, as applicable. For Mr. White, represents bank-owned life insurance of $836, group term life insurance of $4,687 and key man life insurance of $52,800. Group term life insurance was not included in "All Other Compensation" during 2019 and 2018 as this is a benefit that is available to all employees of the Company.
(c) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.
(d) Reflects payments to Mr. White pursuant to the Separation Agreement, and in accordance with the White Retention Agreement,

### *Grants of Plan-Based Awards*

## Grants of Plan-Based Awards Table
## Fiscal Year 2019

| Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a) | | | Estimated Future Payouts Under Equity Incentive Plan Awards (b) | | | All Other Stock Awards: Number of Shares of Stock or Units (c) (#) | Grant Date Fair Value of Share and Option Awards (d) ($) |
|---|---|---|---|---|---|---|---|---|---|
| | | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | | |
| Jeremy B. Ford | 2/27/2019 | | | | | | | 45,173 | 875,001 |
| | 2/27/2019 | | | | 22,587 | 45,173 | 67,760 | | 843,832 |
| | 2/27/2019 | 375,000 | 750,000 | 1,125,000 | | | | | |
| Alan B. White (e) | 2/27/2019 | | | | | | | — | — |
| | 2/27/2019 | | | | — | — | — | | — |
| | 2/27/2019 | — | — | — | | | | | |
| William B. Furr | 9/5/2019 | | | | | | | 13,600 | 325,040 |
| | 2/27/2019 | | | | | | | 11,358 | 220,004 |
| | 2/27/2019 | | | | 5,679 | 11,358 | 17,037 | | 212,167 |
| | 2/27/2019 | 217,500 | 435,000 | 652,500 | | | | | |
| M. Bradley Winges | 2/20/2019 | | | | | | | 83,000 | 1,601,900 |
| | 2/20/2019 | | | | | | | 10,363 | 200,006 |
| | 2/27/2019 | — | 1,000,000 (f) | 1,500,000 | | | | | |
| Todd L. Salmans | 2/27/2019 | | | | | | | 10,325 | 199,995 |
| | 2/27/2019 | | | | 5,163 | 10,325 | 15,488 | | 192,871 |
| | 2/27/2019 | 375,000 | 750,000 | 1,125,000 | | | | | |
| Hill A. Feinberg | 2/27/2019 | | | | | | | — | — |
| | 2/27/2019 | | | | — | — | — | | — |
| | 2/27/2019 | — | — | — | | | | | |

(a) Represent the value of potential payments under the Annual Incentive Plan to the NEOs based on 2019 performance. Management incentive award amounts shown above represent potential awards that may have been earned based on performance during 2019. The actual amounts earned pursuant to Annual Incentive Plan awards for 2019 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.

(b) Represents performance-based RSUs that vest based upon the achievement of certain performance goals during the three-year period beginning January 1, 2019 and ending December 31, 2021. These RSUs were issued pursuant to the 2012 Equity Incentive Plan and a form of award agreement and are subject to forfeiture, accelerated vesting and other restrictions as more fully set forth in the 2012 Equity Incentive Plan and the form of award agreement. For additional information, see "Compensation Discussion and Analysis — Elements of our Executive Compensation Program — Long-Term Incentive Awards."

(c) Represents time-based RSUs that cliff vest upon the third anniversary of the date of grant. These RSUs were issued pursuant to the 2012 Equity Incentive Plan and a form of award agreement and are subject to forfeiture, accelerated vesting and other restrictions as more fully set forth in the 2012 Equity Incentive Plan and the form of award agreement. For additional information, see "Compensation Discussion and Analysis — Elements of our Executive Compensation Program — Long-Term Incentives."

(d) Reflects the grant date fair value calculated in accordance with the provisions of the Stock Compensation Topic of the ASC. The value of the performance-based stock awards is based on the probable outcome of the applicable performance conditions. For more information regarding outstanding awards held by the NEO, refer to section "Outstanding Equity Awards at Fiscal Year-End" below.

(e) Mr. White retired effective April 1, 2019, from all positions with the Company, including as a member of the Board of Directors.

(f) Mr. Winges was guaranteed to receive at least $1.0 million per his employment agreement provided that a termination of employment had not occurred prior to the payment date.

## 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 agreements with Messrs. White, Feinberg and Salmans and our employment agreements with Messrs. Furr and Winges. We do not have an employment agreement with Mr. Jeremy B. Ford. 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 NEOs. 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 NEOs 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 the White Retention Agreement. We amended the White Retention Agreement on September 12, 2016 solely for the purpose of recognizing his promotion to Co-Chief Executive Officer of Hilltop, including a corresponding change to compensate him based upon the consolidated results of Hilltop, as opposed to PlainsCapital. The term of the White Retention Agreement was for three years, with automatic one-year renewals at the end of the second year of the agreement and each anniversary thereof unless notice had been given otherwise. Pursuant to the White Retention Agreement, Mr. White's annual base salary was at least $1,350,000. He was also entitled to an annual bonus that varied based upon the performance of the Company. If Hilltop's annual net income was less than or equal to $70,000,000 but greater than $15,000,000, Mr. White was entitled to a bonus equal to the average of his annual bonus in the prior three calendar years. If Hilltop's annual net income exceeded $70,000,000, he was entitled to a bonus equal to 100% of his annual base salary. Additionally, in accordance with the White Retention Agreement, Mr. White was entitled to participate in all of the Company's employee benefit plans and programs. Further, the White Retention Agreement provided that the Company would 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 continued 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. The White Retention Agreement also included, among other things, customary non-competition, non-solicitation and confidentiality provisions. Mr. White's non-competition and non-solicitation obligations would terminate thirty-six (36) months after his termination.

On February 21, 2019, the Company entered into the Separation Agreement with Mr. White in connection with his termination of employment effective April 1, 2019, or the Retirement Date. Pursuant to the Separation Agreement, effective as of the Retirement Date, Mr. White resigned from all positions with the Company and its subsidiaries, including, without limitation, Vice-Chairman of the Board of Directors of the Company and Co-Chief Executive Officer of the Company. The Separation Agreement also provided that the White Retention Agrement, terminated on the Retirement Date, except for certain provisions that address, among other items, non-competition, non-solicitation, confidential information and arbitration.

Pursuant to the Separation Agreement, and in accordance with the White Retention Agreement, Mr. White is entitled to receive, subject to any delay required under Section 409A of the Code, the payments listed below. These payments were in accordance with the provisions of the White Retention Agreement, which was originally negotiated in connection with our acquisition of PlainsCapital, the company founded by Mr. White, and the terms of the original White Retention Agreement were approved, on a non-binding, advisory basis by PlainsCapital stockholders in connection with the acquisition.

- Salary up to and including the Retirement Date;
- $1,450,000 as a cash bonus based upon the Company's 2018 performance;
- Commencing 60 days following the Retirement Date, $5,770,000, which amounts to two times his annual base salary and average three year bonus, in installments over two years following the Retirement Date in accordance with current payroll practices of the Company;

- $6,672,372 that constitutes the payment due under Mr. White's employment agreement with PlainsCapital plus interest thereon, which has been held in a separate interest bearing account since the acquisition of PlainsCapital Corporation by the Company;
- $23,000 for COBRA assistance; and
- Continued payment of premiums with respect to a Split-Dollar Life Insurance Policy, which policy is for the benefit of Mr. White and the Company.

In addition, the Separation Agreement provided that all of Mr. White's unvested RSUs continued to vest, or remained eligible for vesting on a pro rata basis, through April 1, 2019. Pursuant to certain RSU award agreements, an aggregate of 5,482 vested RSUs at April 28, 2020 require deferral of the settlement in shares and statutory tax obligations to a future date. The unvested portion of the RSUs, based upon pro rata vesting as of April 1, 2019, were forfeited. The Separation Agreement also contained a mutual release between Mr. White and the Company.

*Mr. Furr*

In connection with the appointment of Mr. Furr as Chief Financial Officer of the Company, the Company and Mr. Furr entered into an employment agreement effective as of September 1, 2016. The employment agreement remained in effect until the third anniversary of the effective date. In August 2019, the employment agreement was amended to extend its term until August 31, 2022. Pursuant to this amended agreement, Mr. Furr is entitled to an annual base salary of $485,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee of the Board of Directors of the Company, or whomever is delegated such authority by the Board of Directors, and (2) any long-term incentive award programs adopted by the Compensation Committee, or whomever is delegated such authority by the Board of Directors. Mr. Furr also is entitled to reimbursement of employment-related expenses and 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. Mr. Furr's non-competition and non-solicitation obligations continue for 24 months following the earlier of (i) his termination and (ii) the termination of his employment agreement. In consideration for the addition of the 24-month customer non-solicitation provision and the increased time period of the employee non-solicitation provision from twelve to 24 months, as well as other additional provisions, the employment agreement provides that Mr. Furr was entitled to receive a grant of RSUs having an aggregate fair market value of $325,000 on the date of grant. For a description of compensation and benefits to which Mr. Furr is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

*Mr. Winges*

The Company entered into an employment agreement with Mr. Winges effective upon commencement of his employment with us on February 20, 2019, which will remain in effect until February 20, 2022. Pursuant to the employment agreement, Mr. Winges is entitled to an annual base salary of $500,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee of the Board of Directors of the Company, or whomever is delegated such authority by the Board, and (2) any long-term incentive award programs adopted by the Compensation Committee, or whomever is delegated such authority by the Board. With respect to calendar year 2019, the employment agreement provided that Mr. Winges is entitled to a minimum annual cash incentive bonus of $1,000,000 and the value of his long-term incentive award to be granted in 2020 will be at least $500,000.

Additionally, pursuant to his employment agreement, Mr. Winges received a sign-on cash bonus of $1,500,000 on the effective date of his employment. This sign-on bonus was paid to offset bonus compensation forfeited at his prior employer. As discussed in more detail below, this sign-on bonus also would have offset any amounts payable if Mr. Winges had been terminated in the first year of his employment. Mr. Winges's employment agreement also provides for the reimbursement of up to $400,000 of out-of-pocket costs related to Mr. Winges's relocation to Dallas, Texas and a gross-up of any such expenses not deductible by him. We believed this amount to be reasonable given our requirement that he move to the Dallas, Texas metroplex on an expedited basis.

Mr. Winges's employment agreement also provided for a grant of 83,000 TRSUs to offset compensation forfeited from Mr. Winges's prior employer. The employment agreement provided that if Mr. Winges had been terminated without "cause"

or due to death or disability within one year of the effective date, he would have received a payment of $2,000,000 less any salary and incentives received during his employment, and this payment would be in lieu of any shares vesting from the grant of TRSUs. Following the first anniversary of his employment, if he is terminated without cause he will receive a lump-sum cash payment equal to one 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. Any unvested portion of the 83,000 TRSUs also will vest in full if such termination, or a termination as a result of death or disability, occurs on or after the first anniversary of the effective date of his employment. For a description of compensation and benefits to which Mr. Winges 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 October 25, 2019, the Company entered into a retention agreement with Mr. Salmans to set forth the terms of his ongoing role with PrimeLending. The Company appointed Steve Thompson to succeed Mr. Salmans as Chief Executive Officer of PrimeLending effective January 1, 2020. Mr. Salmans’s retention agreement provides that, as of January 1, 2020, Mr. Salmans resigned as Chief Executive Officer of PrimeLending and from all other positions with the Company and its subsidiaries, other than as Chairman of the Board of Directors of PrimeLending. Pursuant to his retention agreement, Mr. Salmans will assist and advise the Chief Executive Officer of PrimeLending, attend events hosted by PrimeLending and remain active in the mortgage industry.

For his services, Mr. Salmans is entitled to receive an annual salary of $500,000 per year. Mr. Salmans also received a one-time payment of $1,250,000 on January 31, 2020. The one-time payment was designed to promote the execution of the succession planning, as well as provide compensation for work performed to transition the role of Chief Executive Officer of PrimeLending to Mr. Thompson. Mr. Salmans may resign or be terminated at any time. Mr. Salmans will no longer participate in the Annual Incentive Plan or be granted additional awards under the 2012 Equity Incentive Plan.

*Mr. Feinberg*

On February 19, 2019, the Company entered into the Feinberg Retention Agreement to set forth the terms of Mr. Feinberg’s ongoing role with Hilltop Securities. The Feinberg Retention Agreement provides that, as of February 20, 2019, Mr. Feinberg resigned as President and Chief Executive Officer of Hilltop Securities and from all other positions with the Company and its subsidiaries, other than as Chairman of the Board of Directors of Hilltop Securities, as a member of the Board of Directors of the Company and a member of Executive Committee of the Board of Directors of the Company. Pursuant to the Feinberg Retention Agreement, Mr. Feinberg continued to serve as the Chairman of the Board of Directors of Hilltop Securities until June 30, 2019, at which time he became Chairman Emeritus of Hilltop Securities and resigned from his membership on the Executive Committee of the Board of Directors of the Company.

For his services, Mr. Feinberg is entitled to receive an annual salary of $500,000 per year, plus the excess of commission payouts over his annual salary in any given calendar year. Mr. Feinberg also received a one-time payment of $900,000 in March 2019 and a one-time payment of $500,000 on March 12, 2020. Mr. Feinberg may resign or be terminated at any time.

***Equity Incentive Plans***

On September 20, 2012, our stockholders approved the 2012 Equity Incentive Plan, which provides for the grant of equity-based awards, including restricted shares of our common stock, RSUs, stock options, grants of shares, stock appreciation rights, or 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 the 2012 Equity Incentive Plan. On June 15, 2017, our stockholders reapproved the performance goals contained in the 2012 Equity Incentive Plan. All shares granted and outstanding pursuant to the 2012 Equity Incentive Plan, whether vested or unvested, are entitled to receive dividends and to vote, unless forfeited. All other awards, including RSUs, are not entitled to dividends nor to vote. 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 the 2012 Equity Incentive Plan may not exceed 2,000,000.

The 2012 Equity Incentive Plan is 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 performance goals and other terms and conditions of the awards. 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 2012 Equity Incentive Plan provides 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 SARs granted under such plan, without obtaining the approval of our stockholders.

Stock options granted under the 2012 Equity Incentive Plan may be either “incentive stock options” within the meaning of Section 422 of the 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 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 originally approved the Annual Incentive Plan. Our stockholders then reapproved the performance goals contained in the Annual Incentive Plan on June 15, 2017. The Annual Incentive Plan provides for a cash bonus to key employees who are selected by the Compensation Committee for participation in the plan. The Annual Incentive Plan is intended to permit the payment of “performance-based compensation” and is designed to reward executives whose performance during the fiscal year enabled us to achieve favorable business results and to assist us 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 performance criteria outlined in the Annual Incentive Plan.

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 determines 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 is conditioned upon the participant’s active employment on the date that the final awards are paid. We may amend or terminate the Annual Incentive Plan at any time.

### *Outstanding Equity Awards at Fiscal Year End*

The following table presents information pertaining to all outstanding equity awards held by the NEOs as of December 31, 2019.

| | Stock Awards | | | | | |
|---|---|---|---|---|---|---|
| Name | Number of Shares or Units of Stock That Have Not Vested (#) | | Market Value of Shares or Units of Stock That Have Not Vested (a) ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (a) (#) | | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (a) ($) |
| Jeremy B. Ford | 27,734 | (b) | 691,409 | 27,734 | (c) | 691,409 |
| | 31,766 | (d) | 791,926 | 31,766 | (e) | 791,926 |
| | 45,173 | (f) | 1,126,163 | 45,173 | (g) | 1,126,163 |
| Alan B. White | — | | — | 8,888 | (c) | 221,578 |
| | — | | — | 5,482 | (e) | 136,666 |
| William B. Furr | 3,315 | (h) | 82,643 | — | | — |
| | 6,154 | (b) | 153,419 | 6,153 | (c) | 153,394 |
| | 7,753 | (d) | 193,282 | 7,752 | (e) | 193,257 |
| | 11,358 | (f) | 283,155 | 11,358 | (g) | 283,155 |
| | 13,600 | (i) | 339,048 | — | | — |
| M. Bradley Winges | 83,000 | (j) | 2,069,190 | — | | — |
| | 10,363 | (k) | 258,350 | — | | — |
| Todd L. Salmans | 6,154 | (b) | 153,419 | 6,153 | (c) | 153,394 |
| | 7,048 | (d) | 175,707 | 7,048 | (e) | 175,707 |
| | 10,325 | (f) | 257,402 | 10,325 | (g) | 257,402 |
| Hill A. Feinberg | 6,154 | (b) | 153,419 | 6,153 | (c) | 153,394 |
| | 8,055 | (d) | 200,811 | 8,055 | (e) | 200,811 |

(a) Value based upon the closing price of $24.93 for our common stock on December 31, 2019. With respect to performance-based RSUs, the number of shares underlying each award was calculated based on the achievement of target level performance due to certain modifiers utilized in the performance calculation.
(b) Represents time-based RSUs that cliff vested on February 23, 2020.
(c) Represents shares underlying performance-based RSUs that vested on February 23, 2020 upon the achievement of certain performance goals during the three-year period beginning January 1, 2017 and ending December 31, 2019. The amount disclosed in the table is based on applicable target performance during the noted period. Actual shares issued under performance awards were 120.0% of unvested shares reported in the table above at December 31, 2019, as approved by the Compensation Committee on February 20, 2020.
(d) Represents time-based RSUs that cliff vest upon the earlier of March 5, 2021 and a change of control.
(e) Represents performance-based RSUs that vest upon the achievement of certain performance goals during the three-year period beginning January 1, 2018 and ending December 31, 2020.
(f) Represents time-based RSUs that cliff vest upon the earlier of February 27, 2022 and a termination of employment without cause within the twelve months following or six months preceding a change of control.
(g) Represents performance-based RSUs that vest upon the achievement of certain performance goals during the three-year period beginning January 1, 2019 and ending December 31, 2021.
(h) Represents outstanding time-based RSUs that vest upon the earlier of (i) February 15, 2020 or (ii) a change in control.
(i) Represents time-based RSUs that cliff vest upon the earlier of September 5, 2022 and a termination of employment without cause within the twelve months following or six months preceding a change of control.
(j) Represents time-based RSUs that cliff vest upon the earlier of February 20, 2022 and a termination of employment due to death or disability, a termination of employment without cause, and a termination of employment without cause within the twelve months following or six months preceding a change of control.
(k) Represents time-based RSUs that cliff vest upon the earlier of February 20, 2022 and a termination of employment without cause within the twelve months following or six months preceding a change of control.

***Option Exercises and Stock Vested in 2019***

The following table presents information pertaining to any outstanding RSU awards held by the NEOs that vested during 2019. There were no option awards outstanding during 2019.

| Name | Stock Awards | |
|---|---|---|
| | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($) |
| Jeremy B. Ford | 45,766 | 912,116 (a) |
| Alan B. White | 60,137 | 1,179,848 (b) |
| William B. Furr | 19,572 | 413,799 (c) |
| M. Bradley Winges | — | — |
| Todd L. Salmans | 22,883 | 456,058 (a) |
| Hill A. Feinberg | 19,614 | 390,907 (a) |

(a) Value based upon the closing price of $19.93 for our common stock on February 23, 2019 multiplied by the number of vested RSUs.
(b) Value based upon the closing prices of $19.93 and $18.63 for our common stock on February 23, 2019 and April 1, 2019, respectively, multiplied by the respective number of vested RSUs.
(c) Value based upon the closing prices of $18.93, $19.93 and $2,376 for our common stock on February 15, 2019, February 23, 2019 and September 6, 2019, respectively, multiplied by the respective number of vested RSUs.

***Non-Qualified Deferred Compensation***

The following table shows the non-qualified deferred compensation activity for our NEOs during the fiscal year ended December 31, 2019.

| Name | Executive Contributions in Last Fiscal Year ($) | Registrant Contributions in Last Fiscal Year ($) | Aggregate Earnings in Last Fiscal Year (a) ($) | Aggregate Withdrawals/ Distributions ($) | Aggregate Balance at Last Fiscal Year End End (b) ($) |
|---|---|---|---|---|---|
| Jeremy B. Ford | — | — | — | — | — |
| Alan B. White | — | — | 96,295 | 6,768,668 | — |
| William B. Furr | — | — | — | — | — |
| M. Bradley Winges | — | — | — | — | — |
| Todd L. Salmans | — | — | — | — | — |
| Hill A. Feinberg | — | — | — | — | — |

(a) Represents interest earned on 2012 deferred compensation contributions of $6,430,890 for Mr. White. All amounts reported as aggregate earnings in the last fiscal year are reported as compensation in the last completed fiscal year in the Summary Compensation Table.
(b) All amounts were reported as compensation in the Summary Compensation Table for the last completed fiscal year or prior fiscal years.

In connection with our acquisition of PlainsCapital, we entered into the White Retention Agreement. Pursuant to the White Retention 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 accrued interest at the prevailing money market rates and was payable to Mr. White following termination of his employment, subject to any delay required by Section 409A of the Internal Revenue

Code. As of a result of the termination of Mr. White's employment on April 1, 2019, Mr. White received such amount on or about October 1, 2019.

**Potential Payments Upon Termination or Change-in-Control**

The 2012 Equity Incentive Plan, under which we have granted awards to the NEOs, 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. For equity grants after January 1, 2019, all equity award agreements contain "double trigger" provisions, which require termination of employment within the six months preceding or the twelve months following a change in control in order for the equity awards to vest in connection with a change in control.

***White Separation and Release Agreement***

A description of payments made to Mr. White under the Separation Agreement in connection with his termination of employment effective April 1, 2019 is provided above under "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table."

***Employment Contracts***

*Mr. Furr*

If Mr. Furr's employment agreement is terminated (1) by Mr. Furr, (2) by the Company for "cause" (as such term is defined in the employment agreement), or (3) in the event of Mr. Furr's death or disability, Mr. Furr (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 him 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. With respect to a termination resulting from Mr. Furr's death or disability, the unvested portion of the equity grants granted to him upon commencement of his employment also will vest, subject to certain conditions.

If Mr. Furr'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)), Mr. Furr will be entitled to receive the amounts in the foregoing paragraph and, subject to his execution and delivery to the Company of a release, a lump-sum cash payment equal to 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 incentive bonus paid to him in respect of the calendar year immediately preceding the year of the termination. Any unvested portion of the equity grants granted to him upon commencement of his employment also will vest.

If Mr. Furr's employment is terminated without "cause" within the twelve months immediately following, or the six months immediately preceding, a "change in control," Mr. Furr will be entitled to receive the same amount upon a termination for "cause" and 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 incentive bonus paid to him in respect of the calendar year immediately preceding the year of the termination, provided that Mr. Furr executes and delivers a release to the Company. Any unvested portion of the equity grants also will vest. Notwithstanding, any amounts payable to Mr. Furr upon a change in control shall not constitute a "parachute payment" and shall be reduced accordingly.

*Mr. Winges*

If Mr. Winges's employment agreement is terminated (1) by Mr. Winges, (2) by the Company for "cause" (as such term is defined in the employment agreement), or (3) in the event of Mr. Winges's death or disability, Mr. Winges (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 him at such time under the Employment Agreement, restricted stock unit award agreements or under any compensation or benefit plans, and reimbursement for any unreimbursed business expenses incurred prior to the effective date of such termination. With respect to a termination resulting from Mr. Winges's death or disability, the unvested portion of the 83,000 TRSUs grant will vest, subject to certain conditions.

If Mr. Winges's employment is terminated by the Company without "cause" (other than pursuant to a "change in control" (as such term is defined in his employment agreement)), Mr. Winges will be entitled to receive the amounts set forth in the foregoing paragraph and, subject to his execution and delivery to the Company of a release, the following amount: (1) before the first anniversary of the effective date of his employment, $2,000,000, less the aggregate amount of any salary and Incentive Bonus paid to Mr. Winges prior to such date in lieu of the vesting of 83,000 TRSUs grant, which will forfeit in full; or (2) on or after the first anniversary of the effective date of his employment, a lump-sum cash payment equal to 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 incentive bonus paid to him in respect of the calendar year immediately preceding the year of the termination. Any unvested portion of the 83,000 TRSUs grant also will vest in full if such termination occurs on or after the first anniversary of the effective date of his employment.

If Mr. Winges's employment is terminated without "cause" within the twleve months immediately following, or the six months immediately preceding, a "change in control," Mr. Winges will be entitled to receive the amounts set forth in the first paragraph of this section and, if such change in control is on or after the first anniversary of the effective date of his employment, 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 incentive bonus paid to him in respect of the calendar year immediately preceding the year of the termination, provided that Mr. Winges executes and delivers a release to the Company. Any unvested RSU awards, including the specifically set forth in his employment agreement, also will vest if Mr. Winges is terminated without "cause" within the twelve months immediately following, or the six months immediately preceding, a "change in control." Notwithstanding, any amounts payable to Mr. Winges upon a "change in control" shall not constitute a "parachute payment" and will be reduced accordingly.

*Definitions of "Cause" and "Disability" Under Employment Contracts*

For the purposes of the employment agreements of Messrs. Furr and Winges, "cause" means:

- an act of fraud, embezzlement or theft;
- the Company is required to remove or replace executive by formal order or formal or informal instruction, including a requested consent order or agreement, from the Federal Reserve or any other regulatory authority having jurisdiction;
- intentional wrongful damage to property of the Company;
- intentional wrongful disclosure of trade secrets or confidential information of the Company;
- intentional violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order;
- intentional breach of fiduciary duty involving personal profit;
- intentional action or inaction that causes material economic harm to the Company;
- a material violation of the Company's written policies, standards or guidelines applicable to executive; or
- the failure or refusal of executive to follow the reasonable lawful directives of the Board or, in case of Mr. Furr, his supervisors.

For the purposes of the employment agreement with Messrs. Furr and Winges, "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. Jeremy B. Ford, Furr, Winges, Salmans and Feinberg would have received if the specified events had occurred on December 31, 2019.

| **Jeremy B. Ford** | **Termination for Cause** | **Termination due to Death or Disability** | **Termination Without Cause** | **Change of Control** |
|---|---|---|---|---|
| Accrued amounts | $ — | $ — | $ — | $ — |
| Cash payment | — | — | — | — |
| Cash severance | — | — | — | — |
| Restricted stock units (a) | — | 2,899,550 | 2,899,550 | 5,218,996 |
| Welfare benefits | — | — | — | — |
| **Total** | $ — | $ 2,899,550 | $ 2,899,550 | $ 5,218,996 |

(a) RSUs 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, 2019. If a change of control under the 2012 Equity Incentive Plan occurs and assuming participant is terminated without cause on the date of the change in control, all unvested RSUs vest upon such event, which for purposes of the foregoing assumes December 31, 2019. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards. The form of award governing a portion of the RSUs includes a non-solicitation provision that is triggered upon the participant's termination. For additional information, see "—Incentive Plans."

| **William B. Furr** | **Termination for Cause** | **Termination due to Death or Disability** | **Termination Without Cause** | **Change of Control** |
|---|---|---|---|---|
| Accrued amounts | $ — | $ — | $ — | $ — |
| Cash payment | — | — | — | — |
| Cash severance (a) | — | — | 875,000 | 1,750,000 |
| Restricted stock units (b) | — | 799,579 | 799,579 | 775,996 |
| Welfare benefits | — | — | — | — |
| **Total** | $ — | $ 799,579 | $ 1,674,579 | $2,525,996 |

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

(b) RSUs 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, 2019. If a change of control under the 2012 Equity Incentive Plan occurs and assuming participant is terminated without cause on the date of the change in control, all unvested RSUs vest upon such event, which for purposes of the foregoing assumes December 31, 2019. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards. The form of award governing a portion of the RSUs includes a non-solicitation provision that is triggered upon the participant's termination. For additional information, see "—Incentive Plans."

| **M. Bradley Winges** | **Termination for Cause** | **Termination due to Death or Disability** | **Termination Without Cause** | **Change of Control** |
|---|---|---|---|---|
| Accrued amounts | $ — | $ — | $ — | $ — |
| Cash payment | — | — | — | — |
| Cash severance (a) | — | 1,580,769 | 1,580,769 | — |
| Restricted stock units (b) | — | 2,327,540 | 2,327,540 | 2,327,540 |
| Welfare benefits | — | — | — | — |
| **Total** | $ — | $ 3,908,309 | $ 3,908,309 | $ 2,327,540 |

(a) If Mr. Winges is terminated without cause prior to the first anniversary of the date of his employment, he is entitled to $2.0 million, less the amount of any salary or Incentive Bonus paid to him prior to such termination of employment.

(b) 83,000 time-based RSUs vest upon the death or disability of the participant or termination of the participant without cause. Remaining RSUs granted to Mr. Winges vest pro rata upon his death or disability or termination without cause. The foregoing assumes the death or disability or termination of the participant without cause on December 31, 2019. If a change of control under the 2012 Equity Incentive Plan occurs and assuming participant is terminated without cause on the date of the change of control,, all unvested RSUs vest upon such event, which for purposes of the foregoing assumes December 31, 2019. The form of award governing a portion of the RSUs includes a non-solicitation provision that is triggered upon the participant's termination. For additional information, see "—Incentive Plans."

| 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 | $ — | $ — | $ — | $ — |
| Cash payment (a) | 1,250,000 | 1,250,000 | 1,250,000 | 1,250,000 |
| Cash severance | — | — | — | — |
| Restricted stock units (b) | — | 647,522 | 647,522 | 1,173,031 |
| Welfare benefits | — | — | — | — |
| **Total** | $ 1,250,000 | $ 1,897,522 | $ 1,897,522 | $ 2,423,031 |

(a) Cash payment refers to a one-time lump-sum cash payment on January 31, 2020 in connection with Mr. Salmans's retention agreement.
(b) RSUs 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, 2019. If a change of control under the 2012 Equity Incentive Plan occurs and assuming participant is terminated without cause on the date of the change in control, all unvested RSUs vest upon such event, which for purposes of the foregoing assumes December 31, 2019. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards. The form of award governing a portion of the RSUs includes a non-solicitation provision that is triggered upon the participant's termination. For additional information, see "—Incentive Plans."

| Hill A. Feinberg | Termination for Cause | Termination due to Death or Disability | Termination Without Cause | Change of Control |
|---|---|---|---|---|
| Accrued amounts | $ — | $ — | $ — | $ — |
| Cash payment (a) | 500,000 | 500,000 | 500,000 | 500,000 |
| Cash severance | — | — | — | — |
| Restricted stock units (b) | — | 535,204 | 535,204 | 708,436 |
| Welfare benefits | — | — | — | — |
| **Total** | $ 500,000 | $ 1,035,204 | $ 1,035,204 | $ 1,208,436 |

(a) Cash payment refers to a one-time lump-sum cash payment prior to March 31, 2020 in connection with the Feinberg Retention Agreement.
(b) RSUs 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, 2019. If a change of control under the 2012 Equity Incentive Plan occurs, all unvested RSUs vest upon such event, which for purposes of the foregoing assumes December 31, 2019. In each case, it is assumed the target award is achieved or utilized to calculate vesting of performance awards. The form of award governing a portion of the RSUs includes a non-solicitation provision that is triggered upon the participant's termination. For additional information, see "—Incentive Plans."

***Incentive Plans***

Each of the incentive plans has a complex definition of "change in control." Generally speaking 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.

Awards granted through 2018 under our 2012 Equity Incentive Plan were "single trigger" awards, 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. In 2019, the Compensation Committee of the Board of Directors adopted new forms of award agreements that provide for a "double trigger", which requires termination within the six months preceding or twelve months following a change in control in order for the equity awards to vest in connection with a change in control. We believe the "double trigger" is in line with current practices of public companies. We believe a "double trigger" change in control provision is 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, with respect to awards granted pursuant to the 2012 Equity Incentive Plan prior to 2019: (i) all outstanding stock options and SARs will become fully vested and exercisable; (ii) all restrictions on any

restricted stock, RSUs or other stock-based awards that are not subject to performance goals will become fully vested; and (iii) all restrictions on any restricted stock, RSUs, performance units or other stock-based awards that are subject to performance goals will be deemed to be fully achieved. For awards granted in 2019 and going forward, awards only vest upon a change in control if the grantee is terminated within the six months preceding or the twelve months following a change in control. Accordingly, grantees will not receive any additional benefit if their employment continues following a change in control.

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. However, in 2015, we revised our form of award for time-based and performance-based RSUs to include a non-solicitation provision that lasts for twelve months following a participant's termination for any reason. In the event of a breach of the non-solicitation provision, the participant's RSUs granted under the form of award will immediately cease vesting and any unvested RSUs or vested RSUs that have not been converted into shares of common stock will be forfeited. In order to avoid ambiguity, in 2020, we removed the non-solicitation provisions from the form agreement for time-based and performance-based RSUs as a result of obtaining separate non-solicitation agreements from our employees.

**CEO Pay Ratios**

Item 402(u) of Regulation S-K, implementing a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires that we disclose a ratio that compares the annual total compensation of our median employee to that of our CEO.

In order to determine the median employee, we prepared a list of all employees as of December 31, 2019, along with their gross income as reported on IRS form W-2 for 2019. We included all employees, whether employed on a full-time, part-time, or seasonal basis. Gross income as reported on IRS form W-2 for 2019 was annualized for those employees that were permanent employees but were not employed for the full year. No assumptions, adjustments or estimates were made with respect to total compensation. We believe that W-2 income is a consistently applied compensation measure because we do not widely distribute annual equity awards to employees.

The annual compensation for 2019 for Jeremy B. Ford, who served as our President and Chief Executive Officer, was $2,330,019. The annual compensation for the median employee for 2019 was $66,241. The resulting ratios of Mr. Jeremy B. Ford's pay to that of our median employee for 2019 was 35:1.

We believe executive pay must be internally consistent and equitable to motivate our employees to create stockholder value. We are committed to internal pay equity, and the Compensation Committee monitors the relationship between the pay our executive officers receive and the pay our non-managerial employees receive.

**Compensation Committee Interlocks and Insider Participation**

During fiscal year 2019, 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 2019:

- 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.

During 2019, each of Mr. Jeremy Ford, Hilltop's President and Chief Executive Officer, and Mr. Feinberg, Chairman Emeritus of Hilltop Securities, served as a director of Hilltop. Mr. White, Hilltop's former Vice Chairman and Co-Chief Executive Officer, retired effective April 1, 2019, from all positions with the Company, including as a director of Hilltop. Hilltop's Compensation Committee is comprised of independent directors, reviews and sets the compensation of each of Messrs. Jeremy Ford and Feinberg and does not believe that these interlocks pose any risks that are likely to have a material adverse effect on us.

**Delinquent Section 16(a) Reports**

Section 16(a) of the Exchange Act requires officers, 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.

Based solely on a review of the reports filed with the SEC and representations from our officers and directors, we believe that all Section 16(a) filing requirements for the year ended December 31, 2019, applicable to our officers, directors and greater than ten percent beneficial owners were timely satisfied, except that (i) Mr. Sobel, a director, failed to file a Form 3 and three Forms 4 related to the granting of three awards for services provided during 2019, and Mr. Thompson, President and Chief Executive Officer of PrimeLending, failed to file a Form 3 and a Form 4 related to the grant of a time-based equity award.

Based on written representations from our officers and directors, we believe that no Forms 5 for directors, officers and greater than ten percent beneficial owners were required to be filed with the SEC for the period ended December 31, 2019.

## 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. Related party transactions that would be required to be disclosed pursuant to federal securities laws must be reported to the Chief Executive Officer or General Counsel and are subject to approval by the Audit Committee of the Board of Directors. 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 and must be promptly disclosed as required by applicable law or regulation. Absent a review and approval process in conformity with the applicable guidelines relating to the particular transaction under consideration, such arrangements are not permitted.

The Company also has adopted the written Related Party Policy, which sets forth the Company's policies and procedures for reviewing and approving transactions with related persons – namely, our directors, executive officers, their respective immediate family members and 5% stockholders. The transactions covered by the Related Party Policy include any financial transaction, arrangement or relationship in which the Company is a participant, the related person has or will have a direct or indirect material interest and the aggregate amount involved will or may be expected to exceed $120,000 in any fiscal year.

After becoming aware of any transaction which may be subject to the Related Party Policy, the related person is required to report all relevant facts with respect to the transaction to the Chief Executive Officer or General Counsel of Hilltop. Upon determination by the Company's legal department that a transaction requires review under the Related Party Policy, the material facts of the transaction and the related person's interest in the transaction are provided to the Audit Committee. The transaction is then reviewed by the disinterested members of the Audit Committee, who determine whether approval of the transaction shall be granted. In reviewing a transaction, the Audit Committee considers facts and circumstances that it deems relevant to its determination, such as: management's assessment of the commercial reasonableness of the transaction; the materiality of the related person's direct or indirect interest in the transaction; whether the transaction may involve an actual, or the appearance of, a conflict of interest; and, if the transaction involves a director, the impact of the transaction on the director's independence.

Certain types of transactions are pre-approved in accordance with the terms of the Related Party Policy. These include transactions in the ordinary course of business involving financial products and services provided by, or to, the Company, including loans, provided such transactions are in compliance with the Sarbanes-Oxley Act of 2002, Federal Reserve Board Regulation O and other applicable laws and regulations.

### Hilltop Plaza Investment

On July 31, 2018, HTH Diamond Hillcrest Land LLC, or Hillcrest Land LLC, purchased approximately 1.7 acres of land in the City of University Park, Texas for $38.5 million. Hillcrest Land LLC is owned equally between Hilltop Investments I, LLC, a wholly owned entity of Hilltop, and Diamond Ground, LLC, an affiliate of Mr. Gerald J. Ford. Each of Hilltop Investments I, LLC and Diamond Ground, LLC contributed $19.3 million to Hillcrest Land LLC to complete the purchase. Trusts for which Jeremy Ford and the wife of Corey Prestidge are a beneficiary own 10.2% and 10.1%, respectively, of Diamond Ground, LLC.

In connection with the purchase of the land, Hillcrest Land LLC entered into a 99-year ground lease of the land with three tenants-in-common: SPC Park Plaza Partners LLC, or Park Plaza LLC, an unaffiliated entity which received an undivided 50% leasehold interest; HTH Hillcrest Project LLC, or HTH Project LLC, a wholly owned subsidiary of Hilltop, which received an undivided 25% leasehold interest; and Diamond Hillcrest, LLC, or Diamond Hillcrest, an entity owned by Mr. Gerald J. Ford, which received an undivided 25% leasehold interest, or collectively, the Co-Owners. The ground lease is triple net. The base rent from the Co-Owners under the ground lease commences 18 months after the ground lease was signed at $1.8 million per year and increases 1.0% per year each January 1 thereafter.

Concurrent with the ground lease, the Co-Owners entered into an agreement to purchase the improvements currently being constructed on the land, which is a mixed-use project containing a six-story building, or Hilltop Plaza. HTH Project LLC and Diamond Hillcrest each own an undivided 25% interest in Hilltop Plaza. Park Plaza LLC owns the remaining undivided 50% interest in Hilltop Plaza. Park Plaza LLC has agreed to serve as the Co-Owner property manager under the Co-Owners Agreement; however, certain actions require unanimous approval of all Co-Owners. Hilltop Plaza is being funded through a $41.0 million construction loan from an unaffiliated third party bank, as well as cash contributions of $5.3 million from each of HTH Project LLC and Diamond Hillcrest.

Hilltop and the Bank entered into leases for a significant portion of the total rentable corporate office space in Hilltop Plaza to serve as the headquarters for both companies. Affiliates of Mr. Gerald J. Ford also entered into leases for office space in the building. The two separate 129-month office and retail leases of Hilltop and the Bank, respectively, have combined total base rent of approximately $35 million with the first nine months of rent abated. Hilltop Plaza has served as headquarters for both Hilltop and the Bank since February 2020.

These transactions were reviewed by the Audit Committee and approved by the disinterested members of the Board of Directors of Hilltop.

Gerald J. Ford, Chairman of the Board of Directors of Hilltop, is the trustee and settlor of Turtle Creek Revocable Trust, which is the sole member Diamond HTH Stock Company GP, LLC. Diamond HTH Stock Company GP LLC is the sole general partner of Diamond HTH Stock Company, LP and Turtle Creek Revocable Trust is the sole limited partner of Diamond HTH Stock Company, LP. The sole general partner of Diamond A Financial, L.P. is Diamond HTH Stock Company, LP and Turtle Creek Revocable Trust is a 1% limited partner of Diamond A Financial, L.P. Diamond A Financial, L.P. owns 17.4% of the outstanding Hilltop common stock as of April 28, 2020. Jeremy B. Ford, a director and the President and Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. The spouse of Corey G. Prestidge, Hilltop's Executive Vice President, General Counsel and Secretary, is the beneficiary of a trust that also owns a 49% limited partnership interest in Diamond A Financial, L.P.

Jeremy B. Ford is the son of Gerald J. Ford. Mr. Prestidge is the son-in-law of Gerald J. Ford. Accordingly, Messrs. Jeremy B. Ford and Prestidge are brothers-in-law.

**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, Hilltop 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. In 2019, that lease of suite was assigned to Hilltop by the Bank. Hilltop paid $515,000 under this lease in 2019.

**Leases at The Star**

In 2016, the Bank contracted with Frisco HQ Operations, L.P. and Bluestar Frisco Retail L.P., each of which is affiliated with the employer of Ms. Anderson and beneficially owned by Ms. Anderson and certain of her immediate family members, for the 10-year lease of office space and a Bank branch. Following an initial rent abatement period, the leases provide for annual base rent of an aggregate of approximately $383,000, which increases on a yearly basis thereafter to a maximum annual base rent of an aggregate of approximately $433,000.

**Branch Construction**

During 2018, the Bank utilized a company owned by Mr. Lewis, Lee Lewis Construction, to construct a branch for the Bank. The Bank awarded this contract to Lee Lewis Construction following a bid process. This project was completed in the second half of 2018, and the Bank paid Lee Lewis Construction $5,883,629 for construction of this branch.

During 2018, the Bank contracted with Lee Lewis Construction to construct a branch in Lubbock, Texas. The Bank awarded this contract to Lee Lewis Construction following a bid process. This project was completed in December 2019, and the Bank paid Lee Lewis Construction $1,638,735 for the construction of this branch.

During 2018, the Bank contracted with Lee Lewis Construction to install a standalone interactive teller machine in Lubbock, Texas. The Bank awarded this contract to Lee Lewis Construction. This project was completed in March 2019, and the Bank paid Lee Lewis Construction $45,500 for this installation.

During 2019, the Bank contracted with Lee Lewis Construction to renovate a branch in Lubbock, Texas. The Bank awarded this contract to Lee Lewis Construction following a bid process. This project was completed in November 2019, and the Bank paid Lee Lewis Construction $925,617 for the renovation of this branch.

**DTF Holdings, LLC**

Mr. Sobel, a director of Hilltop, is the managing member of DTF Holdings, LLC. DTF Holdings, LLC has provided investment management services to the Company and its subsidiaries since June 2009 pursuant to an Investment Management Agreement. In accordance with the Investment Management Services Agreement, DTF Holdings, LLC is paid an annual fee of $425,000 and reimbursed for its out-of-pocket expenses related to such services. DTF Holdings, LLC also provides investment management services to other entities related to Gerald J. Ford.

**Employment of Certain Family Members**

We currently employ, or during 2019 employed, certain family members of our officers and/or directors in the following capacities: Corey G. 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, our former Vice Chairman and Co-Chief Executive Officer, formerly served as the Senior Vice President, Director of Public Relations of PlainsCapital; Logan Passmore, the son-in-law of Mr. White, serves as Commercial Relationship Manager of the Bank; Kale Salmans, the son of Todd Salmans, Chairman of PrimeLending, serves as Manager, Strategic Sales of PrimeLending; Ty Tucker, the son-in-law of Mr. Salmans, serves as Project Manager, Joint Venture Strategy of PrimeLending; Robert Coke IV, the son-in-law of Mr. Salmans, serves as Manager, Appraisal Desk of PrimeLending. Pursuant to our employment arrangements with these individuals, during 2019, these individuals received total compensation for their respective services as employees as follows: Corey G. Prestidge $1,018,305, Lee Ann White $60,088, Logan Passmore $103,252, Kale Salmans $584,607, Ty Tucker $153,772 and Robert Coke IV $90,421.

**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, our prior or current 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 — APPROVAL OF THE HILLTOP HOLDINGS INC. 2020 EQUITY INCENTIVE PLAN

Hilltop is asking its stockholders to approve the adoption of the Hilltop Holdings Inc. 2020 Equity Incentive Plan. The 2020 Equity Incentive Plan was adopted, subject to stockholder approval, by the Board of Directors on April 30, 2020 (the "Effective Date"). If approved by our stockholders, the 2020 Equity Incentive Plan will supersede the Prior Plan (as defined below), but any awards previously granted under the Prior Plan that are outstanding as of the Effective Date shall continue to be governed by the terms of the applicable Prior Plan and corresponding award agreements.

Hilltop believes the 2020 Equity Incentive Plan will help Hilltop to focus its directors, officers, and other employees and contractors on Hilltop's business performance, which creates stockholder value; to encourage innovative approaches to Hilltop's business; to encourage ownership of Hilltop common stock by our non-employee directors, officers, and other employees and contractors; and to continue to attract and retain key employees, key contractors, and non-employee directors in a competitive labor market, which is essential to Hilltop's long-term growth and success.

The following is a summary of the material terms of the 2020 Equity Incentive Plan. The full text of the 2020 Equity Incentive Plan is attached as Annex A to this Proxy Statement, and the following summary is qualified in its entirety by reference to the terms of the 2020 Equity Incentive Plan. Stockholders are urged to review the 2020 Equity Incentive Plan before determining how to vote on this proposal.

### Summary of the 2020 Equity Incentive Plan

*Purpose*. The purpose of the 2020 Equity Incentive Plan is to enable us to remain competitive and innovative in our ability to attract and retain the services of key employees, key contractors, and non-employee directors of Hilltop and our subsidiaries. The 2020 Equity Incentive Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly or in combination, and that may be paid in cash or shares of our common stock. The 2020 Equity Incentive Plan is expected to provide flexibility to our compensation methods in order to adapt the compensation of our key employees, key contractors, and non-employee directors to a changing business environment, after giving due consideration to competitive conditions and the impact of applicable tax laws.

*Effective Date and Expiration*. The 2020 Equity Incentive Plan was approved by the Board of Directors on the Effective Date, subject to approval by our stockholders. The 2020 Equity Incentive Plan will terminate on the tenth anniversary of the Effective Date, unless sooner terminated by the Compensation Committee of the Board of Directors. No award may be granted under the 2020 Equity Incentive Plan after its termination date, but awards made prior to the termination date may extend beyond that date in accordance with their terms.

*Shares Available.* The 2020 Equity Incentive Plan provides that the aggregate number of shares of our common stock that may be subject to awards under the 2020 Equity Incentive Plan cannot exceed 3,650,000, plus any Prior Plan Awards (as defined below), subject to adjustment in certain circumstances to prevent dilution or enlargement. All of the shares available for issuance as an award under the 2020 Equity Incentive Plan may be delivered pursuant to incentive stock options. Other than during the first calendar year in which a non-employee director has been elected to serve on the Board of Directors, no such director may be granted awards under the 2020 Equity Incentive Plan in any calendar year that, when taken together with all cash retainers and other fees paid to the director for services to Hilltop for the same calendar year, exceed $450,000 in the aggregate (with the value of any equity awards determined as of the date of grant; *provided, however,* the Chairman may be granted an award or awards each calendar year in an aggregate amount not to exceed 50,000 shares, which shall be in addition to the $450,000 annual limit on awards to non-employee directors described above. Only 5% of the shares of our common stock that may be issued pursuant to awards under the 2020 Equity Incentive Plan may be designated as Exempt Shares (as defined below). "Prior Plan Awards" means any awards granted pursuant to the 2012 Equity Incentive Plan that are outstanding on the Effective Date that, on or after the Effective Date, are forfeited, expire, or are canceled; and (ii) any shares subject to awards relating to common stock under the Prior Plan that, on or after the Effective Date, are settled in cash. "Exempt Shares" are shares of Hilltop common stock that have been granted with (or that have been amended by the Committee to include) more favorable vesting conditions that would otherwise apply to awards granted under the 2020 Equity Incentive Plan, as described in the *Vesting of Awards; Forfeiture; Assignment* section below.

*Administration.* Under the terms of the 2020 Equity Incentive Plan, the 2020 Equity Incentive Plan will be administered by the Compensation Committee (the "Committee") of the Board of Directors and which, to the extent necessary to satisfy the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall consist entirely of two or more "non-employee directors" as defined in Rule 16b-3 under the Exchange Act. At any time there is no Committee to administer the 2020 Equity Incentive Plan, any reference to the Committee is a reference to the Board of Directors. The Committee will determine the persons to whom awards are to be made; determine the type, size, and terms of awards; interpret the 2020 Equity Incentive Plan; establish and revise rules and regulations relating to the 2020 Equity Incentive Plan and any sub-plans (including sub-plans for awards made to participants who do not reside in the United States); establish performance goals applicable to awards and certify the extent of their achievement; and make any other determinations that it believes are necessary for the administration of the 2020 Equity Incentive Plan. The Committee may delegate certain of its duties to one or more of our officers as provided in the 2020 Equity Incentive Plan.

Shares to be issued under the 2020 Equity Incentive Plan may be made available from authorized but unissued shares of our common stock, or shares purchased by us on the open market or otherwise. During the term of the 2020 Equity Incentive Plan, we will at all times reserve and keep enough shares available to satisfy the requirements of the 2020 Equity Incentive Plan. Shares underlying awards granted under the 2020 Equity Incentive Plan or one of the Prior Plan that expire or are forfeited or terminated without being exercised, or awards that are settled for cash, will again be available for the grant of additional awards within the limits provided by the 2020 Equity Incentive Plan. Shares withheld by or delivered to us to satisfy the exercise price of stock options or tax withholding obligations with respect to any award granted under the 2020 Equity Incentive Plan will nonetheless be deemed to have been issued under the 2020 Equity Incentive Plan and will not again be available for grant under the 2020 Equity Incentive Plan. Additionally, shares unused in the net settlement of stock-settled SARs and shares purchased from the open market using the proceeds of the sale of stock received upon the exercise of stock options will be deemed to have been issued under the 2020 Equity Incentive Plan and will not again be available for grant under the 2020 Equity Incentive Plan. Awards that may be satisfied either by the issuance of common stock or by cash or other consideration shall be counted against the maximum number of shares that may be issued under the 2020 Equity Incentive Plan only during the period that the award is outstanding or to the extent the award is ultimately satisfied by the issuance of shares. An award will not reduce the number of shares that may be issued pursuant to the 2020 Equity Incentive Plan if the settlement of the award will not require the issuance of shares, such as, for example, SARs that can only be satisfied by the payment of cash. Only shares forfeited back to us or shares cancelled on account of termination, expiration, or lapse of an award shall again be available for grant as incentive stock options under the 2020 Equity Incentive Plan, but shall not increase the maximum number of shares that may be delivered pursuant to incentive stock options.

If the 2020 Equity Incentive Plan is approved by our stockholders, no new awards may be granted under the Prior Plan, but such awards will remain in full force and effect under such plans according to their respective terms, and dividend equivalents may continue to be issued under the Prior Plan in respect of awards granted under such plan that are outstanding as of the Effective Date.

*Eligibility.* The 2020 Equity Incentive Plan provides for awards to the directors, officers, employees, and contractors of Hilltop and our subsidiaries and affiliates and prospective directors, officers, employees, and contractors who have accepted offers of employment, service, or consultancy from Hilltop or our subsidiaries or affiliates. As of the date of this Proxy Statement, there were 17 non-employee directors, ten Section 16 officers, and approximately 4,800 other employees eligible to participate in the 2020 Equity Incentive Plan. Hilltop's current Section 16 executive officers and each member of the Board of Directors are among the individuals eligible to receive awards under the 2020 Equity Incentive Plan.

*Stock Options.* Subject to the terms and provisions of the 2020 Equity Incentive Plan, stock options to purchase shares of Hilltop common stock may be granted to eligible individuals at any time and from time to time as determined by the Committee. Stock options may be granted as incentive stock options, which are intended to qualify for favorable treatment to the recipient under federal tax law, or as nonqualified stock options, which do not qualify for such favorable tax treatment. Subject to the limits provided in the 2020 Equity Incentive Plan, the Committee determines the number of stock options granted to each recipient. Each stock option grant will be evidenced by a stock option agreement that specifies the stock option's exercise price, whether the stock options are intended to be incentive stock options or nonqualified stock options, the duration of the stock options, the number of shares to which the stock options pertain, and such additional limitations, terms, and conditions as the Committee may determine.

The Committee determines the exercise price for each stock option granted, except that the exercise price may not be less than 100% of the fair market value of a share of Hilltop common stock on the date of grant; provided, however, that if an incentive stock option is granted to an employee who owns or is deemed to own more than 10% of the combined voting power of all classes of our common stock (or of any parent or subsidiary), the exercise price must be at least 110% of the fair market value of a share of Hilltop common stock on the date of grant. As of April 28, 2020, the fair market value (as that term is defined under the 2020 Equity Incentive Plan) of a share of Hilltop common stock was $18.54. All stock options granted under the 2020 Equity Incentive Plan will expire no later than ten years (or, in the case of an incentive stock option granted to an employee who owns or is deemed to own more than 10% of the combined voting power of all classes of our common stock (or of any parent or subsidiary), five years) from the date of grant. Stock options are nontransferable except by will or by the laws of descent and distribution or, in the case of nonqualified stock options, as otherwise expressly permitted by the Committee. The granting of a stock option does not accord the recipient the rights of a stockholder, and such rights accrue only after the exercise of a stock option and the registration of shares of Hilltop common stock in the recipient's name.

*Stock Appreciation Rights.* The 2020 Equity Incentive Plan authorizes the Committee to grant SARs. A SAR entitles the holder to receive from us, upon exercise, an amount equal to the excess, if any, of the aggregate fair market value of a specified number of shares of Hilltop common stock to which such SAR pertains over the aggregate exercise price for the underlying shares. The exercise price of a SAR shall not be less than 100% of the fair market value of a share of Hilltop common stock on the date of grant.

Each SAR will be evidenced by an award agreement that specifies the exercise price, the number of shares to which the SAR pertains, and such additional limitations, terms, and conditions as the Committee may determine. We may make payment of the amount to which the participant exercising SARs is entitled by delivering shares of Hilltop common stock, cash, or a combination of stock and cash as set forth in the award agreement relating to the SARs. SARs are not transferable except as expressly permitted by the Committee. No dividend or dividend equivalent rights may be paid or granted with respect to any SARs granted under the 2020 Equity Incentive Plan.

*Restricted Stock.* The 2020 Equity Incentive Plan provides for the award of shares of Hilltop common stock that are subject to forfeiture and restrictions on transferability as set forth in the 2020 Equity Incentive Plan, the applicable award agreement, and as may be otherwise determined by the Committee. Except for these restrictions and any others imposed by the Committee, upon the grant of restricted stock, the recipient will have rights of a stockholder with respect to the restricted stock, including the right to vote the restricted stock and to receive all dividends and other distributions paid or made with respect to the restricted stock on such terms as will be set forth in the applicable award agreement; provided, however, such dividends or distributions shall be withheld by us for a participant's account until the restrictions lapse with respect to such restricted stock. During the restriction period set by the Committee, the recipient may not sell, transfer, pledge, exchange, or otherwise encumber the restricted stock.

*Restricted Stock Units.* The 2020 Equity Incentive Plan authorizes the Committee to grant restricted stock units. Restricted stock units are not shares of Hilltop common stock and do not entitle the recipients to the rights of a stockholder, although the award agreement may provide for rights with respect to dividends or dividend equivalents. The recipient may not sell, transfer, pledge, or otherwise encumber restricted stock units granted under the 2020 Equity Incentive Plan prior to their vesting. Restricted stock units will be settled in cash, shares of Hilltop common stock, or a combination thereof as provided in the applicable award agreement, in an amount based on the fair market value of Hilltop common stock on the settlement date. If the right to receive dividends on restricted stock units is awarded, then such dividends shall be withheld by us for a participant's account until the restrictions lapse with respect to such restricted units.

*Dividend Equivalent Rights*. The Committee may grant a dividend equivalent right either as a component of another award or as a separate award. The terms and conditions of the dividend equivalent right will be specified by the grant and, when granted as a component of another award, may have terms and conditions different from such other award; provided, however, that (i) any dividend equivalent rights with respect to such other award will be withheld by us for a participant's account until such other award is vested, subject to such terms as determined by the Committee; and (ii) such dividend equivalent rights so withheld and attributable to another award will be distributed to such participant in cash or, at the discretion of the Committee, in common stock having a fair market value equal to the amount of such dividend equivalent rights, if applicable, upon vesting of the other award and, if such other award is forfeited, the right to dividend equivalent rights attributable to such forfeited award also will be forfeited. No dividend equivalent rights may be paid or granted with

respect to any stock option or SAR. Dividend equivalent rights granted as a separate award also may be paid currently or may be deemed to be reinvested in additional common stock. Any such reinvestment will be at the fair market value at the time thereof. Dividend equivalent rights may be settled in cash or common stock.

*Performance Awards*. The Committee may grant performance awards payable at the end of a specified performance period in cash, shares of common stock, units, or other rights based upon, payable in, or otherwise related to our common stock. Payment will be contingent upon achieving pre-established performance goals (as described below) by the end of the applicable performance period. The Committee will determine the length of the performance period, the maximum payment value of an award, and the minimum performance goals required before payment will be made, so long as such provisions are not inconsistent with the terms of the 2020 Equity Incentive Plan, and to the extent an award is subject to Section 409A of the Code, are in compliance with the applicable requirements of Section 409A of the Code and any applicable regulations or authoritative guidance issued thereunder. In certain circumstances, the Committee may, in its discretion, determine that the amount payable with respect to certain performance awards will be reduced from the maximum amount of any potential awards. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in our business, operations, corporate structure, or for other reasons that the Committee deems satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. In the event of a change in control, performance awards will vest in full at the greater of "target" achievement of the applicable performance goal or the projected actual achievement of the applicable performance goal, based upon results achieved through the date of the change in control or, if applicable, the date of a participant's termination of service by us without "cause" or by the participant for "good reason" (as each term is defined in the participant's award agreement), in either case, if such termination occurs within six months prior to or 12 months following the change in control.

*Performance Goals.* The 2020 Equity Incentive Plan provides that performance goals may be established by the Committee in connection with the grant of any award under the 2020 Equity Incentive Plan. Such goals shall be based on the attainment of specified levels of one or more measures determined, which may include, without limitation: stock price; book value; book value per share; tangible book value; tangible book value per share; earnings (including earnings before taxes, earnings before interest and taxes or 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 stockholders; return on assets or operating assets; asset quality; net interest margin, in each case with respect to Hilltop or any one or more of our subsidiaries, divisions, business units, or business segments, either in absolute terms or relative to the performance of one or more other companies (including an index covering multiple companies).

*Other Awards.* The Committee may grant other forms of awards, based upon, payable in, or that otherwise relate to, in whole or in part, shares of our common stock, if the Committee determines that such other form of award is consistent with the purpose and restrictions of the 2020 Equity Incentive Plan. The terms and conditions of such other form of award shall be specified in the grant. Such other awards may be granted for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified in the grant.

*Vesting of Awards; Forfeiture; Assignment.* Except as otherwise provided below, the Committee, in its sole discretion, may determine that an award will be immediately vested, in whole or in part, or that all or any portion may not be vested until a date, or dates, subsequent to its date of grant, or until the occurrence of one or more specified events, subject in any case to the terms of the 2020 Equity Incentive Plan. Except to the extent an award is for Exempt Shares, no award (nor any portion of an award, even on a pro rata basis) may vest earlier than one year after the date of grant (other than Substitute Incentives (as defined below); *provided, however,* with respect to grants of awards made on the date an annual meeting of stockholders to our non-employee directors, such one year vesting period shall be deem satisfied if such awards vest on the earlier of the first anniversary of the date of grant or the date of the first annual meeting of stockholders if such meeting is held at least 50 weeks following the award's date of grant. Notwithstanding the foregoing, the Committee may, in its sole discretion, grant awards with more favorable vesting provisions at any time, provided that the common stock subject to such awards will be designated as Exempt Shares. As discussed above, only 5% of the shares of our common stock that may be issued pursuant to an award under the 2020 Equity Incentive Plan may be designated as Exempt Shares. In addition, no awards shall become partially or fully vested, nor shall any portion of the applicable restriction period be waived, in connection with a change in control unless a participant also incurs a termination of service by us without "cause" or by the participant for "good reason" (as each term is defined in the participant's award agreement) within six months prior to or 12 months following the change in control. "Substitute Incentives" are awards that are granted under the 2020 Equity Incentive Plan in substitution for similar

awards held by employees, contractors, and non-employee directors of another entity who became employees, contractors, or non-employee directors of Hilltop or our subsidiaries in connection with a corporate transaction in which Hilltop is the surviving entity.

The Committee may impose on any award, at the time of grant or thereafter, such additional terms and conditions as the Committee determines, including terms requiring forfeiture of awards in the event of a participant's termination of service. The Committee will specify the circumstances under which performance awards may be forfeited in the event of a termination of service by a participant prior to the end of a performance period or settlement of awards. Except as otherwise determined by the Committee, restricted stock will be forfeited upon a participant's termination of service during the applicable restriction period.

Awards granted under the 2020 Equity Incentive Plan generally are not assignable or transferable except by will or by the laws of descent and distribution, except that the Committee may, in its discretion and pursuant to the terms of an award agreement, permit transfers of nonqualified stock options or SARs to: (i) the spouse (or former spouse), children, or grandchildren of the participant ("Immediate Family Members"); (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members; (iii) a partnership in which the only partners are (a) such Immediate Family Members and/or (b) entities that are controlled by the participant and/or his or her Immediate Family Members; (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision; or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the applicable award agreement pursuant to which such nonqualified stock options or SARs are granted must be approved by the Committee and must expressly provide for such transferability, and (z) subsequent transfers of transferred nonqualified stock options or SARs shall be prohibited except those by will or the laws of descent and distribution.

*Change in Control*. As discussed in the *Vesting of Awards; Forfeiture; Assignment* section above, upon a change in control of Hilltop, awards will not vest unless the participant incurs a termination of service by us without cause or by the participant for good reason within six months prior to or 12 months following the change in control. A change in control generally includes (i) the acquisition by a third-party of 33% of more of the outstanding voting stock or equity securities of Hilltop, (ii) a merger, reorganization, consolidation, or similar transaction with a third-party after which the stockholders of Hilltop do not retain over 50% of the outstanding voting stock or equity securities following the transaction, (iii) a majority of the members of our Board of Directors are members who were not appointed by the then existing Board of Directors, or (iv) the complete liquidation or dissolution of Hilltop. In connection with a change in control, outstanding awards may be converted into new awards; exchanged or substituted for with new awards; or canceled for no consideration, provided participants were given notice and an opportunity to purchase or exercise such awards, or cancelled and cashed out based on the positive difference between the per share amount to be received in connection with the transaction and the purchase/exercise price per share of the award, if any.

The description of a change in control and its effects on awards granted under the 2020 Equity Incentive Plan is qualified in its entirety by reference to the relevant terms and provisions of the 2020 Equity Incentive Plan, which is attached as Annex A to this Proxy Statement

*Recoupment for Restatements*. The Committee may recoup all or any portion of any shares of our common stock or cash paid to a participant in connection with an award, in the event of a restatement of our financial statements as set forth in our clawback policy in effect from time to time.

*Adjustments Upon Changes in Capitalization.* In the event that any dividend or other distribution (whether in the form of cash, shares of our common stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of shares of our common stock or other securities, issuance of warrants or other rights to purchase shares of our common stock or other securities, or other similar corporate transaction or event affects the fair market value of an award, the Committee shall adjust any or all of the following so that the fair market value of the award immediately after the transaction or event is equal to the fair market value of the award immediately prior to the transaction or event: (i) the number of shares and type of common stock (or other securities or property) that thereafter may be made the subject of awards; (ii) the number of shares and type of common stock (or other securities or property) subject to outstanding awards; (iii) the exercise price of

each outstanding stock option; (iv) the amount, if any, we pay for forfeited shares in accordance with the terms of the 2020 Equity Incentive Plan; and (v) the number of or exercise price of shares then subject to outstanding SARs previously granted and unexercised under the 2020 Equity Incentive Plan, to the extent that the same proportion of our issued and outstanding shares of common stock in each instance shall remain subject to exercise at the same aggregate exercise price; provided, however, that the number of shares of common stock (or other securities or property) subject to any award shall always be a whole number. Notwithstanding the foregoing, no such adjustment shall be made or authorized to the extent that such adjustment would cause the 2020 Equity Incentive Plan or any stock option to violate Section 422 of the Code or Section 409A of the Code. All such adjustments must be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which we are subject.

*Amendment or Discontinuance of the 2020 Equity Incentive Plan*. The Committee may, at any time and from time to time, without the consent of participants, alter, amend, revise, suspend, or discontinue the 2020 Equity Incentive Plan, in whole or in part; provided, however, that (i) no amendment that requires stockholder approval in order for the 2020 Equity Incentive Plan and any awards under the 2020 Equity Incentive Plan to continue to comply with Sections 421 and 422 of the Code (including any successors to such sections or other applicable law) or any applicable requirements of any securities exchange or inter-dealer quotation system on which our stock is listed or traded shall be effective unless such amendment is approved by the requisite vote of our stockholders entitled to vote on the amendment; and (ii) unless required by law, no action by the Committee regarding the amendment or discontinuance of the 2020 Equity Incentive Plan may adversely affect any rights of any participants or our obligations to any participants with respect to any outstanding awards granted under the 2020 Equity Incentive Plan without the consent of the affected participant.

*No Repricing of Stock Options or SARs*. The Committee may not "reprice" any stock option or SAR, without stockholder approval. For purposes of the 2020 Equity Incentive Plan, "reprice" means any of the following or any other action that has the same effect: (i) amending a stock option or SAR to reduce its exercise price; (ii) canceling a stock option or SAR at a time when its exercise price exceeds the fair market value of a share of our common stock in exchange for cash or a stock option, SAR, award of restricted stock, or other equity award; or (iii) taking any other action that is treated as a repricing under generally accepted accounting principles, provided that nothing will prevent the Committee from (x) making adjustments to awards upon changes in capitalization, (y) exchanging or cancelling awards upon a merger, consolidation, or recapitalization, or (z) substituting awards for awards granted by other entities, to the extent permitted by the 2020 Equity Incentive Plan.

**Federal Income Tax Consequences**

The following is a brief summary of certain federal income tax consequences relating to the transactions described under the 2020 Equity Incentive Plan as set forth below. This summary does not purport to address all aspects of federal income taxation and does not describe any potential state, local, or foreign tax consequences. This discussion is based upon provisions of the Code and the applicable Treasury Regulations issued thereunder, as well as judicial and administrative interpretations under the Code and Treasury Regulations, all as in effect as of the date hereof, and all of which are subject to change (possibly on a retroactive basis) or different interpretation.

*Law Affecting Deferred Compensation*. In 2004, Section 409A was added to the Code to regulate all types of deferred compensation. If the requirements of Section 409A of the Code are not satisfied, deferred compensation and earnings thereon will be subject to tax as it vests, plus (i) an interest charge at the then-current underpayment rate plus 1% and (ii) a 20% penalty tax. Certain performance awards, stock options, SARs, restricted stock units, and certain types of restricted stock are subject to Section 409A of the Code.

*Incentive Stock Options*. A participant will not recognize income at the time an incentive stock option is granted. When a participant exercises an incentive stock option, a participant also generally will not be required to recognize income (either as ordinary income or capital gain). However, to the extent that the fair market value (determined as of the date of grant) of the shares with respect to which the participant's incentive stock options are exercisable for the first time during any year exceeds $100,000, the incentive stock options for the shares over $100,000 will be treated as nonqualified stock options, and not incentive stock options, for federal tax purposes, and the participant will recognize income as if the incentive stock options were nonqualified stock options. In addition to the foregoing, if the fair market value of the shares received upon exercise of an incentive stock option exceeds the exercise price, then the excess may be deemed a tax preference adjustment

for purposes of the federal alternative minimum tax calculation. The federal alternative minimum tax may produce significant tax repercussions depending upon the participant's particular tax status.

The tax treatment of any shares acquired by exercise of an incentive stock option will depend upon whether the participant disposes of his or her shares prior to the later of: (i) two years after the date the incentive stock option was granted and (ii) one year after the shares were transferred to the participant (referred to as the "Holding Period"). If a participant disposes of shares acquired by exercise of an incentive stock option after the expiration of the Holding Period, any amount received in excess of the participant's tax basis for such shares will be treated as a short-term or long-term capital gain, depending upon how long the participant has held the shares. If the amount received is less than the participant's tax basis for such shares, the loss will be treated as a short-term or long-term capital loss, depending upon how long the participant has held the shares. If the participant disposes of shares acquired by exercise of an incentive stock option prior to the expiration of the Holding Period, the disposition will be considered a "disqualifying disposition." If the amount received for the shares is greater than the fair market value of the shares on the exercise date, then the difference between the incentive stock option's exercise price and the fair market value of the shares at the time of exercise will be treated as ordinary income for the tax year in which the "disqualifying disposition" occurs. The participant's basis in the shares will be increased by an amount equal to the amount treated as ordinary income due to such "disqualifying disposition." In addition, the amount received in such "disqualifying disposition" over the participant's increased basis in the shares will be treated as capital gain. However, if the price received for shares acquired by exercise of an incentive stock option is less than the fair market value of the shares on the exercise date and the disposition is a transaction in which the participant sustains a loss that otherwise would be recognizable under the Code, then the amount of ordinary income that the participant will recognize is the excess, if any, of the amount realized on the "disqualifying disposition" over the basis in the shares.

*Nonqualified Stock Options*. A participant generally will not recognize income at the time a nonqualified stock option is granted. When a participant exercises a nonqualified stock option, the difference between the exercise price and any higher market value of the shares of common stock on the date of exercise will be treated as compensation taxable as ordinary income to the participant. The participant's tax basis for the shares acquired under a nonqualified stock option will be equal to the exercise price paid for such shares, plus any amounts included in the participant's taxable income as compensation. When a participant disposes of shares acquired by exercise of a nonqualified stock option, any amount received in excess of the participant's tax basis for such shares will be treated as short-term or long-term capital gain, depending upon how long the participant has held the shares. If the amount received is less than the participant's tax basis for such shares, the loss will be treated as a short-term or long-term capital loss, depending upon how long the participant has held the shares.

*Special Rule if Exercise price is Paid for in Shares*. If a participant pays the exercise price of a nonqualified stock option with previously-owned shares of our common stock and the transaction is not a disqualifying disposition of shares previously acquired under an incentive stock option, the shares received equal to the number of shares surrendered are treated as having been received in a tax-free exchange. The participant's tax basis and holding period for these shares received will be equal to the participant's tax basis and holding period for the shares surrendered. The number of shares received in excess of the number of shares surrendered will be treated as compensation taxable as ordinary income to the participant to the extent of their fair market value. The participant's tax basis in these shares will be equal to their fair market value on the date of exercise, and the participant's holding period for such shares will begin on the date of exercise.

If the use of previously acquired shares to pay the exercise price of a nonqualified stock option constitutes a disqualifying disposition of shares previously acquired under an incentive stock option, the participant will have ordinary income as a result of the disqualifying disposition in an amount equal to the excess of the fair market value of the shares surrendered, determined at the time such shares were originally acquired upon exercise of the incentive stock option, over the aggregate exercise price paid for such shares. As discussed above, a disqualifying disposition of shares previously acquired under an incentive stock option occurs when the participant disposes of such shares before the end of the Holding Period. The other tax results from paying the exercise price with previously-owned shares are as described above, except that the participant's tax basis in the shares that are treated as having been received in a tax-free exchange will be increased by the amount of ordinary income recognized by the participant as a result of the disqualifying disposition.

*Restricted Stock*. A participant who receives restricted stock generally will recognize as ordinary income the excess, if any, of the fair market value of the shares granted as restricted stock at such time as the shares are no longer subject to forfeiture or restrictions, over the amount paid, if any, by the participant for such shares. However, a participant who receives

unvested restricted stock may make an election under Section 83(b) of the Code within 30 days of the date of transfer of the shares to recognize ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the restrictions on such shares) over the purchase price, if any, for such shares. If a participant does not make an election under Section 83(b) of the Code, then the participant will recognize as ordinary income any dividends received with respect to such shares. At the time of sale of such shares, any gain or loss realized by the participant will be treated as either short-term or long-term capital gain (or loss) depending upon how long the participant has held the shares. For purposes of determining any gain or loss realized, the participant's tax basis will be the amount previously taxable as ordinary income, plus the purchase price paid by the participant, if any, for such shares.

*Stock Appreciation Rights*. Generally, a participant who receives a stand-alone SAR will not recognize taxable income at the time the stand-alone SAR is granted, provided that the SAR is exempt from or complies with Section 409A of the Code. If an individual receives the appreciation inherent in the SARs in cash, the cash will be taxed as ordinary income to the recipient at the time it is received. If a recipient receives the appreciation inherent in the SARs in stock, the spread between the then-current market value and the grant price, if any, will be taxed as ordinary income to the participant at the time it is received.

*Other Awards*. In the case of an award of restricted stock units, performance awards, dividend equivalent rights, or other stock or cash awards, the recipient will generally recognize ordinary income in an amount equal to any cash received and the fair market value of any shares received on the date of payment or delivery, provided that the award is exempt from or complies with Section 409A of the Code. In that taxable year, we will receive a federal income tax deduction in an amount equal to the ordinary income that the participant has recognized.

*Federal Tax Withholding*. Any ordinary income realized by a participant upon the granting, vesting, exercise, or conversion of an award under the 2020 Equity Incentive Plan, as applicable, is subject to withholding of federal, state, and local income tax and to withholding of the participant's share of tax under the Federal Insurance Contribution Act and the Federal Unemployment Tax Act. To satisfy our federal income tax withholding requirements, we (or, if applicable, any of our subsidiaries) will have the right to require, as a condition to delivery of any certificate for shares of our common stock or the registration of the shares in the participant's name, that the participant remit to us an amount sufficient to satisfy the withholding requirements. Alternatively, we may withhold a portion of the shares (valued at fair market value) that otherwise would be issued to the participant to satisfy all or part of the withholding tax obligations or may, if we consent, accept delivery of shares (that the participant has not acquired from us within six months prior to the date of exercise) with an aggregate fair market value that equals or exceeds the required tax withholding payment. Withholding does not represent an increase in the participant's total income tax obligation because it is fully credited toward his or her tax liability for the year. Additionally, withholding does not affect the participant's tax basis in the shares. Compensation income realized and tax withheld will be reflected on Forms W-2 supplied by us to employees no later than January 31 of the succeeding year. Deferred compensation that is subject to Section 409A of the Code will also be subject to certain federal income tax withholding and reporting requirements.

*Tax Consequences to Us*. To the extent a participant recognizes ordinary income in the circumstances described above, we will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code, and is not disallowed by the $1,000,000 limitation on certain executive compensation under Section 162(m) of the Code.

*Million Dollar Deduction Limit and Other Tax Matters*. We may not deduct compensation of more than $1,000,000 that is paid to "covered employees" (as defined in Section 162(m) of the Code), which include (i) an individual (or, in certain circumstances, his or her beneficiaries) who, at any time during the taxable year, is either our principal executive officer or principal financial officer; (ii) an individual who is among our three highest compensated officers for the taxable year (other than an individual who was either our principal executive officer or principal financial officer at any time during the taxable year); or (iii) anyone who was a covered employee for purposes of Section 162(m) of the Code for any tax year beginning on or after January 1, 2017. This limitation on deductions (x) only applies to compensation paid by a publicly-traded corporation (and not compensation paid by non-corporate entities) and (z) may not apply to certain types of compensation, such as qualified performance-based compensation that is payable pursuant to a written, binding contract that was in effect as of November 2, 2017, so long as the contract is not materially modified after that date.

If an individual's rights under the 2020 Equity Incentive Plan are accelerated as a result of a change in control and the individual is a "disqualified individual" under Section 280G of the Code, the value of any such accelerated rights received by such individual may be included in determining whether or not such individual has received an "excess parachute payment" under Section 280G of the Code, which could result in (i) the imposition of a 20% federal excise tax (in addition to federal income and employment taxes, if applicable) payable by the individual on the value of such accelerated rights and (ii) the loss by us of a compensation deduction.

The foregoing general tax discussion is intended for the information of stockholders considering how to vote with respect to this proposal and not as tax guidance to participants in the 2020 Equity Incentive Plan. Participants are strongly urged to consult their own tax advisors regarding the federal, state, local, foreign, and any other tax consequences to them of participating in the 2020 Equity Incentive Plan.

**Interest of Directors and Executive Officers.**

All members of the Board of Directors and all of our executive officers are eligible for awards under the 2020 Equity Incentive Plan and, thus, have a personal interest in the approval of the 2020 Equity Incentive Plan.

**New Plan Benefits**

We cannot currently determine the benefits or number of shares subject to awards that may be granted in the future to eligible participants under the 2020 Equity Incentive Plan because the grant of awards and the terms of such awards are to be determined in the sole discretion of the Committee at the time of grant.

The fair market value of our common stock is $18.54 per share based on the closing price of our common stock on April 28, 2020.

**Required Vote**

Approval of the adoption of the 2020 Equity Incentive Plan requires the affirmative vote of the holders of at least a majority of the shares of Hilltop common stock cast on the proposal. For purposes of the adoption of the 2020 Equity Incentive Plan, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for purposes of determining a quorum.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE HILLTOP HOLDINGS INC. 2020 EQUITY INCENTIVE PLAN.**

### Equity Compensation Plan Information

The following table sets forth as of December 31, 2019, information concerning Hilltop's equity compensation plans, including the number of shares issued and available for issuance under our plans, options, warrants and rights; weighted average exercise price of outstanding options, warrants and rights; and the number of securities remaining available for future issuance.

**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* | — | $ — | 556,368 |
| Equity compensation plans not approved by security holders | — | — | — |
| **Total** | — | $ — | 556,368 |

* In September 2012, our stockholders approved the 2012 Equity Incentive 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. In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Equity Incentive Plan. At December 31, 2019, 3,873,386 awards had been granted pursuant to the 2012 Equity Incentive Plan, while 429,754 awards were forfeited and are eligible for reissuance. All shares outstanding under the 2012 Equity Incentive 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 awards in any fiscal year covering more than 1,250,000 shares of our common stock.

## PROPOSAL THREE — APPROVAL OF THE HILLTOP HOLDINGS INC. EMPLOYEE STOCK PURCHASE PLAN

On April 30, 2020, our Board of Directors adopted the Hilltop Holdings Inc. Employee Stock Purchase Plan, or the Employee Stock Purchase Plan or the ESPP, subject to the approval of our stockholders. If approved, the ESPP will become effective on January 1, 2021.

**Purpose of the Employee Stock Purchase Plan**

The Employee Stock Purchase Plan is intended to provide eligible employees of Hilltop and certain designated Related Corporations with an opportunity to purchase shares of our common stock at a discount and possibly with favorable tax consequences, and thereby provide an additional incentive for such employees to contribute to the prosperity of the Company. Our Board of Directors believes that the ESPP promotes the interests of the Company and its stockholders by attracting, retaining, and motivating talented employees and aligning the interests of participating employees with those of our stockholders. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code and will be treated as such for U.S. federal tax purposes. The ESPP is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

**Summary of the Employee Stock Purchase Plan**

Described below is a summary of the material features of the ESPP. This summary does not purport to be a complete description of all of the provisions of the ESPP. It is qualified in its entirety by reference to the full text of the ESPP, a copy of which is attached as Annex B to this proxy statement and is incorporated herein by reference. Capitalized terms used but not otherwise defined herein have the respective meanings ascribed to such terms in the ESPP.

*Purpose*. The purpose of the ESPP is to provide a means by which eligible employees of Hilltop and certain designated Related Corporations may be given an opportunity to purchase shares of our common stock and to assist the Company in retaining the services of its employees and securing and retaining the services of new employees, thereby providing incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations. The rights to purchase shares of Hilltop common stock granted under the ESPP are intended to qualify as options issued under an "employee stock purchase plan," as that term is defined in Section 423(b) of the Internal Revenue Code, or Options.

*Shares Subject to the ESPP*. Subject to the terms of the ESPP, an aggregate of 600,000 shares of Hilltop common stock will be reserved for issuance under the ESPP. If Options granted under the ESPP expire, lapse, or otherwise terminate without being exercised, the shares of common stock not purchased under such Options will again become available for issuance under the ESPP. The stock purchasable under the ESPP may consist, in whole or in part, of authorized and unissued common stock, treasury stock, or common stock purchased on the open market.

As of April 28, 2020, the closing price of a share of Hilltop common stock on the NYSE was $18.54. As of the date hereof, no shares of common stock have been issued under the ESPP.

*Administration*. The ESPP will be administered by the Board of Directors or such committee or committees of the Board of Directors as is designated by the Board of Directors to administer the ESPP, or the Committee. The Board of Directors will have the power to (i) determine how and when Options to purchase shares of common stock will be granted and the provisions of each Offering of such Options (which need not be identical); (ii) designate from time to time which Related Corporations of Hilltop will be eligible to participate in the ESPP; (iii) construe and interpret the ESPP and Options, and establish, amend, and revoke rules and regulations for its administration (the Board of Directors, in the exercise of this power, may correct any defect, omission, or inconsistency in the ESPP, in a manner and to the extent it deems necessary or expedient to make the ESPP fully effective); (iv) settle all controversies regarding the ESPP and Options granted under it; (v) suspend or terminate the ESPP at any time as provided for under the ESPP; and (vi) exercise such powers and perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Related Corporations and to carry out the intent that the ESPP be treated as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

The Board of Directors may delegate some or all of the administration of the ESPP to a Committee or Committees. If administration is delegated to a Committee, the Committee will have, in connection with the administration of the ESPP, the powers theretofore possessed by the Board of Directors that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise, subject, however, to such resolutions, not inconsistent with the provisions of the ESPP, as may be adopted from time to time by the Board of Directors. The Board of Directors may retain the authority to concurrently administer the ESPP with the Committee and may, at any time, revest in the Board of Directors some or all of the powers previously delegated. Whether or not the Board of Directors has delegated administration of the ESPP to a Committee, the Board of Directors will have the final power to determine all questions of policy and expediency that may arise in the administration of the ESPP. All determinations, interpretations, and constructions made by the Board of Directors in good faith in its discretion will be final, binding, and conclusive on all persons.

*Offerings*. The Board of Directors may, from time to time, grant or provide for the grant of Options to purchase shares of common stock under the ESPP to eligible employees in an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board of Directors. Each Offering shall be in such form and will contain such terms and conditions as the Board of Directors deems appropriate, which shall comply with the requirement of Section 423(b)(5) of the Internal Revenue Code that all employees granted Options have the same rights and privileges. The terms and conditions of an Offering will be incorporated by reference into the ESPP and treated as part of the ESPP. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of the ESPP by reference in the document comprising the Offering or otherwise) the period during which the Offering will be effective, which period shall not exceed 27 months beginning with the Offering Date, and the substance of the provisions of the ESPP pertaining to (i) eligibility; (ii) the grant of Options; (iii) the purchase price; (iv) participation, withdrawal, and termination; and (v) the exercise of Options.

If a participant has more than one Option outstanding under the ESPP, unless he or she otherwise indicates in agreements or notices delivered by such participant: (i) each agreement or notice delivered by that participant will be deemed to apply to all of his or her Options under the ESPP; and (ii) an Option with a lower exercise price (or an earlier-granted Option, if different Options have identical exercise prices) will be exercised to the fullest possible extent before an Option with a higher exercise price (or a later-granted Option if different Options have identical exercise prices) will be exercised.

*Eligibility*. Options may be granted only to employees of Hilltop or, as the Board of Directors may designate, to employees of a Related Corporation. Except as provided below, an employee is not eligible to be granted Options under the ESPP unless, on the Offering Date, such employee has been in the employ of Hilltop or the Related Corporation, as the case may be, for such continuous period preceding such Offering Date as the Board of Directors may require (but in no event greater than two years). In addition, the Board of Directors may provide that no employee is eligible to be granted Options under the ESPP unless, on the Offering Date, such employee's customary employment with Hilltop or the Related Corporation is for more than 20 hours per week and/or for more than five months per calendar year, or such other criteria as the Board of Directors may determine consistent with Section 423 of the Internal Revenue Code.

No employee is eligible to participate in the ESPP if, immediately after the grant of the Option, (i) the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of stock of Hilltop or of any Related Corporation (including any stock which such employee may purchase under all outstanding rights and options); or (ii) such Option would permit such employee's rights to purchase stock under all "employee stock purchase plans" (described in Section 423 of the Internal Revenue Code) of Hilltop and any Related Corporation to accrue at a rate that exceeds $25,000 of the Fair Market Value (or such other maximum as may be prescribed from time to time by the Internal Revenue Code) of such stock (determined at the Offering Date of the Option) for each calendar year in which such Option is outstanding at any time, in accordance with the provisions of Section 423(b)(8) of the Internal Revenue Code. Officers of Hilltop and any designated Related Corporation, if they are otherwise eligible employees, will be eligible to participate in Offerings under the ESPP. Notwithstanding the foregoing, the Board of Directors, in its sole discretion, may exclude from participation in the ESPP or any Offering any employees who are "highly compensated employees" (within the meaning of Section 423(b)(4)(D) of the Internal Revenue Code).

As of March 31, 2020, there were approximately 4,800 employees eligible to participate in the ESPP.

*Participation in the ESPP*. A participant may elect to authorize payroll deductions pursuant to an Offering under the ESPP by completing and delivering to the Company, within the time specified in the Offering, an enrollment form (in such form as

the Company may provide). Each such enrollment form will authorize an amount of Contributions expressed as a percentage of the submitting participant's Compensation (as defined in each Offering) during the Offering (not to exceed the maximum percentage specified by the Board of Directors). Each participant's Contributions will be credited to a bookkeeping account for such participant under the ESPP and be deposited with the general funds of the Company, except where applicable law requires that contributions be deposited with an independent third party. To the extent provided in the Offering, a participant may begin such contributions after the beginning of the Offering. To the extent provided in the Offering, a participant may thereafter reduce (including to zero) or increase his or her contributions. To the extent specifically provided in the Offering, in addition to making contributions by payroll deductions, a participant may make contributions through the payment by cash or check prior to each Purchase Date of the Offering.

*Grant of Options.* On each Offering Date of an Offering made under the ESPP, each eligible employee will be granted an Option to purchase up to that number of shares of common stock purchasable with a percentage of such employee's Compensation (not exceeding the percentage set forth in the Offering) during the period that begins on the Offering Date (or such later date as the Board of Directors determines for a particular Offering) and ends on the date stated in the Offering. The Board of Directors will establish one or more Purchase Dates during an Offering on which Options granted pursuant to that Offering will be exercised and purchases of shares of common stock will be carried out in accordance with such Offering.

In connection with each Offering made under the ESPP, the Board of Directors may specify a maximum number of shares of common stock that may be purchased by any participant on any Purchase Date during such Offering, and a maximum aggregate number of shares of common stock that may be purchased by all participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Dates, the Board of Directors may specify a maximum aggregate number of shares of common stock that may be purchased by all participants on any or each Purchase Date under the Offering. If the aggregate purchase of shares of common stock issuable upon exercise of Options granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board of Directors action otherwise, a pro rata allocation of the shares of common stock available will be made in as nearly a uniform manner as practicable and equitable.

*Purchase Price*. The purchase price of shares of common stock acquired pursuant to Options may not be less than the lesser of: (i) an amount equal to 85% of the Fair Market Value of the shares of common stock on the Offering Date; or (ii) an amount equal to 85% of the Fair Market Value of the shares of common stock on the applicable Purchase Date, as set forth in the Offering.

*Exercise of Options.* On each Purchase Date during an Offering, each participant's accumulated Contributions will be applied to the purchase of shares of common stock, up to the maximum number of shares of common stock permitted pursuant to the terms of the ESPP and the applicable Offering, at the purchase price specified in the Offering. No fractional shares will be issued upon the exercise of Options unless specifically provided for in the Offering. If any amount of accumulated Contributions remains in a participant's account after the purchase of shares of common stock and such remaining amount is less than the amount required to purchase one share of common stock on the final Purchase Date of an Offering, then such remaining amount will be held in such participant's account for the purchase of shares of common stock under the next Offering under the ESPP, unless such participant withdraws from such next Offering, as provided in the ESPP, or is not eligible to participate in such Offering, as provided in the ESPP, in which case such amount will be distributed to such participant after the final Purchase Date, without interest (unless required by applicable law).

No Options may be exercised unless the shares of common stock to be issued upon such exercise under the ESPP are covered by an effective registration statement pursuant to the Securities Act and the ESPP is in material compliance with all applicable federal, state and foreign laws, and any other securities laws and other laws applicable to the ESPP. If, on a Purchase Date the shares of common stock are not so registered or the ESPP is not in such compliance, no Options may be exercised on such Purchase Date, and the Purchase Date will be delayed until the shares of common stock are subject to such an effective registration statement and the ESPP is in such compliance, except that the Purchase Date may not be delayed more than twelve months and the Purchase Date may in no event be more than 27 months from the Offering Date.

Shares of common stock obtained by exercise of Options must be held by the participant for at least 90 days prior to the participant's sale of such common stock. The terms and conditions of Options granted to, and the purchase of shares of common stock by, persons subject to Section 16 of the Exchange Act must comply with the applicable provisions of Rule 16b-3. The ESPP and all Options granted thereunder are deemed to contain, and the shares of common stock issued upon exercise of

Options will be subject to, such additional conditions and restrictions, if any, as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to ESPP transactions.

*Withdrawal*. During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company may provide. Such withdrawal may be elected at any time prior to the end of the Offering, except as provided otherwise in the Offering. Upon such withdrawal from the Offering by a participant, the Company will distribute to such participant all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of common stock for the participant) under the Offering, and such participant's Option in that Offering will terminate. A participant's withdrawal from an Offering will not affect such participant's eligibility to participate in any other Offerings under the ESPP, but such participant will be required to deliver a new enrollment form in order to participate in subsequent Offerings.

*Termination of Employment*. A participant's Option granted pursuant to an Offering under the ESPP will terminate immediately upon such participant ceasing to be an employee or other lack of eligibility. The Company will distribute to such terminated or otherwise ineligible employee all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of common stock) under the Offering. An employee will be deemed to have terminated employment for purposes of the ESPP when the employee begins a leave of absence, unless the employee is on an approved leave of absence or is entitled to disability benefits, in which case participation will be suspended until a return to active employment.

*Restrictions on Transfer*. Options are not transferable by a participant except by will, the laws of descent and distribution, or by a beneficiary designation as provided in the ESPP. During a participant's lifetime, Options may be exercised only by such participant. Any attempt to assign, transfer, pledge, or otherwise dispose of such rights or amounts will be null and void and without effect.

*Interest*. Unless otherwise specified in an Offering, the Company will have no obligation to pay interest on Contributions.

*Adjustments*. In the event of a Capitalization Adjustment, the Board of Directors will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the ESPP; (ii) the class(es) and maximum number of securities reserved under the ESPP; (iii) the class(es) and number of securities subject to, and the purchase price applicable to, outstanding Offerings and Options; and (iv) the class(es) and number of securities imposed by purchase limits under each ongoing Offering. The Board of Directors' determination will be final, binding, and conclusive.

*Effect of Certain Corporate Events*. In the event of a Corporate Transaction (whether by merger, consolidation, asset or stock sale), then: (i) any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue Options outstanding under the ESPP or may substitute similar rights (including a right to acquire the same consideration paid to the stockholders in the Corporate Transaction) for those outstanding under the ESPP; or (ii) if any surviving or acquiring corporation (or its parent company) does not assume or continue such Options or does not substitute similar rights for Options outstanding under the ESPP, then the participants' accumulated Contributions will be used to purchase shares of common stock within ten business days prior to the Corporate Transaction under any ongoing Offerings, and the participants' Options under the ongoing Offerings will terminate immediately after such purchase.

*Amendment, Termination, or Suspension of the ESPP*. The Board of Directors may amend the ESPP at any time as the Board of Directors deems necessary or advisable. Except for Capitalization Adjustments, stockholder approval will, however, be required for any amendment of the ESPP for which stockholder approval is required by applicable law or listing requirements, including any amendment that (i) materially increases the number of shares of common stock available for issuance under the ESPP; (ii) materially expands the class of individuals eligible to become participants and receive Options under the ESPP; (iii) materially increases the benefits accruing to participants under the ESPP or materially reduces the price at which shares of common stock may be purchased under the ESPP; (iv) materially extends the term of the ESPP; or (v) expands the types of awards available for issuance under the ESPP, but in each of (i) through (v) above, only to the extent stockholder approval is required by applicable law or listing requirements. The Board of Directors may suspend or terminate the ESPP at any time. No Options may be granted under the ESPP while the ESPP is suspended or after it is terminated. Any benefits, privileges, entitlements, and obligations under any outstanding Options granted before an amendment, suspension, or termination of the ESPP may not be impaired by any such amendment, suspension, or termination except (i) with the consent of the participant to whom such Options were granted; (ii) as necessary to comply with any laws, listing requirements, or

governmental regulations (including, without limitation, the provisions of Section 423 of the Internal Revenue Code); or (iii) as necessary to obtain or maintain favorable tax, listing, or regulatory treatment.

*Effective Date*. The ESPP will become effective on January 1, 2021, but no Options may be exercised unless and until the ESPP has been approved by the stockholders of the Company, which approval shall be within twelve months before or after the date the ESPP is adopted by the Board of Directors.

**U.S. Federal Income Tax Effects**

*Tax Effects for Participants*. The information set forth in the paragraph below is a summary only and does not purport to be complete. In addition, the information is based upon current U.S. federal income tax rules and, therefore, is subject to change if those rules change. Moreover, because the tax consequences to any participant may depend on his or her particular situation, each participant should consult his or her tax adviser as to the federal, state, local and other tax consequences of the acquisition or disposition of common stock under the ESPP. This summary is general in nature and does not purport to be legal or tax advice.

Options granted under the ESPP are intended to qualify for favorable federal income tax treatment associated with options granted under an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. A participant will be taxed on amounts withheld by payroll deductions for the purchase of shares of common stock as if such amounts were actually received. Except as described in the preceding sentence, no income relating to Options granted or shares purchased under the ESPP will be taxable to a participant until disposition of the acquired shares, and the method of taxation will depend upon the holding period of the acquired shares. If the stock is disposed of at least two years after the Offering Date and at least one year after the stock is transferred to the participant, then the lesser of (i) the excess of the Fair Market Value of the stock at the time of such disposition over the purchase price of such stock, or (ii) the excess of the Fair Market Value of the stock as of the grant date of such Option (typically the Offering Date) over the purchase price (applied and determined as of the grant date of such Option), will be treated as ordinary income. If the stock is sold or disposed of before the expiration of either of the holding periods described above, then the excess of the Fair Market Value of the stock on the Purchase Date over the purchase price will be treated as ordinary income at the time of such disposition. Even if the stock is later disposed of for less than its Fair Market Value on the Purchase Date, the same amount of ordinary income will be attributed to the participant, and a capital loss will be recognized equal to the difference between the sales price and the Fair Market Value of the stock on such Purchase Date. The participant's basis in the stock will be equal to the amount paid for such stock, plus any ordinary income included for such stock. Any capital gain or loss will be short-term or long-term, depending on how long the stock has been held.

*Tax Effects for the Company*. There are no federal income tax consequences to the Company by reason of the grant or exercise of Options under the ESPP. The Company will, however, be entitled to a deduction to the extent amounts are taxed as ordinary income to a participant (subject to the requirement of reasonableness and the satisfaction of tax reporting obligations). Any ordinary income that is required to be recognized will not be subject to income or payroll tax withholding.

**New Plan Benefits**

Participation in the ESPP is voluntary and depends on each eligible employee's election to participate. Accordingly, the benefits or amounts that will be received with respect to future purchases under the ESPP are not determinable. For the same reasons and because this is the first time a plan of this nature has been adopted by us, we cannot determine what benefits or amounts would have been received if the ESPP had been in place during the last completed fiscal year.

**Required Vote**

The approval of the adoption of the Hilltop Holdings Inc. Employee Stock Purchase Plan requires the affirmative vote of the holders of at least a majority of the shares of Hilltop common stock cast on the proposal. For purposes of the approval of the ESPP, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for purposes of determining a quorum.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE HILLTOP HOLDINGS INC. EMPLOYEE STOCK PURCHASE PLAN.**

## PROPOSAL FOUR — 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 "Management – Compensation Discussion and Analysis" and "Management – Executive Compensation" sections of this Proxy Statement. At our 2017 annual meeting of stockholders, our stockholders voted in favor of a proposal to hold an advisory vote on executive compensation each year. 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. An advisory vote to determine the frequency of future advisory votes on executive compensation will be conducted at our annual meeting held in 2023.

We believe that our executive compensation programs effectively align 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 Four and the compensation paid to our named executive officers as disclosed commencing on page 29 of this Proxy Statement by voting **FOR**, on a non-binding 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 and Analysis, the compensation tables and the narrative discussion related thereto."

### Vote Necessary to Approve, on a Non-Binding Advisory Basis, Executive Compensation

The affirmative vote of a majority of the votes cast on the matter is required to approve, on a non-binding advisory basis, our 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 non-binding 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, although they will be considered present for purposes of determining a quorum.

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

## PROPOSAL FIVE — RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP served as our independent registered public accounting firm during 2019 and has been selected to serve in that capacity for 2020, 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 PricewaterhouseCoopers LLP 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 PricewaterhouseCoopers LLP is expected to be at our Annual Meeting to respond to appropriate questions and, if PricewaterhouseCoopers LLP desires, to make a statement.

### Vote Necessary to Ratify the Appointment

The appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2020 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, although they will be considered present for purposes of determining a quorum. Under applicable rules, a broker will have the authority to vote on 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 of the Audit Committee 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, 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 PricewaterhouseCoopers LLP the audited financial statements for the year ended December 31, 2019, management's assessment of the effectiveness of the Company's internal control over financial reporting and PricewaterhouseCoopers LLP's evaluation of the Company's internal control over financial reporting. The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters that are required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the SEC.

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

Based upon the Audit Committee's review of the audited consolidated financial statements and its discussion with management and PricewaterhouseCoopers LLP 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, 2019.

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, 2019 and 2018, the total fees paid to our independent registered public accounting firm, PricewaterhouseCoopers LLP, were as follows:

| | Fiscal Year Ended | |
|---|---|---|
| | 2019 | 2018 |
| Audit Fees | $ 5,792,550 | $ 6,356,200 |
| Audit-Related Fees | 638,000 | 391,500 |
| Tax Fees | — | — |
| All Other Fees | 2,700 | 2,700 |
| **Total** | $ 6,433,250 | $ 6,750,400 |

***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, 2019 and 2018, 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***

In 2019 and 2018 these fees primarily related to procedures associated with recently issued accounting standards and attestation reports required under various services agreements.

***Tax Fees***

No tax fees were incurred during 2019 or 2018.

***All Other Fees***

In 2019 and 2018, 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 2019 and 2018.

The pre-approval 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 2019 or 2018 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 2020.**

## STOCKHOLDER PROPOSALS FOR 2021

Stockholder proposals intended to be presented at our 2021 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 local time, on February 12, 2021 and must otherwise comply with the requirements of Rule 14a-8 in order to be considered for inclusion in the 2021 Proxy Statement and proxy. However, pursuant to such rule, if the 2021 Annual Meeting is not held within 30 days of July 23, 2021, then a stockholder proposal submitted for inclusion in our Proxy Statement for the 2021 Annual Meeting must be received by us a reasonable time before we begin to print and mail our Proxy Statement for the 2021 Annual Meeting.

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 December 31, 2020, and not later than 5:00 p.m. Dallas, Texas local time, on January 30, 2021; *provided, however*, that in the event that the date of the 2021 annual meeting is advanced by more than 30 days or delayed by more than 60 days from July 23, 2021, notice by the stockholder in order to be timely must be received no earlier than the 120th day prior to the date of the 2021 annual meeting and not later than 5:00 p.m. Dallas, Texas local time, on the later of the 90th day prior to the date of the 2021 annual meeting or, if the first public announcement of the 2021 Annual Meeting is less than 100 days prior to the date of the 2021 Annual Meeting, the 10th day following the day on which public announcement of the date of the 2021 annual meeting is first made. 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., 6565 Hillcrest Avenue, Dallas, Texas 75205, 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, 2019 ALSO IS AVAILABLE WITHOUT CHARGE FROM OUR COMPANY WEBSITE AT WWW.HILLTOP-HOLDINGS.COM OR UPON WRITTEN REQUEST TO: INVESTOR RELATIONS, HILLTOP HOLDINGS INC., 6565 HILLCREST AVENUE, DALLAS, TEXAS 75205.

## 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.
6565 Hillcrest Avenue
Dallas, Texas 75205

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

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**Annex A**

# HILLTOP HOLDINGS INC.
# 2020 EQUITY INCENTIVE PLAN

The Hilltop Holdings Inc. 2020 Equity Incentive Plan (the "***Plan***") was adopted by the Board of Directors of Hilltop Holdings Inc., a Maryland corporation (the "***Company***"), effective as of April 30, 2020 (the "***Effective Date***"), subject to approval by the Company's stockholders.

## ARTICLE 1.
## PURPOSE

The purpose of the Plan is to attract and retain the services of key Employees, key Contractors, and Outside Directors of the Company and its Subsidiaries and to provide such persons with a proprietary interest in the Company through the granting of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards, Dividend Equivalent Rights, and Other Awards, whether granted singly, or in combination, that will:

(a) increase the interest of such persons in the Company's welfare;

(b) furnish an incentive to such persons to continue their services for the Company or its Subsidiaries; and

(c) provide a means through which the Company may attract able persons as Employees, Contractors, and Outside Directors.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, such provision or action shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee.

## ARTICLE 2.
## DEFINITIONS

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 "***Applicable Law***" means all legal requirements relating to the administration of equity incentive plans and the issuance and distribution of shares of Common Stock, if any, under applicable corporate laws, applicable securities laws, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, the rules of any foreign jurisdiction applicable to Incentives granted to residents therein, and any other applicable law, rule or restriction.

2.2 "***Authorized Officer***" is defined in Section 3.2(b) hereof.

2.3 "***Award***" means the grant of any Incentive Stock Option, Nonqualified Stock Option, Restricted Stock, SAR, Restricted Stock Unit, Performance Award, Dividend Equivalent Right or Other Award, whether granted singly or in combination (each individually referred to herein as an "***Incentive***").

2.4 "***Award Agreement***" means a written agreement between a Participant and the Company that sets out the terms of the grant of an Award.

2.5 "***Award Period***" means the period set forth in the Award Agreement during which one or more Incentives granted under an Award may be exercised.

2.6 "***Board***" means the board of directors of the Company.

2.7 "***Cause***" shall have the meaning set forth in the Participant's Award Agreement.

2.8 "***Change in Control***" means the happening of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "***Person***") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 33% or more of either (i) the then outstanding shares of common stock of the Company (the "***Outstanding Company Common Stock***") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "***Outstanding Company Voting Securities***"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (v) any acquisition directly from the Company, (w) any acquisition by the Company, (x) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, (y) any acquisition by a Person who holds or controls entities that, in the aggregate (including the holdings of such Person), hold or control 10% or more of the Outstanding Company Common Stock or the Outstanding Company Voting Securities on the Effective Date or (z) any acquisition by any entity pursuant to a transaction which complies with clauses (i), (ii), and (iii) of subsection (c) of this Section 2.8; or

(b) Individuals who, as of the Effective Date, constitute the Board (the "***Incumbent Board***") cease for any reason to constitute at least a majority of the members of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(d) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its Subsidiaries with a third party or sale or other disposition of all or substantially all of the assets of the Company to a third party, or the acquisition of assets or securities of another entity by the Company or any of its Subsidiaries from a third party (a "***Business Combination***"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent securities), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more of its subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination, or any Person who holds or controls entities that, in the aggregate (including the holdings of such Person), hold or control 10% or more of the Outstanding Company Common Stock or the Outstanding Company Voting Securities on the Effective Date) beneficially owns, directly or indirectly, 33% or more of, respectively, the then outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such entity, except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(e) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Notwithstanding the foregoing provisions of this Section 8, if an Award issued under the Plan is subject to Section 409A of the Code, then an event shall not constitute a Change in Control for purposes of such Award under the Plan unless such event also constitutes a change in the Company's ownership, its effective control, or the ownership of a substantial portion of its assets within the meaning of Section 409A of the Code.

2.9 "***Claim***" means any claim, liability or obligation of any nature, arising out of or relating to this Plan or an alleged breach of this Plan or an Award Agreement.

2.10 "***Code***" means the United States Internal Revenue Code of 1986, as amended.

2.11 "***Committee***" means the committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.12 "***Common Stock***" means the common stock, par value $0.01 per share, which the Company is currently authorized to issue or may in the future be authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.

2.13 "***Company***" means Hilltop Holdings Inc., a Maryland corporation, and any successor entity.

2.14 "***Contractor***" means any natural person, who is not an Employee, rendering *bona fide* services to the Company or a Subsidiary, with compensation, pursuant to a written independent contractor agreement between such person and the Company or a Subsidiary, provided that such services are not rendered in connection with the offer or sale of securities in a capital raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

2.15 "***Corporation***" means any entity that (a) is defined as a corporation under Section 7701 of the Code and (b) is the Company or is in an unbroken chain of corporations (other than the Company) beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain. For purposes of clause (b) hereof, an entity shall be treated as a "corporation" if it satisfies the definition of a corporation under Section 7701 of the Code.

2.16 "***Date of Grant***" means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement; provided that all corporate actions necessary to grant such an Award have been taken on or prior to the date set forth in the applicable Award Agreement. Notwithstanding the foregoing, solely for purposes of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder, the Date of Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than (a) the effective date of such Award as set forth in the Award Agreement or (b) the date that all corporate actions necessary to grant such an Award have been taken.

2.17 "***Dividend Equivalent Right***" means the right of the holder thereof to receive credits based on the cash dividends that would have been paid on the shares of Common Stock specified in the Award if such shares were held by the Participant to whom the Award is made.

2.18 "***Employee***" means a common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company; provided, however, in the case of individuals whose employment status, by virtue of their employer or residence, is not determined under Section 3401(c) of the Code, "Employee" shall mean an individual treated as an employee for local payroll tax or employment purposes by the applicable employer under Applicable Law for the relevant period.

2.19 "***Exchange Act***" means the United States Securities Exchange Act of 1934, as amended.

2.20 "***Executive Officer***" means an officer of the Company or a Subsidiary subject to Section 16 of the Exchange Act.

2.21 "***Exempt Shares***" means shares of Common Stock subject to an Award that has been granted with (or that has been amended by the Committee to include) more favorable vesting provisions than those set forth in Section 7.2. No more than five percent (5%) of the shares of Common Stock that may be delivered pursuant to Awards may be shares designated as "Exempt Shares."

2.22 "***Exercise Date***" is defined in Section 8.3(b) hereof.

2.23 "***Exercise Notice***" is defined in Section 8.3(b) hereof.

2.24 "***Fair Market Value***" means, as of a particular date, (a) if the shares of Common Stock are listed on any established national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date (as determined by the Committee, in its discretion), or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (b) if the shares of Common Stock are not so listed, but are quoted on an automated quotation system, the closing sales price per share of Common Stock reported on the automated quotation system on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by the National Association of Securities Dealer, Inc.'s OTC Bulletin Board or the Pink OTC Markets, Inc. (previously known as the National Quotation Bureau, Inc.); or (d) if none of the above is applicable, such amount as may be determined by the Committee (acting on the advice of an Independent Third Party, should the Committee elect in its sole discretion to utilize an Independent Third Party for this purpose), in good faith, to be the fair market value per share of Common Stock. The determination of Fair Market Value shall, where applicable, be in compliance with Section 409A of the Code.

2.25 "***Good Reason***" shall have the meaning set forth in the Participant's Award Agreement.

2.26 "***Immediate Family Members***" is defined in Section 15.8 hereof.

2.27 "***Incentive***" is defined in Section 2.3 hereof.

2.28 "***Incentive Stock Option***" means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.

2.29 "***Independent Third Party***" means an individual or entity independent of the Company having experience in providing investment banking or similar appraisal or valuation services and with expertise generally in the valuation of securities or other property for purposes of this Plan. The Committee may utilize one or more Independent Third Parties.

2.30 "***Nonqualified Stock Option***" means a nonqualified stock option, granted pursuant to this Plan, which is not an Incentive Stock Option.

2.31 "***Option Price***" means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

2.32 "***Other Award***" means an Award issued pursuant to Section 6.9 hereof.

2.33 "***Outside Director***" means a director of the Company who is not an Employee or a Contractor.

2.34 "***Parent***" means a parent corporation as defined in Section 424 of the Code.

2.35 "***Participant***" means an Employee, Contractor or an Outside Director to whom an Award is granted under this Plan.

2.36 "***Performance Award***" means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock pursuant to Section 6.7 hereof.

2.37 "***Performance Goal***" means any of the Performance Criteria set forth in Section 6.10 hereof.

2.38 "***Plan***" means this Hilltop Holdings Inc. 2020 Equity Incentive Plan, as amended from time to time.

2.39 "***Prior Plan Awards***" means (a) any awards under the Prior Plan that are outstanding on the Effective Date, and that on or after the Effective Date, are forfeited, expire or are canceled; and (b) any shares subject to awards relating to Common Stock under the Prior Plan that, on or after the Effective Date are settled in cash.

2.40 "***Prior Plan***" means the Hilltop Holdings Inc. 2012 Equity Incentive Plan.

2.41 "***Reporting Participant***" means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act.

2.42 "***Restricted Stock***" means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.4 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.

2.43 "***Restricted Stock Units***" means units awarded to Participants pursuant to Section 6.6 hereof, which are convertible into Common Stock at such time as such units are no longer subject to restrictions as established by the Committee.

2.44 "***Restriction Period***" is defined in Section 6.4(b)(i) hereof.

2.45 "***Retirement***" shall have the meaning set forth in the Participant's Award Agreement.

2.46 "***SAR***" or "**S*tock Appreciation Right***" means the right to receive an amount, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock as of the date the SAR is exercised (or, as provided in the Award Agreement, converted) over the SAR Price for such shares.

2.47 "***SAR Price***" means the exercise price or conversion price of each share of Common Stock covered by a SAR, determined on the Date of Grant of the SAR.

2.48 "***Spread***" is defined in Section 12.4(b) hereof.

2.49 "***Stock Option***" means a Nonqualified Stock Option or an Incentive Stock Option.

2.50 "***Subsidiary***" means (a) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (b) any limited partnership, if the Company or any corporation described in item (a) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (c) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (a) above or any limited partnership listed in item (b) above. "***Subsidiaries***" means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

2.51 "***Substitute Incentives***" is defined in Article 14 hereof.

2.52 "***Termination of Service***" occurs when a Participant who is (a) an Employee of the Company or any Subsidiary ceases to serve as an Employee of the Company and its Subsidiaries, for any reason; (b) an Outside Director of the Company or a Subsidiary ceases to serve as a director of the Company and its Subsidiaries for any reason; or (c) a Contractor of the Company or a Subsidiary ceases to serve as a Contractor of the Company and its Subsidiaries for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a "Termination of Service" shall not be deemed to have occurred when a Participant who is an Employee becomes an Outside Director or Contractor or vice versa. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Section 422 of the Code upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Nonqualified

Stock Option. Notwithstanding the foregoing provisions of this Section 2.52, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of "Termination of Service" for purposes of such Award shall be the definition of "separation from service" provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

2.53 "***Total and Permanent Disability***" means a Participant is qualified for long-term disability benefits under the Company's, a Parent's, or a Subsidiary's disability plan or insurance policy; or, if no such plan or policy is then in existence or if the Participant is not eligible to participate in such plan or policy, that the Participant, because of a physical or mental condition resulting from bodily injury, disease, or mental disorder, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee, based upon medical reports or other evidence satisfactory to the Committee; provided that, with respect to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code. Notwithstanding the foregoing provisions of this Section 2.53 in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of "Total and Permanent Disability" for purposes of such Award shall be the definition of "disability" provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

2.54 "***Withheld Dividends***" is defined in Section 6.4(b)(ii) hereof.

## ARTICLE 3.
## ADMINISTRATION

Subject to the terms of this Article 3, the Plan shall be administered by the Compensation Committee of the Board or such committee of the Board as is designated by the Board to administer the Plan (the "***Committee***"). At any time there is no Committee to administer the Plan, any references in this Plan to the Committee shall be deemed to refer to the Board.

The Committee shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement, where applicable, the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive or two or more Incentives granted in combination. Subject to the other restrictions and limitations set forth in this Plan, the Committee may, in its sole discretion, accelerate the vesting or waive any restrictions of any Award. Although the members of the Committee shall be eligible to receive Awards, all decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

The Committee, in its discretion, shall (a) interpret the Plan and Award Agreements, (b) prescribe, amend, and rescind any rules and regulations and sub-plans (including sub-plans for Awards made to Participants who are not resident in the United States), as necessary or appropriate for the administration of the Plan, (c) establish performance goals for an Award and certify the extent of their achievement, and (d) make such other determinations or certifications and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

The Committee and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or employee of the Company or a Parent or Subsidiary of the Company; the Company's legal counsel, independent auditors, or consultants; or any other agents assisting in the administration of this Plan. Members of the Committee and any officer or employee of the Company or a Parent or Subsidiary of the Company acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to this Plan and shall, to the fullest extent permitted by law, be indemnified and held harmless by the Company with respect to any such action or determination.

The Committee may delegate to officers of the Company, pursuant to a written delegation, the authority to perform specified functions under the Plan. Any actions taken by any officers of the Company pursuant to such written delegation of

authority shall be deemed to have been taken by the Committee. Notwithstanding the foregoing, to the extent necessary to satisfy the requirements of Rule 16b-3 promulgated under the Exchange Act, any function relating to a Reporting Participant shall be performed solely by the Committee.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the Exchange Act, Section 422 of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, or any other Applicable Law, to the extent that any such restrictions are no longer required by Applicable Law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

## ARTICLE 4.
## ELIGIBILITY

Any Employee (including an Employee who is also a director or an officer), Contractor or Outside Director of the Company whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; provided that only Employees of a Corporation shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Contractor or Outside Director. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, Contractors or Outside Directors, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Participants who receive, or are eligible to receive, Awards under the Plan.

## ARTICLE 5.
## SHARES SUBJECT TO PLAN

5.1 **Number Available for Awards.** Subject to adjustment as provided in Articles 11 and 12 and any increase by any Prior Plan Awards eligible for reuse pursuant to Section 5.2, maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is Three Million Six Hundred Fifty Thousand (3,650,000) shares, of which one hundred percent (100%) may be delivered pursuant to Incentive Stock Options. Shares to be issued may be made available from authorized but unissued Common Stock, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan. After the Effective Date of the Plan, no awards may be granted under the Prior Plan.

5.2 **Reuse of Shares.** To the extent that any Award under this Plan or any Prior Plan Award shall be forfeited, shall expire or be canceled, in whole or in part, then the number of shares of Common Stock covered by the Award or Prior Plan Award so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. Awards that may be satisfied either by the issuance of shares of Common Stock or by cash or other consideration shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan only during the period that the Award is outstanding or to the extent the Award is ultimately satisfied by the issuance of shares of Common Stock. Shares of Common Stock otherwise deliverable pursuant to an Award that are (i) withheld upon exercise or vesting of an Award for purposes of paying the exercise price or tax withholdings, (ii) unused in the net settlement of stock-settled SARs, and (iii) purchased from the open market using proceeds from the sale of Common Stock received upon exercise of Stock Options, shall be treated as delivered to the Participant and shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan. Awards will not reduce the number of shares of Common Stock that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of shares of Common Stock, as, for example, a SAR that can be satisfied only by the payment of cash. Notwithstanding any provisions of the Plan to the contrary, only shares forfeited back to the Company, shares canceled on account of termination, expiration or lapse of an Award, shall again be available for grant of

Incentive Stock Options under the Plan, but shall not increase the maximum number of shares described in Section 5.1 above as the maximum number of shares of Common Stock that may be delivered pursuant to Incentive Stock Options.

5.3 **Limitation on Outside Director Awards**. Other than during the first calendar year in which an Outside Director has been elected to serve on the Board, no Outside Director may be granted any Award or Awards denominated in shares in any calendar year, when taken together with all cash retainers and other fees paid for services for the same calendar year, that exceed in the aggregate $450,000 (with the value of equity-based Awards computed as of the Date of Grant in accordance with applicable financial accounting rules); *provided, however,* the Chairman may be granted, in addition to such limit, an Award or Awards each calendar year in an aggregate amount not to exceed 50,000 shares (or an Award or Awards representing such amount). For the avoidance of doubt, any compensation that is deferred shall be counted toward this limit for the year in which it was earned, and not a later year of settlement.

## ARTICLE 6.
## GRANT OF AWARDS

6.1 **In General**.

(a) The grant of an Award shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive(s), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but (i) not inconsistent with the Plan and (ii) to the extent an Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within ten (10) years of the date of adoption of this Plan by the Board. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Awards under the Plan prior to the time of stockholder approval. Any such Award granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

(b) If the Committee establishes a purchase price for an Award, the Participant must accept such Award within a period of thirty (30) days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.

(c) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

6.2 **Option Price.** The Option Price for any share of Common Stock which may be purchased under a Nonqualified Stock Option for any share of Common Stock must be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Option Price for any share of Common Stock that may be purchased under an Incentive Stock Option must be at least equal to the Fair Market Value of the share on the Date of Grant; if an Incentive Stock Option is granted to an Employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary), the Option Price shall be at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant. No dividends or Dividend Equivalent Rights may be paid or granted with respect to any Stock Option granted hereunder.

6.3 **Maximum ISO Grants.** The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed $100,000. To the extent any Stock Option granted under this Plan that is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any such portion thereof) shall be a Nonqualified Stock Option. In such case, the

Committee shall designate which stock will be treated as Incentive Stock Option stock by causing the issuance of a separate stock certificate and identifying such stock as Incentive Stock Option stock on the Company's stock transfer records.

6.4 **Restricted Stock.** If Restricted Stock is granted to or received by a Participant under an Award (including a Stock Option), the Committee shall set forth in the related Award Agreement: (a) the number of shares of Common Stock awarded, (b) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (c) the time or times within which such Award may be subject to forfeiture, (d) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, if any, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (e) all other terms, limitations, restrictions, and conditions of the Restricted Stock, which shall be consistent with this Plan, to the extent applicable and, to the extent Restricted Stock granted under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The provisions of Restricted Stock need not be the same with respect to each Participant.

(a) **Legend on Shares.** The Company shall electronically register the Restricted Stock awarded to a Participant in the name of such Participant, which shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 15.10 of the Plan. No stock certificate or certificates shall be issued with respect to such shares of Common Stock, unless, following the expiration of the Restriction Period (as defined in Section 6.4(b)(i)) without forfeiture in respect of such shares of Common Stock, the Participant requests delivery of the certificate or certificates by submitting a written request to the Committee (or such party designated by the Company) requesting delivery of the certificates.

(b) **Restrictions and Conditions.** Shares of Restricted Stock shall be subject to the following restrictions and conditions:

(i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant or the date of exercise of an Award (the "***Restriction Period***"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock. Except for these limitations, and any other applicable limitations set forth in this Plan, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(ii) Except as provided in sub-paragraph (i) above or in the applicable Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon; provided that, if the right to receive dividends is awarded, then (A) any cash dividends and stock dividends with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and interest may be credited on the amount of the cash dividends withheld at a rate and subject to such terms as determined by the Committee (collectively, "***Withheld Dividends***"); and (B) such Withheld Dividends attributable to any particular share of Restricted Stock (and earnings thereon, if applicable) shall be distributed to such Participant in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Withheld Dividends, if applicable, upon the release of restrictions on such share (*i.e.*, upon vesting), and if such share is forfeited, the Participant shall forfeit and have no right to such Withheld Dividends. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock or after any other restrictions imposed on such shares of Common Stock by the applicable Award Agreement or other agreement have expired. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that each Participant, in connection with the issuance of a certificate for Restricted Stock, shall endorse such certificate in blank or execute a stock power in form satisfactory to the Company in blank and deliver such certificate and executed stock power to the Company.

(iii) The Restriction Period of Restricted Stock shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Award Agreement, and, subject to Article 12 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on length of continuous service or such Performance Goals, as may be determined by the Committee in its sole discretion.

(iv) In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Committee shall specify in the Award Agreement that either (1) the Company shall be obligated to, or (2) the Company may, in its sole discretion, elect to, pay to the Participant, as soon as practicable after the event causing forfeiture, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service, as the Committee, in its sole discretion shall select. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

6.5 **SARs.** The Committee may grant SARs to any Participant. SARs shall be subject to such terms and conditions as the Committee shall impose, provided that such terms and conditions are (a) not inconsistent with the Plan, and (b) to the extent a SAR issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The grant of the SAR may provide that the holder may be paid for the value of the SAR either in cash or in shares of Common Stock, or a combination thereof. In the event of the exercise of a SAR payable in shares of Common Stock, the holder of the SAR shall receive that number of whole shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (a) the difference between the Fair Market Value of a share of Common Stock on the date of exercise over the SAR Price as set forth in such SAR (or other value specified in the agreement granting the SAR), by (b) the number of shares of Common Stock as to which the SAR is exercised, with a cash settlement to be made for any fractional shares of Common Stock. The SAR Price for any share of Common Stock subject to a SAR may be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a SAR, but any such limitation shall be specified at the time that the SAR is granted. No dividends or Dividend Equivalent Rights may be paid or granted with respect to any SARs granted hereunder.

6.6 **Restricted Stock Units.** Restricted Stock Units may be awarded or sold to any Participant under such terms and conditions as shall be established by the Committee, provided, however, that such terms and conditions are (a) not inconsistent with the Plan, and (b) to the extent a Restricted Stock Unit issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. Restricted Stock Units shall be subject to such restrictions as the Committee determines, including, without limitation, (a) a prohibition against sale, assignment, transfer, pledge, hypothecation or other encumbrance for a specified period; or (b) a requirement that the holder forfeit (or in the case of shares of Common Stock or units sold to the Participant, resell to the Company at cost) such shares or units in the event of Termination of Service during the period of restriction. If the right to receive dividends on a Restricted Stock Unit is awarded, then any such dividends shall be Withheld Dividends.

6.7 **Performance Awards**.

(a) The Committee may grant Performance Awards to one or more Participants. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the Performance Goals to be achieved during a performance period, and the maximum or minimum settlement values, provided that such terms and conditions are (i) not inconsistent with the Plan and (ii) to the extent a Performance Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. If the Performance Award is to be in shares of Common Stock, the Performance Awards may provide for the issuance of the shares of Common Stock at the time of the grant of the Performance Award or at the time of the certification by the Committee that the Performance Goals for the performance period have been met; provided, however, if shares of Common Stock are issued at the time of the grant of the Performance Award and if, at the end of the performance period, the Performance Goals are not certified by the Committee to have been fully satisfied, then, notwithstanding

any other provisions of this Plan to the contrary, the Common Stock shall be forfeited in accordance with the terms of the grant to the extent the Committee determines that the Performance Goals were not met. The forfeiture of shares of Common Stock issued at the time of the grant of the Performance Award due to failure to achieve the established Performance Goals shall be separate from and in addition to any other restrictions provided for in this Plan that may be applicable to such shares of Common Stock. Each Performance Award granted to one or more Participants shall have its own terms and conditions.

If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure, or for other reasons that the Committee deemed satisfactory, the Committee may modify the performance measures or objectives and/or the performance period.

(b) Performance Awards may be valued by reference to the Fair Market Value of a share of Common Stock or according to any formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of Performance Goals or other specific financial, production, sales or cost performance objectives that the Committee believes to be relevant to the Company's business and/or remaining in the employ of the Company or a Subsidiary for a specified period of time. Performance Awards may be paid in cash, shares of Common Stock, or other consideration, or any combination thereof. If payable in shares of Common Stock, the consideration for the issuance of such shares may be the achievement of the performance objective established at the time of the grant of the Performance Award. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee.

(c) In the event of a Change in Control, Performance Awards will vest in full at the greater of "target" achievement of the applicable Performance Goal or the projected actual achievement of the applicable Performance Goal, based upon results achieved through the date of the Change in Control or, if applicable, the date of a Participant's Termination of Service by the Company without Cause or by the Participant for Good Reason, in either case, provided that such Termination of Service occurs within six (6) months prior to or twelve (12) months following the Change in Control.

6.8 **Dividend Equivalent Rights.** The Committee may grant a Dividend Equivalent Right to any Participant, either as a component of another Award or as a separate Award. The terms and conditions of the Dividend Equivalent Right shall be specified by the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional dividend equivalents). Any such reinvestment shall be at the Fair Market Value at the time thereof. Dividend Equivalent Rights may be settled in cash or shares of Common Stock, or a combination thereof, in a single payment or in installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award; provided that (a) any Dividend Equivalent Rights with respect to such Award shall be withheld by the Company for the Participant's account until such Award is vested, subject to such terms as determined by the Committee; and (b) such Dividend Equivalent Rights so withheld by the Company and attributable to any particular Award shall be distributed to such Participant in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalent Rights, if applicable, upon vesting of the Award, and if such Award is forfeited, the Participant shall have no right to such Dividend Equivalent Rights. No Dividend Equivalent Rights may be paid or granted with respect to any Stock Option or SAR.

6.9 **Other Awards.** The Committee may grant to any Participant other forms of Awards, based upon, payable in, or otherwise related to, in whole or in part, shares of Common Stock, if the Committee determines that such other form of Award is consistent with the purpose and restrictions of this Plan. The terms and conditions of such other form of Award shall be specified by the grant. Such Other Awards may be granted for no cash consideration, for such minimum consideration as may be required by Applicable Law, or for such other consideration as may be specified by the grant.

6.10 **Performance Goals.** Awards of Restricted Stock, Restricted Stock Units, Performance Award and Other Awards (whether relating to cash or shares of Common Stock) under the Plan may be made subject to the attainment of Performance Goals relating to one or more business criteria that may consist of, but are not limited to, one or more or any combination of the following criteria: stock price; book value; book value per share; tangible book value; tangible book value per share; earnings (including earnings before taxes, earnings before interest and taxes or 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 stockholders; return on assets or operating assets; asset quality; net interest margin; or stockholder value added ("***Performance Criteria***"). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (a) events that are of an unusual nature or indicate infrequency of occurrence, (b) gains or losses on the disposition of a business, (c) changes in tax or accounting regulations or laws, (d) the effect of a merger or acquisition, as identified in the Company's quarterly and annual earnings releases, or (e) other similar occurrences. In all other respects, Performance Criteria shall be calculated in accordance with the Company's financial statements, under generally accepted accounting principles, or under a methodology established by the Committee prior to the issuance of an Award which is consistently applied and identified in the audited financial statements, including footnotes, or the Compensation Discussion and Analysis section of the Company's annual report.

6.11 **No Repricing of Stock Options or SARs.** The Committee may not "reprice" any Stock Option or SAR without stockholder approval. For purposes of this Section 6.11, "reprice" means any of the following or any other action that has the same effect: (a) amending a Stock Option or SAR to reduce its exercise price or base price, (b) canceling a Stock Option or SAR at a time when its exercise price or base price exceeds the Fair Market Value of a share of Common Stock in exchange for cash or a Stock Option, SAR, award of Restricted Stock or other equity award, or (c) taking any other action that is treated as a repricing under generally accepted accounting principles, provided that nothing in this Section 6.11 shall prevent the Committee from making adjustments pursuant to Article 11, from exchanging or cancelling Incentives pursuant to Article 12, or substituting Incentives in accordance with Article 14.

6.12 **Recoupment for Restatements.** Notwithstanding any other language in this Plan to the contrary, the Company may recoup all or any portion of any shares or cash paid to a Participant in connection with an Award, in the event of a restatement of the Company's financial statements as set forth in the Company's clawback policy, if any, approved by the Company's Board from time to time.

## ARTICLE 7.
## AWARD PERIOD; VESTING

7.1 **Award Period.** Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term. The Award Period for an Incentive shall be reduced or terminated upon Termination of Service. No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. No portion of any Incentive may be exercised after the expiration of ten (10) years from its Date of Grant. However, if an Employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary) and an Incentive Stock Option is granted to such Employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

7.2 **Vesting.** The Committee, in its sole discretion, shall establish the vesting terms applicable to an Incentive, provided that any such vesting terms shall not be inconsistent with the terms of the Plan, including, without limitation, this Section 7.2. Except as otherwise provided herein, no Incentive (nor any portion of an Incentive, even on a pro rata basis) may vest earlier than one (1) year after the Date of Grant (other than Substitute Incentives); provided, however, with respect to grants of Awards made on the date of an Annual Stockholders Meeting to Outside Directors, such one (1) year vesting period shall be deemed satisfied if such Awards vest on the earlier of the first anniversary of the Date of Grant or the first Annual Stockholders Meeting held at least 50 weeks following the Date of Grant. Notwithstanding the foregoing, (a) the Committee may, in its sole discretion, grant Awards with more favorable vesting provisions than set forth in this Section 7.2, provided that the shares of Common Stock subject to such Awards shall be Exempt Shares, but (b) in connection with a Change in Control,

the Committee may not accelerate the date on which all or any portion of any Award may be vested or waive the Restriction Period with respect to any Award, except to provide that an Award may be partially or fully vested upon the Participant's Termination of Service by the Company without Cause or by the Participant for Good Reason, in either case, on or within six (6) months prior to or twelve (12) months following a Change in Control. Notwithstanding anything to the contrary in this Plan, all Awards shall vest upon a Change in Control in the event all outstanding Awards are not assumed by an acquiror or surviving or resulting corporation in accordance with Article 12, and any Performance Awards will vest in full at the greater of "target" achievement of the applicable Performance Goal or the projected actual achievement of the applicable Performance Goal, based upon results achieved through the date of Change in Control.

**ARTICLE 8.**
**EXERCISE OR CONVERSION OF INCENTIVE**

8.1 **In General**. A vested Incentive may be exercised or converted, during its Award Period, subject to limitations and restrictions set forth in the Award Agreement.

8.2 **Securities Law and Exchange Restrictions.** In no event may an Incentive be exercised or shares of Common Stock issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished.

8.3 **Exercise of Stock Option**.

(a) **In General.** If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise of the Stock Option shall be Restricted Stock that is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion and subject to the other restrictions and limitations set forth in this Plan, accelerate the date on which all or any portion of the Stock Option may be exercised. No Stock Option may be exercised for a fractional share of Common Stock. The granting of a Stock Option shall impose no obligation upon the Participant to exercise that Stock Option.

(b) **Notice and Payment.** Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised (the "***Exercise Notice***") and the date of exercise thereof (the "***Exercise Date***") with respect to any Stock Option shall be the date that the Participant has delivered both the Exercise Notice and consideration to the Company with a value equal to the total Option Price of the shares to be purchased (plus any employment tax withholding or other tax payment due with respect to such Award), payable as provided in the Award Agreement, which may provide for payment in any one or more of the following ways: (i) cash or check, bank draft, or money order payable to the order of the Company, (ii) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, and which the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, (iii) by delivery (including by electronic transmission) to the Company or its designated agent of an executed irrevocable option exercise form (or, to the extent permitted by the Company, exercise instructions, which may be communicated in writing, telephonically, or electronically) together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option, (iv) by requesting the Company to withhold the number of shares otherwise deliverable upon exercise of the Stock Option by the number of shares of Common Stock having an aggregate Fair Market Value equal to the aggregate Option Price at the time of exercise (*i.e.,* a cashless net exercise), and/or (v) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option equal to the number of shares of Restricted Stock used as consideration therefor shall be subject to the same restrictions and provisions as the Restricted Stock so tendered. If the Participant fails to deliver the consideration described in this Section 8.3(b) within three (3) business days of the date of the Exercise Notice, then the Exercise Notice shall be null and void and the Company will have no obligation to deliver any shares of Common Stock to the Participant in connection with such Exercise Notice.

(c) **Issuance of Certificate.** Except as otherwise provided in Section 6.4 hereof (with respect to shares of Restricted Stock) or in the applicable Award Agreement, upon payment of all amounts due from the Participant, the Company shall cause the Common Stock then being purchased to be registered in the Participant's name (or the person exercising the Participant's Stock Option in the event of his or her death), but shall not issue certificates for the Common Stock unless the Participant or such other person requests delivery of the certificates for the Common Stock, in writing in accordance with the procedures established by the Committee. The Company shall deliver certificates to the Participant (or the person exercising the Participant's Stock Option in the event of his or her death) as soon as administratively practicable following the Company's receipt of a written request from the Participant or such other person for delivery of the certificates. Notwithstanding the forgoing, if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. Any obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that, if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

(d) **Failure to Pay.** Except as may otherwise be provided in an Award Agreement, if the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, that portion of the Participant's Stock Option and right to purchase such Common Stock may be forfeited by the Participant.

8.4 **SARs.** Subject to the conditions of this Section 8.4 and such administrative regulations as the Committee may from time to time adopt, a SAR may be exercised by the delivery (including by electronic transmission) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised and the date of exercise thereof (the "***Exercise Date***"), which shall be at least three (3) days after giving such notice, unless an earlier time shall have been mutually agreed upon. Subject to the terms of the Award Agreement and only if permissible under Section 409A of the Code and the regulations or other guidance issued thereunder (or, if not so permissible, at such time as permitted by Section 409A of the Code and the regulations or other guidance issued thereunder), the Participant shall receive from the Company in exchange therefor in the discretion of the Committee, and subject to the terms of the Award Agreement:

(a) cash in an amount equal to the excess (if any) of the Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) per share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered;

(b) that number of shares of Common Stock having an aggregate Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests; or

(c) the Company may settle such obligation in part with shares of Common Stock and in part with cash.

The distribution of any cash or Common Stock pursuant to the foregoing sentence shall be made at such time as set forth in the Award Agreement.

8.5 **Disqualifying Disposition of Incentive Stock Option.** If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

## ARTICLE 9.
## AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this Article 9, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment for which stockholder approval is required either (a) by any securities exchange or inter-dealer quotation system on which the Common Stock is listed or traded or (b) in order for the Plan and Incentives awarded under the Plan to continue to comply with Sections 421 and 422 of the Code, including any successors to such Code Sections, or other Applicable Law, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this Article 9 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

## ARTICLE 10.
## TERM

The Plan shall be effective from the date that this Plan is adopted by the Board. Unless sooner terminated by action of the Board, the Plan will terminate on the tenth anniversary of the Effective Date, but Incentives granted before that date will continue to be effective in accordance with their respective terms and conditions.

## ARTICLE 11.
## CAPITAL ADJUSTMENTS

In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the fair value of an Award, then the Committee shall adjust any or all of the following so that the fair value of the Award immediately after the transaction or event is equal to the fair value of the Award immediately prior to the transaction or event (a) the number of shares and type of Common Stock (or the securities or property) that thereafter may be made the subject of Awards, (b) the number of shares and type of Common Stock (or other securities or property) subject to outstanding Awards, (c) the Option Price of each outstanding Award, (d) the amount, if any, the Company pays for forfeited shares of Common Stock in accordance with Section 6.4, and (e) the number of or SAR Price of shares of Common Stock then subject to outstanding SARs previously granted and unexercised under the Plan, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate SAR Price; provided, however, that the number of shares of Common Stock (or other securities or property) subject to any Award shall always be a whole number. Notwithstanding the foregoing, no such adjustment shall be made or authorized to the extent that such adjustment would cause the Plan or any Stock Option to violate Section 422 of the Code or Section 409A of the Code. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of any such adjustment, the Company shall provide notice to each affected Participant of its computation of such adjustment, which shall be conclusive and shall be binding upon each such Participant.

## ARTICLE 12.
## RECAPITALIZATION, MERGER AND CONSOLIDATION

12.1 **No Effect on Company's Authority.** The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any Change in Control, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

12.2 **Conversion of Incentives Where Company Survives.** Subject to any required action by the stockholders and except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled.

12.3 **Exchange or Cancellation of Incentives Where Company Does Not Survive.** Except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, in the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of outstanding Incentives, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms.

12.4 **Cancellation of Incentives.** Notwithstanding the provisions of Sections 12.2 and 12.3 hereof, and except as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, in the event the acquiror or the surviving or resulting corporation does not agree to assume or substitute the Incentives, all Incentives granted hereunder may be canceled by the Company, in its sole discretion, as of the effective date of any Change in Control, merger, consolidation or share exchange, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(a) giving notice to each holder thereof or his personal representative of its intention to cancel those Incentives for which the issuance of shares of Common Stock involved payment by the Participant for such shares, and permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares of Common Stock subject to such outstanding Incentives, including, in the Board's discretion but subject to Section 7.2, some or all of the shares as to which such Incentives would not otherwise be vested and exercisable; or

(b) in the case of Incentives that are either (i) settled only in shares of Common Stock, or (ii) at the election of the Participant, settled in shares of Common Stock, paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the price per share of such Incentive to be paid by the Participant (hereinafter the "***Spread***"), multiplied by the number of shares subject to the Incentive. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion but subject to Section 7.2, may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Incentives shall be made, such as deeming the Incentives to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of the Incentives as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

An Award that by its terms would be fully vested or exercisable upon a Change in Control will be considered vested or exercisable for purposes of Section 12.4(a) hereof.

## ARTICLE 13.
## LIQUIDATION OR DISSOLUTION

Subject to Section 12.4 hereof, in case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (a) sell all or substantially all of its property, or (b) dissolve, liquidate, or wind up its affairs, then each Participant shall be entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) and an adjustment is determined by the Committee to be appropriate to prevent the dilution of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, make such adjustment in accordance with the provisions of Article 11 hereof.

## ARTICLE 14.
## INCENTIVES IN SUBSTITUTION FOR
## INCENTIVES GRANTED BY OTHER ENTITIES

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees, independent contractors or directors of a corporation, partnership, or limited liability company who become or are about to become Employees, Contractors, or Outside Directors of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company, the acquisition by the Company of equity of the employing entity, or any other similar transaction pursuant to which the Company becomes the successor employer ("***Substitute Incentives***"). The terms and conditions of the Substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the incentives in substitution for which they are granted. Substitute Incentives shall not reduce the shares authorized for issuance under the Plan nor shall such shares subject to an Incentive be added to the shares available for issuance under the Plan as provided in Article 5. Additionally, in the event that an entity acquired by the Company or any Parent or Subsidiary, or with which the Company or any Parent or Subsidiary combines has shares available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing equity compensation plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares authorized for issuance under the Plan (and shares subject to such Awards shall not be added to the shares available for issuance under the Plan as provided in Article 5); provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees, Contractors, or Outside Directors prior to such acquisition or combination.

## ARTICLE 15.
## MISCELLANEOUS PROVISIONS

15.1 **Investment Intent.** The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

15.2 **No Right to Continued Employment.** Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

15.3 **Indemnification of Board and Committee.** No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee, each officer of the Company, and each Employee of the Company acting on behalf of the Board or the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation to the fullest extent provided by law. Except to the extent required by any unwaiveable requirement under applicable law, no member of the Board or the Committee (and no Subsidiary of the Company) shall have any duties or liabilities, including without limitation any fiduciary duties, to any Participant (or any Person claiming by and through any Participant) as a result of this Plan, any Award Agreement or any Claim arising hereunder and, to the fullest extent permitted under applicable law, each Participant (as consideration for receiving and accepting an Award Agreement) irrevocably waives and releases any right or opportunity such Participant might have to assert (or participate or cooperate in) any Claim against any member of the Board or the Committee and any Subsidiary of the Company arising out of this Plan.

15.4 **Effect of the Plan.** Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

15.5 **Compliance with Other Laws and Regulations.** Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Exchange Act); and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

15.6 **Foreign Participation.** To assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Committee approves for purposes of using this Plan in a foreign country will not affect the terms of this Plan for any other country.

15.7 **Tax Requirements.** The Company or, if applicable, any Parent or Subsidiary (for purposes of this Section 15.7, the term "***Company***" shall be deemed to include any applicable Parent or Subsidiary), shall have the right to deduct from all amounts paid in cash or other form in connection with the Plan, any federal, state, local, or other taxes required by law to be withheld in connection with an Award granted under this Plan. The Company may, in its sole discretion, also require the Participant receiving shares of Common Stock issued under the Plan to pay the Company the amount of any taxes that the Company is required to withhold in connection with the Participant's income arising with respect to the Award. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made by (a) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding obligations of the Company; (b) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (c) below) the required tax withholding payment (up to any Company-imposed limit as described below); (c) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Stock Option, which shares so withheld have an

aggregate fair market value that equals (but does not exceed) the required tax withholding payment (up to any Company-imposed limit as described below); or (d) any combination of (a), (b), or (c). To the extent any withholding obligation is satisfied by the withholding of shares of Common Stock, such withholding shall be limited to the minimum statutory required withholding rate for the Participant, or such other rate that will not cause an adverse accounting consequence or cost, subject to the discretion of the Committee and any applicable Company policy that may be in place from time to time; provided, however, that any shares of Common Stock that are withheld in excess of the minimum statutory rate shall not be recycled back into the shares authorized for issuance as Awards under the Plan in accordance with Section 5.2. The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant. The Committee may in the Award Agreement impose any additional tax requirements or provisions that the Committee deems necessary or desirable.

15.8 **Assignability.** Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 15.8 that is not required for compliance with Section 422 of the Code.

Except as otherwise provided herein, Awards may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Committee may, in its discretion, authorize all or a portion of a Nonqualified Stock Option or SAR to be granted to a Participant on terms which permit transfer by such Participant to (a) the spouse (or former spouse), children or grandchildren of the Participant ("***Immediate Family Members***"), (b) a trust or trusts for the exclusive benefit of such Immediate Family Members, (c) a partnership in which the only partners are (1) such Immediate Family Members and/or (2) entities which are controlled by the Participant and/or Immediate Family Members, (d) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (e) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the Award Agreement pursuant to which such Nonqualified Stock Option or SAR is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Nonqualified Stock Options or SARs shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Nonqualified Stock Option and SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Articles 8, 9, 11, 13 and 15 hereof the term "***Participant***" shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Nonqualified Stock Options and SARs shall be exercisable or convertible by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Nonqualified Stock Option or SAR of any expiration, termination, lapse or acceleration of such Stock Option or SAR. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Nonqualified Stock Option or SAR that has been transferred by a Participant under this Section 15.8.

15.9 **Use of Proceeds.** Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

15.10 **Legend.** Each certificate representing shares of Restricted Stock issued to a Participant shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

"Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate."

On the reverse:

> "The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain Hilltop Holdings Inc. 2020 Equity Incentive Plan, a copy of which is on file at the principal office of the Company in Dallas, Texas. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledgee hereof agrees to be bound by all of the provisions of said Plan."

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

> "Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company."

15.11 **Governing Law.** The Plan shall be governed by, construed, and enforced in accordance with the laws of the State of Maryland (excluding any conflict of laws, rule or principle of Maryland law that might refer the governance, construction, or interpretation of this Plan to the laws of another state). A Participant's sole remedy for any Claim shall be against the Company, and no Participant shall have any claim or right of any nature against any Subsidiary of the Company or any stockholder or existing or former director, officer or Employee of the Company or any Subsidiary of the Company. The individuals and entities described above in this Section 15.11 (other than the Company) shall be third-party beneficiaries of this Plan for purposes of enforcing the terms of this Section 15.11.

A copy of this Plan shall be kept on file in the principal office of the Company in Dallas, Texas.

***************

IN WITNESS WHEREOF, the Company has caused this instrument to be executed as of ___________, 2020, by its General Counsel and Secretary pursuant to prior action taken by the Board.

**HILLTOP HOLDINGS INC.**

By: ____________________________________________
Name: ____________________________________________
Title: ____________________________________________

# HILLTOP HOLDINGS INC.
# EMPLOYEE STOCK PURCHASE PLAN

The Hilltop Holdings Inc. Employee Stock Purchase Plan (the "***Plan***") was adopted by the Board of Directors of Hilltop Holdings Inc., a Maryland corporation (the "***Company***"), effective as of April 30, 2020 (the "***Effective Date***"), subject to approval by the Company's stockholders.

## 1. General.

(a) The purpose of the Plan is to provide a means by which Eligible Employees of the Company and certain designated Related Corporations may be given an opportunity to purchase shares of Common Stock. The Plan is intended to permit the Company to grant a series of Purchase Rights to Eligible Employees under an Employee Stock Purchase Plan.

(b) The Company, by means of the Plan, seeks to retain the services of such Employees, to secure and retain the services of new Employees, and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations.

## 2. Administration.

(a) The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine how and when Purchase Rights to purchase shares of Common Stock shall be granted and the provisions of each Offering of such Purchase Rights (which need not be identical).

(ii) To designate from time to time which Related Corporations of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and Purchase Rights, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To settle all controversies regarding the Plan and Purchase Rights granted under it.

(v) To suspend or terminate the Plan at any time as provided in Section 12.

(vi) To amend the Plan at any time as provided in Section 12.

(vii) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Related Corporations and to carry out the intent that the Plan be treated as an Employee Stock Purchase Plan.

(c) The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously

delegated. Whether or not the Board has delegated administration of the Plan to a Committee, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(d) All determinations, interpretations and constructions made by the Board or, if delegated to a Committee, such Committee, in good faith in its discretion shall be final, binding, and conclusive on all persons.

**3. Shares of Common Stock Subject to the Plan.**

(a) Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the shares of Common Stock that may be sold pursuant to Purchase Rights shall not exceed in the aggregate Six Hundred Thousand (600,000) shares of Common Stock.

(b) If any Purchase Right granted under the Plan shall for any reason terminate without having been exercised, the shares of Common Stock not purchased under such Purchase Right shall again become available for issuance under the Plan.

(c) The stock purchasable under the Plan may consist, in whole or in part, of authorized and unissued Common Stock, treasury stock or Common Stock purchased on the open market.

**4. Grant of Purchase Rights; Offering.**

(a) The Board may from time to time grant or provide for the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees in an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board. Each Offering shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate, which shall comply with the requirement of Section 423(b)(5) of the Code that all Employees granted Purchase Rights shall have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in Sections 5 through 8, inclusive.

(b) If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (i) each agreement or notice delivered by that Participant shall be deemed to apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier-granted Purchase Right, if different Purchase Rights have identical exercise prices) shall be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) shall be exercised.

**5. Eligibility.**

(a) Purchase Rights may be granted only to Employees of the Company or, as the Board may designate as provided in Section 2(b), to Employees of a Related Corporation. Except as provided in Section 5(b), an Employee shall not be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee has been in the employ of the Company or the Related Corporation, as the case may be, for such continuous period preceding such Offering Date as the Board may require, but in no event shall the required period of continuous employment be greater than two (2) years. In addition, the Board may provide that no Employee shall be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee's customary employment with the Company or the Related Corporation is for more than twenty (20) hours per week and/or for more than five (5) months per calendar year, or such other criteria as the Board may determine consistent with Section 423 of the Code.

(b) The Board may provide that each person who, during the course of an Offering, first becomes an Eligible Employee shall, on a date or dates specified in the Offering that coincides with the day on which such person becomes an Eligible Employee or that occurs thereafter, receive a Purchase Right under that Offering, which Purchase Right shall thereafter

be deemed to be a part of that Offering. Such Purchase Right shall have the same characteristics as any Purchase Rights originally granted under that Offering, as described herein, except that:

(i) the date on which such Purchase Right is granted shall be the "Offering Date" of such Purchase Right for all purposes, including determination of the exercise price of such Purchase Right;

(ii) the period of the Offering with respect to such Purchase Right shall begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she shall not receive any Purchase Right under that Offering.

(c) No Employee shall be eligible for the grant of any Purchase Rights under the Plan if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this Section 5(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding Purchase Rights and options shall be treated as stock owned by such Employee.

(d) As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights under the Plan only if such Purchase Rights, together with any other rights granted under all Employee Stock Purchase Plans of the Company and any Related Corporations, do not permit such Eligible Employee's rights to purchase stock of the Company or any Related Corporation to accrue at a rate which exceeds twenty five thousand dollars ($25,000) of Fair Market Value of such stock (determined at the time such rights are granted, and which, with respect to the Plan, shall be determined as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Related Corporation, if they are otherwise Eligible Employees, shall be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

**6. Purchase Rights; Purchase Price.**

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, shall be granted a Purchase Right to purchase up to that number of shares of Common Stock purchasable with a percentage of such Employee's Compensation (as defined by the Board in each Offering) not exceeding fifteen percent (15%) during the period that begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering.

(b) The Board shall establish one (1) or more Purchase Dates during an Offering as of which Purchase Rights granted pursuant to that Offering shall be exercised and purchases of shares of Common Stock shall be carried out in accordance with such Offering.

(c) In connection with each Offering made under the Plan, the Board may specify a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering. In connection with each Offering made under the Plan, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any or each Purchase Date under the Offering. If the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata allocation of the shares of Common Stock available shall be made in as nearly a uniform manner as shall be practicable and equitable.

(d) The purchase price of shares of Common Stock acquired pursuant to Purchase Rights shall be not less than the lesser of: (i) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the

Offering Date; or (ii) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the applicable Purchase Date.

**7. Participation; Withdrawal; Termination.**

(a) A Participant may elect to authorize payroll deductions pursuant to an Offering under the Plan by completing and delivering to the Company, within the time specified in the Offering, an enrollment form (in such form as the Company may provide). Each such enrollment form shall authorize an amount of Contributions expressed as a percentage of the submitting Participant's Compensation (as defined in each Offering) during the Offering (not to exceed the maximum percentage specified by the Board). Each Participant's Contributions shall be credited to a bookkeeping account for such Participant under the Plan and shall be deposited with the general funds of the Company except where applicable law requires that Contributions be deposited with an independent third party. To the extent provided in the Offering, a Participant may begin such Contributions after the beginning of the Offering. To the extent provided in the Offering, a Participant may thereafter reduce (including to zero) or increase his or her Contributions. To the extent specifically provided in the Offering, in addition to making Contributions by payroll deductions, a Participant may make Contributions through the payment by cash or check prior to each Purchase Date of the Offering.

(b) During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company may provide. Such withdrawal may be elected at any time prior to the end of the Offering, except as provided otherwise in the Offering. Upon such withdrawal from the Offering by a Participant, the Company shall distribute to such Participant all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock for the Participant) under the Offering, and such Participant's Purchase Right in that Offering shall thereupon terminate. A Participant's withdrawal from an Offering shall have no effect upon such Participant's eligibility to participate in any other Offerings under the Plan, but such Participant shall be required to deliver a new enrollment form in order to participate in subsequent Offerings.

(c) Purchase Rights granted pursuant to any Offering under the Plan shall terminate immediately upon a Participant ceasing to be an Employee or other lack of eligibility. The Company shall distribute to such terminated or otherwise ineligible Employee all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock for the terminated or otherwise ineligible Employee) under the Offering. An Employee will be deemed to have terminated employment for purposes of the Plan when the employee begins a leave of absence, unless the Employee is on an approved leave of absence or is entitled to disability benefits, in which case participation shall be suspended until a return to active employment.

(d) Purchase Rights shall not be transferable by a Participant except by will, the laws of descent and distribution, or by a beneficiary designation as provided in Section 10. During a Participant's lifetime, Purchase Rights shall be exercisable only by such Participant.

(e) Unless otherwise specified in an Offering, the Company shall have no obligation to pay interest on Contributions.

**8. Exercise of Purchase Rights.**

(a) On each Purchase Date during an Offering, each Participant's accumulated Contributions shall be applied to the purchase of shares of Common Stock up to the maximum number of shares of Common Stock permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares shall be issued upon the exercise of Purchase Rights unless specifically provided for in the Offering.

(b) If any amount of accumulated Contributions remains in a Participant's account after the purchase of shares of Common Stock and such remaining amount is less than the amount required to purchase one share of Common Stock on the final Purchase Date of an Offering, then such remaining amount shall be held in such Participant's account for the purchase of shares of Common Stock under the next Offering under the Plan, unless such Participant withdraws from such next Offering, as provided in Section 7(b), or is not eligible to participate in such Offering, as provided in Section 5, in which case such amount shall be distributed to such Participant after the final Purchase Date, without interest (unless required by applicable law). If the amount of Contributions remaining in a Participant's account after the purchase of shares of Common Stock is at

least equal to the amount required to purchase one (1) whole share of Common Stock on the final Purchase Date of the Offering, then such remaining amount shall be distributed in full to such Participant at the end of the Offering without interest.

(c) No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all applicable federal, state and foreign laws, and any other securities laws and other laws applicable to the Plan. If on a Purchase Date during any Offering hereunder the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If, on the Purchase Date under any Offering hereunder, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised and all Contributions accumulated during the Offering (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock) shall be distributed to the Participants without interest (unless required by applicable law).

(d) Shares of Common Stock obtained by exercise of Purchase Rights must be held by the Participant for at least ninety (90) days prior to Participant’s sale of such Common Stock. The terms and conditions of Purchase Rights granted hereunder to, and the purchase of shares of Common Stock by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such Purchase Rights shall contain, and the shares of Common Stock issued upon exercise thereof shall be subject to, such additional conditions and restrictions, if any, as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

**9. Covenants of the Company.**

The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon exercise of the Purchase Rights. If, after commercially reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Purchase Rights unless and until such authority is obtained.

**10. Designation of Beneficiary.**

(a) A Participant may file a written designation of a beneficiary who is to receive any shares of Common Stock and/or cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to the end of an Offering but prior to delivery to the Participant of such shares of Common Stock or cash. In addition, a Participant may file a written designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death during an Offering. Any such designation shall be on a form provided by or otherwise acceptable to the Company.

(b) The Participant may change such designation of beneficiary at any time by written notice to the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares of Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares of Common Stock and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

**11. Adjustments upon Changes in Common Stock; Corporate Transactions.**

(a) In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a), (iii) the class(es) and

number of securities subject to, and the purchase price applicable to, outstanding Offerings and Purchase Rights, and (iv) the class(es) and number of securities imposed by purchase limits under each ongoing Offering. The Board shall make such adjustments in compliance with applicable law, and its determination shall be final, binding, and conclusive.

(b) In the event of a Corporate Transaction, then: (i) any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue Purchase Rights outstanding under the Plan or may substitute similar rights (including a right to acquire the same consideration paid to the stockholders in the Corporate Transaction) for those outstanding under the Plan, or (ii) if any surviving or acquiring corporation (or its parent company) does not assume or continue such Purchase Rights or does not substitute similar rights for Purchase Rights outstanding under the Plan, then the Participants' accumulated Contributions shall be used to purchase shares of Common Stock within ten (10) business days prior to the Corporate Transaction under any ongoing Offerings, and the Participants' Purchase Rights under the ongoing Offerings shall terminate immediately after such purchase.

**12. Amendment, Termination or Suspension of the Plan.**

(a) The Board may amend the Plan at any time in any respect the Board deems necessary or advisable. However, except as provided in Section 11(a) relating to Capitalization Adjustments, stockholder approval shall be required for any amendment of the Plan for which stockholder approval is required by applicable law or listing requirements, including any amendment that either (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to become Participants and receive Purchase Rights under the Plan, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be purchased under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of awards available for issuance under the Plan, but in each of (i) through (v) above only to the extent stockholder approval is required by applicable law or listing requirements.

(b) The Board may suspend or terminate the Plan at any time. No Purchase Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(c) Any benefits, privileges, entitlements and obligations under any outstanding Purchase Rights granted before an amendment, suspension or termination of the Plan shall not be impaired by any such amendment, suspension or termination except (i) with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws, listing requirements or governmental regulations (including, without limitation, the provisions of Section 423 of the Code), or (iii) as necessary to obtain or maintain favorable tax, listing or regulatory treatment.

**13. Effective Date of Plan.**

The Plan shall become effective on January 1, 2021, but no Purchase Rights shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

**14. Miscellaneous Provisions.**

(a) Proceeds from the sale of shares of Common Stock pursuant to Purchase Rights shall constitute general funds of the Company.

(b) A Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, shares of Common Stock subject to Purchase Rights unless and until the Participant's shares of Common Stock acquired upon exercise of Purchase Rights are recorded in the books of the Company (or its transfer agent).

(c) The Plan and Offering do not constitute an employment contract. Nothing in the Plan or in the Offering shall in any way (i) alter the at will nature of a Participant's employment, or (ii) be deemed to create in any way whatsoever any obligation on the part of any Participant to continue in the employ of the Company or a Related Corporation, or on the part of the Company or a Related Corporation to continue the employment of a Participant.

(d) The provisions of the Plan shall be governed by the laws of the State of Maryland without resort to that state's conflicts of laws rules.

**15. Definitions.**

As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

(a) "Board" means the Board of Directors of the Company.

(b) "Capitalization Adjustment" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Purchase Right after the Effective Date without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or other similar transaction). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

(c) "Code" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and other guidance thereunder.

(d) "Committee" means a committee of one (1) or more members of the Board to whom authority has been delegated by the Board in accordance with Section 2(c).

(e) "Common Stock" means the common stock of the Company.

(f) "Company" means Hilltop Holdings Inc, a Maryland corporation.

(g) "Contributions" means the payroll deductions, and other additional payments specifically provided for in the Offering, that a Participant contributes to fund the exercise of a Purchase Right. A Participant may make additional payments into his or her account, if specifically provided for in the Offering, and then only if the Participant has not already had the maximum permitted amount withheld during the Offering through payroll deductions.

(h) "Corporate Transaction" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) the consummation of a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) the consummation of a sale or other disposition of at least fifty percent (50%) of the outstanding securities of the Company;

(iii) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(i) "Director" means a member of the Board.

(j) "Eligible Employee" means an Employee who meets the requirements set forth in the Offering for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.

(k) “Employee” means any person, including Officers and Directors, who is employed for purposes of Section 423(b)(4) of the Code by the Company or a Related Corporation. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an “Employee” for purposes of the Plan.

(l) “Employee Stock Purchase Plan” means a plan that grants Purchase Rights intended to be options issued under an “employee stock purchase plan,” as that term is defined in Section 423(b) of the Code.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(n) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in such source as the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith.

(o) “Offering” means the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees.

(p) “Offering Date” means a date selected by the Board for an Offering to commence.

(q) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(r) “Participant” means an Eligible Employee who holds an outstanding Purchase Right granted pursuant to the Plan.

(s) “Plan” means this Hilltop Holdings Inc. Employee Stock Purchase Plan.

(t) “Purchase Date” means one or more dates during an Offering established by the Board on which Purchase Rights shall be exercised and as of which purchases of shares of Common Stock shall be carried out in accordance with such Offering.

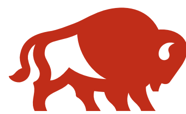
(u) “Purchase Period” means a period of time specified within an Offering beginning on the Offering Date or on the next day following a Purchase Date within an Offering and ending on a Purchase Date. An Offering may consist of one or more Purchase Periods.

(v) “Purchase Right” means an option to purchase shares of Common Stock granted pursuant to the Plan.

(w) “Related Corporation” means any “parent corporation” or “subsidiary corporation” of the Company whether now or subsequently established, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(x) “Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(y) “Trading Day” means any day on which the exchange(s) or market(s) on which shares of Common Stock are listed is open for trading.



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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, 2019**

☐ **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**<br>(State or other jurisdiction of incorporation or organization) | **84-1477939**<br>(I.R.S. Employer Identification No.) |
|---|---|
| **6565 Hillcrest Avenue**<br>**Dallas, TX**<br>(Address of principal executive offices) | **75205**<br>(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 | Trading symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | HTH | 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2019, was approximately $1.54 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 27, 2020 was 90,798,946.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant's definitive Proxy Statement pertaining to the 2020 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.

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## 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 "PCC" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to "Securities Holdings" refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to "Hilltop Securities" refer to Hilltop Securities Inc. (a wholly owned subsidiary of Securities Holdings), references to "HTS Independent Network" refer to Hilltop Securities Independent Network Inc. (a wholly owned subsidiary of Securities Holdings), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PCC), references to "FNB" refer to First National Bank, references to "SWS" refer to the former SWS Group, Inc., references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, references to "NLC" refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole, references to "NLIC" refer to National Lloyds Insurance Company (a wholly owned subsidiary of NLC) and references to "ASIC" refer to American Summit Insurance Company (a wholly owned subsidiary of NLC).*

## FORWARD-LOOKING STATEMENTS

This Annual Report includes "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," "plan," "probable," "projects," "seeks," "should," "target," "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 revenue, our liquidity and sources of funding, market trends, operations and business, taxes, the pending sale of NLC and the regulatory approval thereof, information technology expenses, capital levels, mortgage servicing rights ("MSR") assets, stock repurchases, dividend payments, expectations concerning mortgage loan origination volume and interest rate compression, mortgage loans originated to be retained by the Bank, expected levels of refinancing as a percentage of total loan origination volume, projected losses on mortgage loans originated, loss estimates related to natural disasters, total expenses and cost savings expected from PrimeLending's cost reduction efforts, the effects of government regulation applicable to our operations, the appropriateness of, and changes in, our allowance for loan losses and provision for loan losses, including as a result of the "current expected credit losses" (CECL) model, anticipated investment yields, our expectations regarding accretion of discount on loans in future periods, the collectability of loans, cybersecurity incidents and the outcome of litigation 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:

- the credit risks of lending activities, including our ability to estimate loan losses and increases to the allowance for loan losses as a result of the implementation of CECL, as well as the effects of changes in the level of, and trends in, loan delinquencies and write-offs;
- changes in the interest rate environment;
- the failure of the NLC sale transaction to close on the expected timeline or at all, including the ability to obtain regulatory approvals and meet other closing conditions to the sale of NLC, as well as the effect of the announcement of the NLC transaction on agent or customer relationships and operating results;
- changes in general economic, market and business conditions in areas or markets where we compete, including changes in the price of crude oil;
- risks associated with our concentration in real estate related loans;
- effectiveness of our data security controls in the face of cyber attacks;
- severe catastrophic events in Texas and other areas of the southern United States;

- the effects of our indebtedness on our ability to manage our business successfully, including the restrictions imposed by the indenture governing our indebtedness;
- 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”);
- changes in key management;
- competition in our banking, broker-dealer, mortgage origination and insurance segments from other banks and financial institutions as well as investment banking and financial advisory firms, mortgage bankers, asset-based non-bank lenders, government agencies and insurance companies;
- legal and regulatory proceedings;
- failure of our insurance segment reinsurers to pay obligations under reinsurance contracts;
- risks associated with merger and acquisition integration; and
- our ability to use excess capital in an effective manner.

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. is a diversified, Texas-based financial holding company registered under the Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”). 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. We endeavor to build and maintain a strong financial services company through organic growth as well as acquisitions, which we may make using available capital, excess liquidity and, if necessary or appropriate, additional equity or debt financing sources. The following includes additional details regarding the financial products and services provided by each of our primary business units.

*PCC*. PCC is a financial holding company that provides, through its subsidiaries, traditional banking and wealth, investment and treasury management services primarily in Texas and residential mortgage loans throughout the United States.

*Securities Holdings*. Securities Holdings is a holding company 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, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

*NLC*. 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.

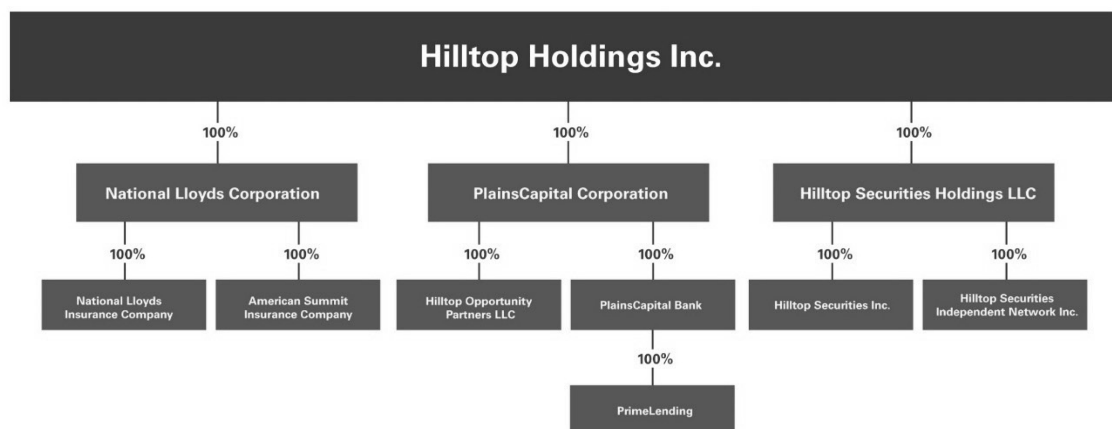
At December 31, 2019, on a consolidated basis, we had total assets of $15.2 billion, total deposits of $9.0 billion, total loans, including loans held for sale, of $9.4 billion and stockholders’ equity of $2.1 billion.

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

Our principal office is located at 6565 Hillcrest Avenue, Dallas, Texas 75205, 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 “Investor Relations - 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.

**Organizational Structure**

Our organizational structure is comprised of three primary business units: PCC (banking and mortgage origination); Securities Holdings (broker-dealer); and NLC (insurance). The following graphic provides additional details regarding our current organizational structure.




**Geographic Dispersion of our Businesses**

The Bank provides traditional banking and wealth, investment and treasury management services. The Bank has a presence in the large metropolitan markets in Texas and conducts substantially all of its banking operations in Texas.

Our broker-dealer services are provided through Hilltop Securities and HTS Independent Network, which conduct business nationwide, with 51% of the broker-dealer segment's net revenues during 2019 generated through locations in Texas, California and Oklahoma.

PrimeLending provides residential mortgage origination products and services from over 300 locations in 44 states. During 2019, an aggregate of 62.4% of PrimeLending's origination volume was concentrated in ten states, with 36.4% concentrated in Texas, California and Florida, collectively. Other than these ten states, none of the states in which PrimeLending operated during 2019 represented more than 3% of PrimeLending's origination volume.

Our insurance products are distributed through a broad network of independent agents. During 2019, total gross premiums written were concentrated in five states (Texas, Arizona, Tennessee, Oklahoma and Georgia), with Texas insureds representing 69.6% of the aggregate. None of the other states in which we operated during 2019 had gross premiums written of 3% or more.

**Business Segments**

Under accounting principles generally accepted in the United States ("GAAP"), our 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. These segments reflect the manner in which operations are managed and the criteria used by our chief operating decision maker, our President and Chief Executive Officer, to evaluate segment performance, develop strategy and allocate resources.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities, and management and administrative services to support the overall operations of the Company. Hilltop's merchant banking investment activities include the identification of attractive opportunities for capital deployment in companies engaged in non-financial activities through its merchant bank subsidiary, Hilltop Opportunity Partners LLC.

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 31 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, which, at December 31, 2019, had $11.1 billion in assets and total deposits of $8.8 billion. The primary sources of our deposits are residents and businesses located in Texas. At December 31, 2019, the Bank employed approximately 1,150 people.

On August 1, 2018, we acquired privately-held, Houston-based The Bank of River Oaks ("BORO") in an all-cash transaction (the "BORO Acquisition"). In connection with the acquisition, we merged BORO into the Bank, and all customer accounts were converted to the PlainsCapital Bank platform.

The table below sets forth a distribution of the banking segment's 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, 2019 (dollars in thousands). PCI loans showed evidence of credit deterioration at the time of acquisition that made it probable that all contractually required principal and interest payments would not be collected. The commercial and industrial loans category includes $2.2 billion in warehouse lines of credit extended to PrimeLending, of which $1.8 billion was drawn at December 31, 2019. Amounts advanced against the warehouse line of credit are included in the table below, but are eliminated from net loans on our consolidated balance sheets.

| | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment | % of Total Loans Held for Investment |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Non-owner occupied | $ 1,696,506 | $ 12,846 | $ 1,709,352 | 19.8 % |
| Owner occupied | 1,278,435 | 12,736 | 1,291,171 | 14.9 % |
| Commercial and industrial | 3,860,909 | 5,260 | 3,866,169 | 44.7 % |
| Construction and land development | 940,487 | 77 | 940,564 | 10.9 % |
| 1-4 family residential | 741,500 | 51,412 | 792,912 | 9.2 % |
| Mortgage warehouse | — | — | — | - % |
| Consumer | 47,046 | — | 47,046 | 0.5 % |
| Total loans held for investment | $ 8,564,883 | $ 82,331 | $ 8,647,214 | 100.0 % |

The loans acquired in the FDIC-assisted transaction in 2013 in which we assumed substantially all of the liabilities and acquired substantially all of the assets of FNB (the "FNB Transaction") were subject to loss-share agreements with the FDIC, which were terminated on October 17, 2018. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment."

Our lending policies seek to establish 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.

*Business Banking*. Our business banking customers primarily consist of agribusiness, energy, healthcare, 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 online 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 our business banking customers term loans, lines of credit, equipment loans and leases, letters of credit, agricultural loans, commercial real estate loans and other loan products.

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 real estate 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 offers term financing on commercial real estate that includes retail, office, multi-family, industrial and warehouse properties. Commercial mortgage lending can involve high principal loan amounts, and the repayment of these loans is dependent, in large part, on a borrower's ongoing 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) maintain 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 also 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, the Bank 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. The Bank generally requires that the subject property of a construction loan for commercial real estate be pre-leased because cash flows from the completed project provide the most reliable source of repayment for the loan. Loans to finance these projects 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 one-to-four family residential mortgage loans typically collateralized by owner occupied properties. These residential mortgage loans are generally secured by a first lien on the underlying property and have maturities up to 30 years. These loans are shown in the loans held for investment table above as "1-4 family residential."

The Bank's mortgage warehouse lending activities consist of asset-based lending in which the Bank provides short-term, revolving lines of credit to independent mortgage bankers ("IMBs"). IMBs are generally small businesses, with mortgage loan origination and servicing as their sole or primary business. IMBs use the funds from their lines of credit to provide home loans to prospective and existing homeowners. When the IMBs subsequently sell the loans to institutional investors

in the secondary market—typically within 30 days of closing the transaction—they use the money received from the sale of the mortgage to replenish their lines of credit.

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

The Bank loans to individuals for personal, family and household purposes, including lines of credit, home improvement loans, home equity loans, and loans for purchasing and carrying securities. At December 31, 2019, the Bank had $47.0 million of loans for these purposes, which are shown in the loans held for investment table above as "Consumer."

*Wealth and Investment Management*. The Bank's 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. The Bank offers trust and asset management services in order to assist these customers in managing, and ultimately transferring, their wealth.

The Bank's 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*

The "Hilltop Broker-Dealers" include the operations of Hilltop Securities, a clearing broker-dealer subsidiary registered with the SEC and the Financial Industry Regulatory Authority ("FINRA") and a member of the NYSE, HTS Independent Network, an introducing broker-dealer subsidiary that is also registered with the SEC and FINRA, and Hilltop Securities Asset Management, LLC. Hilltop Securities and HTS Independent Network are both registered with the Commodity Futures Trading Commission ("CFTC") as non-guaranteed introducing brokers and as members of the National Futures Association ("NFA"). Additionally, Hilltop Securities Asset Management, LLC, Hilltop Securities and HTS Independent Network are investment advisers registered under the Investment Advisers Act of 1940. At December 31, 2019, Hilltop Securities had consolidated assets of $3.5 billion and net capital of $318.7 million, which was $310.9 million in excess of its minimum net capital requirement of $7.8 million. At December 31, 2019, the Hilltop Broker-Dealers employed approximately 790 people and maintained 52 locations in 20 states.

Our broker-dealer segment has four primary lines of business: (i) public finance services, (ii) structured finance, (iii) fixed income services, and (iv) wealth management, which includes retail, clearing services and securities lending. These lines of business and the respective services provided reflect the current manner in which the broker-dealer segment's operations are managed.

*Public Finance Services*. The public finance services line of business assists public entities nationwide, including cities, counties, school districts, utility districts, tax increment zones, special districts, state agencies and other governmental entities, in originating, syndicating and distributing securities of municipalities and political subdivisions. In addition, the public finance services line of business 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, through its arbitrage rebate, treasury management and government investment pools management departments, the public finance services line of business provides state and local governments with advice and guidance with respect to arbitrage rebate compliance, portfolio management and local government investment pool administration.

*Structured Finance.* The structured finance line of business provides structured asset and liability services and commodity hedging advisory services to facilitate balance sheet management primarily to clients of the public finance services business. In addition, the structured finance line of business 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 ("TBA") mortgage-backed securities.

*Fixed Income Services*. The fixed income services line of business 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 to support sales and other client activities. The fixed income services line of business also provides limited equity trading and option order delivery on an agency basis on behalf of its retail and institutional clients, including corporations, insurance companies, banks, mutual funds, money managers and other clients. In addition, the fixed income services line of business provides asset and liability management advisory services to community banks.

*Wealth Management*. The wealth management line of business is comprised of our retail, clearing services and securities lending groups.

*Retail*. The retail group 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 our employee-registered representatives or independent contractor arrangements. We extend margin credit on a secured basis to our retail customers in order to facilitate securities transactions. Through Southwest Insurance Agency, Inc. and Southwest Financial Insurance Agency, Inc., we hold insurance licenses to facilitate the sale of insurance and annuity products by Hilltop Securities and HTS Independent Network advisors to retail clients. We retain no underwriting risk related to these insurance and annuity products. In addition, through our investment management team, the retail group provides a number of advisory programs that offer advisors a wide array of products and services for their advisory businesses. 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. The HTS Independent Network advisors may also contract directly with third party carriers to sell specified insurance products to their customers. The commissions received from these third party carriers are paid directly to the advisor. Hilltop Securities is also a fully disclosed client of two of the largest futures commission merchants in the United States. At December 31, 2019, we employed 126 registered representatives in 17 retail brokerage offices and had contracts with 195 independent retail representatives for the administration of their securities business.

*Clearing Services*. The clearing services group offers fully disclosed clearing services to FINRA- and SEC-registered member firms for trade execution and clearance as well as 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, 2019, we provided services to 145 financial organizations, including correspondent firms, correspondent broker-dealers, registered investment advisers, discount and full-service brokerage firms, and institutional firms.

*Securities Lending.* The securities lending group performs 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, which is a residential mortgage banker licensed to originate and close loans in all 50 states and the District of Columbia. PrimeLending primarily originates its mortgage loans through a retail channel, with limited lending through its affiliated business arrangements ("ABAs"). During 2019, funded loan volume through ABAs was approximately 8% of the mortgage origination segment's total loan volume. At December 31, 2019, our mortgage origination segment operated from over 300 locations in 44 states, originating 19.3%, 10.0% and 7.2%, respectively, of its mortgage loans (by dollar volume) from its Texas, California and Florida locations. 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 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 loan origination volume from 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 warehouse lines 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. During 2019, 2018, and 2017, the mortgage origination segment originated approximately $149 million, $97 million, and $10 million, respectively, in loans on behalf of the banking segment, representing up to 1% of PrimeLending's total loan origination volume during each year. We expect loan volume originated on behalf of the banking segment to increase during 2020 based on approved authority for up to 5% of the mortgage origination segment's total loan volume. PrimeLending's determination of whether to retain or release servicing on mortgage loans it sells is impacted by, among other things, changes in mortgage interest rates, and refinancing and market activity. PrimeLending may, from time to time, manage its related mortgage servicing rights ("MSR") assets 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 lines 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.

PrimeLending also acts as a primary servicer for loans originated prior to sale, loans sold to the banking segment and loans sold with servicing retained.

PrimeLending had a staff of approximately 2,500 people, including approximately 1,280 mortgage loan officers, as of December 31, 2019 that produced $15.6 billion in closed mortgage loan volume during 2019, 75% of which 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"), Veterans Affairs ("VA"), and United States Department of Agriculture ("USDA") 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 conventional and government loans that (i) are ineligible for sale to the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") or Government National Mortgage Association ("GNMA"), or (ii) do not comply with approved 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 southern, southeastern and southwestern United States through its subsidiaries, NLIC and ASIC. 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 primarily located in Texas, Arizona, Tennessee, Oklahoma and Georgia.

*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 May 2019. An "A" rating is the third highest of 16 rating categories used by A.M. Best. 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 focused on personal lines, specializing in low value dwellings and manufactured housing. Personal lines offered include homeowners, dwelling fire, manufactured home and flood policies.

NLC specializes 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.

*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.

Additionally, NLC further reduces its exposure to liability through an underlying excess of loss contract that provides aggregate coverage in excess of NLC's per event retention and aggregate retention for sub-catastrophic events.

**Competition**

We face significant competition in 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 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 deposits are convenient office locations, interest rates and fee structures of products offered. Direct competition for 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 is based on factors such 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 recruiting and retaining securities traders, investment bankers, and other financial advisors 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 and certain free services. 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 investment banking, advisory and other related financial brokerage services.

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, closing process and duration, 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.

Overall, competition among providers of financial products and services continues to increase as technological advances have lowered the barriers to entry for financial technology companies, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including online checking, savings and brokerage accounts, online lending, online insurance underwriters, crowdfunding, digital wallets, and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

**Employees**

At December 31, 2019, we employed approximately 4,950 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.

**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.

The Dodd-Frank Act, which significantly altered the regulation of financial institutions and the financial services industry, established the Consumer Financial Protection Bureau ("CFPB") and requires the CFPB and other federal agencies to implement many provisions of the Dodd-Frank Act. Several aspects of the Dodd-Frank Act have affected our business, including, without limitation, capital requirements, mortgage regulation, restrictions on proprietary trading in securities, restrictions on investments in hedge funds and private equity funds (the "Volcker Rule"), executive compensation restrictions, potential federal oversight of the insurance industry and disclosure and reporting requirements.

*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. Changes in leadership at various federal banking agencies, including the Federal

Reserve, can also change the policy direction of these agencies. Certain of these recent proposals and changes are described below.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), which included amendments to the Dodd-Frank Act and other statutes that provide the federal banking agencies with the ability to tailor various provisions of the banking laws and eased the regulatory burden imposed by the Dodd-Frank Act with respect to company-run stress testing, resolutions plans, the Volcker Rule, high volatility commercial real estate exposures, and real estate appraisals.

In July 2017, the Financial Conduct Authority ("FCA") announced that it intends to cease compelling banks to submit rates for the calculation of the London Interbank Offered Rate ("LIBOR") after 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. Additionally, the accounting standards setter, Financial Accounting Standards Board ("FASB") recently proposed guidance that would help ease the potential effects of reference rate reform on financial reporting. The proposed guidance would offer optional expedients and exceptions for applying GAAP to contracts, hedging relationships, or other transactions affected by reference rate reform. Additionally, the FASB issued specific accounting guidance which permits the use of the OIS rate based on the SOFR to be designated as a benchmark interest rate for hedge accounting purposes. ARRC has proposed a paced market transition plan to SOFR from LIBOR, and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR.

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 PCC and its other subsidiaries. On November 30, 2012, concurrent with the consummation of the acquisition of PlainsCapital Corporation (the "PlainsCapital Merger"), Hilltop became a financial holding company registered under the Bank Holding Company Act, as amended by the Gramm-Leach-Bliley Act ("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 proposed regulations 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 and subject to certain limitations, 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 PCC 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 or reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $2.01 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 and BASEL III*. Hilltop and PlainsCapital, which includes the Bank and PrimeLending, are subject to capital adequacy requirements under the comprehensive capital framework for U.S. banking organizations known as "Basel III". Basel III, which reformed the existing frameworks under which U.S. banking organizations historically operated, became effective January 1, 2015 and was fully phased in as of January 1, 2019. Basel III was developed by the Basel Committee on Banking Supervision and adopted by the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency (the "OCC").

The federal banking agencies' risk-based capital 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.

Final rules published by the Federal Reserve, the FDIC, and the OCC implemented the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Among other things, Basel III increased minimum capital requirements, introduced a new minimum leverage ratio and implemented a capital conservation buffer. The regulatory agencies carefully considered the potential impacts on all banking organizations, including community and regional banking organizations such as Hilltop and PlainsCapital, 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. Under the guidelines in effect beginning January 1, 2015, a risk weight factor of 0% to 1250% 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.

Under Basel III, total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital consists of common equity Tier 1 capital and additional Tier 1 capital. Below is a list of certain significant components that comprise the tiers of capital for Hilltop and PlainsCapital under Basel III.

Common equity Tier 1 capital:

- includes common stockholders' equity (such as qualifying 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) and treasury stock);
- includes certain minority interests in the equity capital accounts of consolidated subsidiaries; and
- excludes goodwill and various intangible assets.

Additional Tier 1 capital:

- includes certain qualifying minority interests not included in common equity Tier 1 capital;
- includes certain preferred stock and related surplus;
- includes certain subordinated debt; and
- excludes 50% of the insurance underwriting deduction.

Tier 2 capital:

- includes allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets;
- includes minority interests not included in Tier 1 capital; and
- excludes 50% of the insurance underwriting deduction.

The following table summarizes the Basel III requirements fully phased-in as of the period beginning January 1, 2019.

| Item | Requirement |
|---|---|
| Minimum common equity Tier 1 capital ratio | 4.5 % |
| Common equity Tier 1 capital conservation buffer | 2.5 % |
| Minimum common equity Tier 1 capital ratio plus capital conservation buffer | 7.0 % |
| Minimum Tier 1 capital ratio | 6.0 % |
| Minimum Tier 1 capital ratio plus capital conservation buffer | 8.5 % |
| Minimum total capital ratio | 8.0 % |
| Minimum total capital ratio plus capital conservation buffer | 10.5 % |

In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, Basel III also implemented a capital conservation buffer, which requires a banking organization to hold a buffer above its minimum risk-based capital requirements. This buffer helps 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.

The 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% at the beginning of the quarter. A banking organization with a buffer greater than 2.5% 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% would be subject to increasingly stringent limitations as the buffer approaches zero. 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 rules were fully phased-in in 2019, the minimum capital requirements plus the capital conservation buffer should have exceeded the prompt corrective action well-capitalized thresholds.

Hilltop and PlainsCapital began transitioning to the Basel III final rules on January 1, 2015. The capital conservation buffer and certain deductions from common equity Tier 1 capital were fully phased in as of January 1, 2019. During 2019, our eligible retained income was positive and our capital conservation buffer was greater than 2.5%, and therefore, we were not subject to limits on capital distributions or discretionary bonus payments. We anticipate similar results during 2020.

At December 31, 2019, Hilltop had a total capital to risk-weighted assets ratio of 17.55%, Tier 1 capital to risk-weighted assets ratio of 17.13% and a common equity Tier 1 capital to risk-weighted assets ratio of 16.70%. Hilltop's actual capital amounts and ratios in accordance with Basel III exceeded the regulatory capital requirements including conservation buffer in effect at the end of the period.

At December 31, 2019, PlainsCapital had a total capital to risk-weighted assets ratio of 14.13%, Tier 1 capital to risk-weighted assets ratio of 13.45% and a common equity Tier 1 capital to risk-weighted assets ratio of 13.45%. Accordingly, PlainsCapital's actual capital amounts and ratios in accordance with Basel III resulted in it being considered "well-capitalized" and exceeded the regulatory capital requirements including conservation buffer in effect at the end of the period.

*Phase-in of Current Expected Credit Losses Accounting Standard.* In June 2016, the Financial Accounting Standards Board issued an update to the accounting standards for credit losses that included the Current Expected Credit Losses ("CECL") methodology, which replaces the existing incurred loss methodology for certain financial assets. CECL became effective January 1, 2020. In December 2018, the federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase-in, over a period of three years, the day-one regulatory capital effects resulting from the implementation of CECL. The final rule also revises the agencies' other rules to reflect the update to the accounting standards. We have elected to not exercise the option for phase-in.

*Volcker Rule.* Provisions of the Volcker Rule and the final rules implementing the Volcker Rule restrict certain activities provided by the Company, including proprietary trading and sponsoring or investing in "covered funds," which include many venture capital, private equity and hedge funds. 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: (i) underwriting; (ii) market making; (iii) risk mitigating hedging; (iv) trading in certain government securities; (v) employee compensation plans and (vi) transactions entered into on behalf of and for the account of clients as agent, broker, custodian, or in a trustee or fiduciary capacity. On July 22, 2019, the federal banking agencies, among other agencies, published a final rule implementing provisions of EGRRCPA that exclude community banks with $10.0 billion or less in total consolidated assets and total trading assets and liabilities of 5% or less of total consolidated assets from the restrictions of the Volcker Rule. At this time, the Bank does not qualify for this regulatory exclusion.

On November 14, 2019, the federal banking agencies, among other agencies, published a separate final rule to provide greater clarity and certainty about the activities prohibited by the Volcker Rule and to improve supervision and implementation of the Volcker Rule based on the agencies' experience implementing these provisions since 2013. Banking entities must comply with the final rule by January 1, 2021, however, banking entities may voluntarily comply with the final rule in whole or in part prior to the compliance date, subject to the agencies' completion of necessary technological changes.

While management continues to assess compliance with the Volcker Rule, we have reviewed our processes and procedures in regard to proprietary trading and covered funds activities and we believe we are currently complying with the provisions of the Volcker Rule. 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.

*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.

***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. 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 September 30, 2019 and December 31, 2019, the Bank's total assets were $10.9 billion and $11.1 billion, respectively. If the Bank's total assets are over $10.0 billion (as measured on four consecutive quarterly call reports of the Bank and any institutions it acquires), the Bank will become subject to the CFPB's supervisory and enforcement authority with respect to federal consumer financial laws beginning in the following quarter. The Bank expects that it will be subject to CFPB supervisory and enforcement authority starting in the second quarter of 2020.

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 PCC, 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 adviser."

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 conditions that must be met before insider loans can be made, limits on loans to an individual insider and 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 PCC's operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to PCC will continue to be PCC'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 PCC and Hilltop) or any stockholder or creditor thereof.

*Branching.* The establishment of a bank 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. 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 ("FDICIA") 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. PlainsCapital was classified as "well capitalized" at December 31, 2019.

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.

*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.

The FDIC is required to maintain a designated reserve ratio of the deposit insurance fund ("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% by September 30, 2020. On November 28, 2018, the FDIC announced that the DIF reserve ratio exceeded the statutorily required minimum reserve ratio of 1.35%, ahead of the September 30, 2020 deadline. FDIC regulations provide for two changes to deposit insurance assessments upon reaching the minimum ratio: (1) surcharges on insured depository institutions with total consolidated assets of $10.0 billion or more (large banks) will cease; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15% and 1.35%, to be applied when the reserve ratio is at or above 1.38%. 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 any assessment credits and the assessment rate that we will be charged for the assessment period. As a result of the new regulations, we expect to incur lower annual deposit insurance assessments, which could have a positive impact on our financial condition and results of operations. Accruals for DIF assessments were $0.5 million during 2019.

The Dodd-Frank Act permanently increased the standard maximum deposit insurance amount 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.

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, the Home Mortgage Disclosure Act of 1975, the Equal Credit Opportunity Act, the Fair Credit Reporting Act of 1978, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, the Dodd-Frank Act and 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 the Right to Financial Privacy Act, the Truth in Savings Act and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board and the CFPB to implement that act. 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 PlainsCapital by using a combination of risk-based guidelines and leverage ratios. The agencies consider PlainsCapital'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.

On January 1, 2019, PlainsCapital fully transitioned to the final rules that substantially amended 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 — Capital Adequacy Requirements and Basel III" earlier in this Item 1. At December 31, 2019, PlainsCapital's ratio of total risk-based capital to risk-weighted assets was14.13%, PlainsCapital's ratio of Tier 1 capital to risk-weighted assets was 13.45%, PlainsCapital's common equity Tier 1 capital to risk-weighted assets ratio was 13.45%, and PlainsCapital's ratio of Tier 1 capital to average total assets was 11.61%

On December 13, 2019, the Federal Reserve, the FDIC and the OCC published a final rule modifying the treatment of high volatility commercial real estate ("HVCRE") exposures as required by EGRRCPA. The final rule clarifies certain defined terms in the HVCRE exposure definition in a manner generally consistent with the call report instructions as well as the treatment of credit facilities that finance one- to four-family residential properties and the development of land. The final rule becomes effective on April 1, 2020.

*The FDIC Improvement Act*. 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 such bank. Pursuant to a provision in EGRRCPA, the FDIC published a final rule on February 4, 2019 excepting a capped amount of reciprocal deposits from being considered as brokered deposits for certain insured depository institutions. The FDIC also published a proposed rule seeking comments on the FDIC's overall brokered deposit regulations. At December 31, 2019, PlainsCapital was "well capitalized" and therefore not subject to any limitations with respect to its brokered deposits.

*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 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.

*Fixing America's Surface Transportation Act (FAST Act)*. The FAST Act, signed by President Obama on December 4, 2015, provides for funding highways and infrastructure in the United States. Part of the funding for this law comes from a reduction of the dividends paid by the Federal Reserve to its stockholders with total consolidated assets of more than $10 billion, effective January 1, 2016. On that date, the annual dividend on paid-in capital stock for stockholders with total consolidated assets of more than $10 billion shall be the lesser of: (i) the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of such dividend and (ii) 6 percent. The Federal Reserve Board published a final rule implementing these requirements on November 23, 2016. On November 13, 2017, the Federal Reserve published its annual adjustment to the consolidated asset threshold, increasing it to $10.283 billion through December 31, 2019. On December 12, 2019, the Federal Reserve published its annual adjustment to the consolidated asset threshold, increasing it to $10.715 billion in assets through December 31, 2020. As of December 31, 2019, the Bank's total assets were $11.1 billion.

*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, as amended (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, including obtaining beneficial ownership information on new legal entity customers and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

*Incentive Compensation Guidance.* 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 regulator may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization.

***Broker-Dealer***

The Hilltop Broker-Dealers are broker-dealers registered with the SEC, FINRA, all 50 U.S. states and the District of Columbia. Hilltop Securities is 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 federal securities laws and SEC rules, as well as 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, securities exchanges, or self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC, securities exchanges, self-regulatory organizations and states may conduct administrative and enforcement proceedings that can result in censure, fine, profit disgorgement, monetary penalties, suspension or expulsion of 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, 2019, 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 penalties and other regulatory sanctions, including 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 and other rules and regulations, including FINRA requirements, 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*. Hilltop Securities and HTS Independent Network 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. 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*. Hilltop Securities Asset Management, LLC, Hilltop Securities and HTS Independent Network 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 also restrict certain activities provided by the Hilltop Broker-Dealers, including proprietary trading and sponsoring or investing in "covered funds."

*Regulation BI and Form CRS Relationship Summary ("Form CRS").* On June 5, 2019, the SEC adopted Regulation Best Interest ("Regulation BI"), elevating the standard of care for broker-dealers from the current "suitability" requirement to a "best interest" standard when making a recommendation of any securities transaction to a retail customer. The "best interest" standard requires a broker-dealer to make recommendations without putting its financial interests ahead of the interests of a retail customer. The SEC also adopted Form CRS, which requires registered investment advisors ("RIAs") and broker-dealers to deliver to retail investors a succinct, plain English summary about the relationship and services

provided by the firm and the required standard of conduct associated with the relationship and services. In connection with adopting Regulation BI, the SEC added new record-making and recordkeeping rules. The compliance date for Regulation BI and the related rules is June 30, 2020. Regulation BI heightens the standard of care for broker-dealers when making investment recommendations and would impose disclosure and policy and procedural obligations that could impact the compensation our wealth management line of business and its representatives receive for selling certain types of products, particularly those that offer different compensation across different share classes (such as mutual funds and variable annuities). In addition, Regulation BI prohibits a broker-dealer and its associated persons from using the term “adviser” or “advisor” if the broker-dealer is not an RIA or the associated person is not a supervised person of an RIA.

*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 and 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, FNMA, FHLMC and GNMA 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, Fair Housing 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 final rules concerning mortgage origination and servicing address the following topics:

*Ability to Repay*. This final rule requires 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 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 requires a minimum duration of five years for an escrow account on certain higher-priced mortgage loans, 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.

*Servicing*. Two final rules, the Truth in Lending Act and the Real Estate Settlement Procedures Act, protect consumers from detrimental actions by mortgage servicers and to provide consumers with better tools and information when dealing with mortgage servicers. 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 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 requires 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.

Any additional regulatory requirements affecting our 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 ("TDI") 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 TDI.

*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 TDI 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 TDI 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, 2019, NLIC and ASIC capital and surplus levels exceeded the minimum RBC requirements that would trigger regulatory attention. In their 2019 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.

*Federal Office of Insurance.* The Dodd-Frank Act established within the Treasury Department a Federal Office of Insurance ("FIO") and vested FIO with the authority to monitor all aspects of the insurance sector, monitor the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products, and to represent the United States on prudential aspects of international insurance matters. Management is monitoring the activities of the FIO for any possible federal regulation of the insurance industry.

*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.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 extended a Federal Program designed to ensure the availability of commercial insurance coverage for terrorist acts in the United States 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, 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 this Federal Program was $0.5 million for 2019 and is estimated to be $0.1 million in 2020. Potential future changes 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 2019.

*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 during 2013. 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 TDI 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.

In June 2017, the TDI delivered an examination report of NLIC and ASIC through December 31, 2015. 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 TDI 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, 2019, the extraordinary dividend limit for NLIC and ASIC was $11.2 million and $1.9 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 from guaranty associations in 2019, 2018 or 2017. 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 subsidiary, NLIC, has entered into a production agreement with Wright National Flood Insurance Services, LLC ("Wright Flood Services"), a managing general underwriter and agency, that services flood insurance programs, including but not limited to Write Your Own flood insurance in the National Flood Insurance Program administered by the Federal Insurance and Mitigation Administration on behalf of the Federal Emergency Management Agency. NLIC produces and submits flood insurance business with Wright Flood Services.

*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. To address a 2016 deficit and losses resulting from Hurricane Harvey in 2017, the Texas FAIR Plan Association levied an assessment on participating companies totaling $55.0 million, of which NLC's insurance subsidiaries' share was $0.6 million. In addition, the Texas Windstorm Insurance Agency levied an assessment on participating companies totaling $175.0 million, of which NLC's insurance subsidiaries' share was $1.6 million. For comparative purposes, in 2005, following Hurricanes Katrina and Rita, NLC's insurance subsidiaries were levied collective assessments by the above plans totaling $10.4 million. 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 state 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 business, 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

***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, the acquisition by merger of SWS for stock and cash consideration (the "SWS Merger") and the BORO Acquisition (collectively, the "Bank Transactions") as of the applicable acquisition date and write down the recorded value of each such acquired portfolio to the applicable estimate. For most loans, this process was accomplished by computing the net present value of estimated cash flows to be received from borrowers of such loans. The allowance for loan losses that had been maintained by PCC, FNB, SWS or BORO, as applicable, prior to their respective transactions, 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 applicable acquisition date in the estimate of cash flows to be received from the loans acquired in the Bank Transactions.

The estimates of fair value as of the consummation of each of the Bank Transactions 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.

Further, the measure of our allowance for loan losses is also dependent on the adoption of new accounting standards. On June 16, 2016, the Financial Accounting Standards Board (the "FASB") issued the Current Expected Credit Loss ("CECL") standard, which became effective on January 1, 2020 and will require financial institutions to estimate and

develop a provision for credit losses at origination for the lifetime of the loan, as opposed to reserving for incurred or probable losses up to the balance sheet date. Under the CECL model, credit deterioration is reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. New model development has increased expenses associated with the collection and processing of data during 2018 and 2019. Upon adoption, and based on the current loan portfolio and the range of current forecasts of future economic conditions, we estimate that the allowance for credit losses will be between $80 million and $100 million, inclusive of the estimate of change in reserve for unfunded commitments of between $6 million and $9 million, currently included in other liabilities within the consolidated balance sheets, when adopted on January 1, 2020. This estimated increase, net of tax, will be reflected within our banking segment and as a decrease to opening retained earnings at January 1, 2020. While not material, the impact of the adoption of CECL also affects our regulatory capital, performance and other asset quality ratios. Moreover, the CECL model could create more volatility in the Bank's level of allowance for loan losses.

While Bank management will endeavor to estimate the allowance to cover anticipated losses in our loan portfolio, 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 our 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 Bank management. 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.

***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. Between December 2016 and December 2018, the Federal Open Market Committee of the Federal Reserve Board raised its target range for short-term interest rates by 200 basis points, and during 2019 it decreased interest rates by 75 basis points. 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. Asymmetrical changes in interest rates, such as if short-term rates increase or decrease at a faster rate than long-term rates, can affect the slope of the yield curve. A flatter or inverted yield curve, which occurred at various times throughout 2019, as measured by the difference between 10-year U.S. Treasury bond yields and 3-month yields, could adversely impact the net interest income of our banking segment as the spread between interest-earning assets and interest-bearing liabilities becomes compressed. As a result, a flattening or an inversion of the yield curve is likely to have a negative impact on our net interest income and our net interest margin over time.

An increase in the absolute 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 absolute level of interest rates, among other things, may lead to prepayments in our loan and mortgage-backed securities portfolios as well as 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 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, trading and underwriting activities. 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.

At December 31, 2019, approximately 81% of our insurance segment's invested assets were invested in fixed maturity assets such as bonds and mortgage-backed securities. 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 are typically 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 are typically prepaid more slowly, which may result in our insurance segment receiving 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. Such securities 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.

***The pending sale of NLC is subject to closing conditions, the failure of any of which could result in our inability to consummate the transaction and, consequently, adversely affect our business, financial condition, results of operations or our stock price.***

On January 30, 2020, we entered into a stock purchase agreement for the sale of NLC in an all-cash transaction. The closing of the sale is subject to the satisfaction of customary closing conditions, including the receipt of required regulatory approvals from the Texas Department of Insurance. No assurance can be given as to when or whether these approvals will be received. The failure to satisfy this or any other closing condition could result in our inability to consummate the transaction. Furthermore, the stock purchase agreement may be terminated prior to the closing by us or the buyer in certain circumstances, including if (i) the closing has not occurred by July 30, 2020 (unless extended to October 30, 2020, pursuant to the terms and under the circumstances set forth in the stock purchase agreement); (ii) a required governmental approval that is a condition to the closing is denied or a governmental authority has issued a permanent injunction or other judgment preventing the closing; or (iii) the other party materially breaches the stock purchase agreement (and fails to cure such breach within a specified period) such that the closing conditions would not be satisfied.

We expect to incur transaction costs in connection with the pending sale whether or not it is completed. In addition, under the stock purchase agreement, we are subject to certain restrictions on the conduct of NLC's business prior to the completion of the pending sale, which restrictions could adversely affect our ability to realize certain of our business strategies or take advantage of certain business opportunities. Finally, the current trading price of our common stock may reflect a market assumption that the sale of NLC will be completed. If we are unable to consummate the sale of NLC, we may be unable to find another party willing to purchase NLC on equally favorable terms or at all. The failure to complete the sale of NLC may adversely affect our business, financial condition, results of operations or our stock price.

***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;
- 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 loan charge-offs and provision for loan losses, the carrying value of our deferred tax assets, the investment portfolio of our insurance segment, our capital levels and liquidity, our securities underwriting business and our results of operations.

Several factors could pose risks to the financial services industry, including trade wars, restrictions and tariffs; slowing growth in emerging economies; geopolitical matters, including international political unrest, disturbances and conflicts; acts of war and terrorism; epidemics; changes in interest rates; regulatory uncertainty; continued infrastructure deterioration and low oil prices. 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.

Over the last several years, there have been several instances where there has been uncertainty regarding the ability of Congress and the President collectively to reach agreement on federal budgetary and spending matters. A period of failure to reach agreement on these matters, particularly if accompanied by an actual or threatened government shutdown, may have an adverse impact on the U.S. economy. Additionally, a prolonged government shutdown may inhibit our ability to evaluate borrower creditworthiness and originate and sell certain government-backed loans.

***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, 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. We also utilize relationships with third parties to aid in a significant portion of our information systems, communications, data management and transaction processing. These third parties with which we do business may also be sources of cybersecurity or other technological risks, including operational errors, system interruptions or breaches, unauthorized disclosure of confidential information and misuse of intellectual property. If our third-party service providers encounter any of these issues, we could be exposed to disruption of service, reputation damages, and litigation risk, any of which could have a material adverse effect on our business.

The recent occurrence of cybersecurity incidents across a range of industries has resulted in increased legislative and regulatory scrutiny over cybersecurity and calls for additional data privacy laws and regulations at both the state and federal levels. For example, in 2018, the State of California adopted the California Consumer Privacy Act of 2018, which imposes requirements on companies operating in California and provides consumers with a private right of action if covered companies suffer a data breach related to their failure to implement reasonable security measures. These laws and regulations could result in increased operating expenses or increase our exposure to the risk of litigation.

Although we devote significant resources to maintain and regularly upgrade our systems and networks 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. In addition, our protective measures may not promptly detect intrusions, and we may experience losses or incur costs or other damage related to intrusions that go undetected or go undetected for significant periods of time, at levels that adversely affect our financial results or reputation. Further, because the methods used to cause cyber attacks change frequently, or in some cases cannot be recognized until launched, we may be unable to implement preventative measures or proactively address these methods until they are discovered. Cyber threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. For example, during the second quarter of 2018, we became the victim of a "spear phishing" attack on one of our employees in which we suffered a $4.0 million wire fraud loss and sensitive customer information was stolen. As a result of this attack, we incurred costs to provide identity protections services, including credit monitoring, to customers who may have been impacted and other legal and professional services, and may also incur expenses in the future including legal and professional expenses and claims for damages. 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 or customer information, damage to our reputation with our clients, customers and the market, customer dissatisfaction, additional costs such as repairing systems or adding new personnel or protection technologies, regulatory penalties, fines, remediation costs, 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 maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any future breaches of our systems.

We continue to evaluate our cybersecurity program and will consider incorporating new practices as necessary to meet the expectations of regulatory agencies in light of such cybersecurity guidance and regulatory actions and settlements for cybersecurity-related failures and violations by other industry participants. Such procedures include management-level engagement and corporate governance, risk management and assessment, technical controls, incident response planning, vulnerability testing, vendor management and staff training. Even if we implement these procedures, however, we cannot assure you that we will be fully protected from a cybersecurity incident, the occurrence of which could adversely affect our reputation and financial condition.

***The financial services industry is characterized by rapid technological change, and if we fail to keep pace, our business may suffer.***

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 and avoid interruptions, errors and delays could have a material adverse impact on our business, financial condition, results of operations or cash flows.

***We are heavily reliant on technology, and a failure to effectively implement new technological solutions or enhancements to existing systems or platforms could adversely affect our business operations and the financial results of our operations.***

Like most financial services companies, we significantly depend on technology to deliver our products and services and to otherwise conduct business. To remain technologically competitive and operationally efficient, we have either begun the significant investment in or have plans to invest in new technological solutions, substantial core system upgrades and other technology enhancements within each of our operating segments and corporate. Many of these solutions and enhancements have a significant duration, include phased implementation schedules, are tied to critical systems, and require substantial internal and external resources for design and implementation. Such external resources may be relied upon to provide expertise and support to help implement, maintain and/or service certain of our core technology solutions.

Although we take steps to mitigate the risks and uncertainties associated with these solutions and initiatives, we may encounter significant adverse developments in the completion and implementation of these initiatives. These may include significant time delays, cost overruns, loss of key personnel, technological problems, processing failures, distraction of

management and other adverse developments. Further, our ability to maintain an adequate control environment may be impacted.

The ultimate effect of any adverse development could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could materially affect us, including our control environment, operating efficiency, and results of operations.

***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, 2019, substantially all of the real estate loans in our loan portfolio were secured by properties located in our four largest markets within Texas, with 40%, 21%, 16% and 6% secured by properties located in the Dallas/Fort Worth, Austin/San Antonio, Houston/Coastal Bend and Rio Grande Valley/South Texas markets, respectively. Substantially all of these loans 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, our ability to sell the collateral upon any foreclosure, and the stability of the Bank's deposit funding sources. Further, low crude oil prices may have a more profound effect on the economy of energy-dominant states such as Texas. The Bank has loans extended to businesses that depend on the energy industry including those within the exploration and production, oilfield services, pipeline construction, distribution and transportation sectors. If crude oil prices decrease and remain depressed for an extended period, the Bank could experience weaker energy loan demand and increased losses within its energy and Texas-related loan portfolios. Moreover, natural disasters, such as Hurricane Harvey in 2017, may also have an adverse impact on local economic conditions.

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 2019, 19.3% and 10.0% of our mortgage loans originated (by dollar volume) were collateralized by properties located in Texas and California, respectively. Further, Texas insureds accounted for 69.6% and 68.2% of our insurance segment's gross premiums written in 2019 and 2018, respectively. Also, in our broker-dealer segment, 66% of public finance services net revenues were from entities located in Texas, and 90% of retail brokerage service revenues were generated through locations in Texas, California and Oklahoma. Any regional or local economic downturn that affects Texas or, to a lesser extent, California or Oklahoma, whether caused by recession, inflation, unemployment, changing oil prices, natural disasters 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.

***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, 2019, 43% of the loan portfolio of our banking segment was comprised of loans with commercial or residential 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 commercial or residential real estate values generally, and in Texas specifically, could impair the value of the collateral underlying a significant portion of the Bank's loan portfolio 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.

***Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest income or expense.***

Certain loans we originate bear interest at a floating rate based on LIBOR. We also pay interest on certain notes and are counterparty to derivative agreements that are based on LIBOR.

As previously discussed, in July 2017, the FCA announced that it intends to cease compelling banks to submit rates for the calculation of LIBOR after 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. The ARRC has proposed that SOFR is the rate that represents best practice as

the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR, and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR.

It is unclear whether, or in what form, LIBOR will continue to exist after 2021. Any transition to an alternative benchmark will require careful consideration and implementation so as not to disrupt the stability of financial markets. If LIBOR ceases to exist, we may need to take a variety of actions, including negotiating certain of our agreements based on an alternative benchmark that may be established, if any. There is no guarantee that a transition from LIBOR to an alternative benchmark will not result in financial market disruptions, significant changes in benchmark rates or adverse changes in the value of certain of our loans, and our income and expense. In addition, as a result of these actions, we may incur significant expenses in effecting the transition, including, but not limited to, changes to our agreements and our agreements with customers that do not contemplate LIBOR being unavailable, systems and processes, and may be subject to disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute indices, which could have a material adverse effect on our financial condition or results of operations.

***Our mortgage origination and insurance businesses are subject to fluctuations based upon seasonal and other factors 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.

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, monsoons 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.

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.

***Our geographic concentration may 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. The catastrophe models utilized by our insurance segment to assess its probable maximum insurance losses have, in the past, failed to adequately project the financial impact of 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, Arizona, Tennessee, Oklahoma and Georgia. In 2019, Texas accounted for 69.6%, Arizona accounted for 11.6%, Tennessee accounted for 8.2%, Oklahoma accounted for 5.6% and Georgia accounted for 3.1% of our gross premiums written. As a result, a single catastrophe, destructive weather pattern, wildfire, terrorist attack, regulatory development or other condition or general economic trend affecting any of these regions or significant portions of any 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 $95 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, our risk management techniques and strategies (as well as 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 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, although our qualitative approach to managing those risks could also prove insufficient, exposing us to material unanticipated losses.

***Our hedging strategies may not be successful in mitigating our exposure to interest rate risk.***

We use derivative financial instruments, primarily consisting of interest rate swaps, to limit our exposure to interest rate risk within the banking and mortgage origination segments. No hedging strategy can completely protect us, and the derivative financial instruments we elect may not have the effect of reducing our interest rate risk. Poorly designed strategies, improperly executed and documented transactions, inaccurate assumptions or the failure of a counterparty to fulfill its obligations could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategies and the derivatives that we use may not adequately offset the risks of interest rate volatility and could result in or magnify losses, which could have an adverse effect on our financial condition and results of operations.

***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. Further, 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, or increases in their rates of default, together with insufficient collateral and reserves, could have a material adverse effect on 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.

***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. Hilltop conducts limited material business other than activities incidental to holding stock in the Bank, Securities Holdings and NLC. As a result, we rely substantially on the profitability of, and dividends from, these subsidiaries to pay our operating expenses and to pay interest on our debt obligations. Each of the Bank, Securities Holdings and NLC is subject to significant regulatory restrictions limiting its ability to declare and pay dividends to us. Accordingly, if the Bank, Securities Holdings or NLC are unable to make cash distributions to us, then we may be unable to satisfy our operating expense obligations or make interest payments on our debt obligations.

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

***Our indebtedness may affect our ability to operate our business, and may have a material adverse effect on our financial condition and results of operations. We may incur additional indebtedness, including secured indebtedness.***

At December 31, 2019, on a consolidated basis, we had total deposits of $9.0 billion and other indebtedness of $1.8 billion, including $150.0 million in aggregate principal amount of 5% senior notes due 2025 (the "Senior Notes"). Our significant amount of indebtedness could have important consequences, such as:

- limiting our ability to obtain additional financing to fund our working capital needs, acquisitions, capital expenditures or other debt service requirements or for other purposes;
- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to service debt;
- limiting our ability to compete with other companies who are not as highly leveraged, as we may be less capable of responding to adverse economic and industry conditions;
- restricting us from making strategic acquisitions, developing properties or pursuing business opportunities;
- restricting the way in which we conduct our business because of financial and operating covenants in the agreements governing our and certain of our subsidiaries' existing and future indebtedness, including, in the case of certain indebtedness of subsidiaries, certain covenants that restrict the ability of such subsidiaries to pay dividends or make other distributions to us;
- exposing us to potential events of default (if not cured or waived) under financial and operating covenants contained in our or our subsidiaries' debt instruments that could have a material adverse effect on our business, financial condition and operating results;

- increasing our vulnerability to a downturn in general economic conditions or a decrease in pricing of our products; and
- limiting our ability to react to changing market conditions in our industry and in our customers' industries.

In addition to our debt service obligations, our operations require substantial investments on a continuing basis. Our ability to make scheduled debt payments, to refinance our obligations with respect to our indebtedness and to fund capital and non-capital expenditures necessary to maintain the condition of our operating assets and properties, as well as to provide capacity for the growth of our business, depends on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and financial, business, competitive, legal and other factors.

Subject to the restrictions in the indenture governing the Senior Notes, we may incur significant additional indebtedness, including secured indebtedness. If new debt is added to our current debt levels, the risks described above could increase.

***We may not be able to generate sufficient cash to service all of our indebtedness, including the Senior Notes, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.***

Our ability to satisfy our debt obligations will depend upon, among other things:

- our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control; and
- our future ability to refinance the Senior Notes, which depends on, among other things, our compliance with the covenants in the indenture governing the Senior Notes.

We cannot assure you that our business will generate sufficient cash flow from operations, or that we will be able to obtain financing in an amount sufficient to fund our liquidity needs.

If our cash flows and capital resources are insufficient to service our indebtedness, including the Senior Notes, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the Senior Notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations, including our obligations under the Senior Notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations, sell equity and/or negotiate with our lenders and other creditors to restructure the applicable debt in order to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. The indenture governing the Senior Notes may restrict, or market or business conditions may limit, our ability to avail ourselves of some or all of these options. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due.

***A reduction in our credit rating could adversely affect us or the holders of our securities.***

The credit rating agencies rating our indebtedness regularly evaluate the Company, and credit ratings are based on a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including conditions affecting the financial services industry and the economy and changes in rating methodologies. There can be no assurance that we will maintain our current credit rating. A downgrade of our credit rating could adversely affect our access to liquidity and capital, and could significantly increase our cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to us or purchase our securities. This could affect our growth, profitability and financial condition, including liquidity.

***The indenture governing the Senior Notes contains, and any instruments governing future indebtedness would likely contain, restrictions that limit our flexibility in operating our business.***

The indenture governing the Senior Notes contains, and any instruments governing future indebtedness would likely contain, a number of covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- dispose of, or issue voting stock of, certain subsidiaries; or
- incur or permit to exist any mortgage, pledge, encumbrance or lien or charge on the capital stock of certain subsidiaries.

Any of these restrictions could limit our ability to plan for or react to market conditions and could otherwise restrict corporate activities. Any failure to comply with these covenants could result in a default under the indenture governing the Senior Notes. Upon a default, holders of the Senior Notes have the ability ultimately to force us into bankruptcy or liquidation, subject to the indenture governing the Senior Notes. In addition, a default under the indenture governing the Senior Notes could trigger a cross default under the agreements governing our existing and future indebtedness. Our operating results may not be sufficient to service our indebtedness or to fund our other expenditures and we may not be able to obtain financing to meet these requirements.

***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 TDI, 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 the SEC and FINRA are primarily intended to protect the securities markets and customers of broker-dealer businesses rather than stockholders or other debt holders. Further, if the Bank’s total assets are over $10.0 billion (as measured on four consecutive quarterly call reports of the Bank and any institutions it acquires), the Bank will become subject to the CFPB’s supervisory and enforcement authority with respect to federal consumer financial laws beginning in the following quarter. The Bank expects that it will be subject to CFPB supervisory and enforcement authority starting in the second quarter of 2020.

These regulations affect our lending practices, capital structure, capital requirements, investment practices, brokerage and investment advisory activities, dividends 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 on or suspensions of 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 rules 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, state legislatures, and federal and state regulatory agencies frequently revise banking and securities laws, regulations and policies. For example, several aspects of the Dodd-Frank Act have affected 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, potential federal oversight of the insurance industry and disclosure and reporting requirements. Although the recently enacted EGRRCPA is intended to ease the regulatory burden imposed by the Dodd-Frank Act with respect to company-run stress testing, resolution plans, the Volcker Rule, high volatility commercial real estate exposures, and real estate appraisals, at this time, it remains difficult to predict the full extent to which the Dodd-Frank Act and the EGRRCPA or the resulting rules and regulations will affect our business. Compliance with new laws and regulations has resulted and likely will continue to result in additional costs, which could be significant and may adversely impact our results of operations, financial condition, and liquidity.

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. These changes become less predictable, yet more likely to occur, following the transition of power from one presidential administration to another, especially as in 2017, when it involves a change in political party. Any 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.

***We may be subject to more stringent capital requirements in the future.***

We are subject to regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, the regulators change these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities.

In particular, under the Basel III capital framework, we are now required to satisfy additional, more stringent, capital adequacy standards than we had in the past. Further, because we had less than $15 billion in assets as of December 31, 2009, we have been allowed to include the debentures issued to the PCC Statutory Trusts I, II, III and IV (the “Trusts”), less the common stock of the Trusts, in Tier 1 capital. However, because Hilltop has grown above $15 billion in assets, if we make an acquisition in the future, the debentures issued to the Trusts may be phased out of Tier 1 and into Tier 2 capital. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial condition and results of operations. The application of more stringent capital requirements for Hilltop and PlainsCapital 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.

Periodically, the SEC adopts amendments to Rules 15c3-1 and 15c3-3 under the Exchange Act related to our broker-dealer segment. The implementation of any new requirements from these amendments may increase our cost of regulatory compliance.

The adoption of CECL on January 1, 2020 will also impact our capital ratios as we anticipate that it will result in a reduction of our regulatory capital. Based upon the current loan portfolio, we estimate that the allowance for credit losses will be between $80 million and $100 million, inclusive of the estimate of change in reserve for unfunded commitments of between $6 million and $9 million, when adopted on January 1, 2020. This estimated increase, net of tax, will be reflected as a decrease to opening retained earnings at January 1, 2020. Although we are permitted to elect a three-year phase-in of this adverse impact on our regulatory capital, we have elected to not exercise this option. The federal banking agencies will also require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations.

***Our broker-dealer business is subject to various risks associated with the securities industry.***

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

- intense competition in 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 of such uncertainties, 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. In addition, the Hilltop Broker-Dealers are operating subsidiaries of Hilltop, which means that their activities are limited to those that are permissible for subsidiaries of a bank 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 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, may affect 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 existing correspondents may choose to perform their own clearing services or move their clearing business to one of our competitors or exit the business.***

As the operations of our correspondents grow, our correspondents may 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 become more attractive as the transaction volume of a broker-dealer grows. The cost of implementing the necessary infrastructure 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, moving their clearing business to a competitor or 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, which 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. For example, national municipal issuances surged in the fourth quarter of 2017 due to the then-anticipated effects of the Tax Cuts and Jobs Act, and a number of national municipal issuers elected to accelerate certain capital raising initiatives before these changes were enacted. As a result, we experienced lower municipal issuance volume in 2018, which adversely impacted the financial condition, results of operations and cash flows of our broker-dealer segment's public finance services line of business.

***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, in the event of a breach of any representation or warranty concerning a loan, an agency, investor or other third party could, among other things, require us to repurchase the full amount of the loan or seek indemnification for losses from us, even if the loan is not in default. Further, 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 may choose to hold mortgage loans when the identified purchasers have declined to purchase such loans because we may 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. Moreover, if a property securing a mortgage loan on which we own the servicing rights is damaged, including from flooding, we may be responsible for repairs for uninsured damage.

***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 are 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. Any increases in compliance and foreclosure costs caused by the rule could negatively affect our business, operating results and financial condition.

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

As a result of our mortgage servicing business, which we may expand in the future, 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. The mortgage origination segment uses derivative financial instruments, including U.S. Treasury bond futures and options, 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, 2019, the mortgage origination segment's MSR asset had a fair value of $56.7 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.

***We identified a material weakness in our internal controls over financial reporting and determined that our disclosure controls and procedures were not effective. If we fail to develop, implement and maintain an effective system of internal control over financial reporting, the accuracy and timing of our financial reporting in future periods may be adversely affected.***

The Sarbanes-Oxley Act and related rules and regulations require that management report annually on the effectiveness of our internal control over financial reporting and assess the effectiveness of our disclosure controls and procedures on a quarterly basis. 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 adequate internal controls, our financial statements may not accurately reflect our financial condition. Inadequate internal control 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.

Based on management's assessment, we concluded that our disclosure controls and procedures were not effective as of December 31, 2019 and that we had as of such date a material weakness in our internal control over financial reporting. The specific factors leading to this conclusion are described in Part II - Item 9A. "Controls and Procedures" of this Annual Report on Form 10-K and in "Management's Report on Internal Control over Financial Reporting" appearing elsewhere in this Annual Report on Form 10-K. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements would not be prevented or detected on a timely basis. During the fourth quarter of 2019, management identified a control deficiency that constituted a material weakness as of December 31, 2018 and determined that Hilltop did not design and maintain effective controls over certain aspects relating to the determination of the qualitative factors considered by management in the allowance for loan losses estimation process, specifically control activities to adequately support the analysis and the impact of such support on the loss measurement. This control deficiency could result in misstatements of the interim or annual consolidated financial statements and disclosures that would result in a material misstatement that would not be prevented or detected. As of December 31, 2019, this material weakness was not remediated. If the remedial measures intended to address the material weakness and related disclosure controls we have implemented are insufficient, or if additional material weakness or significant deficiencies in our internal control over financial reporting or in our disclosure controls occur in the future, our future consolidated financial statements or other information filed with the SEC may contain material misstatements. Any material misstatements could require a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in the market value of our securities.

***Income that we recognize in connection with the purchase discount of the credit-impaired loans acquired in the Bank Transactions could be volatile in nature and have significant effects on reported net income.***

In connection with the Bank Transactions, we acquired loans at an aggregate discount of $540.5 million. The Bank Transactions have each been accounted for under the acquisition method of accounting. Accordingly, the respective 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. 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. Aggregate accretion of $28.7 million on loans purchased at a discount in the Bank Transactions was recorded as interest income during 2019. As of December 31, 2019, the balance of our discount on loans in the aggregate was $72.3 million.

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

As a result of purchase accounting in connection with acquisitions, our consolidated balance sheet at December 31, 2019, included goodwill of $291.4 million and other intangible assets, net of accumulated amortization, of $30.2 million. On an ongoing basis, we evaluate whether facts and circumstances indicate any impairment of value of intangible assets. As circumstances change, we may not realize the value of these intangible assets. 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.

Based on the results of our annual quantitative analysis as of October 1, 2019, the fair values of each of our reporting units indicated no impairment of goodwill. Any downward revisions to current year actual and future forecasted operating performance, in conjunction with any changes to long-term growth rates or discount rates, may cause the fair value of the respective reporting unit to decline. If the estimated fair value is less than the carrying value, we would be required to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to that reporting unit.

***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 we consider "critical" 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 material 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. 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 the public finance services line of business serves can be subject to significant fluctuations based on factors such as changes in interest rates, property tax bases, budget pressures on certain issuers caused by uncertain economic times and other factors. A decline in the market for municipal advisory services due to the factors listed above could have an adverse effect on our business and results of operations.

***We are subject to losses due to fraudulent and negligent acts.***

Our banking and mortgage origination businesses expose us to fraud risk from our loan and deposit customers and the parties they do business with, as well as from our employees, contractors and vendors. We rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation, and employment and income documentation, in deciding which loans to originate and the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or negligently, and the misrepresentation is not detected prior to funding, the value of the collateral may be significantly lower than expected, the source of repayment may not exist or may be significantly impaired, or we may fund a loan that we would not have funded or on terms we would not have extended. While we have underwriting and operational controls in place to help detect and prevent such fraud, no such controls are effective to detect or prevent all fraud. Whether a misrepresentation is made by the applicant, another third party or one of our own employees, we may bear the risk of loss associated with the misrepresentation. We have experienced losses resulting from fraud in the past, including loan, wire

transfer, document and check fraud, and identity theft. We maintain fraud insurance, but this insurance may not be sufficient to cover all of our losses from any fraudulent acts.

Our broker-dealer and insurance underwriting activities also expose us to fraud risks. When acting as an underwriter, our broker-dealer segment may be liable jointly and severally under federal, state and foreign securities laws for false and misleading statements concerning the securities, or the issuer of the securities, that it underwrites. We are sometimes brought into lawsuits in connection with our correspondent clearing business based on actions of our correspondents. In addition, we may act as a fiduciary in other capacities that could expose us to liability under such laws or under common law fiduciary principles. Furthermore, our insurance segment's success also depends, in part, on its ability to detect and respond to fraudulent or inflated claims.

***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 and 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 in the past 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 we hold collateral that cannot be realized or is liquidated at prices not sufficient to recover the full amount of the receivable due to us. Any such losses could be material and could materially and adversely affect 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, such negative perceptions 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 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.

***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 segment primarily competes with national, regional and community banks within various markets where the Bank operates. The Bank also faces competition from many other types of 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 and investment banking firms, consumer finance companies, pension trusts, 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 remained competitive over the past several years, and we expect the level of competition we face to further increase. 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 is based on factors such 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. 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. 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.

Our mortgage origination business faces vigorous competition from banks and other financial institutions, including 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, closing process and duration, 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.

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 that 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, 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.

Overall, competition among providers of financial products and services continues to increase as technological advances have lowered the barriers to entry for financial technology companies, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including online checking, savings and brokerage accounts, online lending, online insurance underwriters, crowdfunding, digital wallets, and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. This

competition could result in the loss of customer deposits and brokerage accounts, lower mortgage originations and lower insurance premiums written which could have a material adverse effect on our financial condition and results of operations.

***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 ("LAE") 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"). LAE represent expenses incurred to investigate and settle claims. To the extent that losses and LAE 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. 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 LAE 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 LAE is an inherently uncertain process. Accordingly, actual loss and LAE 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 LAE, 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 2019, our insurance segment's personal lines ceded 5.7% of its direct insurance premiums written (primarily through excess of loss, quota share and catastrophe reinsurance treaties) and its commercial lines ceded none 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 17.8% during 2019, compared with 2018, which was primarily attributable to reinstatement premiums in 2018 associated with Hurricane Harvey. 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, 2019, our insurance segment had $1.0 million in reinsurance recoverables and receivables, including ceded paid loss recoverables, ceded losses and LAE 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 reimbursing our insurance segment for losses paid, its liability for these claims could materially and adversely affect its financial condition and results of operations.

***If the states in which our insurance segment writes insurance increase the assessments that insurance companies are required to pay, our insurance segment's financial condition and results of operations will suffer.***

NLIC and ASIC are subject to a variety of taxes, fines, levies, license fees, tariffs and other assessments that may, from time to time, be material. These assessments are made by the states in which NLIC and ASIC operate and include participation in residual market or involuntary risk plans in various states that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. 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. If these plans experience losses in excess of their capitalization, they may assess participating insurers, including NLIC and ASIC, for proportionate shares of their financial deficit. For example, to address a 2016 deficit and losses resulting from Hurricane Harvey in 2017, the Texas FAIR Plan Association levied an assessment on participating companies totaling $64.6 million, of which NLC's insurance subsidiaries' share was $0.6 million. In addition, the Texas Windstorm Insurance Agency levied an assessment on participating companies totaling $175.0 million, of which NLC's insurance subsidiaries' share was $1.6 million. The ultimate impact hurricanes have on state facilities cannot be predicted and future assessments can occur whenever the involuntary facilities experience financial deficits.

NLIC and ASIC are also subject to assessments in the states in which they write insurance for various purposes, including the provision of funds necessary to fund the operations of various insurance guaranty associations, which pay covered claims under certain policies issued by impaired, insolvent or failed insurance companies. These assessments are generally set based on an insurer's percentage of the total premiums written in the relevant state within a particular line of business for the relevant time period. Our insurance segment paid no assessments during 2019, 2018 and 2017. We cannot, however, predict with certainty the amount of future assessments, because these assessments depend on factors outside our control, such as the insolvencies of other insurance companies, the market shares of other insurance companies writing in a particular state and the degree to which other companies write in coastal areas.

***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.

***Because we may use a substantial portion of our remaining excess capital 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 may make acquisitions or effect business combinations with a substantial portion of our remaining excess capital. 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 attract, retain and motivate key personnel and to retain customers and clients of targets. 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 any acquisitions we make, 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. 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.

Subject to the restrictions imposed upon us as a regulated financial holding company, we may also use excess capital to make investments in companies engaged in non-financial activities. These investments could decline in value and are likely to be substantially less liquid than exchange-listed securities, if we are able to sell them at all. If we are required to sell these investments quickly, we may receive significantly less value than if we could have otherwise have sold them. Losses on these investments could have an adverse impact on our profitability, results of operations and financial condition.

***Acquisitions may be delayed, impeded, or prohibited due to regulatory issues.***

Acquisitions by financial institutions are subject to approval by a variety of federal and state regulatory agencies. The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to Bank Secrecy Act compliance, Community Reinvestment Act issues, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations and other similar laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or

anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, financial condition and results of operations.

***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.

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

The surplus indentures governing NLIC's two LIBOR plus 4.10% and 4.05% notes due May and September 2033, respectively, and ASIC's LIBOR plus 4.05% notes due April 2034 contain restrictions on the ability to, among other things, declare and pay dividends and merge or consolidate.

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 covenants could result in a default under the indentures governing 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 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 business 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 board of directors, in its sole discretion, may designate and issue one or more 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.

***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 he or she has, or companies with which he or she is associated have, an interest could influence the votes of other directors regarding the issue.

***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.

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

Authority to Issue Additional Shares. 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, 2019, no shares of preferred stock were outstanding.

Banking Laws. 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.

Insurance Laws. 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 TDI. 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 TDI 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 (as defined under FINRA rules) 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 include a provision prohibiting holders that do not or have not owned, continuously for at least one year as of the record date of such proposed meeting, capital stock representing at least 15% of the shares entitled to be voted at such 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.

***There can be no assurance that we will continue to declare cash dividends or repurchase stock.***

In October 2016, we announced that our board of directors authorized a dividend program under which we intend to pay quarterly dividends on our common stock, subject to quarterly declarations by our board of directors. During 2019, we declared and paid cash dividends of $0.32 per common share.

In January 2019, the Hilltop board of directors authorized a stock repurchase program through January 2020, pursuant to which the Company was authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During 2019, the Company paid $73.4 million to repurchase an aggregate of 3,390,247 shares of common stock at a weighted average price of $21.64 per share. These amounts are inclusive of the repurchase of shares by Hilltop from Oak Hill Capital discussed below. These shares were returned to Hilltop's pool of authorized but unissued shares of common stock.

On August 19, 2019, we entered into a Securities Purchase Agreement to purchase 2,175,404 shares of our common stock from Oak Hill Capital Partners III, L.P., Oak Hill Capital Management Partners III, L.P. and Oak Hill Capital Management, LLC (collectively, "Oak Hill Capital"). The purchase was consummated on August 20, 2019 at a purchase price of $48.4 million, or $22.25 per share. The repurchase of shares by Hilltop from Oak Hill Capital fully utilized all remaining availability of the stock repurchase program previously authorized in January 2019.

In January 2020, our board of directors authorized a new stock repurchase program through January 2021, pursuant to which we are authorized to repurchase, in the aggregate, up to $75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation.

Any future declarations, amount and timing of any dividends and/or the amount and timing of such stock repurchases are subject to capital availability and the discretion of our board of directors, which must evaluate, among other things, whether cash dividends and/or stock repurchases are in the best interest of our stockholders and are in compliance with all applicable laws and any agreements containing provisions that limit our ability to declare and pay cash dividends and/or repurchase stock. Our ability to pay dividends and/or repurchase stock will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, including acquisitions, the ability of our subsidiaries to pay dividends to Hilltop, capital adequacy requirements and other regulatory restrictions on us and our

subsidiaries, policies of the Federal Reserve Board, equity and debt service requirements senior to our common stock, earnings, financial condition, the general economic and regulatory climate and other factors beyond our control that our board of directors may deem relevant. In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from repurchasing shares. Our dividend payments and/or stock repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends and/or repurchase stock in any particular amounts or at all. A reduction in or elimination of our dividend payments, our dividend program and/or stock repurchases could have a negative effect on our stock price.

***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 TDI 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 through PCC for our principal executive offices in Dallas, Texas. In addition to our principal office, our various business segments conduct business at various locations. We have options to renew leases at most locations that we do not own.

During 2018, we also made an investment in land and a mixed-use real estate development in the City of University Park, Texas, which has served as headquarters for both Hilltop and the Bank since February 2020.

*Banking.* At December 31, 2019, our banking segment conducted business at 68 locations throughout Texas, including five support facilities. We lease 35 banking locations, including our principal offices, and we own the remaining 33 banking locations.

*Broker-Dealer.* At December 31, 2019, our broker-dealer segment conducted business from 52 locations in 20 states. Each of these locations is leased by Hilltop Securities.

*Mortgage Origination.* At December 31, 2019, our mortgage origination segment conducted business from over 300 locations in 44 states. Each of these locations is leased by PrimeLending.

*Insurance.* At December 31, 2019, our insurance segment leases office space for its corporate, claims and customer service operations. Our insurance segment's principal office is leased from an affiliate, Hilltop Securities.

**Item 3. Legal Proceedings.**

For a description of material pending legal proceedings, see the discussion set forth under the heading "Legal Matters" in Note 19 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". At February 27, 2020, there were 90,798,946 shares of our common stock outstanding with 413 stockholders of record.

In October 2016, we announced that our board of directors authorized a dividend program under which we pay quarterly dividends on our common stock, subject to quarterly declarations by our board of directors. During 2019, we declared and paid cash dividends of $0.32 per common share. On January 30, 2020, we announced that our board of directors increased our quarterly dividend to $0.09 per common share. Although we expect to continue to pay dividends, we may elect not to pay dividends. Any declarations of dividends, and the amount and timing thereof, will be at the discretion of our board of directors, which must evaluate, among other things, whether cash dividends are in the best interest of our stockholders and are in compliance with all applicable laws and any agreements containing provisions that limit our ability to declare and pay cash dividends. Our ability to pay dividends will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, including acquisitions, equity and debt service requirements senior to our common stock, earnings, financial condition, the general economic and regulatory climate and other factors beyond our control that our board of directors may deem relevant. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends in any particular amounts or at all. A reduction in or elimination of our dividend payments and/or our dividend program could have a negative effect on our stock price. See Item 1A, "Risk Factors — Risks Related to our Business — There can be no assurance that we will continue to declare cash dividends or repurchase stock."

#### Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information at December 31, 2019 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 21, 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* | — | $ — | 556,368 |
| **Total** | — | $ — | 556,368 |

* 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. In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2019, 3,873,386 awards had been granted pursuant to the 2012 Plan, while 429,754 awards were forfeited and are eligible for reissuance. All shares outstanding under 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.

### Issuer Repurchases of Equity Securities

The following table details our repurchases of shares of common stock during the three months ended December 31, 2019.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| October 1 - October 31, 2019 | — | $ — | — | $ — |
| November 1 - November 30, 2019 | — | — | — | — |
| December 1 - December 31, 2019 | — | — | — | — |
| Total | — | $ — | — | |

(1) In January 2020, we announced that our board of directors authorized a stock repurchase program under which we may repurchase, in the aggregate, up to $75.0 million of our outstanding common stock through January 2021, which is inclusive of repurchases to offset dilution related to grants of stock-based compensation.

### Recent Sales of Unregistered Securities

On December 31, 2019, we issued an aggregate of 5,853 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 fourth quarter of 2019. 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, 2019 and 2018 and our consolidated statement of operations data for the years ended December 31, 2019, 2018 and 2017 have been derived from our 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. The operations acquired in the BORO Acquisition are included in our operating results beginning August 1, 2018 (dollars in thousands, except per share data and weighted average shares outstanding).

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statement of Operations Data:** | | | | | |
| Total interest income | $ 614,829 | $ 579,428 | $ 507,156 | $ 455,954 | $ 469,838 |
| Total interest expense | 173,523 | 143,104 | 85,408 | 58,423 | 61,255 |
| Net interest income | 441,306 | 436,324 | 421,748 | 397,531 | 408,583 |
| Provision for loan losses | 7,206 | 5,088 | 14,271 | 40,620 | 12,715 |
| Net interest income after provision for loan losses | 434,100 | 431,236 | 407,477 | 356,911 | 395,868 |
| Total noninterest income | 1,206,016 | 1,022,790 | 1,205,064 | 1,286,965 | 1,227,642 |
| Total noninterest expense | 1,339,807 | 1,293,249 | 1,369,255 | 1,412,471 | 1,340,016 |
| Income before income taxes | 300,309 | 160,777 | 243,286 | 231,405 | 283,494 |
| Income tax expense | 67,332 | 35,050 | 110,142 | 83,461 | 70,915 |
| Net income | 232,977 | 125,727 | 133,144 | 147,944 | 212,579 |
| Less: Net income attributable to noncontrolling interest | 7,686 | 4,286 | 600 | 2,050 | 1,606 |
| Income attributable to Hilltop | 225,291 | 121,441 | 132,544 | 145,894 | 210,973 |
| Dividends on preferred stock (1) | — | — | — | — | 1,854 |
| Income applicable to Hilltop common stockholders | $ 225,291 | $ 121,441 | $ 132,544 | $ 145,894 | $ 209,119 |
| **Per Share Data:** | | | | | |
| Earnings per common share - basic | $ 2.44 | $ 1.28 | $ 1.36 | $ 1.48 | $ 2.10 |
| Weighted average shares outstanding - basic | 92,345 | 94,969 | 97,137 | 98,404 | 99,074 |
| Earnings per common share - diluted | $ 2.44 | $ 1.28 | $ 1.36 | $ 1.48 | $ 2.09 |
| Weighted average shares outstanding - diluted | 92,394 | 95,067 | 97,353 | 98,629 | 99,962 |
| Book value per common share | $ 23.20 | $ 20.83 | $ 19.92 | $ 18.98 | $ 17.56 |
| Tangible book value per common share | $ 19.65 | $ 17.31 | $ 16.92 | $ 15.97 | $ 14.46 |
| Cash dividends declared per common share | $ 0.32 | $ 0.28 | $ 0.24 | $ 0.06 | $ — |
| Dividend payout ratio (2) | 13.12 % | 21.90 % | 17.59 % | 4.05 % | — % |
| **Balance Sheet Data:** | | | | | |
| Total assets | $ 15,172,448 | $ 13,683,572 | $ 13,365,786 | $ 12,738,062 | $ 11,867,001 |
| Cash and due from banks | 484,959 | 644,073 | 486,977 | 669,357 | 652,036 |
| Securities | 2,094,301 | 1,991,815 | 1,852,094 | 1,215,372 | 1,219,874 |
| Loans held for sale | 2,106,361 | 1,393,246 | 1,715,357 | 1,795,463 | 1,533,678 |
| Loans held for investment, net of unearned income (3) | 7,381,400 | 6,930,458 | 6,455,798 | 6,099,626 | 5,587,911 |
| Allowance for loan losses (3) | (61,136) | (59,486) | (63,686) | (54,599) | (46,947) |
| Goodwill and other intangible assets, net | 321,590 | 329,440 | 288,240 | 296,503 | 306,676 |
| Total deposits | 9,032,214 | 8,536,156 | 7,978,119 | 7,063,811 | 6,952,683 |
| Notes payable | 283,769 | 228,872 | 208,809 | 317,912 | 238,716 |
| Junior subordinated debentures | 67,012 | 67,012 | 67,012 | 67,012 | 67,012 |
| Total stockholders' equity | 2,128,796 | 1,973,893 | 1,914,807 | 1,874,520 | 1,738,125 |
| **Performance Ratios (4):** | | | | | |
| Return on average stockholders' equity (5) | 11.18 % | 6.33 % | 7.00 % | 8.13 % | 12.32 % |
| Return on average assets (5) | 1.66 % | 0.93 % | 1.03 % | 1.21 % | 1.70 % |
| Net interest margin (6) | 3.48 % | 3.55 % | 3.61 % | 3.68 % | 3.71 % |
| Net interest margin (taxable equivalent) (7) | 3.48 % | 3.56 % | 3.63 % | 3.71 % | 3.74 % |
| **Asset Quality Ratios (4):** | | | | | |
| Total nonperforming assets to total loans and other real estate | 0.73 % | 0.89 % | 1.33 % | 1.39 % | 2.34 % |
| Allowance for loan losses to nonperforming loans | 169.28 % | 175.22 % | 139.58 % | 193.05 % | 137.99 % |
| Allowance for loan losses to total loans | 0.83 % | 0.86 % | 0.99 % | 0.90 % | 0.84 % |
| Net charge-offs to average loans outstanding | 0.08 % | 0.14 % | 0.08 % | 0.57 % | 0.14 % |
| **Capital Ratios:** | | | | | |
| Equity to assets ratio | 13.86 % | 14.25 % | 14.31 % | 14.68 % | 14.64 % |
| Tangible common equity to tangible assets | 12.00 % | 12.13 % | 12.42 % | 12.65 % | 12.37 % |

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Regulatory Capital Ratios:** | | | | | |
| Hilltop - Leverage ratio | 12.71 % | 12.53 % | 12.94 % | 13.51 % | 12.65 % |
| Hilltop - Common equity Tier 1 risk-based capital ratio | 16.70 % | 16.58 % | 17.71 % | 18.30 % | 17.87 % |
| Hilltop - Tier 1 risk-based capital ratio | 17.13 % | 17.04 % | 18.24 % | 18.87 % | 18.48 % |
| Hilltop - Total risk-based capital ratio | 17.55 % | 17.47 % | 18.78 % | 19.34 % | 18.89 % |
| PlainsCapital - Leverage ratio | 11.61 % | 12.47 % | 12.32 % | 12.35 % | 13.22 % |
| PlainsCapital - Common equity Tier 1 risk-based capital ratio | 13.45 % | 13.90 % | 14.47 % | 14.64 % | 16.23 % |
| PlainsCapital - Tier 1 risk-based capital ratio | 13.45 % | 13.90 % | 14.47 % | 14.64 % | 16.25 % |
| PlainsCapital - Total risk-based capital ratio | 14.13 % | 14.63 % | 15.29 % | 15.38 % | 16.99 % |
| | | | | | |
| **Other Data:** | | | | | |
| ***Banking Segment:*** | | | | | |
| Efficiency ratio (8) | 54.99 % | 61.93 % | 58.24 % | 58.87 % | 56.45 % |
| Return on average assets (5) | 1.36 % | 1.23 % | 0.85 % | 0.94 % | 1.36 % |
| Net interest margin (6) | 4.00 % | 4.23 % | 4.31 % | 4.65 % | 5.05 % |
| Net interest margin (taxable equivalent) (7) | 4.01 % | 4.24 % | 4.33 % | 4.68 % | 5.08 % |
| ***Broker-Dealer Segment:*** | | | | | |
| Net revenue (9) | $ 455,719 | $ 352,592 | $ 412,156 | $ 416,938 | $ 367,466 |
| Compensation as a % of net revenue | 58.7 % | 62.0 % | 60.8 % | 60.6 % | 69.6 % |
| ***Mortgage Origination Segment:*** | | | | | |
| Mortgage loan originations volume - Home purchases | $ 11,718,772 | $ 11,798,804 | $ 11,974,571 | $ 11,276,378 | $ 9,891,792 |
| Mortgage loan originations volume - Refinancings | 3,860,665 | 1,893,680 | 2,483,342 | 4,183,835 | 3,460,327 |
| Mortgage loan originations volume - Total | 15,579,437 | 13,692,484 | 14,457,913 | 15,460,213 | 13,352,119 |
| Mortgage loan sales volume - Total | 14,591,727 | 13,735,885 | 14,454,260 | 15,155,340 | 13,129,069 |
| ***Insurance Segment:*** | | | | | |
| Net loss and LAE ratio | 52.1 % | 58.0 % | 66.6 % | 57.4 % | 61.1 % |
| Expense ratio | 39.7 % | 39.0 % | 39.9 % | 33.5 % | 33.8 % |
| Combined ratio | 91.8 % | 97.0 % | 106.5 % | 90.9 % | 94.9 % |
| Statutory surplus (10) | $ 89,313 | $ 96,545 | $ 116,590 | $ 161,790 | $ 152,342 |
| Statutory premiums to surplus ratio | 146.8 % | 138.6 % | 117.5 % | 92.3 % | 105.4 % |

(1) Series B preferred stock was redeemed in April 2015.
(2) Dividend payout ratio is defined as cash dividends declared per common share divided by basic earnings per common share.
(3) At the close of business on September 30, 2018, the loss-share agreements with the FDIC for commercial assets expired, except for certain obligations on the part of the Bank that survived. On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which all rights and obligations under each of the loss-share agreements with the FDIC were resolved and terminated. As such, all loans previously identified as either "covered loans" or "non-covered loans" are now collectively referred to as "loans held for investment" for all periods presented. In addition, the allowance for loan losses on the aforementioned loans held for investment is presented as one combined line item for all periods presented.
(4) Noted measures are typically used for measuring the performance of banking and financial institutions.
(5) Noted measures during 2017 include estimated non-cash, non-recurring charges to Hilltop consolidated and banking segment results of $28.4 million and $25.7 million, respectively, primarily attributable to the revaluation of deferred tax assets as a result of the enactment of the Tax Cuts and Jobs Act of 2017 ("the Tax Legislation"). Deferred tax asset amounts recorded in December 2017 following enactment of the Tax Legislation were final as of September 30, 2018.
(6) Net interest margin is defined as net interest income divided by average interest-earning assets.
(7) Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Taxable equivalent adjustments are based on a 21% federal income tax rate for 2019 and 2018 periods presented and 35% federal income tax rate for all previous periods presented. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. For the periods presented, the taxable equivalent adjustments to interest income for Hilltop consolidated were $0.6 million, $0.9 million, $2.2 million, $2.4 million and $3.0 million, respectively, and for the banking segment were $0.6 million, $0.8 million, $1.6 million, $1.5 million and $1.8 million, respectively.
(8) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the year.
(9) Net revenue is defined as the sum of total broker-dealer net interest income plus total broker-dealer noninterest income.
(10) Statutory surplus includes combined surplus of NLIC and ASIC.

## GAAP Reconciliation and Management's Explanation of Non-GAAP Financial Measures

We present certain 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 “equity to total assets” (dollars in thousands, except per share data).

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Book value per common share | $ 23.20 | $ 20.83 | $ 19.92 | $ 18.98 | $ 17.56 |
| Effect of goodwill and intangible assets per share | $ (3.55) | $ (3.52) | $ (3.00) | $ (3.01) | $ (3.10) |
| Tangible book value per common share | $ 19.65 | $ 17.31 | $ 16.92 | $ 15.97 | $ 14.46 |
| Hilltop stockholders’ equity | $ 2,103,039 | $ 1,949,470 | $ 1,912,081 | $ 1,870,509 | $ 1,736,954 |
| Less: goodwill and intangible assets, net | $ 321,590 | $ 329,440 | $ 288,240 | $ 296,503 | $ 306,676 |
| Tangible common equity | $ 1,781,449 | $ 1,620,030 | $ 1,623,841 | $ 1,574,006 | $ 1,430,278 |
| Total assets | $ 15,172,448 | $ 13,683,572 | $ 13,365,786 | $ 12,738,062 | $ 11,867,001 |
| Less: goodwill and intangible assets, net | $ 321,590 | $ 329,440 | $ 288,240 | $ 296,503 | $ 306,676 |
| Tangible assets | $ 14,850,858 | $ 13,354,132 | $ 13,077,546 | $ 12,441,559 | $ 11,560,325 |
| Equity to assets | 13.86 % | 14.25 % | 14.31 % | 14.68 % | 14.64 % |
| Tangible common equity to tangible assets | 12.00 % | 12.13 % | 12.42 % | 12.65 % | 12.37 % |

## 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.”*

*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 “PCC” refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to “Securities Holdings” refer to Hilltop Securities Holdings LLC (a wholly owned subsidiary of Hilltop), references to “Hilltop Securities” refer to Hilltop Securities Inc. (a wholly owned subsidiary of Securities Holdings), references to “HTS Independent Network” refer to Hilltop Securities Independent Network Inc. (a wholly owned subsidiary of Securities Holdings), Hilltop Securities and HTS Independent Network are collectively referred to as the “Hilltop Broker-Dealers”, references to the “Bank” refer to PlainsCapital Bank (a wholly owned subsidiary of PCC), references to “FNB” refer to First National Bank, references to “SWS” refer to the former SWS Group, Inc., references to “PrimeLending” refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, references to “NLC” refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole, references to “NLIC” refer to National Lloyds Insurance Company (a wholly owned subsidiary of NLC) and references to “ASIC” refer to American Summit Insurance Company (a wholly owned subsidiary of NLC).*

## OVERVIEW

We are a financial holding company registered under the Bank Holding Company Act of 1956. 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. The following includes additional details regarding the financial products and services provided by each of our primary business units.

*PCC*. PCC is a financial holding company that provides, through its subsidiaries, traditional banking and wealth, investment and treasury management services primarily in Texas and residential mortgage loans throughout the United States.

*Securities Holdings*. Securities Holdings is a holding company 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, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

*NLC*. 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.

During 2019, our net income to common stockholders was $225.3 million, or $2.44 per diluted share. We declared and paid total common dividends of $0.32 per share, or $29.6 million, during 2019, which resulted in a dividend payout ratio of 13.12%. Dividend payout ratio is defined as cash dividends declared per common share divided by basic earnings per common share. We also paid an aggregate of $73.4 million to repurchase shares of our common stock during 2019.

We reported $300.3 million of consolidated income before income taxes during 2019, including the following contributions from our four reportable business segments.

- The banking segment contributed $182.2 million of income before income taxes during 2019;
- The broker-dealer segment contributed $89.8 million of income before income taxes during 2019;
- The mortgage origination segment contributed $64.7 million of income before income taxes during 2019; and
- The insurance segment contributed $17.5 million of income before income taxes during 2019.

At December 31, 2019, on a consolidated basis, we had total assets of $15.2 billion, total deposits of $9.0 billion, total loans, including loans held for sale, of $9.4 billion and stockholders' equity of $2.1 billion.

On January 30, 2020, our board of directors declared a quarterly cash dividend of $0.09 per common share, payable on February 28, 2020 to all common stockholders of record as of the close of business on February 14, 2020.

### *Recent Developments*

On January 30, 2020, we entered into an agreement to sell all of the outstanding capital stock of NLC, which comprises the operations of our insurance segment, for a cash purchase price of $150.0 million, subject to post closing adjustments. Consummation of the transaction, which we expect to occur in the second quarter of 2020, is subject to customary closing conditions, including required regulatory approvals. We also agreed to enter into an agreement at closing to refrain for a specified period from certain activities that compete with the business of NLC.

### *Factors Affecting Results of Operations*

As a financial institution providing products and services through our banking, broker-dealer, mortgage origination and insurance segments, we are directly affected by general economic and market conditions, many of which are beyond our control and unpredictable. A key factor impacting our financial position includes changes in the level of interest rates in addition to twists in the shape of the yield curve with the magnitude and direction of the impact varying across the different lines of business. Other factors include, but are not limited to, fluctuations in volume and price levels of securities, inflation, political events, weather-related events, investor confidence, investor participation levels, legal, regulatory, and compliance requirements and competition. All of these factors have the potential to impact our financial

position, operating results and liquidity. In addition, the recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially change the regulation of the financial services industry and may significantly impact us.

### Factors Affecting the Current Year

### Changes in Management and Efficiency Initiative-Related Charges

On October 25, 2019, we entered into a retention agreement with Todd Salmans to set forth the terms of his ongoing role with PrimeLending. Pursuant to the retention agreement, Mr. Salmans continues to serve as the Chairman of the Board of Directors of PrimeLending and received a one-time cash payment of $1.25 million on January 31, 2020. As of January 1, 2020, Mr. Salmans is not entitled to participate in our annual incentive bonus program or long-term incentive award program; provided, however, (i) he will be entitled to receive his annual incentive bonus pursuant to his performance under the annual incentive bonus program for fiscal 2019, which is payable on or before March 15, 2020, and (ii) the restricted stock units previously granted to him will continue to vest until he resigns or is terminated. On October 29, 2019, PrimeLending promoted Steve Thompson to Chief Executive Officer of PrimeLending, effective as of January 1, 2020. At the time of promotion, Mr. Thompson served, and he has since continued to serve, as President of PrimeLending. The mortgage origination segment's financial results reflect a pre-tax charge within employees' compensation and benefits noninterest expenses of $1.25 million in the fourth quarter of 2019 associated with Mr. Salman's retention agreement.

On February 21, 2019, we entered into a Separation and Release Agreement (the "Separation Agreement") with Alan B. White, our Vice Chairman and Co-Chief Executive Officer, in connection with his retirement effective April 1, 2019 (the "Retirement Date"). Pursuant to the Separation Agreement, effective as of the Retirement Date, Mr. White resigned from all positions with Hilltop and its subsidiaries, including, without limitation, Vice Chairman of our Board of Directors and Co-Chief Executive Officer of Hilltop. The Separation Agreement also provides that Mr. White's retention agreement with the Company, as amended, terminated on the Retirement Date, except for certain provisions that addressed, among other items, non-competition, non-solicitation, confidential information and arbitration. Effective April 1, 2019, Jeremy B. Ford became Hilltop's sole Chief Executive Officer, Chairman of the Executive Committee of the Board of Directors of Hilltop and the Chairman of the Bank. The Separation Agreement, in accordance with Mr. White's retention agreement, provided for aggregate payments of $12.4 million to Mr. White. During 2019, our financial results included the recognition within corporate of a pre-tax charge within employees' compensation and benefits noninterest expenses of $5.8 million in the first quarter of 2019 associated with Mr. White's retirement.

On February 19, 2019, we entered into a retention agreement with Hill A. Feinberg (the "Feinberg Retention Agreement") to set forth the terms of his ongoing role with the Company. Pursuant to the Feinberg Retention Agreement, as of February 20, 2019, Mr. Feinberg resigned as President and Chief Executive Officer of Hilltop Securities and from all other positions with Hilltop and its subsidiaries, other than as Chairman of the Board of Directors of Hilltop Securities, as a member of the Board of Directors of Hilltop and a member of Executive Committee of the Board of Directors of Hilltop. Pursuant to the Feinberg Retention Agreement, Mr. Feinberg served as the Chairman of the Board of Directors of Hilltop Securities until June 30, 2019, at which time he became Chairman Emeritus of Hilltop Securities and resigned from his membership on the Executive Committee of the Board of Directors of Hilltop. The Feinberg Retention Agreement provides for aggregate payments of $1.4 million to Mr. Feinberg upon his termination, resignation or death, of which $0.9 million was paid during the first quarter of 2019. Mr. Feinberg may resign or be terminated at any time. We appointed M. Bradley Winges to succeed Mr. Feinberg as President and Chief Executive Officer of Hilltop Securities effective February 20, 2019. In connection with the appointment of Mr. Winges, Hilltop and Mr. Winges entered into an employment agreement providing for a sign-on cash bonus of $1.5 million, among other benefits, on the effective date of his employment. During 2019, the broker-dealer segment's financial results reflect aggregate pre-tax charges within employees' compensation and benefits noninterest expenses of $2.2 million related to these items, all of which were recognized in the first quarter of 2019.

During 2019, the total impact of the above noted changes in management was $9.3 million before income taxes, $8.0 million of which was recognized during the first quarter of 2019, while the remainder was recognized during the fourth quarter of 2019. These changes and the related impact on our results of operations are collectively referred to as the "Leadership Changes."

In addition to the costs associated with Leadership Changes during 2019, corporate and the broker-dealer segment recognized $1.0 million and $0.7 million, respectively, in efficiency initiative-related charges resulting in aggregate charges of $1.7 million.

**Factors Affecting Prior Years**

*BORO Acquisition*

On August 1, 2018, we acquired privately-held, Houston-based The Bank of River Oaks ("BORO") in an all-cash transaction (the "BORO Acquisition"). Pursuant to the terms of the definitive agreement, we paid cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. The fair value of the assets acquired was $434.8 million, including $326.6 million in loans, while the fair value of liabilities assumed was $389.4 million, consisting primarily of $376.4 million in deposits. The operations of BORO were included in our operating results beginning August 1, 2018. The estimated fair value of the core deposit intangible asset acquired as of August 1, 2018 was $10.0 million and resulting goodwill was $39.6 million. In connection with the acquisition, we merged BORO into the Bank, and all customer accounts were converted to the PlainsCapital Bank platform.

*Termination of FDIC Loss-Share Agreements*

At the close of business on September 30, 2018, the loss-share agreement for commercial assets with the Federal Deposit Insurance Corporation (the "FDIC") expired, except for certain obligations on the part of the Bank that survived. On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which each of the loss-share agreements terminated in exchange for the payment by the FDIC to the Bank of $6.26 million. These funds were received on October 19, 2018. Pursuant to the Termination Agreement, all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements, including, among others, the true-up provisions and the settlement of loss-share and expense reimbursement claims, have been resolved and terminated. In October 2018, in conjunction with the receipt of the $6.26 million noted above, the amounts receivable from the FDIC under the loss-share agreements (the "FDIC Indemnification Asset") of $22.8 million and the FDIC true-up accrual of $16.6 million were removed with no further impact to the Company's consolidated statements of operations. The balance of the FDIC Indemnification Asset at December 31, 2017 was included in other assets within the consolidated balance sheets. Additionally, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment." In addition, the allowance for loan losses on the aforementioned loans held for investment is presented as one combined line item for all periods presented. Similarly, other real estate owned ("OREO") which was previously referred to as "covered OREO" if covered by the loss-share agreements or otherwise "non-covered OREO" is now collectively referred to as OREO and included in other assets within the consolidated balance sheets.

*Hilltop Plaza Investment*

On August 3, 2018, we made a $24.6 million investment in a new real estate development in Dallas' University Park. This investment consisted of $5.3 million for the building, the construction of which was recently completed, and $19.3 million for the land on which the building was constructed. Joining Hilltop in the transaction is our chairman and largest shareholder, Gerald J. Ford, who is an equal investing partner in the project. Hilltop and the Ford family each own 25% of the commercial office building and 50% of the 1.7-acre tract on which the building sits. Construction commenced in the fourth quarter of 2017, and total construction costs are expected to be approximately $62 million. Hilltop and the Bank have agreed to lease a majority of the available corporate office space in the building as well as retail space for a PlainsCapital Bank branch for an average cost of $3.7 million per year and $0.3 million per year, respectively, over the initial 129-month terms. The building, Hilltop Plaza, has served as headquarters for both Hilltop and the Bank since February 2020.

*PrimeLending Settlement Agreement and Indemnification Agreement*

On October 23, 2018, PrimeLending entered into a Settlement Agreement and an Indemnification Agreement with the Department of Justice ("DOJ") and U.S. Department of Housing and Urban Development ("HUD"), respectively. In these agreements, PrimeLending did not admit to any liability or wrongdoing, and the DOJ and HUD did not make any concessions with respect to their alleged claims. These agreements provide for payments of $13.5 million to the DOJ and HUD in the aggregate. In exchange for these payments, each of the DOJ and HUD released any civil claims they may

have related to certain loans originated by PrimeLending. The payments were made to the DOJ and HUD during the fourth quarter of 2018 and the indemnification liability related to this matter was released. Accordingly, our operating results or financial condition will not be impacted by this matter in future periods.

**Technology Enhancements and Corporate Initiatives**

In furtherance of our goal of building a premier, diversified financial services company, we regularly evaluate strategic opportunities to invest in our business and technology platforms. Such investments are intended to support long-term technological competitiveness and improve operational efficiencies throughout our organization. During 2018, we began the significant investment in new technological solutions, substantial core system upgrades and other technology enhancements. Such significant investments specifically include single enterprise-wide general ledger and procurement solutions, a mortgage loan origination system and a core system replacement with our broker-dealer segment (collectively referred to as "Core System Improvements"). In combination with these technology enhancements, we are continuing our efforts to consolidate common back office functions. We believe that costs incurred related to these Core System Improvements and the consolidation of common back office functions will continue to represent an increasingly significant portion of our noninterest expenses throughout 2020 and into 2021, but we are making such investments with the expectation that they will result in cost savings over the long term. Costs related to our Core System Improvements, disaggregated by segment between internal-use software costs that were capitalized as premises and equipment and costs that were recorded to noninterest expense, were as follows (in thousands).

| Year Ended December 31, 2019 | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | Hilltop Consolidated |
|---|---|---|---|---|---|---|
| Premises and equipment | $ — | $ 3,854 | $ 6,101 | $ — | $ 3,382 | $ 13,337 |
| Noninterest expense | — | 4,856 | 2,780 | — | 6,132 | 13,768 |
| Total | $ — | $ 8,710 | $ 8,881 | $ — | $ 9,514 | $ 27,105 |

| Year Ended December 31, 2018 | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | Hilltop Consolidated |
|---|---|---|---|---|---|---|
| Premises and equipment | $ — | $ 2,639 | $ 3,140 | $ — | $ 2,710 | $ 8,489 |
| Noninterest expense | — | 3,924 | 2,491 | — | 2,191 | 8,606 |
| Total | $ — | $ 6,563 | $ 5,631 | $ — | $ 4,901 | $ 17,095 |

***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, NLIC and ASIC.

On November 30, 2012, we acquired PlainsCapital Corporation pursuant to a plan of merger whereby PlainsCapital Corporation merged with and into our wholly owned subsidiary (the "PlainsCapital Merger"), which continued as the surviving entity under the name "PlainsCapital Corporation". Concurrent with the consummation of the PlainsCapital Merger, Hilltop became a financial holding company registered under the Bank Holding Company Act of 1956.

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 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 loans and OREO that the Bank acquired in the FNB Transaction. As previously discussed, the loss-share agreements with the FDIC were terminated in the fourth quarter of 2018.

On January 1, 2015, we acquired SWS in a stock and cash transaction (the "SWS Merger"), whereby SWS's broker-dealer subsidiaries became subsidiaries of Securities Holdings and SWS's banking subsidiary, Southwest Securities, FSB, was merged into the Bank. On October 5, 2015, Southwest Securities, Inc. was renamed "Hilltop Securities Inc."

On August 1, 2018, we acquired privately-held, Houston-based BORO in an all-cash transaction as discussed above. In connection with the BORO Acquisition, we merged BORO into the Bank, and all customer accounts were converted to the PlainsCapital Bank platform.

***Segment Information***

We have three primary business units, PCC (banking and mortgage origination), Securities Holdings (broker-dealer) and NLC (insurance). Under accounting principles generally accepted in the United States ("GAAP"), our 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. Consistent with our historical segment operating results, 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. Operating results for the mortgage origination segment have historically been more volatile than operating results for the banking, broker-dealer and insurance segments.

The banking segment includes the operations of the Bank, and since August 1, 2018, the operations acquired in the BORO Acquisition, which primarily provides business and consumer banking 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 includes the operations of Hilltop Securities and HTS Independent Network. The broker-dealer segment generates a majority of its revenues from fees and commissions earned from investment advisory and securities brokerage services. Hilltop Securities is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and the Financial Industry Regulatory Authority ("FINRA") and a member of the New York Stock Exchange ("NYSE"), HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA. Hilltop Securities, HTS Independent Network and Hilltop Securities Asset Management, LLC are registered investment advisers under the Investment Advisers Act of 1940.

The mortgage origination segment includes the operations of PrimeLending, which offers a variety of loan products and generates revenue predominantly from fees charged on the origination and servicing 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, in Texas and other areas of the southern United States. 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.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities, and management and administrative services to support the overall operations of the Company.

The elimination of intercompany transactions is included in “All Other and Eliminations.” Additional information concerning our reportable segments is presented in Note 31, Segment and Related Information, in the notes to our consolidated financial statements. The following table presents certain information about the operating results of our reportable segments (in thousands). This table serves as a basis for the discussion and analysis in the segment operating results section that follow.

| | Year Ended December 31, | | | Variance 2019 vs 2018 | | Variance 2018 vs 2017 | |
|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | Amount | Percent | Amount | Percent |
| Net interest income (expense): | | | | | | | |
| Banking | $ 379,258 | $ 370,732 | $ 366,581 | $ 8,526 | 2 % | $ 4,151 | 1 % |
| Broker-Dealer | 51,308 | 50,878 | 43,735 | 430 | 1 % | 7,143 | 16 % |
| Mortgage Origination | (6,273) | 1,485 | (915) | (7,758) | (522)% | 2,400 | 262 % |
| Insurance | 2,329 | 3,025 | 2,861 | (696) | (23)% | 164 | 6 % |
| Corporate | (5,541) | (9,176) | (10,069) | 3,635 | 40 % | 893 | 9 % |
| All Other and Eliminations | 20,225 | 19,380 | 19,555 | 845 | 4 % | (175) | (1)% |
| Hilltop Consolidated | $ 441,306 | $ 436,324 | $ 421,748 | $ 4,982 | 1 % | $ 14,576 | 3 % |
| Provision (recovery) for loan losses: | | | | | | | |
| Banking | $ 7,280 | $ 5,319 | $ 14,073 | $ 1,961 | 37 % | $ (8,754) | (62)% |
| Broker-Dealer | (74) | (231) | 198 | 157 | 68 % | (429) | (217)% |
| Mortgage Origination | — | — | — | — | — % | - | - % |
| Insurance | — | — | — | — | — % | - | - % |
| Corporate | — | — | — | — | — % | - | - % |
| All Other and Eliminations | — | — | — | — | — % | - | - % |
| Hilltop Consolidated | $ 7,206 | $ 5,088 | $ 14,271 | $ 2,118 | 42 % | $ (9,183) | (64)% |
| Noninterest income: | | | | | | | |
| Banking | $ 41,753 | $ 43,588 | $ 59,904 | $ (1,835) | (4)% | $ (16,316) | (27)% |
| Broker-Dealer | 404,411 | 301,714 | 368,421 | 102,697 | 34 % | (66,707) | (18)% |
| Mortgage Origination | 634,992 | 551,860 | 632,388 | 83,132 | 15 % | (80,528) | (13)% |
| Insurance | 143,082 | 142,565 | 151,382 | 517 | 0 % | (8,817) | (6)% |
| Corporate | 2,221 | 4,893 | 12,798 | (2,672) | (55)% | (7,905) | (62)% |
| All Other and Eliminations | (20,443) | (21,830) | (19,829) | 1,387 | 6 % | (2,001) | (10)% |
| Hilltop Consolidated | $ 1,206,016 | $ 1,022,790 | $ 1,205,064 | $ 183,226 | 18 % | $ (182,274) | (15)% |
| Noninterest expense: | | | | | | | |
| Banking | $ 231,524 | $ 256,577 | $ 248,404 | $ (25,053) | (10)% | $ 8,173 | 3 % |
| Broker-Dealer | 366,031 | 320,241 | 347,314 | 45,790 | 14 % | (27,073) | (8)% |
| Mortgage Origination | 563,998 | 540,474 | 581,899 | 23,524 | 4 % | (41,425) | (7)% |
| Insurance | 127,920 | 139,921 | 158,354 | (12,001) | (9)% | (18,433) | (12)% |
| Corporate | 50,968 | 36,628 | 33,983 | 14,340 | 39 % | 2,645 | 8 % |
| All Other and Eliminations | (634) | (592) | (699) | (42) | (7)% | 107 | 15 % |
| Hilltop Consolidated | $ 1,339,807 | $ 1,293,249 | $ 1,369,255 | $ 46,558 | 4 % | $ (76,006) | (6)% |
| Income (loss) before income taxes: | | | | | | | |
| Banking | $ 182,207 | $ 152,424 | $ 164,008 | $ 29,783 | 20 % | $ (11,584) | (7)% |
| Broker-Dealer | 89,762 | 32,582 | 64,644 | 57,180 | 175 % | (32,062) | (50)% |
| Mortgage Origination | 64,721 | 12,871 | 49,574 | 51,850 | 403 % | (36,703) | (74)% |
| Insurance | 17,491 | 5,669 | (4,111) | 11,822 | 209 % | 9,780 | 238 % |
| Corporate | (54,288) | (40,911) | (31,254) | (13,377) | (33)% | (9,657) | (31)% |
| All Other and Eliminations | 416 | (1,858) | 425 | 2,274 | 122 % | (2,283) | (537)% |
| Hilltop Consolidated | $ 300,309 | $ 160,777 | $ 243,286 | $ 139,532 | 87 % | $ (82,509) | (34)% |

### *Key Performance Indicators*

We utilize several key indicators of financial condition and operating performance to evaluate the various aspects of our business. In addition to traditional financial metrics, such as revenue and growth trends, we monitor several other financial measures and non-financial operating metrics to help us evaluate growth trends, measure the adequacy of our capital based on regulatory reporting requirements, measure the effectiveness of our operations and assess operational efficiencies. These indicators change from time to time as the opportunities and challenges in our businesses change.

Specifically, performance ratios and asset quality ratios are typically used for measuring the performance of banking and financial institutions. We consider return on average stockholders’ equity, return on average assets and net interest margin to be important supplemental measures of operating performance that are commonly used by securities analysts, investors and other parties interested in the banking and financial industry. The net charge-offs to average loans outstanding ratio is also considered a key measure for our banking segment as it indicates the performance of our loan portfolio.

In addition, we consider regulatory capital ratios to be key measures that are used by us, as well as banking regulators, investors and analysts, to assess our regulatory capital position and to compare our regulatory capital to that of other financial services companies.We monitor our capital strength in terms of both leverage ratio and risk-based capital ratios

based on capital requirements administred by the federal banking agencies. The risk-based capital ratios are minimum supervisory ratios generally applicable to banking organizations, but banking organizations are widely expected to operate with capital positions well above the minimum ratios. Failure to meet minimum capital requirments can initiate certain mandatory actions by regulators that, if undertaken, could have a material effect on our financial condition or results of operations.

***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 $441.3 million in net interest income during 2019, compared with net interest income of $436.3 million and $421.7 million during 2018 and 2017, respectively. Changes in net interest income during 2019, compared with 2018, primarily included an increase within our banking segment and corporate segment, partially offset by a decrease in our mortgage origination segment. Changes in net interest income during 2018, compared with 2017, primarily included increases in our banking, broker-dealer and mortgage origination segments.

The other component of our revenue is noninterest income, which is primarily comprised of the following:

(i) *Income from broker-dealer operations.* Through Securities Holdings, we provide investment banking and other related financial services that generated $241.5 million, $241.0 million and $266.3 million in securities brokerage commissions and fees and investment advisory fees and commissions, and $150.0 million, $47.8 million and $91.1 million in gains from derivative and trading portfolio activities (included within other noninterest income) during 2019, 2018 and 2017, respectively.

(ii) *Income from mortgage operations.* Through PrimeLending, we generate noninterest income by originating and selling mortgage loans. During 2019, 2018 and 2017, we generated $634.9 million, $548.7 million and $632.4 million, respectively, in net gains from sale of loans, other mortgage production income (including income associated with retained mortgage servicing rights), and mortgage loan origination fees.

(iii) *Income from insurance operations.* Through NLC, we provide fire and homeowners insurance for low value dwellings and manufactured homes. The insurance segment generated $132.3 million, $136.8 million and $142.3 million in net insurance premiums earned during 2019, 2018 and 2017, respectively.

In the aggregate, we generated $1.2 billion, $1.0 billion and $1.2 billion in noninterest income during 2019, 2018 and 2017, respectively. The increase in noninterest income during 2019, compared with 2018, was predominantly attributable to increases of $102.3 million in gains from derivative and trading portfolio activities within our broker-dealer segment and $86.3 million in net gains from sale of loans, other mortgage production income and mortgage loan origination fees within our mortgage origination segment.

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 during 2019 was $225.3 million, or $2.44 per diluted share, compared with net income applicable to common stockholders of $121.4 million, or $1.28 per diluted share, during 2018, and net income applicable to common stockholders of $132.5 million, or $1.36 per diluted share, during 2017. The 2019 period included costs associated with the Leadership Changes and efficiency initiative-related charges which, in the aggregate, totaled $11.0 million before income taxes. See "Factors Affecting Results of Operations" above for details regarding significant items that affected our operating results in 2019 and 2018.

Our consolidated operating results during 2018 also included $8.2 million of pre-tax transaction costs related to the BORO Acquisition, while our consolidated operating results during 2017 included $2.1 million of pre-tax transaction costs related to the SWS Merger.

Certain items included in net income for 2019, 2018 and 2017 resulted from purchase accounting associated with the PlainsCapital Merger, the FNB Transaction, the SWS Merger and the BORO Acquisition (collectively, the "Bank Transactions"). Income before income taxes during 2019, 2018 and 2017 included the following purchase accounting items related to the Bank Transactions (in thousands).

| Year Ended December 31, 2019 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Net accretion on earning assets and liabilities | $ 2,544 | $ 19,550 | $ 1,796 | $ 4,637 | $ 28,527 |
| Amortization of identifiable intangibles | (3,954) | (260) | (695) | (2,659) | (7,568) |

| Year Ended December 31, 2018 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Net accretion on earning assets and liabilities | $ 2,426 | $ 28,373 | $ 1,922 | $ 4,909 | $ 37,630 |
| Amortization of identifiable intangibles | (5,643) | (412) | (781) | (1,190) | (8,026) |

| Year Ended December 31, 2017 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Net accretion on earning assets and liabilities | $ 5,333 | $ 47,677 | $ 3,080 | $ — | $ 56,090 |
| Amortization of identifiable intangibles | (6,322) | (565) | (866) | — | (7,753) |

As mentioned in the "Factors Affecting Results of Operations" section above, the Bank terminated its loss-share agreements with the FDIC in the fourth quarter of 2018, resulting in a $6.26 million payment from the FDIC to the Bank. Prior to the termination, the Bank recorded "true-up" accruals with respect to the FNB Transaction loss-share agreements with the FDIC of $2.1 million in 2017. The true-up accrual was based on a formula within the loss-share agreements, pursuant to which we agreed to reimburse the FDIC if actual losses incurred and billed to the FDIC through loss sharing were below a stated threshold. In 2018, the Bank also recorded $6.5 million of amortization of excess book value of its the FDIC Indemnification Asset due to lower projected collections from the FDIC than were initially estimated at the acquisition date.

The information shown in the table below includes certain key performance indicators on a consolidated basis.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Return on average stockholders' equity [(1)] | 11.18 % | 6.33 % | 7.00 % |
| Return on average assets [(2)] | 1.66 % | 0.93 % | 1.03 % |
| Net interest margin [(3)] [(4)] | 3.48 % | 3.55 % | 3.61 % |
| Leverage ratio [(5)] | 12.71 % | 12.53 % | 12.94 % |
| Common equity Tier 1 risk-based capital ratio [(6)] | 16.70 % | 16.58 % | 17.71 % |

(1) Return on average stockholders' equity ratio is defined as consolidated income attributable to Hilltop divided by average total Hilltop stockholders' equity.
(2) Return on average assets ratio is defined as consolidated net income divided by average assets.
(3) Net interest margin is defined as net interest income divided by average interest-earning assets. We consider net interest margin as a key indicator of profitability, as it represents interest earned on our interest-earning assets compared to interest incurred.
(4) The securities financing operations within our broker-dealer segment had the effect of lowering both net interest margin and taxable equivalent net interest margin by 40 basis points, 42 basis points and 48 basis points during 2019, 2018 and 2017, respectively.
(5) The leverage ratio is a regulatory capital ratio and is defined as Tier 1 risk-based capital divided by average consolidated assets.
(6) The common equity Tier 1 risk-based capital ratio is a regulatory capital ratio and is defined as common equity Tier 1 risk-based capital divided by risk weighted assets. Common equity includes common equity Tier 1 capital (common stockholders' equity and certain minority interests in the equity capital accounts of consolidated subsidiaries, but excluding goodwill and various intangible assets) and additional Tier 1 capital (certain qualifying minority interests not included in common equity Tier 1 capital, certain preferred stock and related surplus, and certain subordinated debt).

We present net interest margin and net interest income below, on a taxable-equivalent basis. Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest earning assets. Taxable equivalent adjustments are based on the applicable corporate federal income tax rates of 21% for 2019 and 2018, and 35% for 2017. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments.

During 2019, 2018 and 2017, purchase accounting contributed 25, 34 and 52 basis points to our consolidated taxable equivalent net interest margin of 3.48%, 3.56% and 3.63%, respectively, and primarily related to the following purchase accounting items associated with the Bank Transactions (in thousands).

| Year Ended December 31, 2019 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Accretion of discount on loans | $ 3,113 | $ 19,550 | $ 1,687 | $ 4,395 | $ 28,745 |
| Accretion (amortization) of discount (premium) on acquired securities | (568) | — | 33 | 242 | (293) |

| Year Ended December 31, 2018 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Accretion of discount on loans | $ 3,689 | $ 28,373 | $ 2,123 | $ 4,909 | $ 39,094 |
| Amortization of premium on acquired securities | (1,263) | — | — | — | (1,263) |

| Year Ended December 31, 2017 | PlainsCapital Merger | FNB Transaction | SWS Merger | BORO Acquisition | Total |
|---|---|---|---|---|---|
| Accretion of discount on loans | $ 7,879 | $ 47,677 | $ 2,889 | $ — | $ 58,444 |
| Amortization of premium on acquired securities | (2,407) | — | — | — | (2,407) |

The table below provides additional details regarding our consolidated net interest income (dollars in thousands).

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | 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 held for sale | $ 1,501,154 | $ 64,830 | 4.32 % | $ 1,472,772 | $ 68,536 | 4.65 % | $ 1,541,000 | $ 64,344 | 4.18 % |
| Loans held for investment, gross (1) | 7,088,208 | 395,641 | 5.58 % | 6,601,453 | 368,189 | 5.58 % | 6,177,933 | 347,644 | 5.63 % |
| Investment securities - taxable | 1,803,622 | 61,983 | 3.44 % | 1,680,976 | 50,860 | 3.03 % | 1,399,379 | 36,378 | 2.60 % |
| Investment securities - non-taxable (2) | 233,713 | 6,803 | 2.91 % | 247,651 | 7,752 | 3.13 % | 234,741 | 8,012 | 3.41 % |
| Federal funds sold and securities purchased under agreements to resell | 63,598 | 1,236 | 1.94 % | 189,183 | 2,831 | 1.50 % | 140,337 | 923 | 0.66 % |
| Interest-bearing deposits in other financial institutions | 371,312 | 8,469 | 2.28 % | 459,628 | 8,683 | 1.89 % | 572,829 | 6,114 | 1.07 % |
| Securities borrowed | 1,550,322 | 69,582 | 4.49 % | 1,542,539 | 66,914 | 4.34 % | 1,518,041 | 41,048 | 2.70 % |
| Other | 75,298 | 6,869 | 9.12 % | 74,684 | 6,535 | 8.75 % | 85,550 | 4,897 | 5.72 % |
| Interest-earning assets, gross (2) | 12,687,227 | 615,413 | 4.85 % | 12,268,886 | 580,300 | 4.73 % | 11,669,810 | 509,360 | 4.36 % |
| Allowance for loan losses | (57,690) | | | (62,681) | | | (59,153) | | |
| Interest-earning assets, net | 12,629,537 | | | 12,206,205 | | | 11,610,657 | | |
| Noninterest-earning assets | 1,397,420 | | | 1,288,718 | | | 1,345,174 | | |
| **Total assets** | $14,026,957 | | | $ 13,494,923 | | | $12,955,831 | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing deposits | $ 5,916,491 | $ 71,509 | 1.21 % | $ 5,568,473 | $ 46,002 | 0.83 % | $ 5,220,359 | $ 24,695 | 0.47 % |
| Securities loaned | 1,423,847 | 60,086 | 4.22 % | 1,395,947 | 56,733 | 4.06 % | 1,378,748 | 32,337 | 2.35 % |
| Notes payable and other borrowings | 1,398,559 | 41,928 | 3.00 % | 1,477,966 | 40,369 | 2.73 % | 1,515,874 | 28,376 | 1.87 % |
| Total interest-bearing liabilities | 8,738,897 | 173,523 | 1.99 % | 8,442,386 | 143,104 | 1.70 % | 8,114,981 | 85,408 | 1.05 % |
| Noninterest-bearing liabilities | | | | | | | | | |
| Noninterest-bearing deposits | 2,635,924 | | | 2,504,599 | | | 2,309,776 | | |
| Other liabilities | 614,164 | | | 617,227 | | | 634,630 | | |
| Total liabilities | 11,988,985 | | | 11,564,212 | | | 11,059,387 | | |
| Stockholders’ equity | 2,014,535 | | | 1,919,940 | | | 1,894,009 | | |
| Noncontrolling interest | 23,437 | | | 10,771 | | | 2,435 | | |
| **Total liabilities and stockholders' equity** | $14,026,957 | | | $ 13,494,923 | | | $12,955,831 | | |
| **Net interest income (2)** | | $ 441,890 | | | $ 437,196 | | | $ 423,952 | |
| **Net interest spread (2)** | | | 2.86 % | | | 3.03 % | | | 3.31 % |
| **Net interest margin (2)** | | | 3.48 % | | | 3.56 % | | | 3.63 % |

(1) Average balance includes non-accrual loans.

(2) Presented on a taxable equivalent basis with taxable equivalent adjustments based on a 21% federal income tax rate for 2019 and 2018, and a 35% federal income tax rate for 2017. The adjustment to interest income was $0.6 million, $0.9 million and $2.2 million during 2019, 2018 and 2017, respectively.

The banking segment’s net interest margin exceeds our consolidated net interest margin shown above. Our consolidated net interest margin includes certain items that are not reflected in the calculation of our net interest margin within our banking segment and reduce our consolidated net interest margin, such as the borrowing costs of Hilltop and the yields

and costs associated with certain items within interest-earning assets and interest-bearing liabilities in the broker-dealer segment, including items related to securities financing operations that particularly decrease net interest margin. In addition, yields and costs on certain interest-earning assets, such as warehouse lines of credit extended to subsidiaries by the banking segment, are eliminated from the consolidated financial statements.

On a consolidated basis, net interest income increased during 2019, compared with 2018, primarily due to changes attributable to both volumes and yields within our banking segment, partially offset by a decrease in accretion of discount on loans within the banking segment and declining net yields on mortgage loans held for sale within our mortgage origination segment. The increase in net interest income during 2018, compared with 2017, was primarily related to improved spreads on customer balances and an increase in net interest income earned on trading securities within our broker-dealer segment, partially offset by a decrease in accretion of discount on loans and changes attributable to both volumes and yields within our banking segment. Refer to the discussion in the “Banking Segment” section that follows for more details on the changes in net interest income, 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.

The provision (recovery) for loan losses is determined by management as the amount to be added to (recovered from) 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. Substantially all of our consolidated provision (recovery) for loan losses is related to the banking segment. During 2019, the provision for loan losses was impacted by the banking segment’s release of a $2.0 million reserve associated with previously estimated hurricane loss exposures due to improved customer performance. The provision for loan losses was comprised of the following (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Provision relating to newly originated loans and acquired loans without credit impairment at acquisition | $ 2,978 | $ 6,978 | $ 12,433 |
| Provision (recovery) on PCI loans | 4,228 | (1,890) | 1,838 |
| Provision for loan losses | $ 7,206 | $ 5,088 | $ 14,271 |

Consolidated noninterest income increased during 2019, compared with 2018, due to increases in noninterest income within our mortgage origination and broker-dealer segments. The decrease in noninterest income during 2018, compared with 2017, was primarily due to decreases in noninterest income in our mortgage origination, broker-dealer and insurance segments. Additioally, our results for 2017 reflect $15.0 million of other noninterest income within the banking segment related to coverage provided by an insurance policy for forgery and $11.6 million within corporate related to the resolution of the appraisal proceedings from the SWS Merger, both of which were nonrecurring.

Consolidated noninterest expense increased $46.6 million during 2019, compared with 2018, primarily due to increases in noninterest expense within our broker-dealer and mortgage origination segments as well as corporate, partially offset by decreases within our banking and insurance segments. The decrease in noninterest expense during 2018, compared with 2017, primarily included decreases in noninterest expense within our mortgage origination, broker-dealer and insurance segments, partially offset by an increase within our banking segment.

Consolidated effective income tax rates were 22.4%, 21.8% and 45.3% for 2019, 2018 and 2017, respectively. The 2019 and 2018 effective tax rates approximated statutory rates and includes the effect of investments in tax-exempt instruments, offset by nondeductible expenses. The effective tax rate during 2017 was higher than the statutory rate primarily due to the revaluation of deferred tax assets as a result of the Tax Legislation, partially offset by a non-taxable gain recorded in the resolution of the SWS appraisal proceedings as the SWS Merger was a tax-free reorganization.

***Segment Results***

**Banking Segment**

The following table presents certain information about the operating results of our banking segment (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Net interest income (expense) | $ 379,258 | $ 370,732 | $ 366,581 | $ 8,526 | $ 4,151 |
| Provision (recovery) for loan losses | 7,280 | 5,319 | 14,073 | 1,961 | (8,754) |
| Noninterest income | 41,753 | 43,588 | 59,904 | (1,835) | (16,316) |
| Noninterest expense | 231,524 | 256,577 | 248,404 | (25,053) | 8,173 |
| Income (loss) before income taxes | $ 182,207 | $ 152,424 | $ 164,008 | $ 29,783 | $ (11,584) |

Income before income taxes increased during 2019, compared with 2018, primarily due to an increase in net interest income associated with net volume and yield changes, and a decrease in noninterest expense associated with BORO Acquisition-related transaction expenses of $8.2 million and a wire fraud loss of $4.5 million from a "spear phishing" attack were recognized during 2018. Such items were partially offset by an increase in deposit rates and a decline in accretion of discount on loans. Changes to net interest income related to 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 are discussed in more detail below.

The decrease in income before income taxes during 2018, compared with 2017, was primarily due to a decline in accretion, increases in deposit rates, the previously mentioned BORO Acquisition-related transaction expenses and a loss attributable to wire fraud recognized during 2018, as well as $15.0 million of other noninterest income recognized during 2017 related to an insurance policy for forgery. These factors that contributed to the decrease in income before income taxes were partially offset by an increase in interest income associated with increases in both rate and volume on the loan portfolio and a decrease in FNB-acquired asset-related expenses.

The information shown in the table below includes certain key indicators of the performance and asset quality of our banking segment.

| | Year Ended December 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2017 |
| Efficiency ratio [(1)] | 54.91 % | 56.79 % | 54.99 % | 61.93 % | 58.24 % |
| Return on average assets [(2)] | 1.17 % | 1.31 % | 1.36 % | 1.23 % | 0.85 % |
| Net interest margin [(3)] | 3.77 % | 4.50 % | 4.00 % | 4.23 % | 4.31 % |
| Net charge-offs to average loans outstanding [(4)] | (0.08)% | — % | 0.08 % | 0.15 % | 0.09 % |

(1) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the period. We consider the efficiency ratio to be a measure of the banking segment's profitability.
(2) Return of average assets ratio is defined as net income divided by average assets.
(3) Net interest margin is defined as net interest income divided by average interest-earning assets. We consider net interest margin as a key indicators of profitability, as it represents interest earned on interest-earning assets compared to interest incurred.
(4) The net charge-offs to average loans outstanding ratio is defined as charge-offs during the reported period minus recoveries divided by average loans outstanding. We use the ratio to measure the credit performance of our loan portfolio.

The banking segment presents net interest margin and net interest income in the following discussion and tables below, on a taxable equivalent basis. Net interest margin (taxable equivalent), a non-GAAP measure, is defined as taxable equivalent net interest income divided by average interest-earning assets. Taxable equivalent adjustments are based on the applicable corporate federal income tax rates of 21% for 2019 and 2018, and 35% for 2017. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments.

During 2019, 2018 and 2017, purchase accounting contributed 33, 48 and 72 basis points, respectively, to the banking segment's taxable equivalent net interest margin of 4.01%, 4.24% and 4.33%, respectively. These purchase accounting

items are primarily related to the Bank Transactions as detailed in the tables presented in the Consolidated Operating Results section.

The table below provides additional details regarding our banking segment's net interest income (dollars in thousands).

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | 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 held for investment, gross [(1)] | $ 6,564,748 | $ 367,903 | 5.60 % | $ 6,032,767 | $ 342,098 | 5.67 % | $ 5,695,927 | $ 326,906 | 5.74 % |
| Subsidiary warehouse lines of credit | 1,374,051 | 61,812 | 4.50 % | 1,364,577 | 58,551 | 4.29 % | 1,436,401 | 54,701 | 3.81 % |
| Investment securities - taxable | 1,181,198 | 29,879 | 2.53 % | 965,937 | 22,451 | 2.32 % | 851,066 | 16,275 | 1.91 % |
| Investment securities - non-taxable [(2)] | 96,186 | 3,267 | 3.40 % | 110,386 | 3,707 | 3.36 % | 123,969 | 4,747 | 3.83 % |
| Federal funds sold and securities purchased under agreements to resell | 447 | 1 | 0.17 % | 1,049 | 16 | 1.54 % | 5,947 | 50 | 0.85 % |
| Interest-bearing deposits in other financial institutions | 202,478 | 4,525 | 2.23 % | 241,124 | 4,429 | 1.84 % | 316,186 | 3,499 | 1.11 % |
| Other | 55,403 | 2,534 | 4.57 % | 51,906 | 2,282 | 4.40 % | 70,123 | 2,412 | 3.44 % |
| Interest-earning assets, gross [(2)] | 9,474,511 | 469,921 | 4.96 % | 8,767,746 | 433,534 | 4.94 % | 8,499,619 | 408,590 | 4.81 % |
| Allowance for loan losses | (57,546) | | | (62,306) | | | (59,007) | | |
| Interest-earning assets, net | 9,416,965 | | | 8,705,440 | | | 8,440,612 | | |
| Noninterest-earning assets | 938,663 | | | 906,586 | | | 947,484 | | |
| **Total assets** | $ 10,355,628 | | | $ 9,612,026 | | | $ 9,388,096 | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing deposits | $ 5,654,663 | $ 79,805 | 1.41 % | $ 5,237,014 | $ 55,060 | 1.05 % | $ 4,932,689 | $ 33,420 | 0.68 % |
| Notes payable and other borrowings | 481,924 | 10,233 | 2.12 % | 417,534 | 7,000 | 1.68 % | 741,561 | 6,953 | 0.94 % |
| Total interest-bearing liabilities | 6,136,587 | 90,038 | 1.47 % | 5,654,548 | 62,060 | 1.10 % | 5,674,250 | 40,373 | 0.71 % |
| Noninterest-bearing liabilities | | | | | | | | | |
| Noninterest-bearing deposits | 2,622,229 | | | 2,492,728 | | | 2,297,390 | | |
| Other liabilities | 93,861 | | | 48,847 | | | 48,303 | | |
| Total liabilities | 8,852,677 | | | 8,196,123 | | | 8,019,943 | | |
| Stockholders' equity | 1,502,951 | | | 1,415,903 | | | 1,368,153 | | |
| **Total liabilities and stockholders' equity** | $ 10,355,628 | | | $ 9,612,026 | | | $ 9,388,096 | | |
| **Net interest income [(2)]** | | $ 379,883 | | | $ 371,474 | | | $ 368,217 | |
| **Net interest spread [(2)]** | | | 3.49 % | | | 3.85 % | | | 4.10 % |
| **Net interest margin [(2)]** | | | 4.01 % | | | 4.24 % | | | 4.33 % |

(1) Average balance includes non-accrual loans.
(2) Presented on a taxable equivalent basis with taxable equivalent adjustments based on the applicable corporate federal income tax rates of 21% for 2019 and 2018 and 35% for 2017. The adjustment to interest income was $0.6 million, $0.8 million and $1.6 million during 2019, 2018 and 2017, respectively.

The banking segment's net interest margin exceeds our consolidated net interest margin. Our consolidated net interest margin includes certain items that are not reflected in the calculation of our net interest margin within our banking segment and reduce our consolidated net interest margin, such as the borrowing costs of Hilltop and the yields and costs associated with certain items within interest-earning assets and interest-bearing liabilities in the broker-dealer segment, including items related to securities financing operations that particularly decrease net interest margin. In addition, the banking segment's interest-earning assets include warehouse lines of credit extended to other subsidiaries, which 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).

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 vs. 2018 | | | 2018 vs. 2017 | | |
| | Change Due To [1] | | | Change Due To [1] | | |
| | Volume | Yield/Rate | Change | Volume | Yield/Rate | Change |
| Interest income | | | | | | |
| Loans held for investment, gross | $ 7,603 | $ 18,202 | $ 25,805 | $ 19,324 | $ (4,132) | $ 15,192 |
| Subsidiary warehouse lines of credit | 102 | 3,159 | 3,261 | (2,735) | 6,585 | 3,850 |
| Investment securities - taxable | 1,261 | 6,167 | 7,428 | 2,197 | 3,979 | 6,176 |
| Investment securities - non-taxable [2] | (120) | (320) | (440) | (520) | (520) | (1,040) |
| Federal funds sold and securities purchased under agreements to resell | (2) | (13) | (15) | (42) | 8 | (34) |
| Interest-bearing deposits in other financial institutions | (179) | 275 | 96 | (831) | 1,761 | 930 |
| Other | 39 | 213 | 252 | (627) | 497 | (130) |
| Total interest income [2] | 8,704 | 27,683 | 36,387 | 16,766 | 8,178 | 24,944 |
| Interest expense | | | | | | |
| Deposits | $ 1,107 | $ 23,638 | $ 24,745 | $ 2,062 | $ 19,578 | $ 21,640 |
| Notes payable and other borrowings | 272 | 2,961 | 3,233 | (3,038) | 3,085 | 47 |
| Total interest expense | 1,379 | 26,599 | 27,978 | (976) | 22,663 | 21,687 |
| Net interest income [2] | $ 7,325 | $ 1,084 | $ 8,409 | $ 17,742 | $ (14,485) | $ 3,257 |

(1) Changes attributable to both volume and yield/rate are included in yield/rate column.
(2) Taxable equivalent.

Changes in the yields earned on interest-earning assets increased taxable equivalent net interest income, compared with 2018, primarily as a result of higher yields due to increased market rates, partially offset by a decrease in accretion of discount on loans of $10.3 million. Accretion of discount on loans is expected to continue to decrease in future periods as loans acquired in the Bank Transactions are repaid, refinanced or renewed. Changes in the volume of interest-earning assets, primarily due to an increase in the loan portfolio as a result of the BORO Acquisition and seasonal increases in mortgage warehouse lending volume, increased taxable equivalent net interest income during 2019, compared with 2018. Changes in rates paid on interest-bearing liabilities decreased taxable equivalent net interest income during 2019, compared with 2018, due to increases in market interest rates and increased competitive pressure for deposits. Our portfolio includes loans that periodically reprice or mature prior to the end of an amortized term. Some of our variable-rate loans remain at applicable rate floors, which may delay and/or limit changes in net interest income during a period of changing rates. If interest rates were to fall further, the impact on our net interest income for certain variable-rate loans would be limited by these rate floors. In addition, declining interest rates may reduce our cost of funds on deposits. The extent of this impact will ultimately be driven by the timing, magnitude and frequency of interest rate and yield curve movements, as well as changes in market conditions and timing of management strategies. If interest rates were to rise, yields on the portion of our loan portfolio that remain at applicable rate floors would rise more slowly than increases in market interest rates. Any changes in interest rates across the term structure will continue to impact net interest income and net interest margin. The impact of rate movements will change with the shape of the yield curve, including any changes in steepness or flatness and inversions at any points on the yield curve.

Changes in the yields earned on interest-earning assets increased taxable equivalent net interest income during 2018, compared with 2017, primarily as a result of higher yields due to increased market rates, partially offset by a decrease in accretion of discount on loans of $19.4 million. Changes in the volume of interest-earning assets, primarily due to an increase in the loan portfolio, increased taxable equivalent net interest income during 2018, compared with 2017. Changes in rates paid on interest-bearing liabilities decreased taxable equivalent net interest income during 2018, compared with 2017, due to increases in market interest rates.

During 2019, 2018, and 2017, the banking segment retained approximately $149 million, $97 million, and $10 million, respectively, in mortgage loans originated by the mortgage origination segment. These loans are purchased by the banking segment at par. For origination services provided, the banking segment reimburses the mortgage origination segment for direct origination costs associated with these mortgage loans, in addition to payment of a correspondent fee. The correspondent fees are eliminated in consolidation. We expect loans originated by the mortgage origination segment on

behalf of and retained by the banking segment to increase during 2020 based on approved authority for up to 5% of the mortgage origination segment's total origination volume. The determination of mortgage loan retention levels by the banking segment will be impacted by, among other things, an ongoing review of the prevailing mortgage rates, balance sheet positioning at Hilltop and the banking segment's outlook for commercial loan growth.

The banking segment's noninterest income decreased during 2019, compared to 2018, primarily due to sales activity in our available-for-sale investment portfolio. The decrease in noninterest income during 2018, compared to 2017, was primarily due to the previously mentioned insurance receivable and related increase in other noninterest income of $15.0 million recorded during 2017 from coverage provided by an insurance policy for forgery related to a single, large loan previously charged off by the Bank.

The banking segment's noninterest expenses decreased during 2019, compared to 2018, primarily due to a reduction in the previously mentioned BORO Acquisition-related transaction and wire fraud expenses, as well as a reduction in net expenses related to previously covered assets.

### Broker-Dealer Segment

The following table provides additional details regarding our broker-dealer operating results (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| **Net interest income:** | | | | | |
| Wealth management: | | | | | |
| Securities lending | $ 9,496 | $ 10,181 | $ 8,711 | $ (685) | $ 1,470 |
| Clearing services | 11,530 | 13,038 | 10,728 | (1,508) | 2,310 |
| Structured finance | 6,686 | 10,304 | 9,600 | (3,618) | 704 |
| Other | 23,596 | 17,355 | 14,696 | 6,241 | 2,659 |
| Total net interest income | 51,308 | 50,878 | 43,735 | 430 | 7,143 |
| **Noninterest income:** | | | | | |
| Securities commissions and fees by business line [(1)]: | | | | | |
| Fixed income services [(5)] | 38,516 | 41,928 | 46,668 | (3,412) | (4,740) |
| Wealth management: | | | | | |
| Retail | 73,713 | 80,625 | 81,075 | (6,912) | (450) |
| Clearing services | 33,786 | 35,605 | 34,008 | (1,819) | 1,597 |
| Other [(5)] | 3,160 | 4,065 | 3,722 | (905) | 343 |
| | 149,175 | 162,223 | 165,473 | (13,048) | (3,250) |
| Investment and securities advisory fees and commissions by business line: | | | | | |
| Public finance services [(5)] | 70,321 | 60,798 | 86,145 | 9,523 | (25,347) |
| Fixed income services [(5)] | 7,609 | 4,552 | 637 | 3,057 | 3,915 |
| Wealth management: | | | | | |
| Retail | 20,820 | 19,037 | 16,306 | 1,783 | 2,731 |
| Clearing services | 1,264 | 1,190 | 1,152 | 74 | 38 |
| Structured finance | 3,644 | 4,354 | 5,675 | (710) | (1,321) |
| Other | 129 | 135 | 5 | (6) | 130 |
| | 103,787 | 90,066 | 109,920 | 13,721 | (19,854) |
| Other: | | | | | |
| Structured finance | 114,190 | 34,957 | 66,233 | 79,233 | (31,276) |
| Fixed income services [(5)] | 35,859 | 12,881 | 24,883 | 22,978 | (12,002) |
| Other [(5)] | 1,400 | 1,587 | 1,912 | (187) | (325) |
| | 151,449 | 49,425 | 93,028 | 102,024 | (43,603) |
| Total noninterest income | 404,411 | 301,714 | 368,421 | 102,697 | (66,707) |
| Net revenue [(2)] | 455,719 | 352,592 | 412,156 | 103,127 | (59,564) |
| **Noninterest expense:** | | | | | |
| Variable compensation [(3)] | 163,840 | 115,948 | 143,688 | 47,892 | (27,740) |
| Non-variable compensation and benefits | 103,823 | 102,519 | 106,926 | 1,304 | (4,407) |
| Segment operating costs [(4)] | 98,294 | 101,543 | 96,898 | (3,249) | 4,645 |
| Total noninterest expense | 365,957 | 320,010 | 347,512 | 45,947 | (27,502) |
| Income before income taxes | $ 89,762 | $ 32,582 | $ 64,644 | $ 57,180 | $ (32,062) |

(1) Securities commissions and fees includes income of $11.4 million, $11.3 million, and $9.1 million during 2019, 2018, and 2017, respectively, that is eliminated in consolidation.

(2) Net revenue is defined as the sum of total net interest income and total noninterest income. We consider net revenue to be a key performance measure in the evaluation of the broker-dealer segment's financial position and operating performance as it includes noninterest income comprised of investment and securities advisory fees and commissions, as well as net interest income. We assess the broker-dealer segment's performance on a revenue basis for comparability with our banking segment. Additionally, net revenue is used by investors and analysts as it allows for some level of comparability of trends across the financial services industry.

(3) Variable compensation represents performance-based commissions and incentives.

(4) Segment operating costs include provision for loan losses associated with the broker-dealer segment within other noninterest expenses.

(5) Noted balances during all prior periods include certain reclassifications to conform with current period presentation.

The increase in income before income taxes during 2019, compared with 2018, was primarily the result of an increase of $102.3 million in trading gains earned from our derivative and trading portfolio activities, most notably in our structured finance business. This increase in trading gains was primarily due to a more favorable market environment resulting in a 26% increase in trading volumes, enhanced spreads and a 22% increase in the structured finance business line's to-be-announced ("TBA") mortgage-backed securities volume. We have experienced a more robust business environment in 2019 than we observed in 2018 primarily as a result of recent decreases in interest rates in 2019, increased customer demand, improved product distribution and other strategic enhancements. These increases were offset by a $47.9 million increase in variable compensation based on more robust financial results during 2019, a decrease in securities commissions and fees and the $2.9 million in pre-tax costs associated with the Leadership Changes and efficiency initiative-related charges as noted in the "Factors Affecting Results of Operations" section above.

The change in income before income taxes during 2018, compared with 2017, was primarily the result of a decrease of $43.4 million in trading gains earned from our derivative and trading portfolio activities, most notably in our structured finance business. This decrease in trading gains was primarily due to market volatility, competitive pricing pressures, and a decrease of 19% in the structured finance business line's TBA mortgage-backed securities volume. In addition, during 2018, our broker-dealer segment experienced a decrease of $19.9 million in investment and securities advisory fees and commissions primarily earned on the underwriting of municipal bond transactions within our public finance services business line and an increase of $5.1 million in other noninterest expense primarily related to the purchase and development of new software solutions. These changes were partially offset by a 107-basis point increase in the federal funds rate during 2018, which led to an increase of $3.7 million in fees earned on money market and FDIC insured bank deposits, an increase in the net interest income earned from stock lending and margin lending and a decrease in variable compensation of $27.7 million based on less robust financial results.

The broker-dealer segment is subject to interest rate risk as a consequence of maintaining inventory positions, trading in interest rate sensitive financial instruments and maintaining a matched stock loan book. Changes in interest rates are likely to have a meaningful impact on our overall financial performance. Our broker-dealer segment has historically earned a significant portion of its revenues from advisory fees upon the successful completion of the client's transaction. Rapid or significant changes in interest rates could adversely affect the broker-dealer segment's bond trading, sales, underwriting activities and other interest spread-sensitive activities described below. The broker-dealer segment also receives administrative fees for providing money market and FDIC investment alternatives to clients, which tend to be sensitive to short term interest rates. In addition, the profitability of the broker-dealer segment depends, to an extent, on the spread between revenues earned on customer loans and excess customer cash balances, and the interest expense paid on customer cash balances, as well as the interest revenue earned on trading securities, net of financing costs.

In the broker-dealer segment, interest is earned from securities lending activities, interest charged on customer margin loan balances and interest earned on investment securities used to support sales, underwriting and other customer activities. The increase in net interest income during 2019, compared with 2018, was primarily due to an increase in net interest earned on trading securities as a result of increases in market interest rates. The increase in net interest income was partially offset by decreases in net interest income from our structured finance operations due to a decline in pool inventory from December 31, 2018 to December 31, 2019 and decreases in average customer margin balances within the segment's clearing business of 19% during 2019. The increase in net interest income during 2018, compared with 2017, was primarily due to improved spreads on customer balances and an increase in net interest earned on trading securities as a result of increases in market interest rates.

Noninterest income increased during 2019 compared to 2018 primarily due to increases in other noninterest income and investment and securities advisory fees and commissions, partially offset by decreases in securities commissions and fees. The decrease in noninterest income during 2018, compared with 2017, was primarily due to decreases of $43.6 million in other noninterest income and $19.9 million in investment and securities advisory fees and commissions.

Securities commissions and fees decreased during 2019 compared to 2018 primarily due to decreases in commissions earned in our retail group and fixed income services business line and fees related to our FDIC insured investment products, as well as commissions earned on insurance and mutual fund transactions, and fees earned from correspondent transactions. Securities commissions and fees decreased during 2018, compared with 2017. The decrease was primarily attributable to decreases in commissions earned by our retail group and fixed income services business line related to changes made on January 1, 2018 in connection with the implementation of Accounting Standards Codification 606, Revenue from Contracts with Customers, partially offset by an increase in fees earned on money market accounts and FDIC insured bank deposits by the clearing services and retail groups resulting from the 107-basis point increase in the federal funds rate during 2018.

Investment banking and advisory fees increased during 2019, compared with 2018, primarily due to the increase in the number of issues and the aggregate amount of those issues by our public finance services business line. Investment banking and advisory fees decreased in 2018, compared with 2017, primarily due to reductions in the number and the aggregate dollar amount of municipal bond transactions and the municipal finance and underwriting fees associated with those and other taxable transactions. A number of national municipal issuers elected to accelerate certain capital raising initiatives in the fourth quarter of 2017 before the enactment of the Tax Legislation. As a result, we experienced lower municipal issuance volume in 2018 compared to 2017.

The increase in other noninterest income during 2019, compared with 2018, was primarily the result of a $102.3 million increase in trading gains earned from our derivative and trading portfolio activities, most notably in our structured finance business, which accounted for $79.2 million of the increase, as well as our fixed income services business line, which accounted for $23.0 million of the increase. The increases in our structured finance business were primarily due to the 77 basis-point decline in the 10-year treasury bond yield during 2019 compared to a 29 basis-point increase during 2018, and a 22% increase in the business line's TBA mortgage-backed securities volume. The $23.0 million increase in our fixed income services business line was attributable to an improved market environment, improved spreads and a 26% increase in trading volume. The decrease in other noninterest income during 2018, compared with 2017, was primarily due to a $43.3 million decrease in trading gains earned from our derivative and trading portfolio activities, most notably in our structured finance business primarily due to market volatility, competitive pricing pressures and a decrease of 19% in the business line's TBA mortgage-backed securities volume. In addition, the value of investments held in the broker-dealer segment's deferred compensation plan decreased $1.5 million during 2018 compared to 2017. These decreases were partially offset by $1.4 million in recoveries from legal settlements in 2018.

Noninterest expenses increased during 2019, compared with 2018, primarily due to an increase in variable compensation and $2.9 million in pre-tax costs associated with the Leadership Changes and efficiency initiative-related charges as noted in the "Factors Affecting Results of Operations" section above. The decrease in noninterest expenses during 2018, compared with 2017, was primarily due to a decrease in the variable compensation and benefits expense components that are based on performance, partially offset by increases in expenses related to the purchase and development of new software solutions.

Selected information concerning the broker-dealer segment follows (dollars in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Pre-tax margin (1) | 19.7 % | 9.2 % | 15.7 % |
| Total compensation as a % of net revenue (2) | 58.7 % | 62.0 % | 60.8 % |
| FDIC insured program balances at the Bank (end of period) | $ 1,304,333 | $ 1,302,558 | $ 1,301,148 |
| Other FDIC insured program balances (end of period) | $ 666,418 | $ 905,503 | $ 1,093,493 |
| Customer margin balances (end of period) | $ 310,752 | $ 333,054 | $ 349,794 |
| Customer funds on deposit, including short credits (end of period) | $ 329,743 | $ 394,005 | $ 411,989 |
| Public finance services: | | | |
| Number of issues | 1,179 | 1,123 | 1,561 |
| Aggregate amount of offerings | $ 54,394,943 | $ 53,559,396 | $ 83,907,144 |
| Structured finance: | | | |
| Lock production/TBA volume | $ 5,876,466 | $ 4,829,687 | $ 5,938,788 |
| Fixed income services: | | | |
| Total volumes | $ 83,571,542 | $ 66,370,939 | $ 65,559,604 |
| Net inventory (end of period) | $ 643,371 | $ 659,237 | $ 491,370 |
| Wealth management (Retail group): | | | |
| Retail employee representatives (end of period) | 126 | 124 | 120 |
| Independent registered representatives (end of period) | 195 | 208 | 218 |
| Wealth management (Clearing services group): | | | |
| Total tickets | 1,847,217 | 1,661,535 | 1,325,760 |
| Correspondents (end of period) | 145 | 152 | 162 |
| Wealth management (Securities lending group): | | | |
| Interest-earning assets - stock borrowed (end of period) | $ 1,634,782 | $ 1,365,547 | $ 1,386,821 |
| Interest-bearing liabilities - stock loaned (end of period) | $ 1,555,964 | $ 1,186,073 | $ 1,215,093 |

(1) Pre-tax margin is defined as income before income taxes divided by net revenue. We consider pre-tax margin to be a key performance measure given its use as a profitability metric representing the percentage of revenue earned that results in a profit.

(2) Total compensation includes the sum of non-variable compensation and benefits and variable compensation. Variable compensation represents performance-based commissions and incentives. We consider total compensation as a percentage of net revenue to be a key performance measure and indicator of segment profitability.

### Mortgage Origination Segment

The following table presents certain information regarding the operating results of our mortgage origination segment (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Net interest income (expense) | $ (6,273) | $ 1,485 | $ (915) | $ (7,758) | $ 2,400 |
| Noninterest income | 634,992 | 551,860 | 632,388 | 83,132 | (80,528) |
| Noninterest expense | 563,998 | 540,474 | 581,899 | 23,524 | (41,425) |
| Income (loss) before income taxes | $ 64,721 | $ 12,871 | $ 49,574 | $ 51,850 | $ (36,703) |

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 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 loan origination volume from refinancings. As average mortgage interest rates decreased between 2018 and 2019, refinancing volume as a percentage of total origination volume increased. Between 2017 and 2018, average mortgage interest rates increased which resulted in refinancing volume as a percentage of total origination volume decreasing. See details regarding refinancing volume in the table below. Changes in mortgage interest rates have historically had a lesser impact on home purchases volume than on refinancing volume. An increase in mortgage interest rates during 2020 could impact the percentage mix of refinancing and purchase volumes relative to total loan origination volume compared to 2019.

The mortgage origination segment primarily originates its mortgage loans through a retail channel, with limited lending through its affiliated business relationships ("ABAs"). For 2019, funded loan volume through ABAs was approximately 8% of the mortgage origination segment's total loan volume. At December 31, 2019, PrimeLending owned a 51% membership interest in four ABAs. We expect production within the ABA channel to increase to approximately 10% of the total loan volume of the mortgage origination segment during 2020.

The following table provides further details regarding our mortgage loan originations and sales for the periods indicated below (dollars in thousands).

| | Year Ended December 31, | | | | | | Variance | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | 2019 vs 2018 | 2018 vs 2017 |
| Mortgage Loan Originations - units | 61,045 | | 57,186 | | 62,058 | | 3,859 | (4,872) |
| Mortgage Loan Originations - volume | $ 15,579,437 | | $ 13,692,484 | | $ 14,457,913 | | $ 1,886,953 | $ (765,429) |
| Mortgage Loan Originations: | | | | | | | | |
| Conventional | $ 9,503,044 | 61.00 % | $ 8,262,800 | 60.35 % | $ 8,666,935 | 59.95 % | $ 1,240,244 | $ (404,135) |
| Government | 3,860,802 | 24.78 % | 3,413,300 | 24.93 % | 3,440,264 | 23.80 % | 447,502 | (26,964) |
| Jumbo | 1,309,317 | 8.40 % | 1,181,353 | 8.63 % | 1,415,682 | 9.79 % | 127,964 | (234,329) |
| Other | 906,274 | 5.82 % | 835,031 | 6.09 % | 935,032 | 6.46 % | 71,243 | (100,001) |
| | $ 15,579,437 | 100.00 % | $ 13,692,484 | 100.00 % | $ 14,457,913 | 100.00 % | $ 1,886,953 | $ (765,429) |
| Home purchases | $ 11,718,772 | 75.22 % | $ 11,798,804 | 86.17 % | $ 11,974,571 | 82.82 % | $ (80,032) | $ (175,767) |
| Refinancings | 3,860,665 | 24.78 % | 1,893,680 | 13.83 % | 2,483,342 | 17.18 % | 1,966,985 | (589,662) |
| | $ 15,579,437 | 100.00 % | $ 13,692,484 | 100.00 % | $ 14,457,913 | 100.00 % | $ 1,886,953 | $ (765,429) |
| Texas | $ 2,999,633 | 19.25 % | $ 2,594,585 | 18.95 % | $ 3,129,008 | 21.64 % | $ 405,048 | $ (534,423) |
| California | 1,561,926 | 10.03 % | 1,511,931 | 11.04 % | 1,846,172 | 12.77 % | 49,995 | (334,241) |
| Florida | 1,113,827 | 7.15 % | 1,026,157 | 7.49 % | 853,727 | 5.90 % | 87,670 | 172,430 |
| Arizona | 681,486 | 4.37 % | 567,202 | 4.14 % | 554,463 | 3.84 % | 114,284 | 12,739 |
| Ohio | 642,130 | 4.12 % | 588,199 | 4.30 % | 634,142 | 4.39 % | 53,931 | (45,943) |
| Washington | 631,549 | 4.05 % | 520,543 | 3.80 % | 465,501 | 3.22 % | 111,006 | 55,042 |
| South Carolina | 604,546 | 3.88 % | 474,844 | 3.47 % | 472,935 | 3.27 % | 129,702 | 1,909 |
| Missouri | 510,025 | 3.27 % | 454,517 | 3.32 % | 448,565 | 3.10 % | 55,508 | 5,952 |
| North Carolina | 485,682 | 3.12 % | 413,686 | 3.02 % | 440,456 | 3.05 % | 71,996 | (26,770) |
| Maryland | 485,098 | 3.11 % | 403,086 | 2.94 % | 430,668 | 2.98 % | 82,012 | (27,582) |
| All other states | 5,863,535 | 37.65 % | 5,137,734 | 37.53 % | 5,182,276 | 35.84 % | 725,801 | (44,542) |
| | $ 15,579,437 | 100.00 % | $ 13,692,484 | 100.00 % | $ 14,457,913 | 100.00 % | $ 1,886,953 | $ (765,429) |
| Mortgage Loan Sales - volume: | | | | | | | | |
| External third parties | $ 14,442,929 | 98.98 % | $ 13,639,215 | 99.30 % | $ 14,444,529 | 99.93 % | $ 803,714 | $ (805,314) |
| Banking segment | 148,798 | 1.02 % | 96,670 | 0.70 % | 9,731 | 0.07 % | 52,128 | 86,939 |
| | $ 14,591,727 | 100.00 % | $ 13,735,885 | 100.00 % | $ 14,454,260 | 100.00 % | $ 855,842 | $ (718,375) |

We consider the mortgage origination segment's total loan origination volume to be a key performance measure. Loan origination volume is central to the segment's ability to generate income by originating and selling mortgage loans, resulting in net gains from the sale of loans, other mortgage production income and mortgage loan origination fees. Total loan origination volume is a measure utilized by management, our investors and analysts in assessing market share and growth of the mortgage origination segment.

The mortgage origination segment's total loan origination volume during 2019 increased 13.8% compared with 2018, while income before income taxes during 2019 increased 402.8%, compared with 2018. The increase in income before income taxes during 2019 was primarily due to an increase in the change in net fair value of interest rate lock commitments ("IRLCs") and loans held for sale, an increase in mortgage loan origination fees and other related income, an increase in net gains from sale of loans and a decrease in segment operating costs. These changes were partially offset by an increase in compensation that varies with the volume of mortgage loan originations ("variable compensation"), a decrease in change in net fair value of mortgage servicing rights ("MSR") assets, and an increase in net interest expense.

The mortgage origination segment's total loan origination volume decreased 5.3% between 2018 and 2017, while income before income taxes during 2018 decreased 74.0%, compared with 2017. The decrease in income before income taxes during 2018 was primarily due to decreases in net gains from sale of loans, and the change in net fair value of IRLCs and loans held for sale. These changes were partially offset by a decrease in variable compensation, a decrease in segment operating costs, an increase in lender paid closing costs, and an increase in mortgage loan origination fees earned.

Net interest expense was comprised of interest income earned on loans held for sale, offset by interest incurred on warehouse lines of credit held with the Bank and related intercompany financing costs. The increase in net interest expense during 2019, compared with 2018, included the effects of declining net yields on mortgage loans held for sale. The increase in net interest income during 2018, compared with 2017, included the effects of improved net yields on mortgage loans held for sale.

Noninterest income was comprised of the following (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Net gains from sale of loans | $ 473,380 | $ 450,515 | $ 536,007 | $ 22,865 | $ (85,492) |
| Mortgage loan origination fees and other related income | 130,208 | 104,463 | 94,244 | 25,745 | 10,219 |
| Other mortgage production income: | | | | | |
| Change in net fair value and related derivative activity: | | | | | |
| IRLCs and loans held for sale | 21,253 | (20,608) | (14,451) | 41,861 | (6,157) |
| Mortgage servicing rights asset | (15,166) | (5,856) | (4,132) | (9,310) | (1,724) |
| Servicing fees | 25,317 | 23,346 | 20,720 | 1,971 | 2,626 |
| Total noninterest income | $ 634,992 | $ 551,860 | $ 632,388 | $ 83,132 | $ (80,528) |

The increase in net gains from sale of loans during 2019, compared with 2018, was primarily a result of an increase in total loans sales volume of 6.2%. The average loan sales margin was relatively unchanged between 2019 and 2018. The increase in mortgage loan origination fees and other related income was primarily the result of an increase in total loan origination volume of 13.8% and an increase in average mortgage loan origination during 2019, compared with 2018.

The decrease in net gains from sale of loans during 2018, compared with 2017, was primarily the result of a decrease in average loan sales margin, in addition to a decrease in total loan sales volume of 5.0%. The decrease in average loan sales margin was primarily attributable to competitive pricing pressure resulting from home inventory shortages and a reduction in national refinancing volume. The increase in mortgage loan origination fees and other related income was primarily the result of increases in average mortgage loan origination fees, partially offset by a 5.3% decrease in total loan origination volume during 2018, compared with 2017.

During 2019, 2018, and 2017, the mortgage origination segment originated approximately $149 million, $97 million, and $10 million, respectively, in loans on behalf of the banking segment, representing up to 1% of PrimeLending's total loan origination volume during each respective year. These loans are sold to the banking segment at par. For origination services provided, the mortgage origination segment is reimbursed direct origination costs associated with these loans, in addition to payment of a correspondent fee. The reimbursed origination costs and correspondent fee are included in the mortgage origination segment operating results, and the correspondent fees are eliminated in consolidation. The mortgage

origination segment's net gains from sale of loans margins, including loans sold to the banking segment, during 2019, 2018, and 2017 were 324 bps, 328 bps and 371 bps, respectively. The impact of loans sold to the banking segment at par was to reduce this margin 3 bps in 2019, while the impact on 2018 and 2017 was de minimis. We expect loan volume originated on behalf of and retained by the banking segment to increase during 2020 based on approved authority for up to 5% of the mortgage origination segment's total loan volume. We consider the previously noted mortgage origination segment's net gains from sale of loans margin, in basis points, to be a key performance measure. Net gains from sale of loans margin is defined as net gains from sale of loans divided by loan sales volume. The net gains from sale of loans is central to the segment's generation of income.

Noninterest income included changes in the net fair value of the mortgage origination segment's 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 loans held for sale. The increase during 2019 was the result of an increase in the total volume of individual IRLCs and loans held for sale, partially offset by a decrease in the average value of individual IRLCs and loans held for sale. The decreases during 2018 and 2017 were the result of decreases in the average value and the total volume of individual IRLCs and loans held for sale at the end of these periods.

The mortgage origination segment sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. During 2019, 2018 and 2017, the mortgage origination segment retained servicing on approximately 6%, 13% and 11% of loans sold, respectively. The mortgage origination segment's determination of whether to retain or release servicing on mortgage loans it sells is impacted by, among other things, changes in mortgage interest rates and refinancing and market activity. The related MSR asset was valued at $56.7 million on $5.1 billion of serviced loan volume at December 31, 2019, compared with a value of $67.9 million on $5.3 billion of serviced loan volume at December 31, 2018. 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. The mortgage origination segment has also retained servicing on certain loans sold to the banking segment. Gains and losses associated with such sales to the banking segment and the related MSR asset are eliminated in consolidation. The mortgage origination segment uses derivative financial instruments, including various combinations of U.S. Treasury bond futures and options, Eurodollar futures and forward commitments to sell mortgage-backed securities, as a means to mitigate interest rate risk associated with its MSR asset. Changes in the net fair value of the MSR asset and the related derivatives associated with normal customer payments, changes in discount rates, prepayment speed assumptions and customer payoffs resulted in net losses as noted in the table above. Additionally, net servicing income was $12.3 million, $10.9 million and $8.6 million during 2019, 2018 and 2017, respectively. In March 2018 and May 2017, the mortgage origination segment sold MSR assets of $9.3 million and $17.5 million, respectively, which represented, $834.3 million and $1.7 billion, respectively, of its serviced loan volume at the time. In December 2019, the mortgage origination segment executed a letter of intent to sell MSR assets with a serviced loan volume totaling $1.5 billion. The sale of these MSR assets was completed on February 14, 2020, at a price of $18.7 million.

Noninterest expenses were comprised of the items set forth in the table below (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2019 vs 2018** | **2018 vs 2017** |
| Variable compensation | $ 252,956 | $ 216,038 | $ 236,676 | $ 36,918 | $ (20,638) |
| Non-variable compensation and benefits | 166,179 | 173,093 | $ — | (6,914) | 173,093 |
| Segment operating costs | 112,128 | 118,630 | 307,110 | (6,502) | (188,480) |
| Lender paid closing costs | 19,698 | 20,294 | 26,031 | (596) | (5,737) |
| Servicing expense | 13,037 | 12,419 | 12,082 | 618 | 337 |
| Total noninterest expense | $ 563,998 | $ 540,474 | $ 581,899 | $ 23,524 | $ (41,425) |

During the third quarter of 2018, PrimeLending committed to close certain underperforming branches, while at the same time reducing its fulfillment and corporate support staff. The purpose of this initiative was to better align resources and lower PrimeLending's cost structure. The decreases in non-variable compensation and benefits and segment operating costs during 2019, compared with 2018, were primarily the result of this initiative. Decreases in noninterest expense as a result of this initiative have been partially offset by costs related to the "Technology Enhancements and Corporate Initiatives" discussed in detail within the "Overview" above.

Total employees' compensation and benefits accounted for the majority of the noninterest expenses incurred during all periods presented. Specifically, variable compensation comprised 60.4% and 55.5% of the total employees' compensation and benefits expenses during 2019 and 2018, respectively. Variable compensation increased during 2019, compared to 2018, while it decreased $20.6 million during 2018, compared with 2017. Variable compensation, which is primarily driven

by loan origination volume, tends to fluctuate to a greater degree than loan origination volume because mortgage loan originator and fulfillment staff incentive compensation plans are structured to pay at increasing rates as higher monthly volume tiers are achieved. However, certain other incentive compensation plans driven by non-mortgage production criteria may alter this trend. In addition to an increase in loan origination volume, an increase in the average incentive rate paid and the impact of incentive plans driven by non-mortgage production criteria contributed to the increase in variable compensation between 2019 and 2018. In addition to the decreases in loan origination volume, the decrease in the average incentive rate paid and the impact of incentive plans driven by non-mortgage production criteria contributed to the decrease in variable compensation between 2018 and 2017.

While total loan origination volumes increased 13.8% during 2019, compared with 2018, the mortgage origination segment's operating costs decreased 5.0%. The decrease in segment operating costs during 2019, compared to 2018, was primarily due to decreases in non-variable compensation and related benefits, depreciation, professional fees, and business development. These decreases were partially offset by increases in loan origination costs, as well as software license and maintenance expense. The decrease in non-variable compensation and benefits during 2019, compared to 2018, was due to reductions in corporate headcount, loan processing, and loan fulfillment primarily resulting from PrimeLending's cost reduction plan initiated during the third quarter of 2018, partially offset by $1.25 million in pre-tax costs associated with the Leadership Changes discussed in the "Factors Affecting Results of Operations" section. While total loan origination volumes decreased 5.3% during 2018, compared with 2017, the mortgage origination segment's operating costs decreased 5.0%. The decrease in segment operating costs during 2018, compared to 2017, was primarily due to decreases in administrative, non-variable compensation and related benefits, and loan origination costs, in addition to a decrease in indemnification liability reserve expense. These decreases were partially offset by increases in professional fees associated with software development projects and software license and maintenance expense. The decrease in non-variable compensation and benefits during 2018, compared to 2017, was due to reductions in loan processing, loan fulfillment, and corporate headcount primarily resulting from PrimeLending's cost initiative discussed above and implemented during the third quarter of 2018.

In exchange for a higher interest rate, customers may opt to have PrimeLending pay certain costs associated with the origination of their mortgage loan ("lender paid closing costs"). Fluctuations in lender paid closing costs are not always aligned with fluctuations in loan origination volume. Other loan pricing conditions, including the mortgage loan interest rate, loan origination fees paid by the customer, and a customer's willingness to pay closing costs, may influence fluctuations in lender paid closing costs.

Between January 1, 2010 and December 31, 2019, the mortgage origination segment sold mortgage loans totaling $122.2 billion. These loans were sold under sales contracts that generally include provisions that 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 2010, it does not anticipate experiencing significant losses in the future on loans originated prior to 2010 because of investor claims under these provisions of its sales contracts.

When a claim for indemnification of a loan sold is made by an agency, investor, or other party, the mortgage origination segment evaluates the claim and determines if the claim can be satisfied through additional documentation or other deliverables. If the claim is valid and cannot be satisfied in that manner, the mortgage origination segment negotiates with the claimant to reach a settlement of the claim. Settlements typically result in either the repurchase of a loan or reimbursement to the claimant 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, 2010 and December 31, 2019 (dollars in thousands).

| | Original Loan Balance | | Loss Recognized | |
|---|---|---|---|---|
| | Amount | % of Loans Sold | Amount | % of Loans Sold |
| Claims resolved with no payment | $ 217,153 | 0.18% | $ — | 0.00% |
| Claims resolved because of a loan repurchase or payment to an investor for losses incurred (1) | 211,190 | 0.17% | 9,794 | 0.01% |
| | $ 428,343 | 0.35% | $ 9,794 | 0.01% |

(1) Losses incurred include refunded purchased servicing rights.

For each loan it concludes its obligation to a claimant is both probable and reasonably estimable, the mortgage origination segment has established a specific claims indemnification liability reserve. An additional indemnification liability reserve has been established for probable agency, investor or other party losses that may have been incurred, but not yet reported to the mortgage origination segment based upon a reasonable estimate of such losses.

At December 31, 2019 and 2018, the mortgage origination segment's total indemnification liability reserve totaled $11.8 million and $10.7 million, respectively. The related provision for indemnification losses was $3.1 million, $3.2 million, and $4.0 million during 2019, 2018 and 2017, respectively.

On October 23, 2018, PrimeLending entered into a Settlement Agreement and an Indemnification Agreement with the DOJ and HUD, respectively. These agreements provide for payments of $13.5 million, in the aggregate, to the DOJ and HUD. In exchange for these payments, each of the DOJ and HUD released any civil claims they may have related to certain loans originated by PrimeLending. The payments were made to the DOJ and HUD during the fourth quarter of 2018, and the indemnification liability related to this matter was released, which represents the majority of the decrease in the indemnification liability reserve between December 31, 2018 and 2017. The mortgage origination segment's operating results or financial condition will not be impacted by this matter in future periods.

### Insurance Segment

The following table presents certain information regarding the operating results of our insurance segment (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Net interest income (expense) | $ 2,329 | $ 3,025 | $ 2,861 | $ (696) | $ 164 |
| Noninterest income | 143,082 | 142,565 | 151,382 | 517 | (8,817) |
| Noninterest expense | 127,920 | 139,921 | 158,354 | (12,001) | (18,433) |
| Income (loss) before income taxes | $ 17,491 | $ 5,669 | $ (4,111) | $ 11,822 | $ 9,780 |

The improvement in income (losses) before income taxes during 2019, compared with 2018, was primarily driven by a decrease in loss and LAE and larger increases in fair value associated with the equity securities held by the insurance segment partially offset by declines in net insurance premiums earned. The improvement in income (loss) before income taxes during 2018, compared with 2017, was primarily driven by a decrease in loss and LAE due to fewer weather-related events, partially offset by a decline in net insurance premiums earned. The total estimated loss and LAE incurred included those associated with Hurricane Michael, which occurred during the fourth quarter of 2018, however, the significance of Hurricane Harvey and other non-catastrophic weather-related losses that occurred during 2017 were the primary drivers of the reduction in loss and LAE during 2018, compared to 2017.

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, monsoons 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 insurance segment periodically reviews the pricing of its primary products in each state of operation utilizing a consulting actuarial firm to supplement normal review processes resulting in filings to adjust rates as deemed necessary. The benefit of these rate actions are not fully realized until all policies under the old rates expire, which typically occurs one year from the date of rate change implementation. Concurrently, business concentrations are 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. The insurance segment has historically utilized rate actions to reduce the rate of premium growth for targeted areas when compared with the patterns exhibited in prior quarters and years and reduced the insurance segment's exposure to volatile weather in these areas, but competition and customer response to rate increases has negatively impacted customer retention and new business. The insurance segment aims to manage and diversify its business concentrations and products to minimize the effects of future weather-related events. We believe that current initiatives to evaluate product offerings and pricing, streamline business activities and expenses and mitigate the impact of future significant weather-related events are critical to improving the insurance segment's long-term financial condition and operating results.

The insurance segment's operations resulted in a combined ratio of 91.8% during 2019, compared with 97.0% and 106.5% during 2018 and 2017, respectively. The decrease in the combined ratio during 2019, compared with 2018, was primarily driven by decreases in the loss and LAE ratio. The decrease in the combined ratio during 2018, compared with 2017, included decreases in the loss and LAE ratio due to fewer weather-related events. We consider the insurance segment's combined ratio to be a key performance measure. The combined ratio is a measure of overall insurance underwriting profitability, and represents the sum of loss and LAE and underwriting expenses divided by net insurance premiums earned.

The following table sets forth our total gross written premiums by state for the periods shown (dollars in thousands).

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Gross Written Premiums | % of Total | Gross Written Premiums | % of Total | Gross Written Premiums | % of Total |
| Texas | $ 96,195 | 69.6 % | $ 97,266 | 68.2 % | $ 102,629 | 68.8 % |
| Arizona | 16,177 | 11.6 % | 16,278 | 11.4 % | 16,389 | 11.0 % |
| Tennessee | 11,368 | 8.2 % | 9,924 | 7.0 % | 9,201 | 6.2 % |
| Oklahoma | 7,694 | 5.6 % | 8,175 | 5.7 % | 8,853 | 5.9 % |
| Georgia | 4,237 | 3.1 % | 4,557 | 3.2 % | 5,070 | 3.4 % |
| All other states | 2,634 | 1.9 % | 6,328 | 4.5 % | 7,099 | 4.7 % |
| Total | $ 138,305 | 100.0 % | $ 142,528 | 100.0 % | $ 149,241 | 100.0 % |

The changes experienced in operating results between periods were primarily a result of changes in claims loss experience associated with the general severity of non-catastrophic and severe weather-related events, and declines in net insurance premiums written and earned. Based on our estimates of the ultimate losses, claims associated with severe weather-related events during 2019 totaled $19.5 million through December 31, 2019. During 2018, and based on our estimates of the ultimate losses, claims associated with severe weather-related events during 2018 totaled $26.1 million through December 31, 2018, with a net loss, after reinsurance, of $24.4 million during 2018. During 2017, and based on our estimates of the ultimate losses, claims associated with severe weather-related events totaled $38.1 million through December 31, 2017, with a net loss, after reinsurance, of $33.5 million during 2017.

Noninterest income during 2019, 2018 and 2017 was primarily comprised of net insurance premiums earned of $132.3 million, $136.8 million and $142.3 million, respectively. The year-over-year decreases in net insurance premiums earned during 2019 and 2018, compared with 2018 and 2017, respectively, were driven by the effect of decreases in direct insurance premiums written as discussed below.

Direct insurance premiums written by major product line are presented in the table below (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| **Direct Insurance Premiums Written:** | | | | | |
| Homeowners | $ 50,932 | $ 50,689 | $ 54,706 | $ 243 | $ (4,017) |
| Fire | 39,319 | 40,544 | 42,414 | (1,225) | (1,870) |
| Mobile Home | 34,906 | 36,288 | 36,925 | (1,382) | (637) |
| Other | — | 2,090 | 3,046 | (2,090) | (956) |
| | $ 125,157 | $ 129,611 | $ 137,091 | $ (4,454) | $ (7,480) |

The aggregate direct insurance premiums written for our three largest insurance product lines decreased by $2.4 million during 2019, compared with 2018, and $6.5 million during 2018, compared with 2017. The decrease in insurance premiums written was due to competition, rationalization of product offerings, including the non-renewal of commercial policies, and continued review of geographic concentrations. In the fourth quarter of 2018, in connection with a strategic initiative to focus on our insurance segment's key markets, we discontinued writing new insurance policies in five non-core states. The premiums written and earned related to the commercial policies and the five non-core states is included within "Other" in the table above and the table that follows. Approximately 1% of total net insurance premiums earned during 2019 were from these five non-core states, compared to approximately 3% during 2018.

Net insurance premiums earned by major product line are presented in the table below (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| **Net Insurance Premiums Earned:** | | | | | |
| Homeowners | $ 53,831 | $ 53,482 | $ 56,784 | $ 349 | $ (3,302) |
| Fire | 41,558 | 42,777 | 44,025 | (1,219) | (1,248) |
| Mobile Home | 36,895 | 38,287 | 38,328 | (1,392) | (41) |
| Other | — | 2,205 | 3,161 | (2,205) | (956) |
| | $ 132,284 | $ 136,751 | $ 142,298 | $ (4,467) | $ (5,547) |

Net insurance premiums earned during 2019 and 2018 decreased, compared to 2018 and 2017, respectively, primarily due to the decreases in direct insurance premiums written noted above.

Noninterest expenses during 2019, 2018 and 2017 included 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 2019 was $68.9 million, compared to $79.3 million and $94.7 million during 2018 and 2017, respectively, resulting in loss and LAE ratios during 2019, 2018 and 2017 of 52.1%, 58.0% and 66.6%, respectively. The decrease in the loss and LAE ratio during 2019, compared with 2018, was primarily driven by a 13.1% decrease in loss and LAE expense and a decrease in net insurance premiums earned of 3.3%. The decrease in the loss and LAE ratio during 2018, compared with 2017, was primarily driven by a 16.2% decrease in loss and LAE expense and a decrease in net insurance premiums earned of 3.9%.

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 following table details the calculation of the underwriting expense ratio for the periods presented (dollars in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Amortization of deferred policy acquisition costs | $ 33,206 | $ 34,683 | $ 36,549 | $ (1,477) | $ (1,866) |
| Other underwriting expenses | 23,062 | 22,698 | 23,930 | 364 | (1,232) |
| Total | 56,268 | 57,381 | 60,479 | (1,113) | (3,098) |
| Agency expenses | (3,771) | (4,036) | (3,745) | 265 | (291) |
| Total less agency expenses | $ 52,497 | $ 53,345 | $ 56,734 | $ (848) | $ (3,389) |
| Net insurance premiums earned | $ 132,284 | $ 136,751 | $ 142,298 | $ (4,467) | $ (5,547) |
| Expense ratio | 39.7 % | 39.0 % | 39.9 % | 0.7 % | (0.9)% |

### Corporate

The following table presents certain financial information regarding the operating results of corporate (in thousands).

| | Year Ended December 31, | | | Variance | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 vs 2018 | 2018 vs 2017 |
| Net interest income (expense) | $ (5,541) | $ (9,176) | $ (10,069) | $ 3,635 | $ 893 |
| Noninterest income | 2,221 | 4,893 | 12,798 | (2,672) | (7,905) |
| Noninterest expense | 50,968 | 36,628 | 33,983 | 14,340 | 2,645 |
| Income (loss) before income taxes | $ (54,288) | $ (40,911) | $ (31,254) | $ (13,377) | $ (9,657) |

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities and management and administrative services to support the overall operations of the Company. Hilltop's merchant banking investment activities include the identification of attractive opportunities for capital deployment in companies engaged in non-financial activities through its merchant bank subsidiary, Hilltop Opportunity Partners LLC.

As a holding company, Hilltop's primary investment objectives are to support capital deployment for organic growth and to preserve capital to be deployed through acquisitions, dividend payments and potential stock repurchases. Investment and interest income earned during 2019 was primarily comprised of dividend income from merchant banking investment activities, in addition to interest income earned on intercompany notes that were contributed to Hilltop by Securities Holdings during the third quarter of 2018.

Interest expense during 2019, 2018 and 2017 was primarily associated with recurring annual interest expense of $7.6 million incurred on our $150.0 million aggregate principal amount of 5% senior notes due 2025 ("Senior Notes"). Additionally, we incurred interest expense of $3.9 million, $3.7 million and $3.0 million during 2019, 2018 and 2017, respectively, on junior subordinated debentures of $67.0 million issued by PCC (the "Debentures").

Noninterest income during 2019 was primarily associated with activity related to the Hilltop Plaza investment. Noninterest income during 2018 included a $5.3 million pre-tax gain on the sale of a merchant bank investment, partially offset by a $2.5 million charge on a legacy merchant bank equity investment as a result of our periodic fair value assessment, as well as activity related to the Hilltop Plaza investment. Noninterest income during 2017 was primarily comprised of the previously mentioned pre-tax net increase to other noninterest income of $11.6 million related to the resolution of the appraisal proceedings from the SWS Merger.

Noninterest expenses were primarily comprised of employees' compensation and benefits, occupancy expenses and professional fees, including corporate governance, legal and transaction costs. During 2019, compared with 2018, the $14.3 million increase in noninterest expenses was primarily due to the Core System Improvements and corporate initiatives discussed in the "Overview" section. In addition to costs incurred related to the aforementioned Core System Improvements and corporate initiatives, the increase during 2019 was due to $6.8 million of aggregate pre-tax costs associated with the Leadership Changes and efficiency initiative-related charges discussed in the "Factors Affecting Results of Operations" section. During 2018, compared with 2017, the $2.6 million increase in noninterest expenses was primarily related to increased corporate headcount associated with corporate initiatives and, to a lesser extent, Core System Improvements initiatives, partially offset by a $2.1 million decrease in transaction costs during 2017 in connection with the SWS Merger.

***Financial Condition***

The following discussion contains a more detailed analysis of our financial condition at December 31, 2019 as compared to December 31, 2018 and December 31, 2017.

**Securities Portfolio**

At December 31, 2019, 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 may categorize investments as trading, available for sale, held to maturity and equity securities.

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 the Hilltop Broker-Dealers. 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). With the adoption of Accounting Standards Update 2016-01 in January 2018, we reclassified all equity investments out of available for sale securities, with all subsequent changes in fair value recognized in net income. 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, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Trading securities, at fair value** | | | |
| U.S. Treasury securities | $ — | $ 7,945 | $ — |
| U.S. government agencies: | | | |
| Bonds | 24,680 | 1,494 | 52,078 |
| Residential mortgage-backed securities | 331,601 | 309,455 | 372,817 |
| Commercial mortgage-backed securities | 2,145 | 4,239 | 6,125 |
| Collateralized mortgage obligations | 191,154 | 206,813 | 5,122 |
| Corporate debt securities | 36,973 | 59,293 | 96,182 |
| States and political subdivisions | 93,117 | 126,748 | 170,413 |
| Unit investment trusts | 3,468 | 19,913 | 22,612 |
| Private-label securitized product | 2,992 | 5,680 | 1,631 |
| Other | 3,446 | 3,886 | 3,705 |
| | 689,576 | 745,466 | 730,685 |
| **Securities available for sale, at fair value** | | | |
| U.S. Treasury securities | 10,057 | 11,538 | 24,669 |
| U.S. government agencies: | | | |
| Bonds | 85,575 | 85,611 | 96,640 |
| Residential mortgage-backed securities | 466,989 | 385,074 | 243,505 |
| Commercial mortgage-backed securities | 12,031 | 11,772 | 12,023 |
| Collateralized mortgage obligations | 335,692 | 276,399 | 233,812 |
| Corporate debt securities | 46,806 | 53,302 | 68,662 |
| States and political subdivisions | 41,242 | 51,962 | 65,008 |
| | 998,392 | 875,658 | 744,319 |
| **Securities held to maturity, at amortized cost** | | | |
| U.S. Treasury securities | — | 9,903 | — |
| U.S. government agencies: | | | |
| Bonds | 24,020 | 39,018 | 39,015 |
| Residential mortgage-backed securities | 17,776 | 21,903 | 16,130 |
| Commercial mortgage-backed securities | 161,624 | 87,065 | 71,373 |
| Collateralized mortgage obligations | 113,894 | 142,474 | 173,928 |
| States and political subdivisions | 69,012 | 50,649 | 55,403 |
| | 386,326 | 351,012 | 355,849 |
| **Equity securities, at fair value** | 20,007 | 19,679 | 21,241 |
| **Total securities portfolio** | $ 2,094,301 | $ 1,991,815 | $ 1,852,094 |

We had net unrealized gains of $14.2 million at December 31, 2019, compared with net unrealized losses of $11.1 million and $3.9 million at December 31, 2018 and December 31, 2017, respectively, related to the available for sale investment portfolio. We had net unrealized gains of $2.6 million at December 31, 2019, compared with net unrealized losses associated with the securities held to maturity portfolio of $9.9 million and $5.9 million at December 31, 2018 and December 31, 2017, respectively. We had net unrealized gains of $1.2 million and $1.6 million at December 31, 2019 and 2017, respectively, compared with net unrealized losses of $0.9 million at December 31, 2018 related to equity securities.

*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 and equity securities portfolios serve as a source of liquidity. Historically, to minimize credit risk, 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. At December 31, 2019, the banking segment's securities portfolio of $1.3 billion was comprised of trading securities of $2.4 million, available for sale securities of $911.5 million, held to maturity securities of $386.3 million and equity securities of $0.1 million, in addition to $13.4 million of other investments included in other assets within the consolidated balance sheets.

*Broker-Dealer Segment*

The broker-dealer segment holds securities to support sales, underwriting and other customer activities. The interest rate risk inherent in holding these securities is managed by setting and monitoring limits on the size and duration of positions and on the length of time the securities can be held. The Hilltop Broker-Dealers are required to carry their securities at fair value and record changes in the fair value of the portfolio in operations. Accordingly, the securities portfolio of the Hilltop Broker-Dealers included trading securities of $687.2 million at December 31, 2019. In addition, the Hilltop Broker-Dealers enter into transactions that represent commitments to purchase and deliver securities at prevailing future market prices to facilitate customer transactions and satisfy such commitments. Accordingly, the Hilltop Broker-Dealers' ultimate obligation may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of $43.8 million at December 31, 2019.

*Insurance Segment*

The 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, 2019, the insurance segment's securities portfolio was comprised of $86.9 million in available for sale securities, $19.8 million of equity securities and $6.2 million of other investments included in other assets within the consolidated balance sheets.

The following table sets forth the estimated maturities of our debt securities, excluding trading securities, at December 31, 2019. Contractual maturities may be different (dollars in thousands, yields are tax-equivalent).

| | 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 | $ 4,894 | $ 4,975 | $ — | $ — | $ 9,869 |
| Fair value | $ 4,907 | $ 5,150 | $ — | $ — | $ 10,057 |
| Weighted average yield | 2.03 % | 2.65 % | — % | — | 2.34 % |
| **U.S. government agencies:** | | | | | |
| **Bonds:** | | | | | |
| Amortized cost | $ 1,251 | $ 98,154 | $ 9,205 | $ — | $ 108,610 |
| Fair value | $ 1,265 | $ 99,001 | $ 9,304 | $ — | $ 109,570 |
| Weighted average yield | 2.85 % | 2.26 % | 2.40 % | — % | 2.28 % |
| **Residential mortgage-backed securities:** | | | | | |
| Amortized cost | $ — | $ 127 | $ 41,939 | $ 435,809 | $ 477,875 |
| Fair value | $ — | $ 137 | $ 42,727 | $ 442,196 | $ 485,060 |
| Weighted average yield | — % | 5.35 % | 2.75 % | 2.65 % | 2.66 % |
| **Commercial mortgage-backed securities:** | | | | | |
| Amortized cost | $ — | $ 28,926 | $ 133,637 | $ 10,549 | $ 173,112 |
| Fair value | $ — | $ 29,033 | $ 136,259 | $ 10,518 | $ 175,810 |
| Weighted average yield | — | 2.37 % | 2.82 % | 2.79 % | 2.74 % |
| **Collateralized mortgage obligations:** | | | | | |
| Amortized cost | $ — | $ 245 | $ 18,752 | $ 428,225 | $ 447,222 |
| Fair value | $ — | $ 248 | $ 18,697 | $ 429,963 | $ 448,908 |
| Weighted average yield | — % | 2.44 % | 1.98 % | 2.41 % | 2.39 % |
| **Corporate debt securities:** | | | | | |
| Amortized cost | $ 2,147 | $ 35,835 | $ 5,966 | $ 920 | $ 44,868 |
| Fair value | $ 2,164 | $ 37,344 | $ 6,290 | $ 1,008 | $ 46,806 |
| Weighted average yield | 2.74 % | 3.37 % | 3.51 % | 6.24 % | 3.42 % |
| **States and political subdivisions:** | | | | | |
| Amortized cost | $ 891 | $ 8,056 | $ 20,823 | $ 79,211 | $ 108,981 |
| Fair value | $ 892 | $ 8,219 | $ 21,329 | $ 80,671 | $ 111,111 |
| Weighted average yield | 2.16 % | 3.21 % | 3.29 % | 3.62 % | 3.51 % |
| **Total securities portfolio:** | | | | | |
| Amortized cost | $ 9,183 | $ 176,318 | $ 230,322 | $ 954,714 | $ 1,370,537 |
| Fair value | $ 9,228 | $ 179,132 | $ 234,606 | $ 964,356 | $ 1,387,322 |
| Weighted average yield | 2.32 % | 2.56 % | 2.78 % | 2.63 % | 2.64 % |

### Loan Portfolio

Consolidated loans held for investment are detailed in the tables 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 on the date of acquisition that made it probable that all contractually required principal and interest payments would not be collected.

As previously discussed, the loans acquired in the FNB Transaction were previously subject to loss-share agreements with the FDIC. At the close of business on September 30, 2018, the loss-share agreements for commercial assets with the FDIC expired, except for certain obligations on the part of the Bank that survived. On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements have been resolved and terminated. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment." Loans that were previously covered by the FDIC loss-share agreements are included in the "covered" portfolio segment in the tables below as of December 31, 2017, 2016 and 2015. The majority of the loans previously covered by the FDIC loss-share agreements were commercial real estate and 1-4 family residential loans.

| December 31, 2019 | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 2,974,941 | $ 25,582 | $ 3,000,523 |
| Commercial and industrial | 2,020,460 | 5,260 | 2,025,720 |
| Construction and land development | 940,487 | 77 | 940,564 |
| 1-4 family residential | 739,608 | 51,412 | 791,020 |
| Consumer | 47,046 | — | 47,046 |
| Broker-dealer | 576,527 | — | 576,527 |
| Loans held for investment, gross | 7,299,069 | 82,331 | 7,381,400 |
| Allowance for loan losses | (53,966) | (7,170) | (61,136) |
| Loans held for investment, net of allowance | $ 7,245,103 | $ 75,161 | $ 7,320,264 |

| December 31, 2018 | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 2,912,407 | $ 27,713 | $ 2,940,120 |
| Commercial and industrial | 1,745,698 | 6,559 | 1,752,257 |
| Construction and land development | 932,445 | 464 | 932,909 |
| 1-4 family residential | 620,936 | 58,327 | 679,263 |
| Consumer | 47,537 | 9 | 47,546 |
| Broker-dealer | 578,363 | — | 578,363 |
| Loans held for investment, gross | 6,837,386 | 93,072 | 6,930,458 |
| Allowance for loan losses | (56,594) | (2,892) | (59,486) |
| Loans held for investment, net of allowance | $ 6,780,792 | $ 90,180 | $ 6,870,972 |

| December 31, 2017 | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 2,557,008 | $ 25,159 | $ 2,582,167 |
| Commercial and industrial | 1,675,106 | 6,099 | 1,681,205 |
| Construction and land development | 961,167 | 1,438 | 962,605 |
| 1-4 family residential | 424,976 | 4,381 | 429,357 |
| Consumer | 40,319 | 127 | 40,446 |
| Broker-dealer | 577,889 | — | 577,889 |
| Covered | 95,016 | 87,113 | 182,129 |
| Loans held for investment, gross | 6,331,481 | 124,317 | 6,455,798 |
| Allowance for loan losses | (58,951) | (4,735) | (63,686) |
| Loans held for investment, net of allowance | $ 6,272,530 | $ 119,582 | $ 6,392,112 |

| December 31, 2016 | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 2,308,867 | $ 34,080 | $ 2,342,947 |
| Commercial and industrial | 1,832,906 | 8,672 | 1,841,578 |
| Construction and land development | 783,383 | 3,467 | 786,850 |
| 1-4 family residential | 323,776 | 4,919 | 328,695 |
| Consumer | 41,058 | 294 | 41,352 |
| Broker-dealer | 502,077 | — | 502,077 |
| Covered | 122,373 | 133,754 | 256,127 |
| Loans held for investment, gross | 5,914,440 | 185,186 | 6,099,626 |
| Allowance for loan losses | (51,158) | (3,441) | (54,599) |
| Loans held for investment, net of allowance | $ 5,863,282 | $ 181,745 | $ 6,045,027 |

| December 31, 2015 | Loans, excluding PCI Loans | PCI Loans | Total Loans Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 1,808,857 | $ 46,780 | $ 1,855,637 |
| Commercial and industrial | 1,674,325 | 13,350 | 1,687,675 |
| Construction and land development | 700,206 | 5,150 | 705,356 |
| 1-4 family residential | 316,737 | 5,995 | 322,732 |
| Consumer | 44,893 | 779 | 45,672 |
| Broker-dealer | 590,545 | — | 590,545 |
| Covered | 158,320 | 221,974 | 380,294 |
| Loans held for investment, gross | 5,293,883 | 294,028 | 5,587,911 |
| Allowance for loan losses | (40,961) | (5,986) | (46,947) |
| Loans held for investment, net of allowance | $ 5,252,922 | $ 288,042 | $ 5,540,964 |

*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 total loans held for investment, net of the allowance for loan losses, were $8.6 billion, $7.5 billion and $7.2 billion at December 31, 2019, 2018 and 2017, respectively. The banking segment's loan portfolio includes warehouse lines of credit extended to PrimeLending of $2.2 billion, of which $1.8 billion, $1.2 billion and $1.5 billion was drawn at December 31, 2019, 2018 and 2017, respectively. Amounts advanced against the warehouse lines of credit are eliminated from net loans held for investment on our consolidated balance sheets. The banking segment does not generally participate in syndicated loan transactions and has no foreign loans in its portfolio.

At December 31, 2019, the banking segment had loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of total loans in its real estate portfolio. The areas of concentration within our real estate portfolio were non-construction commercial real estate loans, construction and land development loans, and non-construction residential real estate loans, which represented 44.1%, 13.8% and 11.6%, respectively, of the banking segment's total loans held for investment at December 31, 2019. The banking segment's loan concentrations were within regulatory guidelines at December 31, 2019.

*Broker-Dealer Segment*

The loan portfolio of the broker-dealer segment consists primarily of 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 the Hilltop Broker-Dealers' internal policies. The broker-dealer segment's total loans held for investment, net of the allowance for loan losses, were $576.5 million, $578.2 million and $577.5 million at December 31, 2019, 2018 and 2017, respectively. The decrease during 2019, compared to 2018, was primarily attributable to a decrease of $22.3 million in borrowings on margin accounts, partially offset by an increase of $20.5 million in receivables from clients. The increase during 2018, compared to 2017, was primarily attributable to an increase of $17.2 million in receivables from clients, partially offset by a decrease of $16.7 million in borrowings on margin accounts.

*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 customers 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, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Loans held for sale: | | | |
| Unpaid principal balance | $ 1,878,231 | $ 1,213,068 | $ 1,528,834 |
| Fair value adjustment | 57,482 | 44,707 | 52,770 |
| | $ 1,935,713 | $ 1,257,775 | $ 1,581,604 |
| IRLCs: | | | |
| Unpaid principal balance | $ 914,526 | $ 677,267 | $ 850,850 |
| Fair value adjustment | 18,222 | 17,421 | 18,851 |
| | $ 932,748 | $ 694,688 | $ 869,701 |

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, 2019, 2018 and 2017 were $2.2 billion, $1.4 billion and $2.0 billion, respectively, while the related estimated fair values were $(3.8) million, $(11.6) million and $(0.2) million, respectively.

**Termination of FDIC Loss-Share Agreements**

At the close of business on September 30, 2018, the loss-share agreement for commercial assets with the FDIC expired, except for certain obligations on the part of the Bank that survived. As of September 30, 2018, loans acquired in the FNB Transaction that were subject to loss-share agreements with the FDIC were referred to as "covered loans" and reported separately in our consolidated balance sheets. Under the terms of the loss-share agreements through October 17, 2018, the FDIC had agreed to reimburse the Bank certain amounts with respect to the covered assets (including covered loans), and the Bank may have been required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if our actual net realized losses over the life of the loss-share agreements were less than the FDIC's initial estimate of losses on covered assets.

On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which each of the loss-share agreements terminated in exchange for the payment by the FDIC to the Bank of $6.26 million. These funds were received on October 19, 2018. Pursuant to the Termination Agreement, all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements, including, among others, the true-up provisions and the settlement of loss-share and expense reimbursement claims, have been resolved and terminated. In October 2018, in conjunction with the receipt of the $6.26 million payment noted above, the FDIC Indemnification Asset of $22.8 million and the FDIC true-up accrual of $16.6 million were removed with no further impact to the Company's consolidated statements of operations. As previously discussed, all loans that were previously identified as "covered" are included in loans held for investment within the consolidated balance sheets as of December 31, 2019 and December 31, 2018.

### Loan Portfolio Maturities

The following table provides information regarding the maturities of the banking segment's real estate and commercial and industrial loans held for investment, net of unearned income (in thousands).

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Due Within One Year | Due From One To Five Years | Due After Five Years | Total |
| Real estate | $ 1,293,342 | $ 1,924,777 | $ 1,515,880 | $ 4,733,999 |
| Commercial and industrial | 3,347,754 | 378,609 | 139,806 | 3,866,169 |
| Total | $ 4,641,096 | $ 2,303,386 | $ 1,655,686 | $ 8,600,168 |
| | | | | |
| Fixed rate loans | $ 3,340,376 | $ 2,000,071 | $ 1,647,612 | $ 6,988,059 |
| Floating rate loans | 1,300,720 | 303,315 | 8,074 | 1,612,109 |
| Total | $ 4,641,096 | $ 2,303,386 | $ 1,655,686 | $ 8,600,168 |

In the table above, real estate includes commercial real estate, construction and land development and 1-4 family residential loans. Commercial and industrial includes mortgage warehouse loans. 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 loan portfolio. Management has responsibility for determining the level of the allowance for loan losses, subject to review by 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. 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 of loans acquired in the Bank Transactions that occurred prior to their acquisition represent contractual cash flows not expected to be collected and are recorded as accretion income. Recoveries on acquired loans charged-off subsequent to their acquisition 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 Receivables and Contingencies Topic. Estimates of loss for the Receivables and 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 loan category, and further disaggregates commercial and industrial loans by collateral type. The analysis uses net charge-off experience by considering charge-offs and recoveries in determining the loss rate. 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.

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:

- the loss emergence period is applied to both the general allowance and adjustments for qualitative risk factors, which represents the average amount of time between when loss events occur for specific loan types and when such problem loans are identified and the related loss amounts are confirmed through charge-offs;
- changes in the volume and severity of past due, non-accrual 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, non-accrual 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. Classified loans are defined as loans having a well-defined weakness or weaknesses related to the borrower's financial capacity or to pledged collateral that may jeopardize the repayment of the debt. They are characterized by the possibility that the Bank may sustain some loss if the deficiencies giving rise to the substandard classification are not corrected. The magnitude of the impact of these factors on our qualitative assessment of the allowance for loan loss changes from quarter to quarter. Periodically, management conducts an analysis to estimate the loss emergence period for each loan portfolio segment based on historical charge-offs, loan type and loan payment history and considers available industry peer bank data. Model output by loan category is reviewed to evaluate the reasonableness of the reserve levels in comparison to the estimated loss emergence period applied to historical loss experience.

The loan review program is designed 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.

In connection with the Bank Transactions, we acquired loans both with and without evidence of credit quality deterioration since origination. PCI loans acquired in the Bank Transactions are accounted for either on an individual loan basis or in pools. 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 similar 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 similar risk characteristics used for the pooling of certain PCI loans are risk grade and loan collateral type. The loans acquired in the Bank Transactions were initially recorded at fair value with no carryover of any allowance for loan losses. The balance of the aggregate discount on our loans was $72.3 million and $99.8 million at December 31, 2019 and 2018, respectively.

An allowance for loan losses on PCI loans is calculated using the quarterly recast of cash flows expected to be collected 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. This increase in accretable yield is taken into income over the remaining life of the loan.

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.

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, GAAP, 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 $7.2 million, $5.1 million and $14.3 million during 2019, 2018 and 2017, respectively. The significant change in the provision for loan losses during 2018, compared with 2017, was primarily the result of improved economic outlook in the oil and gas industry which affected the qualitative factors used to calculate the provision for loan losses as well as lower loan growth.

The allowance for loan losses is subject to regulatory examination, 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 loan portfolio at December 31, 2019, additional provisions for losses on existing loans may be necessary in the future.

The following tables present the activity in our allowance for loan losses within our loan portfolio for the periods presented (in thousands). Substantially all of the activity shown below occurred within the banking segment.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Loans Held for Investment** | **2019** | **2018** | **2017** | **2016** | **2015** |
| Balance, beginning of year | $ 59,486 | $ 63,686 | $ 54,599 | $ 46,947 | $ 41,652 |
| Provision for loan losses | 7,206 | 5,088 | 14,271 | 40,620 | 12,715 |
| Recoveries of loans previously charged off: | | | | | |
| Commercial real estate | 6 | — | 24 | 51 | 406 |
| Commercial and industrial | 2,829 | 4,273 | 1,833 | 1,931 | 3,558 |
| Construction and land development | — | 6 | 7 | — | — |
| 1-4 family residential | 61 | 146 | 201 | 344 | 114 |
| Consumer | 37 | 64 | 79 | 123 | 127 |
| Broker-dealer | — | — | — | — | 123 |
| Covered | — | — | 22 | 121 | 342 |
| Total recoveries | 2,933 | 4,489 | 2,166 | 2,570 | 4,670 |
| Loans charged off: | | | | | |
| Commercial real estate | 1,160 | 800 | 193 | 1,243 | 79 |
| Commercial and industrial | 5,924 | 12,741 | 6,253 | 33,776 | 7,144 |
| Construction and land development | — | — | 13 | — | — |
| 1-4 family residential | 907 | 143 | 112 | 196 | 526 |
| Consumer | 498 | 93 | 208 | 203 | 378 |
| Broker-dealer | — | — | — | 1 | — |
| Covered | — | — | 571 | 119 | 3,963 |
| Total charge-offs | 8,489 | 13,777 | 7,350 | 35,538 | 12,090 |
| Net charge-offs | (5,556) | (9,288) | (5,184) | (32,968) | (7,420) |
| Balance, end of year | $ 61,136 | $ 59,486 | $ 63,686 | $ 54,599 | $ 46,947 |
| Allowance for loan losses as a percentage of gross loans held for investment | 0.83 % | 0.86 % | 0.99 % | 0.90 % | 0.84 % |

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 loan portfolio are presented in the tables below (dollars in thousands).

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | Reserve | % of Gross Loans | Reserve | % of Gross Loans | Reserve | % of Gross Loans | Reserve | % of Gross Loans | Reserve | % of Gross Loans |
| Commercial real estate | $ 31,595 | 40.65 % | $ 27,100 | 42.42 % | $ 26,413 | 40.00 % | $ 22,262 | 38.41 % | $ 15,669 | 33.21 % |
| Commercial and industrial | 17,964 | 27.44 % | 21,980 | 25.28 % | 23,674 | 26.04 % | 21,369 | 30.19 % | 19,845 | 30.20 % |
| Construction and land development | 4,878 | 12.74 % | 6,061 | 13.46 % | 7,844 | 14.91 % | 7,002 | 12.90 % | 6,064 | 12.62 % |
| 1-4 family residential | 6,386 | 10.72 % | 3,956 | 9.80 % | 2,362 | 6.65 % | 2,974 | 5.39 % | 3,314 | 5.78 % |
| Consumer | 265 | 0.64 % | 267 | 0.69 % | 311 | 0.63 % | 424 | 0.68 % | 314 | 0.82 % |
| Broker-dealer | 48 | 7.81 % | 122 | 8.35 % | 353 | 8.95 % | 155 | 8.23 % | 209 | 10.57 % |
| Covered | — | — % | — | — % | 2,729 | 2.82 % | 413 | 4.20 % | 1,532 | 6.81 % |
| Total | $ 61,136 | 100.00 % | $ 59,486 | 100.00 % | $ 63,686 | 100.00 % | $ 54,599 | 100.00 % | $ 46,947 | 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. Potential problem loans are assigned a grade of special mention within our risk grading matrix. Potential problem loans do not include PCI loans because PCI loans exhibited evidence of credit deterioration at acquisition that made it probable that all contractually required principal payments would not be collected. We had five credit relationships totaling $16.8 million of potential problem loans at December 31, 2019, compared with seven credit relationships totaling $17.8 million of potential problem loans at December 31, 2018 and six credit relationships totaling $27.6 million of potential problem loans at December 31, 2017.

*Non-Performing Assets*

As previously discussed, during the fourth quarter of 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements were resolved and terminated. As such, the following table presents components of our non-performing assets with previously covered assets presented in a separate portfolio segment as of December 31, 2017, 2016 and 2015 (dollars in thousands).

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Loans accounted for on a non-accrual basis: | | | | | |
| Commercial real estate | $ 7,308 | $ 5,324 | $ 14,620 | $ 9,515 | $ 17,764 |
| Commercial and industrial | 15,262 | 14,870 | 20,878 | 13,932 | 7,160 |
| Construction and land development | 1,316 | 3,278 | 611 | 755 | 114 |
| 1-4 family residential | 12,204 | 10,437 | 4,358 | 244 | 7 |
| Consumer | 26 | 41 | 56 | — | — |
| Broker-dealer | — | — | — | — | — |
| Covered | — | — | 5,104 | 3,836 | 8,978 |
| | $ 36,116 | $ 33,950 | $ 45,627 | $ 28,282 | $ 34,023 |
| Non-performing loans as a percentage of total loans | 0.38 % | 0.41 % | 0.56 % | 0.36 % | 0.48 % |
| Other real estate owned | $ 18,202 | $ 27,578 | $ 40,627 | $ 56,149 | $ 99,484 |
| Other repossessed assets | $ — | $ 68 | $ 323 | $ 1,117 | $ — |
| Non-performing assets | $ 54,318 | $ 61,596 | $ 86,577 | $ 85,548 | $ 133,507 |
| Non-performing assets as a percentage of total assets | 0.36 % | 0.45 % | 0.65 % | 0.67 % | 1.13 % |
| Non-PCI loans past due 90 days or more and still accruing | $ 102,707 | $ 83,131 | $ 85,396 | $ 47,659 | $ 50,776 |
| Troubled debt restructurings included in accruing loans held for investment | $ 2,173 | $ 1,339 | $ 1,433 | $ 1,699 | $ 1,933 |

At December 31, 2019, non-accrual loans included 23 commercial and industrial relationships with loans secured by accounts receivable, life insurance, oil and gas, livestock and equipment. Non-accrual loans at December 31, 2019 also included $4.8 million of loans secured by residential real estate which were classified as loans held for sale. At December 31, 2018, non-accrual loans included 16 commercial and industrial relationships with loans secured by accounts receivable, life insurance, livestock, oil and gas, and equipment. Non-accrual loans at December 31, 2018 also included $3.4 million of loans secured by residential real estate which were classified as loans held for sale. At December 31, 2017, non-accrual loans included 19 commercial and industrial relationships with loans secured by accounts receivable, life insurance, livestock, oil and gas, and equipment. Non-accrual loans at December 31, 2017 also included $2.7 million of loans secured by residential real estate which were classified as loans held for sale.

OREO as of December 31, 2019 decreased from December 31, 2018 due to $14.0 million of disposals and fair value decreases related to 74 properties, partially offset by the addition of 41 properties totaling $4.6 million. OREO as of December 31, 2018 decreased from December 31, 2017 due to $16.7 million of disposals related to 111 properties and fair value decreases of $2.8 million, partially offset by the addition of 50 properties totaling $6.7 million. OREO as of December 31, 2017 decreased from December 31, 2016 due to $19.7 million of disposals related to 171 properties and fair value decreases of $4.5 million, partially offset by the addition of 54 properties totaling $8.7 million. At both December 31, 2019 and 2018, OREO was primarily comprised of commercial real estate properties.

Non-PCI loans past due 90 days or more and still accruing at December 31, 2019, 2018 and 2017 were primarily comprised of loans held for sale and guaranteed by U.S. government agencies, including Government National Mortgage Association loans subject to repurchase within our mortgage origination segment. The increase in Non-PCI past due loans 90 days or more and still accruing at December 31, 2019, compared to December 31, 2018, was partially due to the aging of the mortgage origination segment’s servicing portfolio and the length of the loan foreclosure process, which can often exceed one year.

At December 31, 2019, troubled debt restructurings ("TDRs") were comprised of $2.2 million of loans that were considered to be performing and non-performing loans of $11.9 million reported in non-accrual loans. At December 31, 2018, TDRs were comprised of $1.3 million of loans that were considered to be performing and non-performing loans of $5.9 million reported in non-accrual loans. At December 31, 2017, TDRs were comprised of $1.4 million related to loans that were considered to be performing and non-performing loans of $10.4 million reported in non-accrual loans.

*Current Expected Credit Loss (CECL) Standard*

In June 2016, the FASB issued ASU 2016-13 which sets forth a "current expected credit loss" (CECL) model for measuring credit losses on certain exposures. The new model requires the measurement of expected credit losses to reflect the lifetime of an exposure (or pool of exposures) represented by certain financial instruments to be based on historical experience, current conditions and reasonable and supportable forecasts. Under the "incurred loss" model, the allowance for loan losses is based only on estimates of loan losses that exist in the portfolio as of the reporting date. The new model became effective for us on January 1, 2020, and applies to most debt instruments, trade receivables, lease receivables, reinsurance receivables, financial guarantees and loan commitments. Our implementation efforts have included, among other activities, the development, testing and validation of credit forecasting models and a new credit scoring system for significant loan portfolio segments, reassessment of risk rating grades and matrix, as well as development of the policies, systems and controls required to fully implement CECL. New model development has increased expenses associated with the collection and processing of data, which will continue in future periods. Upon adoption, and based on the current loan portfolio and the range of current forecasts of future economic conditions, we estimate that the allowance for credit losses will be between approximately $80 million and $100 million, inclusive of the estimate of change in reserve for unfunded commitments of between $6 million and $9 million, currently included in other liabilities within the consolidated balance sheets, when adopted on January 1, 2020. The estimated increase is driven by the fact that under CECL the allowance covers expected credit losses over the entire expected life of the loan portfolios and also takes into account forecasts of expected future macroeconomic conditions. This estimated increase, net of tax, will largely be reflected within our banking segment and as a decrease to opening retained earnings at January 1, 2020. While not material, the impact of the adoption of CECL will also affect our regulatory capital, performance and other asset quality ratios. The estimated range noted above and ultimate magnitude of the increase in allowance for credit losses upon adoption is expected to be volatile given dependence upon, among other things, the portfolio composition and quality, as well as the impact of significant drivers, including prepayment assumptions and macroeconomic conditions and forecasts at the time of adoption.

**Insurance Losses and Loss Adjustment Expenses**

At December 31, 2019, 2018 and 2017, our gross reserve for unpaid losses and LAE was $15.3 million, $20.6 million, and $30.2 million, respectively, including estimated recoveries from reinsurance of $1.0 million, $3.2 million, and $11.5 million, respectively. 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, 2019, this equates to approximately plus or minus $1.5 million, or 1.3% of insurance segment equity, and 2.2% of calendar year 2019 insurance losses.

**Deposits**

The banking segment's major source of funds and liquidity is its deposit base. Deposits provide funding for its investments 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. For the periods presented in the table below, the average rates paid associated with time deposits include the effects of amortization of the deposit premiums booked as a part of the Bank Transactions.

The table below presents the average balance of, and rate paid on, consolidated deposits (dollars in thousands).

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid |
| Noninterest-bearing demand deposits | $ 2,635,924 | 0.00 % | $ 2,504,599 | 0.00 % | $ 2,309,776 | 0.00 % |
| Interest-bearing demand deposits | 4,283,642 | 0.98 % | 4,025,259 | 0.66 % | 3,671,521 | 0.29 % |
| Savings deposits | 186,235 | 0.19 % | 201,328 | 0.11 % | 234,420 | 0.10 % |
| Time deposits | 1,446,614 | 2.02 % | 1,341,886 | 1.42 % | 1,314,418 | 1.05 % |
| | $ 8,552,415 | 0.84 % | $ 8,073,072 | 0.57 % | $ 7,530,135 | 0.33 % |

The maturity of consolidated interest-bearing time deposits of $100,000 or more at December 31, 2019 is set forth in the table below (in thousands).

| | |
|---|---|
| Months to maturity: | |
| 3 months or less | $ 402,131 |
| 3 months to 6 months | 259,403 |
| 6 months to 12 months | 155,862 |
| Over 12 months | 297,437 |
| | $ 1,114,833 |

The banking segment experienced an increase of $95.6 million in interest-bearing time deposits of $100,000 or more at December 31, 2019, compared to December 31, 2018. The increase during 2019, compared to 2018, was primarily due to

customers locking in higher rates before the federal funds interest rate started to decrease during 2019 and a more competitive deposit pricing environment. This is compared to a decrease of $129.2 million in interest-bearing time deposits of $100,000 or more at December 31, 2018, compared to December 31, 2017. The decrease during 2018, compared to 2017, was primarily due to our strategic decision to not renew brokered certificates of deposit in 2018. At December 31, 2019, there were $1.2 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Balance | Average Rate Paid | Balance | Average Rate Paid | Balance | Average Rate Paid |
| Short-term borrowings | $ 1,424,010 | 2.41 % | $ 1,065,807 | 2.15 % | $ 1,206,424 | 1.20 % |
| Notes payable | 283,769 | 4.94 % | 228,872 | 4.95 % | 208,809 | 3.65 % |
| Junior subordinated debentures | 67,012 | 5.75 % | 67,012 | 5.47 % | 67,012 | 4.50 % |
| | $ 1,774,791 | 2.97 % | $ 1,361,691 | 2.70 % | $ 1,482,245 | 1.84 % |

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 $358.2 million increase in short-term borrowings at December 31, 2019 compared with December 31, 2018 included a net increase of $363.7 million in our banking segment primarily associated with increases in FHLB notes, partially offset by a net decrease of $5.5 million in short-term bank loans, securities sold under agreements to repurchase and commercial paper used by the Hilltop Broker-Dealers to finance their activities. The $140.6 million decrease in short-term borrowings at December 31, 2018 compared with December 31, 2017 included a net decrease of $138.5 million in our banking segment primarily associated with decreases in FHLB notes, in addition to a net decrease of $2.1 million in short-term bank loans and securities sold under agreements to repurchase used by the Hilltop Broker-Dealers to finance their activities. Notes payable at December 31, 2019 of $283.8 million was comprised of $148.8 million related to Senior Notes, net of loan origination fees, FHLB borrowings with an original maturity greater than one year within our banking segment of $28.8 million, insurance segment line of credit and term notes of $27.5 million, and mortgage origination segment borrowings of $78.7 million. Notes payable at December 31, 2018 of $228.9 million was comprised of $148.6 million related to Senior Notes, net of loan origination fees, FHLB borrowings with an original maturity greater than one year within our banking segment of $4.4 million, insurance segment line of credit and term notes of $27.5 million, and mortgage origination segment borrowings of $48.4 million. The increase in notes payable at December 31, 2019 compared to December 31, 2018 is primarily the result of higher outstanding balances on lines of credit held by the mortgage segment's ABAs and FHLB borrowings by the banking segment. Notes payable at December 31, 2017 of $208.8 million was comprised of $148.4 million related to Senior Notes, net of loan origination fees, FHLB borrowings with an original maturity greater than one year held within our banking segment of $19.4 million, insurance segment term notes of $28.5 million, and mortgage origination segment borrowings of $12.5 million. The increase in notes payable at December 31, 2018 compared to December 31, 2017, was primarily the result of higher outstanding balances on lines of credit held by the mortgage segment's ABAs.

***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 support capital deployment for organic growth and to preserve capital to be deployed through acquisitions, dividend payments and stock repurchases. At December 31, 2019, Hilltop had $105.6 million in cash and cash equivalents, an increase of $61.7 million from $43.9 million at December 31, 2018. This increase in cash and cash equivalents was primarily due to $173.0 million of dividends from subsidiaries, partially offset by $73.4 million of stock repurchases, $29.6 million in cash dividends declared and other general corporate expenses. Subject to regulatory restrictions, Hilltop has received, and may also continue to receive, dividends from its subsidiaries. If necessary or appropriate, we may also finance acquisitions with the proceeds from equity or debt issuances. We believe that Hilltop's liquidity is sufficient for the foreseeable future, with current short-term liquidity needs including operating expenses, interest on debt obligations, dividend payments to stockholders and potential stock repurchases.

*NLC Sale*

On January 30, 2020, we entered into an agreement to sell all of the outstanding capital stock of NLC, which comprises the operations of our insurance segment, for a cash purchase price of $150.0 million, subject to post closing adjustments. Consummation of the transaction, which we expect to occur in the second quarter of 2020, is subject to customary closing conditions, including required regulatory approvals. We also agreed to enter into an agreement at closing to refrain for a specified period from certain activities that compete with the business of NLC.

*Dividend Program and Declaration*

In October 2016, we announced that our board of directors authorized a dividend program under which we intend to pay quarterly dividends on our common stock, subject to quarterly declarations by our board of directors. During 2019, we declared and paid cash dividends of $0.32 per common share, or $29.6 million.

On January 30, 2020, our board of directors declared a quarterly cash dividend of $0.09 per common share, payable on February 28, 2020 to all common stockholders of record as of the close of business on February 14, 2020.

Future dividends on our common stock are subject to the determination by the board of directors based on an evaluation of 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.

*Stock Repurchases*

In January 2020, our board of directors authorized a new stock repurchase program through January 2021 pursuant to which we are authorized to repurchase, in the aggregate, up to $75.0 million of our outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. Under the stock repurchase program authorized, we may repurchase shares in the open market or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. The extent to which we repurchase our shares and the timing of such repurchases depends upon market conditions and other corporate considerations, as determined by Hilltop's management team. Repurchased shares will be returned to our pool of authorized but unissued shares of common stock.

During 2019, we paid $73.4 million to repurchase an aggregate of 3,390,247 shares of common stock at a weighted average price of $21.64 per share, inclusive of private negotiated transactions. The purchases were funded from available cash balances.

*Senior Notes due 2025*

On April 9, 2015, we completed an offering of $150.0 million aggregate principal amount of our 5% senior notes due 2025 ("Senior Unregistered Notes") in a private offering that was exempt from the registration requirements of the Securities Act. The Senior Unregistered Notes were offered within the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to persons outside of the United States under Regulation S under the Securities Act. The Senior Unregistered Notes were issued pursuant to an indenture, dated as of April 9, 2015 (the "indenture"), by and between Hilltop and U.S. Bank National Association, as trustee. The net proceeds from the offering, after deducting estimated fees and expenses and the initial purchasers' discounts, were approximately $148 million. We used the net proceeds of the offering to redeem all of our outstanding Series B Preferred Stock at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million, and Hilltop utilized the remainder for general corporate purposes.

In connection with the issuance of the Senior Unregistered Notes, on April 9, 2015, we entered into a registration rights agreement with the initial purchasers of the Senior Unregistered Notes. Under the terms of the registration rights agreement, we agreed to offer to exchange the Senior Unregistered Notes for notes registered under the Securities Act (the "Senior Registered Notes"). The terms of the Senior Registered Notes are substantially identical to the Senior Unregistered Notes for which they were exchanged (including principal amount, interest rate, maturity and redemption rights), except that the Senior Registered Notes generally are not subject to transfer restrictions. On May 22, 2015, and subject to the terms and conditions set forth in the Senior Registered Notes prospectus, we commenced an offer to exchange the outstanding Senior Unregistered Notes for Senior Registered Notes. Substantially all of the Senior Unregistered Notes were tendered for exchange, and on June 22, 2015, we fulfilled all of the requirements of the registration rights agreement for the Senior Unregistered Notes by issuing Senior Registered Notes in exchange for the

tendered Senior Unregistered Notes. We refer to the Senior Registered Notes and the Senior Unregistered Notes that remain outstanding collectively as the "Senior Notes."

The Senior Notes bear interest at a rate of 5% per year, payable semi-annually in arrears in cash on April 15 and October 15 of each year, commencing on October 15, 2015. The Senior Notes will mature on April 15, 2025, unless we redeem the Senior Notes, in whole at any time or in part from time to time, on or after January 15, 2025 (three months prior to the maturity date of the Senior Notes) at our election at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. At December 31, 2019, $150.0 million of our Senior Notes was outstanding.

The indenture contains covenants that limit our ability to, among other things and subject to certain significant exceptions: (i) dispose of or issue voting stock of certain of our bank subsidiaries or subsidiaries that own voting stock of our bank subsidiaries, (ii) incur or permit to exist any mortgage, pledge, encumbrance or lien or charge on the capital stock of certain of our bank subsidiaries or subsidiaries that own capital stock of our bank subsidiaries and (iii) sell all or substantially all of our assets or merge or consolidate with or into other companies. The indenture also provides for certain events of default, which, if any of them occurs, would permit or require the principal amount, premium, if any, and accrued and unpaid interest on the then outstanding Senior Notes to be declared immediately due and payable.

*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.

Under the comprehensive capital framework ("Basel III") for U.S. banking organizations, total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of common equity Tier 1 capital and additional Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital. We perform reviews of the classification and calculation of risk-weighted assets to ensure accuracy and compliance with the Basel III regulatory capital requirements. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, Basel III requires banking organizations to maintain a capital conservation buffer above minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. Based on the actual ratios as noted below, Hilltop and PlainsCapital exceed each of the capital conservation buffer requirements in effect as of December 31, 2019.

In addition, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed 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. All of the debentures issued to the 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, 2019, under guidance issued by the Board of Governors of the Federal Reserve System.

At December 31, 2019, Hilltop had a total capital to risk weighted assets ratio of 17.55%, Tier 1 capital to risk weighted assets ratio of 17.13%, common equity Tier 1 capital to risk weighted assets ratio of 16.70% and a Tier 1 capital to average assets, or leverage, ratio of 12.71%. Accordingly, Hilltop's actual capital amounts and ratios in accordance with Basel III exceeded the regulatory capital requirements including conservation buffer currently in effect at the end of the period.

At December 31, 2019, PlainsCapital had a total capital to risk weighted assets ratio of 14.13%, Tier 1 capital to risk weighted assets ratio of 13.45%, common equity Tier 1 capital to risk weighted assets ratio of 13.45%, and a Tier 1 capital to average assets, or leverage, ratio of 11.61%. Accordingly, PlainsCapital's actual capital amounts and ratios in

accordance with Basel III resulted in it being considered "well-capitalized" and exceeded the regulatory capital requirements including conservation buffer in effect at the end of the period.

We discuss regulatory capital requirements in more detail in Note 22 to our consolidated financial statements, as well as under the caption "Government Supervision and Regulation — Corporate — Capital Adequacy Requirements and BASEL III" set forth in Part I, Item I. of this Annual Report.

*Banking Segment*

Within our banking segment, our primary uses of cash are for customer withdrawals and extensions of credit as well as our borrowing costs and other operating expenses. Our asset and liability group is responsible for continuously monitoring our liquidity position to ensure that our assets and liabilities are managed in a manner that will meet our short-term and long-term cash requirements. Our goal is to manage our liquidity position in a manner such that we can meet our customers' short-term and long-term deposit withdrawals and anticipated and unanticipated increases in loan demand without penalizing earnings. 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 time deposits, term loans at the FHLB and borrowings under lines of credit with other financial institutions.

Within our banking segment, 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. The Bank regularly evaluates its deposit products and pricing structures relative to the market to maintain competitiveness over time.

The Bank's 15 largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 9.23% of the Bank's total deposits, and the Bank's five largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 4.71% of the Bank's total deposits at December 31, 2019. 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.

*Broker-Dealer Segment*

The Hilltop Broker-Dealers rely on their equity capital, short-term bank borrowings, interest-bearing and non-interest-bearing client credit balances, correspondent deposits, securities lending arrangements, repurchase agreement financing, commercial paper issuances and other payables to finance their assets and operations, subject to their respective compliance with broker-dealer net capital and customer protection rules. At December 31, 2019, Hilltop Securities had credit arrangements with five unaffiliated banks, with maximum aggregate commitments of up to $725.0 million. These credit arrangements 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. In addition, Hilltop Securities has a committed revolving credit facility with an unaffiliated bank of up to $50.0 million. At December 31, 2019, Hilltop Securities had borrowed $111.0 million under its credit arrangements and had no borrowings under its credit facility.

During 2019, Hilltop Securities initiated two commercial paper programs in the ordinary course of its business to fund a portion of its securities inventories. The commercial paper notes ("CP Notes") may be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issuable under two separate programs, Series 2019-1 CP Notes and Series 2019-2 CP Notes, in maximum aggregate amounts of $300 million and $200 million, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The discount to maturity will be based on LIBOR (a rate per annum determined by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars offered on the London interbank dollar market), plus an applicable margin. The CP Notes are secured by a pledge of collateral owned by Hilltop Securities. The net proceeds (after deducting related issuance expenses) from the sale of the CP Notes will be used for general corporate purposes, including working capital. As of December 31, 2019, the weighted average maturity of the CP Notes was 90

days at a rate of 2.208%. At December 31, 2019, the amount outstanding under these secured arrangements was $19.3 million, which was collateralized by securities held for firm accounts valued at $20.9 million.

*Mortgage Origination Segment*

PrimeLending funds the mortgage loans it originates through warehouse lines of credit maintained with the Bank which have an aggregate commitment of $2.2 billion, of which $1.8 billion was drawn at December 31, 2019. 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 an unaffiliated bank of up to $1.0 million, of which no borrowings were outstanding at December 31, 2019.

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC ("Ventures Management") which holds an ownership interest in and is the managing member of certain ABAs. At December 31, 2019, these ABAs had combined available lines of credit totaling $150.0 million, $100.0 million of which was with a single unaffiliated bank, and the remaining $50.0 million of which was with the Bank. At December 31, 2019, Ventures Management had outstanding borrowings of $95.0 million, $16.4 million of which was with the Bank. As of December 31, 2019, the net worth of two of the ABAs was less than the amount required by the unaffiliated bank's debt covenants. Both ABAs received a waiver for this covenant from the unaffiliated bank as of December 31, 2019.

*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 $138.7 million, or 84.2%, equity investments of $19.8 million and other investments of $6.2 million comprised NLC's $164.7 million in total cash and investments at December 31, 2019. 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 an unaffiliated bank and an investment management agreement with DTF Holdings, LLC, which is owned by current Hilltop director, Jonathan S. Sobel.

***Contractual Obligations***

The following table presents information regarding our contractual obligations at December 31, 2019 (in thousands). Our reserve for losses and LAE 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, and the table below includes all leases that had commenced as of December 31, 2019. Payments related to short-term borrowings and long-term debt obligations include the estimated contractual interest payments under the respective agreements.

| | 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 LAE | $ 10,555 | $ 3,667 | $ 1,012 | $ 108 | $ 15,342 |
| Short-term borrowings | 1,450,274 | — | — | — | 1,450,274 |
| Long-term debt obligations | 96,542 | 26,565 | 26,133 | 329,892 | 479,132 |
| Capital lease obligations | 1,197 | 2,453 | 2,443 | 2,297 | 8,390 |
| Operating lease obligations | 35,676 | 51,916 | 29,961 | 33,879 | 151,432 |
| Total | $ 1,594,244 | $ 84,601 | $ 59,549 | $ 366,176 | $ 2,104,570 |

In addition to the contractual obligations presented above, during 2018, Hilltop and the Bank entered into leases for a majority of the available corporate office space in Hilltop Plaza to serve as the headquarters for both companies as well as retail space for a PlainsCapital Bank branch. The two separate 129-month office and retail leases, which commenced in February 2020, have combined total base rent of approximately $35 million with the first nine months of rent abated.

### *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 $2.1 billion at December 31, 2019 and outstanding financial and performance standby letters of credit of $90.9 million at December 31, 2019.

In the normal course of business, the Hilltop Broker-Dealers execute, settle and finance various securities transactions that may expose the Hilltop Broker-Dealers 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 the Hilltop Broker-Dealers, use of derivatives to support certain non-profit housing organization clients, clearing agreements between the Hilltop Broker-Dealers 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 MD&A. 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, as summarized below.

#### *Allowance for Loan Losses*

The allowance for loan losses is a valuation allowance for probable losses existing 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 been incurred on a specific loan. Recoveries are credited as a reduction 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 existing in the portfolio. Based on these estimates, an amount is charged to or recovered from the provision 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 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 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.

*Reserve for Losses and Loss Adjustment Expenses*

The reserve for losses and LAE represents our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given reporting 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 unpaid losses, including case reserves and IBNR reserves, and for the cost to settle the claims. We estimate our IBNR reserves by estimating our ultimate liability for loss and LAE 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, many factors are considered in determining the appropriate amount of reserves to record for the period, including 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 LAE 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 are 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 or other identifiable intangible assets may be impaired, an interim impairment test would be required. Intangible assets with finite lives are 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 requires us to make judgments and assumptions. The test 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 each reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, we will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, any loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

This 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.

*Mortgage Loan Indemnification Liability*

The mortgage origination segment may be responsible for errors or omissions relating to its representations and warranties that the mortgage loans sold meet certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with a mortgage loan. If determined to be at fault, the mortgage origination segment either repurchases the mortgage 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 an 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 over time to cover ultimate losses due to conditions outside of our control such as unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, or actions taken by institutions or investors. The impact of such matters will be considered in the reserving process when known.

*Mortgage Servicing Rights Asset*

The Company measures its residential mortgage servicing rights asset using the fair value method. Under the fair value method, the retained MSR assets 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 assets 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 asset, 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 asset fair value estimates are compared to observable trades of similar portfolios as well as to MSR asset 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 adversely impact the recorded value of the MSR asset. The value of the MSR asset is also dependent upon the discount rate used in the model, which is based on current market rates and is reviewed by management on an ongoing basis. An increase in the discount rate would result in a decrease in the value of the MSR asset.

*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 and liabilities assumed, including identifiable intangibles, 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, as liquid markets often do not exist for certain loans, deposits, identifiable intangible assets and other assets and liabilities acquired or assumed. Our valuation methodologies employ 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 permitted to be revised for up to one year after the acquisition date, determine the amount of goodwill or bargain purchase gain recognized in connection with a business combination. Changes to provisional amounts identified during this measurement period are recognized in the reporting period in which the adjustment amounts are determined. 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 our periodic impairment assessments 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, 2019, total debt obligations on our consolidated balance sheet, excluding short-term borrowings and unamortized debt issuance costs and premiums, were $351.9 million, and included $178.7 million in debt obligations subject to fixed interest rates, with the remainder 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, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 5,263,406 | $ 1,216,672 | $ 1,569,875 | $ 473,252 | $ 124,009 | $ 8,647,214 |
| Securities | 164,723 | 120,447 | 330,098 | 296,842 | 386,314 | 1,298,424 |
| Federal funds sold and securities purchased under agreements to resell | 394 | — | — | — | — | 394 |
| Other interest sensitive assets | 263,663 | — | — | — | 29,282 | 292,945 |
| Total interest sensitive assets | 5,692,186 | 1,337,119 | 1,899,973 | 770,094 | 539,605 | 10,238,977 |
| **Interest sensitive liabilities:** | | | | | | |
| Interest bearing checking | $ 4,300,208 | $ — | $ — | $ — | $ — | $ 4,300,208 |
| Savings | 199,076 | — | — | — | — | 199,076 |
| Time deposits | 559,324 | 624,567 | 292,048 | 59,914 | — | 1,535,853 |
| Notes payable and other borrowings | 707,670 | 3,375 | 3,733 | 3,830 | 22,834 | 741,442 |
| Total interest sensitive liabilities | 5,766,278 | 627,942 | 295,781 | 63,744 | 22,834 | 6,776,579 |
| Interest sensitivity gap | $ (74,092) | $ 709,177 | $ 1,604,192 | $ 706,350 | $ 516,771 | $ 3,462,398 |
| Cumulative interest sensitivity gap | $ (74,092) | $ 635,085 | $ 2,239,277 | $ 2,945,627 | $ 3,462,398 | |
| Percentage of cumulative gap to total interest sensitive assets | (0.72)% | 6.20 % | 21.87 % | 28.77 % | 33.82 % | |

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 a range of changes in interest rates on net interest income and on economic value of equity for the banking segment at December 31, 2019 (dollars in thousands).

| Change in Interest Rates (basis points) | Changes in Net Interest Income | | Changes in Economic Value of Equity | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| +200 | $ 30,261 | 8.60 % | $ 274,752 | 15.43 % |
| +100 | $ 14,776 | 4.20 % | $ 161,765 | 9.08 % |
| -50 | $ (1,466) | (0.42)% | $ (119,377) | (6.70)% |
| -100 | $ (1,730) | (0.49)% | $ (295,657) | (16.60)% |

The projected changes in net interest income and economic value of equity to changes in interest rates at December 31, 2019 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.

While we are seeing an increase in loan yields as a result of the rising interest rate environment, a portion of our loan portfolio remains at applicable rate floors, thereby causing yields on our interest-earning assets to rise more slowly than increases in market interest rates, which have also increased our borrowing costs. Absent a decline in interest rates, we believe this trend will continue until contractual rate resets allow our entire loan portfolio to reprice above applicable rate floors. Short-term interest rates have risen faster than medium and longer term rates, which has reduced the favorable impact of our asset-sensitive position on net interest income. Any changes in interest rates across the term structure will

continue to impact net interest income and net interest margin. The impact of rate movements will change with the shape of the yield curve, including any changes in steepness or flatness and inversions at any points on the yield curve.

*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 receivables and securities borrowing activities. Our funding sources, which include customer and correspondent cash balances, bank borrowings, repurchase agreements and securities lending activities, also expose the broker-dealer to interest rate risk. Movement in short-tem interest rates could reduce the positive spread between the broker-dealer segment's interest income and interest expense.

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 and receivables are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

The following table categorizes the broker-dealer segment's net trading securities which are subject to interest rate and market price risk (dollars in thousands):

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | 1 Year or Less | > 1 Year to 5 Years | > 5 Years to 10 Years | > 10 Years | Total |
| **Trading securities, at fair value** | | | | | |
| Municipal obligations | $ 35 | $ 853 | $ 9,081 | $ 83,148 | $ 93,117 |
| U.S. government and government agency obligations | 739 | 6,829 | (5,588) | 519,238 | 521,218 |
| Corporate obligations | (92) | 6,621 | 8,051 | 10,648 | 25,228 |
| Total debt securities | 682 | 14,303 | 11,544 | 613,034 | 639,563 |
| Corporate equity securities | (3,106) | — | — | — | (3,106) |
| Other | 6,914 | — | — | — | 6,914 |
| | $ 4,490 | $ 14,303 | $ 11,544 | $ 613,034 | $ 643,371 |
| **Weighted average yield** | | | | | |
| Municipal obligations | 0.00 % | 1.27 % | 1.58 % | 3.27 % | 3.08 % |
| U.S. government and government agency obligations | 1.61 % | 1.69 % | 1.91 % | 4.54 % | 4.34 % |
| Corporate obligations | 2.17 % | 2.19 % | 2.84 % | 4.75 % | 3.16 % |

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 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 U.S. Treasury bond futures and options, Eurodollar futures 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 December 31, 2019, 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 not effective because of a material weakness in our internal control over financial reporting, as described below.

Notwithstanding this material weakness, the Company has concluded that no material misstatements exist in the consolidated financial statements as included herein, and such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with US GAAP.

***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, 2019. 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. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2019, the Company did not design and maintain effective controls over certain aspects relating to the determination of the qualitative factors considered by management in the allowance for loan losses estimation process, specifically control activities to adequately support the analysis and the impact of such support on the loss measurement. This control deficiency did not result in a misstatement of the Company's consolidated financial statements. However, this control deficiency could result in misstatements of the interim or annual consolidated financial statements and disclosures that would result in a material misstatement that would not be prevented or detected.

Based on our assessment, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2019, based on the criteria in Internal Control – Integrated Framework (2013).

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included on page F-2.

***Plan for Remediation of Material Weakness***

The Company and its Board of Directors are committed to maintaining a strong internal control environment. During the fourth quarter of 2019, management identified a control deficiency that constituted a material weakness as of December 31, 2018. Management has evaluated the material weakness described above and has made significant progress updating its design and implementation of internal controls to remediate the aforementioned deficiency and enhance the Company's internal control environment. The remediation plan was implemented during the fourth quarter of 2019 and

included an enhanced analysis to support the qualitative factors considered in the estimation of the allowance for loan losses as of December 31, 2019. Management believes that those efforts will be effective in remediating the previously identified material weakness. The material weakness will not be considered remediated until the controls have operated effectively, as evidenced through testing, for a sufficient amount of time.

***Remediation of Previously Reported Material Weakness***

Management has completed the remediation efforts of a previously reported material weakness by implementing certain control enhancements related to the Company's process for the approval of customer wires that were not operating as designed.

***Changes in Internal Control Over Financial Reporting***

The remediation efforts described above were changes in our internal control over financial reporting during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**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 2020 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 2020 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 2020 Annual Meeting of Stockholders, 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 2020 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 2020 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.


| | Page |
|---|---|
| Hilltop Holdings Inc. | |
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets | F-4 |
| Consolidated Statements of Operations | F-5 |
| Consolidated Statements of Comprehensive Income | F-6 |
| Consolidated Statements of Stockholders' Equity | F-7 |
| Consolidated Statements of Cash Flows | F-8 |
| Notes to Consolidated Financial Statements | F-9 |


2. Financial Statement Schedules.

All 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 preceding the signature page hereto.

### Item 16. Form 10-K Summary.

None.

| Exhibit Number | Description of Exhibit |
|---|---|
| 2.1# | Stock Purchase Agreement by and among Hilltop Holdings Inc., ARC Insurance Holdings, Inc., Align NL Holdings, LLC and, for limited purposes set forth therein, Align Financial Holdings, LLC and MGI Holdings, Inc., dated January 30, 2020 (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed February 5, 2020 (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 and Restatement, 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 | Third 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 January 31, 2018 (File No. 001-31987) and incorporated herein by reference). |
| 3.2.1 | First Amendment to Third Amended and Restated Bylaws of Hilltop Holdings Inc., adopted and effective April 25, 2019 (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed May 1, 2019 (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 | 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). |
| 4.3.1 | 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, and the Administrators party thereto from time to time (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). |
| 4.3.2 | First Amendment to Amended and Restated Declaration of Trust, dated as of August 7, 2006, by and between PlainsCapital 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). |
| 4.3.3 | Indenture, dated as of July 31, 2001, by and between PlainsCapital 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). |
| 4.3.4 | First Supplemental Indenture, dated as of August 7, 2006, by and between PlainsCapital 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). |
| 4.3.5 | 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). |

4.3.6 Amended and Restated Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of August 7, 2006, by PlainsCapital 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).

4.3.7 Guarantee Agreement, dated as of July 31, 2001, by and between PlainsCapital 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).

4.3.8 First Amendment to Guarantee Agreement, dated as of August 7, 2006, by and between PlainsCapital 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).

4.4.1 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, and the Administrators party thereto from time to time (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).

4.4.2 Indenture, dated as of March 26, 2003, by and between PlainsCapital 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).

4.4.3 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).

4.4.4 Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of March 26, 2003, by PlainsCapital 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).

4.4.5 Guarantee Agreement, dated as of March 26, 2003, by and between PlainsCapital 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).

4.5.1 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, and the Administrators party thereto from time to time (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).

4.5.2 Indenture, dated as of September 17, 2003, by and between PlainsCapital 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).

4.5.3 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 4.7.3 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).

4.5.4 Floating Rate Junior Subordinated Deferrable Interest Debenture of Plains Capital Corporation, dated as of September 17, 2003, by PlainsCapital 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).

4.5.5 Guarantee Agreement, dated as of September 17, 2003, by and between PlainsCapital 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).

4.6.1 Amended and Restated Trust Agreement, dated as of February 22, 2008, by and among PlainsCapital Corporation, Wells Fargo Bank, N.A., as Property Trustee, Wells Fargo Delaware Trust Company, as Delaware Trustee, and the Administrators party thereto from time to time (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).

4.6.2 Junior Subordinated Indenture, dated as of February 22, 2008, by and between PlainsCapital 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).

4.6.3 First Supplemental Indenture, dated as of November 30, 2012, by and between PlainsCapital Corporation (f/k/a Meadow 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).

4.6.4 Plains Capital Corporation Floating Rate Junior Subordinated Note due 2038, dated as of February 22, 2008, by PlainsCapital 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).

4.6.5 Guarantee Agreement, dated as of February 22, 2008, by and between PlainsCapital 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).

4.7 Indenture, dated as of April 9, 2015, by and between Hilltop Holdings, Inc. and U.S. Bank National Association, as Trustee, including form of notes (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on April 9, 2015 (File No. 001-31987) and incorporated herein by reference).

4.8 Indenture, dated as of November 22, 2019, by and between Hilltop Securities Inc. and The Bank of New York Mellon, as indenture trustee (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on November 27, 2019 (File No. 001-31987) and incorporated herein by reference).

4.8.1 Indenture, dated as of December 6, 2019, by and between Hilltop Securities Inc. and The Bank of New York Mellon, as indenture trustee (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on December 11, 2019 (File No. 001-31987) and incorporated herein by reference).

4.9* Description of the Registrant's Securities.

10.1.1† 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).

10.1.2† Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for awards beginning in 2016 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 28, 2016 (File No. 001-31987) and incorporated herein by reference).

10.1.3† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Section 16 Officers) for awards beginning in 2016 (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on April 28, 2016 (File No. 001-31987) and incorporated herein by reference).

10.1.4† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Non-Section 16 Officers) for awards beginning in 2016 (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on April 28, 2016 (File No. 001-31987) and incorporated herein by reference).

10.1.5† Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for awards beginning in 2018 (filed as Exhibit 10.1.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 15, 2018 (File No. 001-31987) and incorporated herein by reference).

10.1.6† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Section 16 Officers) for awards beginning in 2018 (filed as Exhibit 10.1.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 15, 2018 (File No. 001-31987) and incorporated herein by reference).

10.1.7† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Non-Section 16 Officers) for awards beginning in 2018 (filed as Exhibit 10.1.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 15, 2018 (File No. 001-31987) and incorporated herein by reference).

10.1.8† Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for awards beginning in 2019 (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on April 25, 2019 (File No. 001-31987) and incorporated herein by reference).

10.1.9† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Section 16 Officers) for awards beginning in 2019 (filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on April 25, 2019 (File No. 001-31987) and incorporated herein by reference).

10.1.10† Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Non-Section 16 Officers) for awards beginning in 2019 (filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed on April 25, 2019 (File No. 001-31987) and incorporated herein by reference).

10.2† 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).

10.3.1† 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).

10.3.2† First Amendment to Retention Agreement and Assignment and Assumption Agreement by and among Hilltop Holdings Inc., PlainsCapital Corporation and Alan B. White, dated as of September 12, 2016 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 13, 2016 (File No. 001-31987) and incorporated herein by reference).

10.3.3† Separation and Release Agreement, dated as of February 21, 2019, by and between Hilltop Holdings Inc. and any of its parents, predecessors, successors, subsidiaries, affiliates or related companies, organizations, managers, officers, directors, executives, agents, plan fiduciaries, shareholders, attorneys and/or representatives, and Alan B. White (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2019 (File No. 001-31987) and incorporated herein by reference).

10.4.1† Employment Agreement, dated as of December 4, 2014, by and between Todd Salmans and Hilltop Holdings Inc. (filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-31987) and incorporated herein by reference).

10.4.2† First Amendment to Employment Agreement, dated as of November 8, 2017, by and between Todd Salmans and Hilltop Holdings Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 13, 2017 (File No. 001-31987) and incorporated herein by reference).

10.4.3† Retention Agreement by and between Hilltop Holdings Inc. and Todd Salmans, dated as of October 25, 2019, but effective January 1, 2020 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 30, 2019 (File No. 001-31987) and incorporated herein by reference).

10.5* Compensation arrangement of Jeremy B. Ford.

10.6.1† Employment Agreement, dated as of September 1, 2016, by and between William Furr and Hilltop Holdings Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A (Amendment No. 1) filed on September 7, 2016 (File No. 001-31987) and incorporated herein by reference).

10.6.2† First Amendment to Employment Agreement by and between Hilltop Holdings Inc. and William B. Furr, dated as of August 30, 2019 (filed as Exhibit 10.7.2 to the Registrant's Current Report on Form 8-K filed September 6, 2019 (File No. 001-31987) and incorporated herein by reference).

10.7† Employment Agreement, dated as of November, 20, 2018, by and between Hilltop Holdings Inc. and Martin B. Winges (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on December 12, 2018 (File No. 001-31987) and incorporated herein by reference).

10.8† Retention Agreement, dated as of February 19, 2019, by and between Hill A. Feinberg and Hilltop Holdings Inc. (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 22, 2019 (File No. 001-31987) and incorporated herein by reference).

10.9† Employment Agreement by and between Hilltop Holdings Inc. and Steve Thompson, dated as of October 25, 2019, but effective January 1, 2020 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 30, 2019 (File No. 001-31987) and incorporated herein by reference).

10.10† Limited Liability Company Agreement of HTH Diamond Hillcrest Land LLC, dated as of July 31, 2018 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 6, 2018 (File No. 001-31987) and incorporated herein by reference).

10.11† Ground Lease Agreement by and among HTH Diamond Hillcrest Land LLC, as Ground Lessor, and SPC Park Plaza Partners LLC, HTH Hillcrest Project LLC and Diamond Hillcrest LLC, as Ground Lessees, dated as of July 31, 2018 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 6, 2018 (File No. 001-31987) and incorporated herein by reference).

10.12† Hilltop Plaza Co-Owners Agreement, by and among Diamond Hillcrest, LLC, HTH Hillcrest Project LLC and SPC Park Plaza Partners LLC, dated as of July 31, 2018 (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 6, 2018 (File No. 001-31987) and incorporated herein by reference).

10.13† Office Lease between SPC Park Plaza Partners, LLC, Diamond Hillcrest, LLC, and HTH Hillcrest Project LLC, as Co-Owners, and Hilltop Holdings Inc., as Tenant, dated July 31, 2018 (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on August 6, 2018 (File No. 001-31987) and incorporated herein by reference).

10.14† Retail Lease between SPC Park Plaza Partners, LLC, Diamond Hillcrest, LLC, and HTH Hillcrest Project LLC, as Co-Owners, and PlainsCapital Bank, as Tenant, dated July 31, 2018 (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on August 6, 2018 (File No. 001-31987) and incorporated herein by reference).

21.1* List of subsidiaries of the Registrant.

23.1* Consent of PricewaterhouseCoopers 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. |
| 101.INS* | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema. |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith.
† Exhibit is a management contract or compensatory plan or arrangement.
\# Schedules and similar attachments have been omitted from this Exhibit pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or similar attachment will be furnished to the SEC upon request.

## 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 27, 2020

By: /s/ William B. Furr

William B. Furr

Chief Financial Officer

(Principal Financial 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<br>Jeremy B. Ford | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | February 27, 2020 |
| /s/ William B. Furr<br>William B. Furr | Chief Financial Officer<br>(Principal Financial Officer) | February 27, 2020 |
| /s/ Keith E. Bornemann<br>Keith E. Bornemann | Executive Vice President, Corporate Controller<br>(Principal Accounting Officer) | February 27, 2020 |
| /s/ Charlotte Jones Anderson<br>Charlotte Jones Anderson | Director | February 27, 2020 |
| /s/ Rhodes Bobbitt<br>Rhodes Bobbitt | Director | February 27, 2020 |
| /s/ Tracy A. Bolt<br>Tracy A. Bolt | Director and Audit Committee Member | February 27, 2020 |
| W. Joris Brinkerhoff | Director | |
| /s/ J. Taylor Crandall<br>J. Taylor Crandall | Director | February 27, 2020 |
| /s/ Charles R. Cummings<br>Charles R. Cummings | Director and Chairman of Audit Committee | February 27, 2020 |
| /s/ Hill A. Feinberg<br>Hill A. Feinberg | Director | February 27, 2020 |
| /s/ Gerald J. Ford<br>Gerald J. Ford | Chairman of the Board | February 27, 2020 |
| /s/ J. Markham Green<br>J. Markham Green | Director and Audit Committee Member | February 27, 2020 |
| /s/ William T. Hill, Jr.<br>William T. Hill, Jr. | Director | February 27, 2020 |
| /s/ Lee Lewis<br>Lee Lewis | Director | February 27, 2020 |
| /s/ Andrew J. Littlefair<br>Andrew J. Littlefair | Director | February 27, 2020 |
| /s/ W. Robert Nichols, III<br>W. Robert Nichols, III | Director | February 27, 2020 |
| /s/ Kenneth D. Russell<br>Kenneth D. Russell | Director | February 27, 2020 |
| /s/ A. Haag Sherman<br>A. Haag Sherman | Director | February 27, 2020 |
| /s/ Jonathan S. Sobel<br>Jonathan S. Sobel | Director | February 27, 2020 |
| /s/ Robert Taylor, Jr.<br>Robert Taylor, Jr. | Director | February 27, 2020 |
| /s/ Carl B. Webb<br>Carl B. Webb | Director | February 27, 2020 |

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## Index to Consolidated Financial Statements

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Hilltop Holdings Inc.

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Hilltop Holdings Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, including the related notes, as listed in the index appearing under Item 15 (a)(1) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date related to the Company did not design and maintain effective controls over certain aspects relating to the determination of the qualitative factors considered by management in the allowance for loan losses estimation process, specifically control activities to adequately support the analysis and the impact of such support on the loss measurement.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

### Basis for Opinions

The Company's management is responsible for these consolidated 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 referred to above. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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 provide a reasonable basis for our opinions.

### Definition and Limitations of Internal Control over Financial Reporting

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.

**Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Allowance for Loan Losses – Loss Emergence Period Assumption*

As described in Notes 1 and 5 to the consolidated financial statements, the Company's allowance for loan losses was $61 million as of December 31, 2019. Management's process for estimating allowance for loan losses consists of three elements: (i) specific allowances established for probable losses on individually impaired loans; (ii) general allowances calculated based on historical loss experience for homogenous loans with similar collateral; and (iii) allowances to adjust general reserves based on current economic conditions and other qualitative risk factors both internal and external to the Company. Both the general allowance and adjustments for qualitative risk factors incorporate a loss emergence period ("LEP") assumption for each loan portfolio segment. In determining the LEP assumption, management analyzes the Company's loss history for each loan portfolio segment, including charge-off dates, loss causing event dates, loan type and loan payment history and considers available industry peer bank data.

The principal considerations for our determination that performing procedures relating to the LEP assumption utilized in the allowance for loan losses is a critical audit matter are (i) there was significant judgment by management in determining the LEP assumption, which in turn led to a high degree of auditor judgment and subjectivity in performing procedures relating to the LEP assumption, (ii) there was significant auditor judgment in evaluating audit evidence relating to the LEP assumption, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained. As described in the "Opinions on the Financial Statements and Internal Control over Financial Reporting" section, a material weakness was identified related to the determination of the qualitative factors considered by management in the allowance for loan losses estimation process, specifically control activities to adequately support the analysis and the impact of such support on the loss measurement, in which LEP is a significant assumption.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. The procedures included, among others, testing management's process for determining the LEP assumption, including testing management's analysis of loss history for identification of loss causing events and consideration of industry or peer bank data and testing significant data inputs used by management to determine the LEP assumption. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the methodology for determining the LEP assumption.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
February 27, 2020

We have served as the Company's auditor since 1998.

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share and per share data)**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 484,959 | $ 644,073 |
| Federal funds sold | 394 | 400 |
| Assets segregated for regulatory purposes | 157,436 | 133,993 |
| Securities purchased under agreements to resell | 59,031 | 61,611 |
| Securities: | | |
| Trading, at fair value | 689,576 | 745,466 |
| Available for sale, at fair value (amortized cost of $984,211 and $886,799, respectively) | 998,392 | 875,658 |
| Held to maturity, at amortized cost (fair value of $388,930 and $341,124, respectively) | 386,326 | 351,012 |
| Equity, at fair value | 20,007 | 19,679 |
| | 2,094,301 | 1,991,815 |
| Loans held for sale | 2,106,361 | 1,393,246 |
| Loans held for investment, net of unearned income | 7,381,400 | 6,930,458 |
| Allowance for loan losses | (61,136) | (59,486) |
| Loans held for investment, net | 7,320,264 | 6,870,972 |
| Broker-dealer and clearing organization receivables | 1,780,280 | 1,440,287 |
| Premises and equipment, net | 219,982 | 237,373 |
| Operating lease right-of-use assets | 117,059 | — |
| Other assets | 510,791 | 580,362 |
| Goodwill | 291,435 | 291,435 |
| Other intangible assets, net | 30,155 | 38,005 |
| Total assets | $ 15,172,448 | $ 13,683,572 |
| **Liabilities and Stockholders' Equity** | | |
| Deposits: | | |
| Noninterest-bearing | $ 2,769,556 | $ 2,560,750 |
| Interest-bearing | 6,262,658 | 5,975,406 |
| Total deposits | 9,032,214 | 8,536,156 |
| Broker-dealer and clearing organization payables | 1,605,518 | 1,294,925 |
| Short-term borrowings | 1,424,010 | 1,065,807 |
| Securities sold, not yet purchased, at fair value | 43,817 | 81,667 |
| Notes payable | 283,769 | 228,872 |
| Operating lease liabilities | 128,402 | — |
| Junior subordinated debentures | 67,012 | 67,012 |
| Other liabilities | 458,910 | 435,240 |
| Total liabilities | 13,043,652 | 11,709,679 |
| Commitments and contingencies (see Notes 19 and 20) | | |
| Stockholders' equity: | | |
| Hilltop stockholders' equity: | | |
| Common stock, $0.01 par value, 125,000,000 shares authorized; 90,640,944 and 93,610,217 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively | 906 | 936 |
| Additional paid-in capital | 1,445,233 | 1,489,816 |
| Accumulated other comprehensive income (loss) | 11,419 | (8,627) |
| Retained earnings | 644,860 | 466,737 |
| Deferred compensation employee stock trust, net | 776 | 825 |
| Employee stock trust (7,794 and 10,894 shares, at cost, at December 31, 2019 and December 31, 2018, respectively) | (155) | (217) |
| Total Hilltop stockholders' equity | 2,103,039 | 1,949,470 |
| Noncontrolling interests | 25,757 | 24,423 |
| Total stockholders' equity | 2,128,796 | 1,973,893 |
| Total liabilities and stockholders' equity | $ 15,172,448 | $ 13,683,572 |

*See accompanying notes.*

## HILLTOP HOLDINGS INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF OPERATIONS
## (in thousands, except per share data)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Interest income: | | | |
| Loans, including fees | $ 460,471 | $ 436,725 | $ 411,988 |
| Securities borrowed | 69,582 | 66,914 | 41,048 |
| Securities: | | | |
| Taxable | 62,104 | 50,975 | 36,472 |
| Tax-exempt | 6,159 | 6,834 | 5,807 |
| Other | 16,513 | 17,980 | 11,841 |
| Total interest income | 614,829 | 579,428 | 507,156 |
| Interest expense: | | | |
| Deposits | 71,509 | 46,002 | 24,695 |
| Securities loaned | 60,086 | 56,733 | 32,337 |
| Short-term borrowings | 26,778 | 25,816 | 13,751 |
| Notes payable | 10,754 | 10,263 | 10,931 |
| Junior subordinated debentures | 3,851 | 3,663 | 3,016 |
| Other | 545 | 627 | 678 |
| Total interest expense | 173,523 | 143,104 | 85,408 |
| Net interest income | 441,306 | 436,324 | 421,748 |
| Provision for loan losses | 7,206 | 5,088 | 14,271 |
| Net interest income after provision for loan losses | 434,100 | 431,236 | 407,477 |
| Noninterest income: | | | |
| Net gains from sale of loans and other mortgage production income | 504,935 | 445,116 | 538,468 |
| Mortgage loan origination fees | 130,003 | 103,563 | 93,944 |
| Securities commissions and fees | 137,742 | 150,989 | 156,464 |
| Investment and securities advisory fees and commissions | 103,787 | 90,066 | 109,920 |
| Net insurance premiums earned | 132,284 | 136,751 | 142,298 |
| Other | 197,265 | 96,305 | 163,970 |
| Total noninterest income | 1,206,016 | 1,022,790 | 1,205,064 |
| Noninterest expense: | | | |
| Employees' compensation and benefits | 856,265 | 768,688 | 816,994 |
| Occupancy and equipment, net | 114,327 | 115,207 | 113,943 |
| Professional services | 96,093 | 105,752 | 101,521 |
| Loss and loss adjustment expenses | 68,940 | 79,347 | 94,701 |
| Other | 204,182 | 224,255 | 242,096 |
| Total noninterest expense | 1,339,807 | 1,293,249 | 1,369,255 |
| Income before income taxes | 300,309 | 160,777 | 243,286 |
| Income tax expense | 67,332 | 35,050 | 110,142 |
| Net income | 232,977 | 125,727 | 133,144 |
| Less: Net income attributable to noncontrolling interest | 7,686 | 4,286 | 600 |
| Income attributable to Hilltop | $ 225,291 | $ 121,441 | $ 132,544 |
| Earnings per common share: | | | |
| Basic | $ 2.44 | $ 1.28 | $ 1.36 |
| Diluted | $ 2.44 | $ 1.28 | $ 1.36 |
| Weighted average share information: | | | |
| Basic | 92,345 | 94,969 | 97,137 |
| Diluted | 92,394 | 95,067 | 97,353 |

*See accompanying notes.*

**HILLTOP HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Net income | $ 232,977 | $ 125,727 | $ 133,144 |
| Other comprehensive income: | | | |
| Change in fair value of cash flow hedges, net of tax of $111, $0, and $0, respectively | 417 | — | — |
| Net unrealized gains (losses) on securities available for sale, net of tax of $6,276, $(1,558), and $(565), respectively | 21,599 | (5,632) | (869) |
| Reclassification adjustment for gains (losses) included in net income, net of tax of $(573), $0, and $(6), respectively | (1,970) | — | (10) |
| Comprehensive income | 253,023 | 120,095 | 132,265 |
| Less: comprehensive income attributable to noncontrolling interest | 7,686 | 4,286 | 600 |
| Comprehensive income applicable to Hilltop | $ 245,337 | $ 115,809 | $ 131,665 |

*See accompanying notes.*

# HILLTOP HOLDINGS INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## (in thousands)

| | Common Stock | | Additional Paid-in | Accumulated Other Comprehensive | Retained | Deferred Compensation Employee Stock | Employee Stock Trust | | Total Hilltop Stockholders' | Noncontrolling | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Income (Loss) | Earnings | Trust, Net | Shares | Amount | Equity | Interest | Equity |
| Balance, December 31, 2016 | 98,544 | $ 985 | $ 1,572,877 | $ 485 | $ 295,568 | $ 903 | 15 | $ (309) | $ 1,870,509 | $ 4,011 | $ 1,874,520 |
| Net income | — | — | — | — | 132,544 | — | — | — | 132,544 | 600 | 133,144 |
| Other comprehensive loss | — | — | — | (879) | — | — | — | — | (879) | — | (879) |
| Stock-based compensation expense | — | — | 10,307 | — | — | — | — | — | 10,307 | — | 10,307 |
| Common stock issued to board members | 17 | — | 451 | — | — | — | — | — | 451 | — | 451 |
| Issuance of common stock related to share-based awards, net | 337 | 4 | (3,268) | — | — | — | — | — | (3,264) | — | (3,264) |
| Repurchases of common stock | (2,916) | (29) | (53,998) | — | (20,427) | — | — | — | (74,454) | — | (74,454) |
| Dividends on common stock ($0.24 per share) | — | — | — | — | (23,140) | — | — | — | (23,140) | — | (23,140) |
| Deferred compensation plan | — | — | — | — | — | (55) | (3) | 62 | 7 | — | 7 |
| Net cash distributed to noncontrolling interest | — | — | — | — | — | — | — | — | — | (1,885) | (1,885) |
| Balance, December 31, 2017 | 95,982 | $ 960 | $ 1,526,369 | $ (394) | $ 384,545 | $ 848 | 12 | $ (247) | $ 1,912,081 | $ 2,726 | $ 1,914,807 |
| Net income | — | — | — | — | 121,441 | — | — | — | 121,441 | 4,286 | 125,727 |
| Other comprehensive loss | — | — | — | (5,632) | — | — | — | — | (5,632) | — | (5,632) |
| Stock-based compensation expense | — | — | 8,454 | — | — | — | — | — | 8,454 | — | 8,454 |
| Common stock issued to board members | 30 | — | 654 | — | — | — | — | — | 654 | — | 654 |
| Issuance of common stock related to share-based awards, net | 327 | 3 | (1,850) | — | — | — | — | — | (1,847) | — | (1,847) |
| Repurchases of common stock | (2,729) | (27) | (43,811) | — | (15,152) | — | — | — | (58,990) | — | (58,990) |
| Dividends on common stock ($0.28 per share) | — | — | — | — | (26,698) | — | — | — | (26,698) | — | (26,698) |
| Deferred compensation plan | — | — | — | — | — | (23) | (1) | 30 | 7 | — | 7 |
| Adoption of accounting standards | — | — | — | (2,601) | 2,601 | — | — | — | — | — | — |
| Net cash contributed from noncontrolling interest | — | — | — | — | — | — | — | — | — | 17,411 | 17,411 |
| Balance, December 31, 2018 | 93,610 | $ 936 | $ 1,489,816 | $ (8,627) | $ 466,737 | $ 825 | 11 | $ (217) | $ 1,949,470 | $ 24,423 | $ 1,973,893 |
| Net income | — | — | — | — | 225,291 | — | — | — | 225,291 | 7,686 | 232,977 |
| Other comprehensive income | — | — | — | 20,046 | — | — | — | — | 20,046 | — | 20,046 |
| Stock-based compensation expense | — | — | 11,243 | — | — | — | — | — | 11,243 | — | 11,243 |
| Common stock issued to board members | 27 | — | 573 | — | — | — | — | — | 573 | — | 573 |
| Issuance of common stock related to share-based awards, net | 394 | 4 | (1,982) | — | — | — | — | — | (1,978) | — | (1,978) |
| Repurchases of common stock | (3,390) | (34) | (54,417) | — | (18,934) | — | — | — | (73,385) | — | (73,385) |
| Dividends on common stock ($0.32 per share) | — | — | — | — | (29,627) | — | — | — | (29,627) | — | (29,627) |
| Deferred compensation plan | — | — | — | — | — | (49) | (3) | 62 | 13 | — | 13 |
| Adoption of accounting standards (Note 34) | — | — | — | — | 1,393 | — | — | — | 1,393 | — | 1,393 |
| Net cash distributed to noncontrolling interest | — | — | — | — | — | — | — | — | — | (6,352) | (6,352) |
| Balance, December 31, 2019 | 90,641 | $ 906 | $ 1,445,233 | $ 11,419 | $ 644,860 | $ 776 | 8 | $ (155) | $ 2,103,039 | $ 25,757 | $ 2,128,796 |

*See accompanying notes.*

## HILLTOP HOLDINGS INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (in thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Operating Activities** | | | |
| Net income | $ 232,977 | $ 125,727 | $ 133,144 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Provision for loan losses | 7,206 | 5,088 | 14,271 |
| Depreciation, amortization and accretion, net | 1,160 | (2,345) | (13,869) |
| Net realized losses (gains) on securities | 2,548 | — | (16) |
| Net change in fair value of equity securities | (1,881) | 2,486 | — |
| Deferred income taxes | (3,855) | 13,197 | 40,933 |
| Other, net | 13,017 | 8,838 | 12,085 |
| Net change in securities purchased under agreements to resell | 2,580 | 124,926 | (97,107) |
| Net change in trading securities | 55,890 | (14,781) | (465,151) |
| Net change in broker-dealer and clearing organization receivables | (338,158) | 23,618 | (42,449) |
| Net change in FDIC indemnification asset | — | 22,831 | 24,890 |
| Net change in other assets | 53,038 | 13,741 | (47,352) |
| Net change in broker-dealer and clearing organization payables | 206,170 | (7,054) | (2,412) |
| Net change in other liabilities | 85,329 | (93,890) | (55,557) |
| Net change in securities sold, not yet purchased | (37,850) | (151,154) | 78,932 |
| Proceeds from sale of mortgage servicing rights asset | — | 9,303 | 17,499 |
| Net gains from sales of loans | (504,935) | (445,116) | (538,468) |
| Loans originated for sale | (16,644,259) | (14,287,551) | (15,014,118) |
| Proceeds from loans sold | 16,438,000 | 15,041,676 | 15,634,027 |
| Net cash provided by (used in) operating activities | (433,023) | 389,540 | (320,718) |
| **Investing Activities** | | | |
| Proceeds from maturities and principal reductions of securities held to maturity | 73,924 | 43,699 | 56,359 |
| Proceeds from sales, maturities and principal reductions of securities available for sale | 313,672 | 243,708 | 298,737 |
| Proceeds from sales, maturities and principal reductions of equity securities | 1,860 | 3 | — |
| Purchases of securities held to maturity | (109,622) | (39,259) | (60,939) |
| Purchases of securities available for sale | (415,763) | (323,991) | (471,047) |
| Purchases of equity securities | (307) | (933) | — |
| Net change in loans held for investment | (423,890) | (110,615) | (216,562) |
| Purchases of premises and equipment and other assets | (42,287) | (68,079) | (31,152) |
| Proceeds from sales of premises and equipment and other real estate owned | 14,309 | 25,847 | 32,297 |
| Proceeds from redemption of bank owned life insurance | 904 | — | — |
| Net cash received from (paid for) Federal Home Loan Bank and Federal Reserve Bank stock | (17,092) | 3,198 | 34,346 |
| Net cash paid for acquisition | — | (63,245) | — |
| Net cash used in investing activities | (604,292) | (289,667) | (357,961) |
| **Financing Activities** | | | |
| Net change in deposits | 600,481 | 196,060 | 857,155 |
| Net change in short-term borrowings | 358,203 | (140,617) | (210,865) |
| Proceeds from notes payable | 1,050,907 | 664,045 | 403,136 |
| Payments on notes payable | (996,095) | (643,921) | (512,193) |
| Payments to repurchase common stock | (73,385) | (58,990) | (27,388) |
| Dividends paid on common stock | (29,627) | (26,698) | (23,140) |
| Net cash received from (distributed to) noncontrolling interest | (6,352) | 17,411 | (1,885) |
| Taxes paid on employee stock awards netting activity | (1,979) | (1,844) | (3,264) |
| Other, net | (515) | (813) | (674) |
| Net cash provided by financing activities | 901,638 | 4,633 | 480,882 |
| | | | |
| Net change in cash, cash equivalents and restricted cash | (135,677) | 104,506 | (197,797) |
| Cash, cash equivalents and restricted cash, beginning of year | 778,466 | 673,960 | 871,757 |
| Cash, cash equivalents and restricted cash, end of year | $ 642,789 | $ 778,466 | $ 673,960 |
| | | | |
| **Reconciliation of Cash, Cash Equivalents and Restricted Cash to Consolidated Balance Sheets** | | | |
| Cash and due from banks | $ 484,959 | $ 644,073 | $ 486,977 |
| Federal funds sold | 394 | 400 | 405 |
| Assets segregated for regulatory purposes | 157,436 | 133,993 | 186,578 |
| Total cash, cash equivalents and restricted cash | $ 642,789 | $ 778,466 | $ 673,960 |
| **Supplemental Disclosures of Cash Flow Information** | | | |
| Cash paid for interest | $ 168,535 | $ 143,201 | $ 84,309 |
| Cash paid for income taxes, net of refunds | $ 56,901 | $ 8,378 | $ 85,840 |
| **Supplemental Schedule of Non-Cash Activities** | | | |
| Derecognition of construction in progress related to build-to-suit lease obligations | $ — | $ 27,802 | $ — |
| Conversion of loans to other real estate owned | $ 4,669 | $ 6,899 | $ 8,853 |
| Additions to mortgage servicing rights | $ 13,755 | $ 25,028 | $ 16,401 |

*See accompanying notes.*

**Hilltop Holdings Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**

## 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. The Company's primary line of business is to provide business and consumer banking services from offices located throughout Texas through PlainsCapital Bank (the "Bank"). In addition, the Company provides an array of financial products and services through its broker-dealer, mortgage origination and insurance subsidiaries.

The Company, headquartered in Dallas, Texas, provides its products and services through three primary business units, PlainsCapital Corporation ("PCC"), Hilltop Securities Holdings LLC ("Securities Holdings") and National Lloyds Corporation ("NLC"). PCC is a financial holding company, that provides, through its subsidiaries, traditional banking, wealth and investment management and treasury management services primarily in Texas and residential mortgage lending throughout the United States. Securities Holdings is a holding company, 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 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.

### Basis of Presentation

Hilltop owns 100% of the outstanding stock of PCC. PCC owns 100% of the outstanding stock of the Bank and 100% of the membership interest in Hilltop Opportunity Partners LLC, a merchant bank utilized to facilitate investments in companies engaged in non-financial activities. The Bank owns 100% of the outstanding stock of PrimeLending, a PlainsCapital Company ("PrimeLending").

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC ("Ventures Management"), which holds an ownership interest in and is the managing member of certain affiliated business arrangements ("ABAs").

PCC 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 ("VIE") Subsections of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), because the primary beneficiaries of the Trusts are not within the consolidated group.

Hilltop has a 100% membership interest in Securities Holdings, which operates through its wholly-owned subsidiaries, Hilltop Securities Inc. ("Hilltop Securities"), Hilltop Securities Independent Network ("HTS Independent Network") (collectively, the "Hilltop Broker-Dealers") and Hilltop Securities Asset Management, LLC. Hilltop Securities is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and FINRA and a member of the New York Stock Exchange ("NYSE"), HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA, and Hilltop Securities Asset Management, LLC, is a registered investment adviser under the Investment Advisers Act of 1940.

Hilltop also owns 100% of NLC, which operates through its wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

In addition, Hilltop owns 100% of the membership interest in each of HTH Hillcrest Project LLC ("HTH Project LLC") and Hilltop Investments I, LLC. Hilltop Investments I, LLC owns 50% of the membership interest in HTH Diamond Hillcrest Land LLC ("Hillcrest Land LLC") which is consolidated under the aforementioned VIE Subsections of the ASC. These entities are related to the Hilltop Plaza investment discussed in detail in Note 18 to the consolidated financial statements and are collectively referred to as the "Hilltop Plaza Entities."

The consolidated financial statements include the accounts of the above-named entities. 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 ASC.

Certain reclassifications have been made to the prior period consolidated financial statements to conform with the current period presentation, including reclassifications due to the adoption of new accounting pronouncements. In preparing these consolidated financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all stockholders and other financial statement users, or filed with the SEC.

**Use of Estimates**

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, reserves for losses and loss adjustment expenses (“LAE”), 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.

**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. The Company 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. Securities held for resale to facilitate principal transactions with customers 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.

Debt 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, prepayment risk or other factors related to interest rate and prepayment risk. Debt securities available for sale are carried at fair value. Unrealized holding gains and losses on debt 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 reflect any optionality that may be embedded in the security.

Equity securities are carried at fair value, with changes in fair value reflected in the consolidated statements of operations. Equity securities that do not have readily determinable fair values are initially recorded at cost and subsequently remeasured when there is (i) an observable transaction involving the same investment, (ii) an observable transaction involving a similar investment from the same issuer or (iii) an impairment. These remeasurements are reflected in the consolidated statements of operations.

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 debt 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 cash flows related to these securities, management primarily considers, (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 between 30 and 45 days. Substantially all mortgage loans originated by PrimeLending are sold to various investors in the secondary market, the majority with servicing released. Mortgage loans held for sale are carried at fair value in accordance with the provisions of the Fair Value Option Subsections of the ASC (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. When such loans subject to repurchase no longer qualify for sale accounting, they are reported as loans held for sale in the consolidated balance sheets.

**Loans Held for Investment**

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, purchased credit impaired ("PCI") loans 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, which is generally when a loan is 90 days past due unless the asset 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.

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. At acquisition, acquired loans are 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, non-accrual 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.

Loans acquired in the Federal Deposit Insurance Corporation ("FDIC") -assisted transaction whereby the Bank acquired certain assets and assumed certain liabilities of Edinburg, Texas-based First National Bank ("FNB") on September 13, 2013 (the "FNB Transaction") were previously subject to loss-share agreements with the FDIC. At the close of business

on September 30, 2018, the loss-share agreements for commercial assets with the FDIC expired, except for certain obligations on the part of the Bank that survived. On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements were resolved and terminated. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment."

PCI loans acquired by the Company are accounted for either on an individual loan basis or in pools. 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 similar 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 similar risk characteristics used for the pooling of PCI loans are risk grade and loan collateral type.

PCI loans show evidence of credit deterioration that make it probable that not all contractually required principal and interest payments will 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 estimates 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 accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loan or pool. The excess of total contractual cash flows over the cash flows expected to be received at acquisition is referred to as the nonaccretable difference. 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 reported as performing loans.

**Allowance for Loan Losses**

The allowance for loan losses is a reserve established through a provision for loan losses charged to or recovered from expense, which represents management's best estimate of probable losses inherent in the existing portfolio of loans at the balance sheet date. The allowance for loan losses includes allowance allocations calculated in accordance with the regulatory Interagency Policy Statement on the Allowance for Loan and Lease Losses and 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 its control, including the performance of the 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 individually 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 current economic conditions and other qualitative risk factors, including projected loss emergence period, both internal and external to the Bank. The Bank's methodology regarding the calculation of the allowance for loan losses is discussed in more detail within Note 5 to the consolidated financial statements.

**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 customers of the Hilltop Broker-Dealers or for the accounts of the Hilltop Broker-Dealers. Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Hilltop Broker-Dealers to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Hilltop Broker-Dealers receive collateral in

the form of cash or other assets in an amount generally in excess of the market value of securities loaned. The Hilltop Broker-Dealers monitor 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, 2019, the valuation allowance for premiums receivable was $0.4 million, while at December 31, 2018, 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. These costs primarily consist 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 LAE, unamortized policy acquisition costs, and maintenance costs exceed related unearned insurance premiums and anticipated investment income. At December 31, 2019 and 2018, 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 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.

**Leases**

The Company determines if an arrangement is a lease at inception. Operating leases with a term of greater than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's consolidated balance sheets. Finance leases are included in premises and equipment and other liabilities on the Company's consolidated balance sheets. The Company has lease agreements with lease and nonlease components, which are generally accounted for as a single lease component. Leases of low-value assets are assessed on a lease-by-lease basis to determine the need for balance sheet capitalization.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's

leases do not provide an implicit rate, the Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent the future rental expenses associated with operating leases, and the incremental borrowing rates are based on publicly available interest rates. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rental expense for lease payments is recognized on a straight-line basis over the lease term and is included in occupancy and equipment, net within our consolidated statements of operations.

**Other Real Estate Owned**

Real estate acquired through foreclosure ("OREO") is included in other assets within the consolidated balance sheets and is carried at management's estimate of 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. Valuation adjustments, revenue and expenses from operations of the properties and resulting gains or losses on sale are included within the consolidated statements of operations in other noninterest income or expense, as appropriate.

Prior to the termination of the FDIC loss-share agreements, acquired OREO previously subject to FDIC loss-share agreements was referred to as "covered OREO" and reported separately in the consolidated balance sheets. Covered OREO was reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral was 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 was recorded at its net realizable value. Any subsequent valuation adjustments due to declines in fair value of the covered OREO were charged to noninterest expense, while any recoveries of previous valuation decreases were credited to noninterest expense. Subsequent to the termination of the loss-share agreements, OREO which was previously referred to as "covered OREO" if covered by the loss-share agreements or otherwise "non-covered OREO" is now collectively referred to as OREO.

**FDIC Indemnification Asset**

As previously discussed, the loss-share agreements with the FDIC entered into in connection with the FNB Transaction were terminated in the fourth quarter of 2018. Subsequent to the termination of the loss-share agreements and the receipt of payment from the FDIC, the remaining balance of the amounts receivable from the FDIC under the loss-share agreements (the "FDIC Indemnification Asset") was removed from the consolidated balance sheets. The balance of the FDIC Indemnification Asset as of December 31, 2017, is included in other assets within the consolidated balance sheets. Prior to the termination of the loss-share agreements, the Company accounted for the FDIC Indemnification Asset in accordance with the Business Combination Topic of the ASC. The FDIC Indemnification Asset was 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 Bank expected to collect from the FDIC was accreted into noninterest income or amortized into noninterest expense within the consolidated statements of operations over the life of the FDIC Indemnification Asset.

**Debt Issuance Costs**

The Company capitalizes debt issuance costs associated with financing of debt. These costs are amortized using the effective interest method over the repayment term of the debt. Unamortized debt issuance costs are presented in the consolidated balance sheets as a direct reduction from the associated debt liability. Debt issuance costs of $0.2 million during 2019, $0.2 million during 2018, and $0.1 million during 2017 were amortized and included in interest expense within the consolidated statements of operations. In April 2015, debt issuance costs of $1.9 million were capitalized in connection with Hilltop's issuance of the 5% senior notes due 2025.

### 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 on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount should be assessed. The Company performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units, 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 goodwill impairment test requires the Company to make judgments in determining what assumptions to use in the calculation. 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 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, the Company is required to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, any loss recognized will not exceed the total amount of goodwill allocated to that reporting unit. Additional information concerning the results of the Company's impairment test of goodwill is included in Note 9 to the consolidated financial statements.

### 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 consist of core deposits, trade names and customer relationships. 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 on an annual basis as of October 1st, 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, operating lease ROU assets, 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. Impaired assets are recorded at fair value.

### Mortgage Servicing Rights

The Company determines its portfolio segment 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.

The retained mortgage servicing rights ("MSR") asset is measured at fair value as of the date of sale of the related mortgage loan. Subsequent fair value measurements of the MSR asset are determined by valuing the projected net servicing cash flows, which are then discounted to estimate fair value using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income.

The model assumptions and the MSR asset fair value estimates are compared to observable trades of similar portfolios as well as to MSR asset broker valuations and industry surveys, as available. The expected life of the loan can vary from management's estimates due to prepayments by borrowers. The value of the MSR asset is also dependent upon the discount rate used in the model, which is based on current market rates that are reviewed by management on an ongoing basis.

**Derivative Financial Instruments**

The Company enters into various derivative financial instruments 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, interest rate swaps, U.S. Treasury bond futures and options and Eurodollar futures 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.

**Revenue from Contracts with Customers**

Certain activities primarily within the Company's broker-dealer and banking segments are subject to the provisions of ASC 606, *Revenue from Contracts with Customers*. The Company's broker-dealer segment has four primary lines of business: (i) public finance services, (ii) structured finance, (iii) fixed income services and (iv) wealth management, which includes retail, clearing services and securities lending groups. Revenue from contracts with customers subject to the guidance in ASC 606 from the broker-dealer segment is included within the securities commissions and fees and investment and securities advisory fees and commissions line items within the consolidated statements of operations. Commissions and fees revenue is generally recognized at a point in time upon the delivery of contracted services based on a predefined contractual amount or on the trade date for trade execution services based on prevailing market prices and internal and regulatory guidelines.

The Company's banking segment has three primary lines of business: (i) business banking, (ii) personal banking and (iii) wealth and investment management. Revenue from contracts with customers subject to the guidance in ASC 606 from the banking segment (certain retail and trust fees) is included within the other noninterest income line item within the consolidated statements of operations. Retail and trust fees are generally recognized at the time the related transaction occurs or when services are completed. Fees are based on the dollar amount of the transaction or are otherwise predefined in contracts associated with each customer account depending on the type of account and services provided.

**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 ("IBNR"). Such liabilities are 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 LAE 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 $3.6 million, $4.6 million and $4.7 million during 2019, 2018 and 2017, 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. The revaluation of deferred tax assets as a result of enacted tax rate changes, such as those found in the Tax Cuts and Jobs Act of 2017 ("Tax Legislation"), is recognized within income tax expense in continuing operations in the period of enactment.

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. 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.

**Cash, Cash Equivalents and Restricted Cash**

For the purpose of presentation in the consolidated statements of cash flows, cash, cash equivalents and restricted cash are defined as the amounts included in the consolidated balance sheet captions "Cash and due from banks", "Federal funds sold" and "Assets segregated for regulatory purposes." Cash equivalents have original maturities of three months or less.

**Repurchases of Common Stock**

In accordance with Maryland law, the Company uses the par value method of accounting for its stock repurchases, whereby the par value of the shares is deducted from common stock. The excess of the cost of shares acquired over the par value is allocated to additional paid-in capital based on an estimated average sales price per issued share with the excess amounts charged to retained earnings.

**Basic and Diluted Net Income 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.

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. The Company calculated basic earnings per common share using the treasury method instead of the two-class method because there were no instruments which qualified as participating securities during 2019, 2018 or 2017.

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 2019, 2018 and 2017, restricted stock units ("RSUs") were the only potentially dilutive non-participating instruments issued by Hilltop. 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. Acquisition

On August 1, 2018, in an effort to expand its Houston-area banking operations, the Company acquired privately-held The Bank of River Oaks ("BORO") in an all-cash transaction (the "BORO Acquisition"). Pursuant to the terms of the definitive agreement, the Company paid cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. The operations of BORO are included in the Bank's operating results beginning August 1, 2018. BORO's results of operations prior to the acquisition date are not included in the Company's consolidated operating results.

The BORO Acquisition 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 resulting fair values of the identifiable assets acquired and liabilities assumed from BORO at August 1, 2018 are summarized in the following table (in thousands).

| | |
|---|---|
| Cash and due from banks | $ 21,756 |
| Securities | 60,477 |
| Loans held for investment | 326,618 |
| Other assets | 25,912 |
| Total identifiable assets acquired | 434,763 |
| | |
| Deposits | 376,393 |
| Short-term borrowings | 10,000 |
| Other liabilities | 2,996 |
| Total liabilities assumed | 389,389 |
| | |
| Net identifiable assets acquired | 45,374 |
| Goodwill resulting from the acquisition | 39,627 |
| Net assets acquired | $ 85,001 |

The goodwill of $39.6 million resulting from the BORO Acquisition represents the inherent long-term value expected from the business opportunities created from combining BORO with the Company. The Company used significant estimates and assumptions to value the identifiable assets acquired and liabilities assumed. The amount of goodwill recorded in connection with the Company's acquisition of BORO is not deductible for tax purposes.

Included within the fair value of other assets in the table above are identifiable core deposits intangible assets recorded in connection with the BORO Acquisition of $10.0 million which is being amortized on an accelerated basis over an estimated useful life of six years. The fair value of the core deposit intangible assets was estimated using the net cost savings method, a variation of the income approach. This involved the use of the following significant assumptions: cost of deposits, customer attrition rate, and discount rate.

During 2018, pre-tax transaction- and integration-related expenses of $8.2 million associated with the BORO Acquisition are included in noninterest expense within the consolidated statement of operations. Such expenses were for professional services and other incremental employee costs associated with the integration of BORO's operations.

In connection with the BORO Acquisition, the Company 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 Held for Investment |
|---|---|---|---|
| Commercial real estate | $ 119,188 | $ 5,350 | $ 124,538 |
| 1 - 4 family residential | 55,487 | 39 | 55,526 |
| Construction and land development | 37,134 | — | 37,134 |
| Commercial and industrial | 98,259 | 2,127 | 100,386 |
| Consumer | 9,021 | 13 | 9,034 |
| Total | $ 319,089 | $ 7,529 | $ 326,618 |

The following table presents information about the PCI loans at acquisition (in thousands).

| | |
|---|---|
| Contractually required principal and interest payments | $ 10,730 |
| Nonaccretable difference | 2,859 |
| Cash flows expected to be collected | 7,871 |
| Accretable difference | 342 |
| Fair value of loans acquired with a deterioration of credit quality | $ 7,529 |

The following table presents information about the acquired loans without credit impairment at acquisition (in thousands).

| | |
|---|---|
| Contractually required principal and interest payments | $ 381,551 |
| Contractual cash flows not expected to be collected | 15,286 |
| Fair value at acquisition | 319,089 |

## 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 includes 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 (such as interest rates, yield curves, prepayment speeds, default rates, credit risks and loss severities), 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 the retained MSR asset 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, 2019 and 2018, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.94 billion and $1.26 billion, respectively, and the unpaid principal balance of those loans was $1.88 billion and $1.21 billion, respectively. The interest component of fair value is reported as interest income on loans in the accompanying consolidated statements of operations.

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. Those inputs include quotes from mortgage loan investors and derivatives dealers and data from independent pricing services. The fair value of loans held for sale is determined using an exit price method.

**Trading Securities** — Trading securities are reported at fair value primarily using either Level 1 or Level 2 inputs in the same manner as discussed below for available for sale securities.

**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.

**Equity Securities** - For public common and preferred equity stocks, the determination of fair value uses Level 1 inputs based on observable market transactions.

**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. The fair value of certain loans held for sale that cannot be sold through normal sale channels or are non-performing is measured using Level 3, or 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.

**Derivatives** — Derivatives, which are included in other assets and liabilities within the Company's consolidated balance sheets, are reported at fair value using either Level 2 or Level 3 inputs. The Bank uses dealer quotes to value interest rate swaps, forward purchase commitments and forward sale commitments executed for both hedging and non-hedging purposes. PrimeLending and the Hilltop Broker-Dealers 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 the Hilltop Broker-Dealers issue 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. The Hilltop Broker-Dealers determine the value of the underlying mortgage loan from prices of comparable securities used to value forward sale commitments. Additionally, PrimeLending also uses dealer quotes to value Eurodollar futures and U.S. Treasury bond futures and options used to hedge interest rate risk, and the Hilltop Broker-Dealers use dealer quotes to value Eurodollar futures and U.S. Treasury bond futures and options used to hedge changes in the fair value of securities.

**MSR Asset** — The MSR asset, which is included in other assets within the Company’s consolidated balance sheets, is reported at fair value using Level 3 inputs. The MSR asset 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.

**Securities Sold, Not Yet Purchased** — Securities sold, not yet purchased are reported at fair value primarily using either Level 1 or Level 2 inputs in the same manner as discussed above for trading and available for sale securities.

The following tables present information regarding financial assets and liabilities measured at fair value on a recurring basis (in thousands).

| December 31, 2019 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| Trading securities | $ — | $ 689,576 | $ — | $ 689,576 |
| Available for sale securities | — | 998,392 | — | 998,392 |
| Equity securities | 20,007 | — | — | 20,007 |
| Loans held for sale | — | 1,868,518 | 67,195 | 1,935,713 |
| Derivative assets | — | 33,129 | — | 33,129 |
| MSR asset | — | — | 55,504 | 55,504 |
| Securities sold, not yet purchased | 29,080 | 14,737 | — | 43,817 |
| Derivative liabilities | — | 17,140 | — | 17,140 |

| December 31, 2018 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| Trading securities | $ 7,947 | $ 737,519 | $ — | $ 745,466 |
| Available for sale securities | — | 875,658 | — | 875,658 |
| Equity securities | 19,679 | — | — | 19,679 |
| Loans held for sale | — | 1,207,311 | 50,464 | 1,257,775 |
| Derivative assets | — | 35,010 | — | 35,010 |
| MSR asset | — | — | 66,102 | 66,102 |
| Securities sold, not yet purchased | 33,000 | 48,667 | — | 81,667 |
| Derivative liabilities | — | 26,355 | — | 26,355 |

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): Included in Net Income | Total Gains or Losses (Realized or Unrealized): Included in Other Comprehensive Income (Loss) | Balance at End of Year |
|---|---|---|---|---|---|---|---|
| **Year ended December 31, 2019** | | | | | | | |
| Loans held for sale | $ 50,464 | $ 60,475 | $ (34,849) | $ 1,136 | $ (10,031) | $ — | $ 67,195 |
| MSR asset | 66,102 | 13,755 | — | — | (24,353) | — | 55,504 |
| Total | $ 116,566 | $ 74,230 | $ (34,849) | $ 1,136 | $ (34,384) | $ — | $ 122,699 |
| **Year ended December 31, 2018** | | | | | | | |
| Loans held for sale | $ 36,972 | $ 61,573 | $ (41,801) | — | $ (6,280) | $ — | $ 50,464 |
| MSR asset | 54,714 | 25,028 | (9,303) | — | (4,337) | — | 66,102 |
| Total | $ 91,686 | $ 86,601 | $ (51,104) | $ — | $ (10,617) | $ — | $ 116,566 |
| **Year ended December 31, 2017** | | | | | | | |
| Loans held for sale | $ 35,801 | $ 36,891 | $ (26,773) | $ — | $ (8,947) | $ — | $ 36,972 |
| MSR asset | 61,968 | 16,401 | (17,499) | — | (6,156) | — | 54,714 |
| Total | $ 97,769 | $ 53,292 | $ (44,272) | $ — | $ (15,103) | $ — | $ 91,686 |

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. The unrealized gains (losses) relate to financial instruments still held at December 31, 2019.

For Level 3 financial instruments measured at fair value on a recurring basis at December 31, 2019 and 2018, the significant unobservable inputs used in the fair value measurements were as follows.

| Financial instrument | Valuation Technique | Unobservable Inputs | Range (Weighted-Average) December 31, 2019 | Range (Weighted-Average) December 31, 2018 |
|---|---|---|---|---|
| Loans held for sale | Discounted cash flows / Market comparable | Projected price | 92- 96 % ( 95%) | 95- 96% ( 95%) |
| MSR asset | Discounted cash flows | Constant prepayment rate | 13.16 % | 10.51 % |
| | | Discount rate | 11.14 % | 11.11 % |

The Company had no transfers between Levels 1 and 2 during the periods presented. Any transfers are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly reporting period in which they occur.

The following table presents those changes in fair value of instruments recognized in the consolidated statements of operations that are accounted for under the Fair Value Option (in thousands).

| | Year Ended December 31, 2019 | | | Year Ended December 31, 2018 | | | Year Ended December 31, 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 12,775 | $ — | $ 12,775 | $ (8,063) | $ — | $ (8,063) | $ 10,655 | $ — | $ 10,655 |
| MSR asset | (24,353) | — | (24,353) | (4,337) | — | (4,337) | (6,156) | — | (6,156) |

The Company also determines the fair value of certain assets and liabilities on a non-recurring basis. In particular, the fair value of all assets acquired and liabilities assumed in an acquisition of a business are determined at their respective acquisition date fair values. 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 individually impaired loans based on the underlying fair value of the collateral through specific allowances within the allowance for loan losses. PCI loans were acquired by the Company upon completion of the merger with PCC (the "PlainsCapital Merger"), the FNB Transaction, the acquisition of SWS Group, Inc. (the "SWS Merger") and the BORO Acquisition, respectively (collectively, the "Bank Transactions"). 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 on acquired loans accounted for in pools ("Pooled Loans"), and estimated collateral values.

Estimates for these significant unobservable inputs and the resulting weighted average expected loss on PCI loans were as follows.

| | PCI Loans | | | |
|---|---|---|---|---|
| **December 31, 2019** | **PlainsCapital Merger** | **FNB Transaction** | **SWS Merger** | **BORO Acquisition** |
| Weighted average default rate | 83 % | 30 % | 66 % | 59 % |
| Weighted average loss severity rate | 59 % | 12 % | 28 % | 42 % |
| Weighted average prepayment speed | 0 % | 5 % | 0 % | 0 % |
| Resulting weighted average expected loss on PCI loans | 49 % | 4 % | 18 % | 25 % |

| | PCI Loans | | | |
|---|---|---|---|---|
| **December 31, 2018** | **PlainsCapital Merger** | **FNB Transaction** | **SWS Merger** | **BORO Acquisition** |
| Weighted average default rate | 81 % | 34 % | 71 % | 63 % |
| Weighted average loss severity rate | 59 % | 12 % | 28 % | 42 % |
| Weighted average prepayment speed | 0 % | 6 % | 0 % | 0 % |
| Resulting weighted average expected loss on PCI loans | 48 % | 4 % | 20 % | 26 % |

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 orders an updated appraisal of the fair value of the collateral. Because 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 determines fair value primarily using independent appraisals of OREO properties. The resulting fair value measurements are classified as Level 2 inputs. At December 31, 2019 and 2018, the estimated fair value of OREO was $18.2 million and $27.6 million, respectively, and the underlying fair value measurements utilized Level 2 inputs. The amounts are included in other assets within the consolidated balance sheets. During the reported periods, all fair value measurements for OREO subsequent to initial recognition 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).

| | | | | | Total Gains (Losses) for the Year Ended December 31, | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | **Level 1 Inputs** | **Level 2 Inputs** | **Level 3 Inputs** | **Total Fair Value** | **2019** | **2018** | **2017** |
| Impaired loans held for investment | $ — | $ — | $ 65,582 | $ 65,582 | $ (4,968) | $ 2,481 | $ (2,402) |
| Other real estate owned | — | 11,560 | — | 11,560 | (1,387) | (2,757) | (4,436) |

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.

**Assets Segregated for Regulatory Purposes** — Assets segregated for regulatory purposes may consist of cash and securities with carrying amounts that approximate fair value.

**Securities Purchased Under Agreements to Resell** — Securities purchased under agreements to resell are carried at the amounts at which the securities will subsequently be resold as specified in the agreements. The carrying amounts approximate fair value due to their short-term nature.

**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 Held for Investment** — The estimated fair values of loans held for investment are measured using an exit price method.

**Broker-Dealer and Clearing Organization Receivables and Payables** — The carrying amount approximates their fair value.

**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.

**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.

**Other Assets and Liabilities** — Other assets and liabilities primarily consists of cash surrender value of life insurance policies and accrued interest receivable and payable with carrying amounts that approximate their fair values using Level 2 inputs. The fair value of certain other receivables and investments is based on Level 3 inputs.

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).

| December 31, 2019 | Carrying Amount | Estimated Fair Value Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 485,353 | $ 485,353 | $ — | $ — | $ 485,353 |
| Assets segregated for regulatory purposes | 157,436 | 157,436 | — | — | 157,436 |
| Securities purchased under agreements to resell | 59,031 | — | 59,031 | — | 59,031 |
| Held to maturity securities | 386,326 | — | 388,930 | — | 388,930 |
| Loans held for sale | 170,648 | — | 170,648 | — | 170,648 |
| Loans held for investment, net | 7,320,264 | — | 576,527 | 6,990,706 | 7,567,233 |
| Broker-dealer and clearing organization receivables | 1,780,280 | — | 1,780,280 | — | 1,780,280 |
| Other assets | 71,040 | — | 69,580 | 1,460 | 71,040 |
| Financial liabilities: | | | | | |
| Deposits | 9,032,214 | — | 9,032,496 | — | 9,032,496 |
| Broker-dealer and clearing organization payables | 1,605,518 | — | 1,605,518 | — | 1,605,518 |
| Short-term borrowings | 1,424,010 | — | 1,424,010 | — | 1,424,010 |
| Debt | 350,781 | — | 348,555 | — | 348,555 |
| Other liabilities | 8,473 | — | 8,473 | — | 8,473 |

| December 31, 2018 | Carrying Amount | Estimated Fair Value Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 644,473 | $ 644,473 | $ — | $ — | $ 644,473 |
| Assets segregated for regulatory purposes | 133,993 | 133,993 | — | — | 133,993 |
| Securities purchased under agreements to resell | 61,611 | — | 61,611 | — | 61,611 |
| Held to maturity securities | 351,012 | — | 341,124 | — | 341,124 |
| Loans held for sale | 135,471 | — | 135,471 | — | 135,471 |
| Loans held for investment, net | 6,870,972 | — | 578,363 | 6,445,810 | 7,024,173 |
| Broker-dealer and clearing organization receivables | 1,440,287 | — | 1,440,287 | — | 1,440,287 |
| Other assets | 69,720 | — | 68,573 | 1,147 | 69,720 |
| Financial liabilities: | | | | | |
| Deposits | 8,536,156 | — | 8,528,947 | — | 8,528,947 |
| Broker-dealer and clearing organization payables | 1,294,925 | — | 1,294,925 | — | 1,294,925 |
| Short-term borrowings | 1,065,807 | — | 1,065,807 | — | 1,065,807 |
| Debt | 295,884 | — | 293,685 | — | 293,685 |
| Other liabilities | 3,482 | — | 3,482 | — | 3,482 |

The Company held equity investments other than securities of $36.6 million and $35.8 million at December 31, 2019 and 2018, respectively, which are included within other assets in the consolidated balance sheets. Of the $36.6 million of such equity investments held at December 31, 2019, $19.8 million do not have readily determinable fair values and each is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The following table presents the adjustments to the carrying value of these investments (in thousands).

| | Year Ended December 31, 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 20,376 | $ 22,946 |
| Additional investments | — | 8,643 |
| Upward adjustments | 403 | 3,663 |
| Impairments and downward adjustments | (1,008) | (4,083) |
| Dispositions | — | (10,793) |
| Balance, end of year | $ 19,771 | $ 20,376 |

## 4. Securities

The fair value of trading securities are summarized as follows (in thousands).

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| U.S. Treasury securities | $ — | $ 7,945 |
| U.S. government agencies: | | |
| Bonds | 24,680 | 1,494 |
| Residential mortgage-backed securities | 331,601 | 309,455 |
| Commercial mortgage-backed securities | 2,145 | 4,239 |
| Collateralized mortgage obligations | 191,154 | 206,813 |
| Corporate debt securities | 36,973 | 59,293 |
| States and political subdivisions | 93,117 | 126,748 |
| Unit investment trusts | 3,468 | 19,913 |
| Private-label securitized product | 2,992 | 5,680 |
| Other | 3,446 | 3,886 |
| Totals | $ 689,576 | $ 745,466 |

In addition to the securities shown above, the Hilltop Broker-Dealers enter into transactions that represent commitments to purchase and deliver securities at prevailing future market prices to facilitate customer transactions and satisfy such commitments. Accordingly, the Hilltop Broker-Dealers' ultimate obligation may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of $43.8 million and $81.7 million at December 31, 2019 and 2018, respectively.

The amortized cost and fair value of available for sale and held to maturity securities are summarized as follows (in thousands).

| | Available for Sale | | | |
|---|---|---|---|---|
| **December 31, 2019** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| U.S. Treasury securities | $ 9,869 | $ 190 | $ (2) | $ 10,057 |
| U.S. government agencies: | | | | |
| Bonds | 84,590 | 1,049 | (64) | 85,575 |
| Residential mortgage-backed securities | 460,099 | 7,037 | (147) | 466,989 |
| Commercial mortgage-backed securities | 11,488 | 543 | — | 12,031 |
| Collateralized mortgage obligations | 333,328 | 3,179 | (815) | 335,692 |
| Corporate debt securities | 44,868 | 1,938 | — | 46,806 |
| States and political subdivisions | 39,969 | 1,273 | — | 41,242 |
| Totals | $ 984,211 | $ 15,209 | $ (1,028) | $ 998,392 |

| | Available for Sale | | | |
|---|---|---|---|---|
| **December 31, 2018** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| U.S. Treasury securities | $ 11,552 | $ 30 | $ (44) | $ 11,538 |
| U.S. government agencies: | | | | |
| Bonds | 85,492 | 552 | (433) | 85,611 |
| Residential mortgage-backed securities | 391,428 | 608 | (6,962) | 385,074 |
| Commercial mortgage-backed securities | 11,703 | 189 | (120) | 11,772 |
| Collateralized mortgage obligations | 281,450 | 385 | (5,436) | 276,399 |
| Corporate debt securities | 53,614 | 268 | (580) | 53,302 |
| States and political subdivisions | 51,560 | 608 | (206) | 51,962 |
| Totals | $ 886,799 | $ 2,640 | $ (13,781) | $ 875,658 |

| December 31, 2019 | Held to Maturity | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities | $ — | $ — | $ — | $ — |
| U.S. government agencies: | | | | |
| Bonds | 24,020 | 10 | (35) | 23,995 |
| Residential mortgage-backed securities | 17,776 | 295 | — | 18,071 |
| Commercial mortgage-backed securities | 161,624 | 2,810 | (655) | 163,779 |
| Collateralized mortgage obligations | 113,894 | 226 | (904) | 113,216 |
| States and political subdivisions | 69,012 | 1,013 | (156) | 69,869 |
| Totals | $ 386,326 | $ 4,354 | $ (1,750) | $ 388,930 |

| December 31, 2018 | Held to Maturity | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities | $ 9,903 | $ 3 | $ — | $ 9,906 |
| U.S. government agencies: | | | | |
| Bonds | 39,018 | — | (1,479) | 37,539 |
| Residential mortgage-backed securities | 21,903 | — | (263) | 21,640 |
| Commercial mortgage-backed securities | 87,065 | 271 | (1,462) | 85,874 |
| Collateralized mortgage obligations | 142,474 | — | (5,000) | 137,474 |
| States and political subdivisions | 50,649 | 91 | (2,049) | 48,691 |
| Totals | $ 351,012 | $ 365 | $ (10,253) | $ 341,124 |

Additionally, the Company had unrealized net gains of $1.2 million and unrealized net losses of $0.9 million from equity securities with fair values of $20.0 million and $19.7 million held at December 31, 2019 and December 31, 2018, respectively. The Company recognized net gains of $1.9 million and net losses of $3.3 million during 2019 and 2018, respectively, due to changes in the fair value of equity securities still held at the balance sheet date. During 2019 and 2018, net gains recognized from equity securities sold were nominal.

Information regarding available for sale, held to maturity and equity securities that were in an unrealized loss position is shown in the following tables (dollars in thousands).

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| **Available for Sale** | | | | | | |
| U.S. treasury securities: | | | | | | |
| Unrealized loss for less than twelve months | 1 | $ 1,897 | $ 2 | 1 | $ 981 | $ 6 |
| Unrealized loss for twelve months or longer | — | — | — | 3 | 3,556 | 39 |
| | 1 | 1,897 | 2 | 4 | 4,537 | 45 |
| U.S. government agencies: | | | | | | |
| Bonds: | | | | | | |
| Unrealized loss for less than twelve months | 2 | 24,937 | 64 | 3 | 24,772 | 5 |
| Unrealized loss for twelve months or longer | — | — | — | 3 | 30,472 | 428 |
| | 2 | 24,937 | 64 | 6 | 55,244 | 433 |
| Residential mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | 37 | 36,187 | 87 | 8 | 66,791 | 432 |
| Unrealized loss for twelve months or longer | 2 | 13,683 | 58 | 27 | 194,228 | 6,530 |
| | 39 | 49,870 | 145 | 35 | 261,019 | 6,962 |
| Commercial mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | 1 | 9,967 | 2 | — | — | — |
| Unrealized loss for twelve months or longer | — | — | — | 1 | 4,953 | 120 |
| | 1 | 9,967 | 2 | 1 | 4,953 | 120 |
| Collateralized mortgage obligations: | | | | | | |
| Unrealized loss for less than twelve months | 15 | 94,545 | 446 | 11 | 44,394 | 498 |
| Unrealized loss for twelve months or longer | 13 | 46,217 | 369 | 28 | 140,483 | 4,938 |
| | 28 | 140,762 | 815 | 39 | 184,877 | 5,436 |
| Corporate debt securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 8 | 16,256 | 282 |
| Unrealized loss for twelve months or longer | — | — | — | 8 | 15,665 | 297 |
| | — | — | — | 16 | 31,921 | 579 |
| States and political subdivisions: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 29 | 8,590 | 27 |
| Unrealized loss for twelve months or longer | 1 | 487 | — | 18 | 9,029 | 179 |
| | 1 | 487 | — | 47 | 17,619 | 206 |
| Total available for sale: | | | | | | |
| Unrealized loss for less than twelve months | 56 | 167,533 | 601 | 60 | 161,784 | 1,250 |
| Unrealized loss for twelve months or longer | 16 | 60,387 | 427 | 88 | 398,386 | 12,531 |
| | 72 | $ 227,920 | $ 1,028 | 148 | $ 560,170 | $ 13,781 |

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| **Held to Maturity** | | | | | | |
| U.S. government agencies: | | | | | | |
| Bonds: | | | | | | |
| Unrealized loss for less than twelve months | 2 | $ 9,665 | $ 35 | — | $ — | $ — |
| Unrealized loss for twelve months or longer | — | — | — | 4 | 37,539 | 1,479 |
| | 2 | 9,665 | 35 | 4 | 37,539 | 1,479 |
| Residential mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 1 | 8,411 | 89 |
| Unrealized loss for twelve months or longer | — | — | — | 3 | 13,229 | 174 |
| | — | — | — | 4 | 21,640 | 263 |
| Commercial mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | 8 | 44,610 | 656 | 1 | 4,973 | 27 |
| Unrealized loss for twelve months or longer | — | — | — | 13 | 59,670 | 1,435 |
| | 8 | 44,610 | 656 | 14 | 64,643 | 1,462 |
| Collateralized mortgage obligations: | | | | | | |
| Unrealized loss for less than twelve months | 4 | 23,904 | 287 | 1 | 2,051 | 26 |
| Unrealized loss for twelve months or longer | 8 | 59,560 | 617 | 24 | 135,423 | 4,974 |
| | 12 | 83,464 | 904 | 25 | 137,474 | 5,000 |
| States and political subdivisions: | | | | | | |
| Unrealized loss for less than twelve months | 38 | 15,996 | 124 | 9 | 6,431 | 56 |
| Unrealized loss for twelve months or longer | 4 | 1,099 | 31 | 86 | 32,909 | 1,993 |
| | 42 | 17,095 | 155 | 95 | 39,340 | 2,049 |
| Total held to maturity: | | | | | | |
| Unrealized loss for less than twelve months | 52 | 94,175 | 1,102 | 12 | 21,866 | 198 |
| Unrealized loss for twelve months or longer | 12 | 60,659 | 648 | 130 | 278,770 | 10,055 |
| | 64 | $ 154,834 | $ 1,750 | 142 | $ 300,636 | $ 10,253 |

During 2019, 2018 and 2017, the Company did not record any OTTI. 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 significant enough to warrant OTTI of the securities. 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. 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.

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 equity securities, at December 31, 2019 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 | $ 10,612 | $ 10,660 | $ — | $ — |
| Due after one year through five years | 121,052 | 123,759 | 25,967 | 25,955 |
| Due after five years through ten years | 29,697 | 30,572 | 5,537 | 5,591 |
| Due after ten years | 17,935 | 18,689 | 61,528 | 62,318 |
| | 179,296 | 183,680 | 93,032 | 93,864 |
| Residential mortgage-backed securities | 460,099 | 466,989 | 17,776 | 18,071 |
| Collateralized mortgage obligations | 333,328 | 335,692 | 113,894 | 113,216 |
| Commercial mortgage-backed securities | 11,488 | 12,031 | 161,624 | 163,779 |
| | $ 984,211 | $ 998,392 | $ 386,326 | $ 388,930 |

During 2019, 2018 and 2017, the Company recognized net gains from its trading portfolio of $20.5 million, $6.2 million and $20.2 million, respectively. In addition, the Hilltop Broker-Dealers realized net gains from structured product trading activities of $132.7 million, $41.9 million and $62.8 million during 2019, 2018 and 2017, respectively. During 2019, the Company had other realized losses on securities of $2.5 million, while other net realized gains on securities during 2018 and 2017 were nominal. All such net gains and losses are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of $576.0 million and $612.3 million (with a fair value of $583.6 million and $600.0 million, respectively) at December 31, 2019 and 2018, respectively, were pledged by the Bank 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. Substantially all of these pledged securities were included in the Company's available for sale and held to maturity securities portfolios at December 31, 2019 and 2018.

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, 2019 and 2018, NLC had investments on deposit in custody for various state insurance departments with carrying values of $9.3 million and $9.5 million, respectively.

## 5. Loans Held for Investment and Allowance for Loan Losses

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 agribusiness, construction, energy, real estate and wholesale/retail trade. The Hilltop Broker-Dealers make loans to customers and correspondents through transactions originated by both employees and independent retail representatives throughout the United States. The Hilltop Broker-Dealers control risk by requiring customers to maintain 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 loans are not included in the consolidated financial statements.

As previously discussed, the loans acquired in the FNB Transaction were subject to loss-share agreements with the FDIC. On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which all rights and obligations of the Bank and the FDIC under the FDIC loss-share agreements were resolved and terminated. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment." Loans that were previously covered by the FDIC loss-share agreements are included in the "covered" portfolio segment. The majority of the loans previously covered by the FDIC loss-share agreements are comprised primarily of commercial real estate and 1-4 family residential loans. Loans held for investment summarized by portfolio segment are as follows (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Commercial real estate | $ 3,000,523 | $ 2,940,120 |
| Commercial and industrial | 2,025,720 | 1,752,257 |
| Construction and land development | 940,564 | 932,909 |
| 1-4 family residential | 791,020 | 679,263 |
| Consumer | 47,046 | 47,546 |
| Broker-dealer [(1)] | 576,527 | 578,363 |
| | 7,381,400 | 6,930,458 |
| Allowance for loan losses | (61,136) | (59,486) |
| Total loans held for investment, net of allowance | $ 7,320,264 | $ 6,870,972 |

(1) Primarily represents margin loans to customers and correspondents associated with broker-dealer segment operations.

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 and 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. The Bank's loan policy provides specific underwriting guidelines by portfolio segment, including commercial and industrial, real estate, construction and land development, and consumer loans. The guidelines for each individual portfolio segment set forth permissible and impermissible loan types. With respect to each loan type, the guidelines within the Bank's loan policy provide minimum requirements for the underwriting factors listed above. The Bank's underwriting procedures also include an analysis of any collateral and guarantor. Collateral analysis includes a complete description of the collateral, as well as determined 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 evaluation based on the significance with which the guarantors are expected to serve as secondary repayment sources.

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 Bank Transactions, the Company acquired loans both with and without evidence of credit quality deterioration since origination. The following table presents the carrying amounts and the outstanding balances of PCI loans (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Carrying amount | $ 82,331 | $ 93,072 |
| Outstanding balance | 141,615 | 172,808 |

Changes in the accretable yield for PCI loans were as follows (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 80,693 | $ 98,846 | $ 156,847 |
| Additions | — | 340 | — |
| Reclassifications from nonaccretable difference, net (1) | 18,353 | 26,166 | 12,946 |
| Disposals of loans | (1,168) | (1,226) | (1,663) |
| Accretion | (31,875) | (43,433) | (69,284) |
| Transfer of loans to OREO (2) | — | — | — |
| Balance, end of year | $ 66,003 | $ 80,693 | $ 98,846 |

(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 non-accrual and expected cash flows are no longer predictable and the accretable yield is eliminated.
(2) Transfer of loans to OREO is the difference between the value removed from the pool and the expected cash flows for the loan.

The remaining nonaccretable difference for PCI loans was $49.5 million and $64.2 million at December 31, 2019 and 2018, respectively. During 2019, 2018 and 2017, a combination of factors affecting the inputs to the Bank's quarterly recast process led to the reclassifications from nonaccretable difference to accretable yield. These transfers resulted from revised cash flows that reflect better-than-expected performance of the PCI loan portfolio acquired in the FNB Transaction as a result of the Bank's strategic decision to dedicate resources to the liquidation of those loans acquired in the FNB Transaction during the noted periods.

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. Impaired loans include non-accrual loans, troubled debt restructurings ("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 Pooled Loans. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level. Impaired loans, segregated between those considered to be PCI loans and those without credit impairment at acquisition, are summarized by portfolio segment in the following tables (in thousands).

| December 31, 2019 | Unpaid Contractual Principal Balance | Recorded Investment with No Allowance | Recorded Investment with Allowance | Total Recorded Investment | Related Allowance |
|---|---|---|---|---|---|
| **PCI** | | | | | |
| Commercial real estate: | | | | | |
| Non-owner occupied | $ 28,541 | $ 4,254 | $ 8,592 | $ 12,846 | $ 2,659 |
| Owner occupied | 27,020 | 2,816 | 9,920 | 12,736 | 1,235 |
| Commercial and industrial | 23,281 | 4,131 | 1,129 | 5,260 | 70 |
| Construction and land development | 7,327 | 1 | 76 | 77 | 27 |
| 1-4 family residential | 89,800 | 381 | 51,031 | 51,412 | 3,179 |
| Consumer | 1,695 | — | — | — | — |
| Broker-dealer | — | — | — | — | — |
| | 177,664 | 11,583 | 70,748 | 82,331 | 7,170 |
| **Non-PCI** | | | | | |
| Commercial real estate: | | | | | |
| Non-owner occupied | 3,895 | 2,790 | — | 2,790 | — |
| Owner occupied | 4,706 | 3,495 | — | 3,495 | — |
| Commercial and industrial | 27,168 | 10,714 | 2,986 | 13,700 | 1,442 |
| Construction and land development | 1,483 | 1,316 | — | 1,316 | — |
| 1-4 family residential | 10,320 | 7,343 | — | 7,343 | — |
| Consumer | 38 | 26 | — | 26 | — |
| Broker-dealer | — | — | — | — | — |
| | 47,610 | 25,684 | 2,986 | 28,670 | 1,442 |
| | $ 225,274 | $ 37,267 | $ 73,734 | $ 111,001 | $ 8,612 |

| December 31, 2018 | Unpaid Contractual Principal Balance | Recorded Investment with No Allowance | Recorded Investment with Allowance | Total Recorded Investment | Related Allowance |
|---|---|---|---|---|---|
| **PCI** | | | | | |
| Commercial real estate: | | | | | |
| Non-owner occupied | $ 42,668 | $ 5,549 | $ 7,540 | $ 13,089 | $ 1,125 |
| Owner occupied | 36,246 | 11,657 | 2,967 | 14,624 | 304 |
| Commercial and industrial | 27,403 | 5,491 | 1,068 | 6,559 | 72 |
| Construction and land development | 10,992 | 74 | 390 | 464 | 92 |
| 1-4 family residential | 106,503 | 646 | 57,681 | 58,327 | 1,299 |
| Consumer | 2,185 | 9 | — | 9 | — |
| Broker-dealer | — | — | — | — | — |
| | 225,997 | 23,426 | 69,646 | 93,072 | 2,892 |
| **Non-PCI** | | | | | |
| Commercial real estate: | | | | | |
| Non-owner occupied | — | — | — | — | — |
| Owner occupied | 5,231 | 4,098 | — | 4,098 | — |
| Commercial and industrial | 22,277 | 9,891 | 1,740 | 11,631 | 721 |
| Construction and land development | 3,430 | 2,711 | 535 | 3,246 | 31 |
| 1-4 family residential | 8,695 | 6,922 | — | 6,922 | — |
| Consumer | 149 | 42 | — | 42 | — |
| Broker-dealer | — | — | — | — | — |
| | 39,782 | 23,664 | 2,275 | 25,939 | 752 |
| | $ 265,779 | $ 47,090 | $ 71,921 | $ 119,011 | $ 3,644 |

Average investment in impaired loans is summarized by portfolio segment in the following table (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Commercial real estate: | | | |
| Non-owner occupied | $ 14,363 | $ 14,533 | $ 16,623 |
| Owner occupied | 17,477 | 21,262 | 25,307 |
| Commercial and industrial | 18,575 | 21,143 | 19,189 |
| Construction and land development | 2,552 | 2,880 | 3,136 |
| 1-4 family residential | 62,002 | 35,404 | 5,797 |
| Consumer | 39 | 117 | 361 |
| Broker-dealer | — | — | — |
| Covered | — | 46,248 | 115,085 |
| | $ 115,008 | $ 141,587 | $ 185,498 |

Non-accrual loans, excluding those classified as held for sale, are summarized by portfolio segment in the following table (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Commercial real estate: | | |
| Non-owner occupied | $ 3,813 | $ 1,226 |
| Owner occupied | 3,495 | 4,098 |
| Commercial and industrial | 15,262 | 14,870 |
| Construction and land development | 1,316 | 3,278 |
| 1-4 family residential | 7,382 | 7,026 |
| Consumer | 26 | 41 |
| Broker-dealer | — | — |
| | $ 31,294 | $ 30,539 |

At December 31, 2019 and 2018, non-accrual loans included PCI loans of $3.8 million and $4.9 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these PCI loans can no longer be reasonably estimated. In addition to the non-accrual loans in the table above, $4.8 million and $3.4 million of real estate loans secured by residential properties and classified as held for sale were in non-accrual status at December 31, 2019 and 2018, respectively.

Interest income, including recoveries and cash payments, recorded on impaired loans was $1.6 million, $1.4 million and $1.7 million during 2019, 2018 and 2017, respectively. Except as noted above, PCI loans are considered to be performing due to the application of the accretion method.

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 may also reconfigure 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.

There were no TDRs granted during 2018. Information regarding TDRs granted during 2019 and 2017 is shown in the following table (dollars in thousands). At December 31, 2019 and 2018, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

| | Year Ended December 31, 2019 | | | Year Ended December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Balance at Extension | Balance at End of Period | Number of Loans | Balance at Extension | Balance at End of Period |
| Commercial real estate: | | | | | | |
| Non-owner occupied | — | $ — | $ — | — | $ — | $ — |
| Owner occupied | — | — | — | 2 | 4,775 | 4,629 |
| Commercial and industrial | 4 | 9,618 | 8,566 | 1 | 1,357 | 1,186 |
| Construction and land development | — | — | — | 1 | 655 | 611 |
| 1-4 family residential | — | — | — | — | — | — |
| Consumer | — | — | — | — | — | — |
| Broker-dealer | — | — | — | — | — | — |
| Covered | — | — | — | — | — | — |
| | 4 | $ 9,618 | $ 8,566 | 4 | $ 6,787 | $ 6,426 |

All of the loan modifications included in the table above involved payment term extensions. The Bank did not grant principal reductions on any restructured loans during 2019, 2018 or 2017.

There were no TDRs granted during the twelve months preceding December 31, 2019 or 2018 for which a payment was at least 30 days past due. The following table presents information regarding TDRs granted during the twelve months preceding December 31, 2017, for which a payment was at least 30 days past due (dollars in thousands).

| | Twelve Months Preceding December 31, 2017 | | |
|---|---|---|---|
| | Number of Loans | Balance at Extension | Balance at End of Period |
| Commercial real estate: | | | |
| Non-owner occupied | — | $ — | $ — |
| Owner occupied | 1 | 1,481 | 1,352 |
| Commercial and industrial | — | — | — |
| Construction and land development | 1 | 655 | 611 |
| 1-4 family residential | — | — | — |
| Consumer | — | — | — |
| Broker-dealer | — | — | — |
| Covered | — | — | — |
| | 2 | $ 2,136 | $ 1,963 |

An analysis of the aging of the Company's loan portfolio is shown in the following tables (in thousands).

| December 31, 2019 | 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 real estate: | | | | | | | | |
| Non-owner occupied | $ 1,769 | $ — | $ 2,790 | $ 4,559 | $ 1,691,947 | $ 12,846 | $ 1,709,352 | $ — |
| Owner occupied | 1,741 | 125 | 2,432 | 4,298 | 1,274,137 | 12,736 | 1,291,171 | — |
| Commercial and industrial | 5,672 | 1,735 | 3,192 | 10,599 | 2,009,861 | 5,260 | 2,025,720 | 3 |
| Construction and land development | 7,580 | 1,827 | — | 9,407 | 931,080 | 77 | 940,564 | — |
| 1-4 family residential | 6,281 | 1,461 | 2,739 | 10,481 | 729,127 | 51,412 | 791,020 | — |
| Consumer | 455 | 34 | — | 489 | 46,557 | — | 47,046 | — |
| Broker-dealer | — | — | — | — | 576,527 | — | 576,527 | — |
| | $ 23,498 | $ 5,182 | $ 11,153 | $ 39,833 | $ 7,259,236 | $ 82,331 | $ 7,381,400 | $ 3 |

| December 31, 2018 | 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 real estate: | | | | | | | | |
| Non-owner occupied | $ 1,174 | $ 199 | $ — | $ 1,373 | $ 1,708,160 | $ 13,089 | $ 1,722,622 | $ — |
| Owner occupied | 1,364 | — | 4,173 | 5,537 | 1,197,337 | 14,624 | 1,217,498 | 75 |
| Commercial and industrial | 1,792 | 1,049 | 11,051 | 13,892 | 1,731,806 | 6,559 | 1,752,257 | 3 |
| Construction and land development | 3,549 | — | — | 3,549 | 928,896 | 464 | 932,909 | — |
| 1-4 family residential | 5,987 | 2,484 | 1,950 | 10,421 | 610,515 | 58,327 | 679,263 | — |
| Consumer | 254 | 147 | — | 401 | 47,136 | 9 | 47,546 | — |
| Broker-dealer | — | — | — | — | 578,363 | — | 578,363 | — |
| | $ 14,120 | $ 3,879 | $ 17,174 | $ 35,173 | $ 6,802,213 | $ 93,072 | $ 6,930,458 | $ 78 |

In addition to the loans shown in the table above, PrimeLending had $102.7 million and $83.1 million of loans included in loans held for sale (with an aggregate unpaid principal balance of $104.0 million and $84.0 million, respectively) that were 90 days past due and accruing interest at December 31, 2019 and 2018, respectively. These loans are guaranteed by U.S. government agencies and include loans that are subject to repurchase, or have been repurchased, 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 state and local markets.

The Company utilizes a risk grading matrix to assign a risk grade to each of the loans in its portfolio with the exception of broker-dealer loans. 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 Company. 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 Company 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 Company 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 Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company 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 Company 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 loans, as previously described, in the portfolio by class (in thousands).

| December 31, 2019 | Pass | Special Mention | Substandard | PCI | Total |
|---|---|---|---|---|---|
| Commercial real estate: | | | | | |
| Non-owner occupied | $ 1,638,682 | $ — | $ 57,824 | $ 12,846 | $ 1,709,352 |
| Owner occupied | 1,238,855 | 810 | 38,770 | 12,736 | 1,291,171 |
| Commercial and industrial | 1,917,450 | 15,973 | 87,037 | 5,260 | 2,025,720 |
| Construction and land development | 937,967 | — | 2,520 | 77 | 940,564 |
| 1-4 family residential | 722,657 | — | 16,951 | 51,412 | 791,020 |
| Consumer | 46,758 | — | 288 | — | 47,046 |
| Broker-dealer | 576,527 | — | — | — | 576,527 |
| | $ 7,078,896 | $ 16,783 | $ 203,390 | $ 82,331 | $ 7,381,400 |

| December 31, 2018 | Pass | Special Mention | Substandard | PCI | Total |
|---|---|---|---|---|---|
| Commercial real estate: | | | | | |
| Non-owner occupied | $ 1,673,424 | $ — | $ 36,109 | $ 13,089 | $ 1,722,622 |
| Owner occupied | 1,175,225 | 2,083 | 25,566 | 14,624 | 1,217,498 |
| Commercial and industrial | 1,677,033 | 15,320 | 53,345 | 6,559 | 1,752,257 |
| Construction and land development | 929,130 | — | 3,315 | 464 | 932,909 |
| 1-4 family residential | 601,264 | 393 | 19,279 | 58,327 | 679,263 |
| Consumer | 47,416 | — | 121 | 9 | 47,546 |
| Broker-dealer | 578,363 | — | — | — | 578,363 |
| | $ 6,681,855 | $ 17,796 | $ 137,735 | $ 93,072 | $ 6,930,458 |

**Allowance for Loan Losses**

It is management's responsibility to, at the end of each quarter, or more frequently as deemed necessary, analyze the level of the allowance for loan losses to ensure that it is appropriate for the estimated credit losses in the portfolio. 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 either the pool discount or the post-acquisition allowance. Recoveries on charge-offs of loans acquired in the Bank Transactions that occurred prior to their acquisition represent contractual cash flows not expected to be collected and are recorded as accretion income. Recoveries on acquired loans charged-off subsequent to their acquisition 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 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 cash flows discounted at the loan's effective rate, (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 loan category, and further disaggregates commercial and industrial loans by collateral type. The analysis uses net charge-off experience by considering charge-offs and recoveries in determining the loss rate. 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.

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:

- the loss emergence period is applied to both the general allowance and adjustments for qualitative risk factors, which represents the average amount of time between when loss events occur for specific loan types and when such problem loans are identified and the related loss amounts are confirmed through charge-offs;
- changes in the volume and severity of past due, non-accrual 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, non-accrual 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. Classified loans are defined as loans having a well-defined weakness or weaknesses related to the borrower's financial capacity or to pledged collateral that may jeopardize the repayment of the debt. They are characterized by the possibility that the Bank may sustain some loss if the deficiencies giving rise to the substandard classification are not corrected. The magnitude of the impact of these factors on the qualitative assessment of the allowance for loan loss changes from quarter to quarter. Periodically, management conducts an analysis to estimate the loss emergence period for each loan portfolio segment based on historical charge-offs, loan type and loan payment history and considers available industry peer bank data. Model output by loan category is reviewed to evaluate the reasonableness of the reserve levels in comparison to the estimated loss emergence period applied to historical loss experience.

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.

In connection with the Bank Transactions, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. PCI loans are accounted for in pools as well as on an individual loan basis. 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. This increase in accretable yield is taken into income over the remaining life of the loan.

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.

The allowance for loan losses is subject to regulatory examinations and determinations 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 the Company believes it has an appropriate allowance for the existing loan portfolio at December 31, 2019, additional provisions for losses on existing loans may be necessary in the future.

Changes in the allowance for loan losses, distributed by portfolio segment, are shown below (in thousands).

| Year Ended December 31, 2019 | Balance, Beginning of Year | Provision (Recovery) for Loan Losses | Loans Charged Off | Recoveries on Charged Off Loans | Balance, End of Year |
|---|---|---|---|---|---|
| Commercial real estate | $ 27,100 | $ 5,649 | $ (1,160) | $ 6 | $ 31,595 |
| Commercial and industrial | 21,980 | (921) | (5,924) | 2,829 | 17,964 |
| Construction and land development | 6,061 | (1,183) | — | — | 4,878 |
| 1-4 family residential | 3,956 | 3,276 | (907) | 61 | 6,386 |
| Consumer | 267 | 459 | (498) | 37 | 265 |
| Broker-dealer | 122 | (74) | — | — | 48 |
| Total | $ 59,486 | $ 7,206 | $ (8,489) | $ 2,933 | $ 61,136 |

| Year Ended December 31, 2018 | Balance, Beginning of Year | Provision (Recovery) for Loan Losses | Loans Charged Off | Recoveries on Charged Off Loans | Balance, End of Year |
|---|---|---|---|---|---|
| Commercial real estate | $ 27,232 | $ 668 | $ (800) | $ — | $ 27,100 |
| Commercial and industrial | 23,698 | 6,750 | (12,741) | 4,273 | 21,980 |
| Construction and land development | 7,847 | (1,792) | — | 6 | 6,061 |
| 1-4 family residential | 4,245 | (292) | (143) | 146 | 3,956 |
| Consumer | 311 | (15) | (93) | 64 | 267 |
| Broker-dealer | 353 | (231) | — | — | 122 |
| Covered | — | — | — | — | — |
| Total | $ 63,686 | $ 5,088 | $ (13,777) | $ 4,489 | $ 59,486 |

| Year Ended December 31, 2017 | Balance, Beginning of Year | Provision (Recovery) for Loan Losses | Loans Charged Off | Recoveries on Charged Off Loans | Balance, End of Year |
|---|---|---|---|---|---|
| Commercial real estate | $ 22,262 | $ 4,320 | $ (193) | $ 24 | $ 26,413 |
| Commercial and industrial | 21,369 | 6,725 | (6,253) | 1,833 | 23,674 |
| Construction and land development | 7,002 | 848 | (13) | 7 | 7,844 |
| 1-4 family residential | 2,974 | (701) | (112) | 201 | 2,362 |
| Consumer | 424 | 16 | (208) | 79 | 311 |
| Broker-dealer | 155 | 198 | — | — | 353 |
| Covered | 413 | 2,865 | (571) | 22 | 2,729 |
| Total | $ 54,599 | $ 14,271 | $ (7,350) | $ 2,166 | $ 63,686 |

The loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

| December 31, 2019 | Loans Individually Evaluated for Impairment | Loans Collectively Evaluated for Impairment | PCI Loans | Total |
|---|---|---|---|---|
| Commercial real estate | $ 5,698 | $ 2,969,243 | $ 25,582 | $ 3,000,523 |
| Commercial and industrial | 12,889 | 2,007,571 | 5,260 | 2,025,720 |
| Construction and land development | 1,237 | 939,250 | 77 | 940,564 |
| 1-4 family residential | 608 | 739,000 | 51,412 | 791,020 |
| Consumer | — | 47,046 | — | 47,046 |
| Broker-dealer | — | 576,527 | — | 576,527 |
| Total | $ 20,432 | $ 7,278,637 | $ 82,331 | $ 7,381,400 |

| December 31, 2018 | Loans Individually Evaluated for Impairment | Loans Collectively Evaluated for Impairment | PCI Loans | Total |
|---|---|---|---|---|
| Commercial real estate | $ 3,909 | $ 2,908,498 | $ 27,713 | $ 2,940,120 |
| Commercial and industrial | 10,741 | 1,734,957 | 6,559 | 1,752,257 |
| Construction and land development | 3,241 | 929,204 | 464 | 932,909 |
| 1-4 family residential | — | 620,936 | 58,327 | 679,263 |
| Consumer | — | 47,537 | 9 | 47,546 |
| Broker-dealer | — | 578,363 | — | 578,363 |
| Total | $ 17,891 | $ 6,819,495 | $ 93,072 | $ 6,930,458 |

The allowance for loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

| December 31, 2019 | Loans Individually Evaluated for Impairment | Loans Collectively Evaluated for Impairment | PCI Loans | Total |
|---|---|---|---|---|
| Commercial real estate | $ — | $ 27,701 | $ 3,894 | $ 31,595 |
| Commercial and industrial | 1,442 | 16,452 | 70 | 17,964 |
| Construction and land development | — | 4,851 | 27 | 4,878 |
| 1-4 family residential | — | 3,207 | 3,179 | 6,386 |
| Consumer | — | 265 | — | 265 |
| Broker-dealer | — | 48 | — | 48 |
| Total | $ 1,442 | $ 52,524 | $ 7,170 | $ 61,136 |

| December 31, 2018 | Loans Individually Evaluated for Impairment | Loans Collectively Evaluated for Impairment | PCI Loans | Total |
|---|---|---|---|---|
| Commercial real estate | $ — | $ 25,671 | $ 1,429 | $ 27,100 |
| Commercial and industrial | 721 | 21,187 | 72 | 21,980 |
| Construction and land development | 31 | 5,938 | 92 | 6,061 |
| 1-4 family residential | — | 2,657 | 1,299 | 3,956 |
| Consumer | — | 267 | — | 267 |
| Broker-dealer | — | 122 | — | 122 |
| Total | $ 752 | $ 55,842 | $ 2,892 | $ 59,486 |

## 6. Covered Assets and Indemnification Asset

The Bank acquired certain assets and assumed certain liabilities of FNB in connection with an FDIC-assisted transaction on September 13, 2013 (the "Bank Closing Date"). As part of the Purchase and Assumption Agreement (the "P&A Agreement") by and among the FDIC (as receiver of FNB), the Bank and the FDIC, the Bank and the FDIC entered into loss-share agreements covering future losses incurred on certain acquired loans and OREO. The Company referred to acquired commercial and single family residential loan portfolios and OREO that were subject to the loss-share agreements as "covered loans" and "covered OREO", respectively, and these assets were presented as separate line items in the Company's consolidated balance sheets. Collectively, covered loans and covered OREO were referred to as "covered assets". Pursuant to the loss-share agreements, the FDIC agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of net losses on the first $240.4 million of net losses incurred; (ii) 0% of net losses in excess of $240.4 million up to and including $365.7 million of net losses incurred; and (iii) 80% of net losses in excess of $365.7 million of net losses incurred. Net losses were defined as book value losses plus certain defined expenses incurred in the resolution of assets, less subsequent recoveries. Under the loss-share agreement for commercial assets, the amount of subsequent recoveries that were reimbursable to the FDIC for a particular asset was limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There was no limit on the amount of subsequent recoveries reimbursable to the FDIC under the loss-share agreement for single family residential assets. The loss-share agreements for commercial and single family residential assets were in effect for five years and ten years, respectively, from the Bank Closing Date, and the loss recovery provisions to the FDIC were in effect for eight years and ten years, respectively, from the Bank Closing Date. The asset arising from the loss-share agreements, referred to as the "FDIC Indemnification Asset," was measured separately from the covered loan portfolio because the agreements were not contractually embedded in the covered loans and were not transferable if the Bank chose to dispose of the covered loans. In accordance with the loss-share agreements, the Bank may have been required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if its actual net realized losses over the life of the loss-share agreements were less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment was calculated using a defined formula set forth in the P&A Agreement.

On October 17, 2018, the Bank and the FDIC entered into a Termination Agreement pursuant to which the loss-share agreements for single family residential assets and commercial assets were terminated in exchange for the payment by the FDIC to the Bank of $6.26 million. Accordingly, loans which were previously referred to as either "covered loans" if covered by the loss-share agreements or otherwise "non-covered loans" are now collectively referred to as "loans held for investment."

*Covered Other Real Estate Owned*

A summary of the activity in OREO previously covered by the FDIC loss-share agreements is as follows (in thousands)[(1)].

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Balance, beginning of year | $ 36,744 | $ 51,642 |
| Additions to covered OREO | 5,284 | 6,700 |
| Dispositions of covered OREO | (10,145) | (17,866) |
| Valuation adjustments in the period | (2,027) | (3,732) |
| Transfer to other assets as a result of loss-share termination | (29,856) | — |
| Balance, end of year | $ — | $ 36,744 |

(1) The additions, dispositions and valuation adjustments during 2018 as presented in the table represent activity from January 1, 2018 through September 30, 2018, prior to the expiration and termination of the FDIC loss-share agreements. All previously "covered" OREO is included in other assets as of December 31, 2018.

During 2018 and 2017, 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 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. The downward valuations recorded during the periods presented above were related to covered assets subject to the loss-share agreements with the FDIC.

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. Any increases to fair value up to the amount of cumulative losses previously recognized are recorded as gains when the asset is subsequently sold.

As previously discussed, upon termination of the loss-share agreements, OREO acquired in the FNB Transaction which was previously identified as "covered" is now included in other assets within the consolidated balance sheets.

*FDIC Indemnification Asset*

A summary of the activity in the FDIC Indemnification Asset is as follows (in thousands).

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Balance, beginning of year | $ 29,340 | $ 71,313 |
| FDIC Indemnification Asset accretion (amortization) | (6,509) | (17,083) |
| Transfers to due from FDIC and other | — | (24,890) |
| FDIC loss-share termination | (22,831) | — |
| Balance, end of year | $ — | $ 29,340 |

In October 2018, in conjunction with the receipt of the $6.26 million payment associated with the termination of the FDIC loss-share agreements, the then-remaining FDIC Indemnification Asset of $22.8 million and the FDIC true-up accrual of $16.6 million were removed with no further impact to the Company's consolidated statements of operations.

**7. Cash and Due from Banks**

Cash and due from banks consisted of the following (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash on hand | $ 39,590 | $ 47,621 |
| Clearings and collection items | 129,055 | 83,949 |
| Deposits at Federal Reserve Bank | 232,019 | 425,770 |
| Deposits at Federal Home Loan Bank | 1,458 | 1,595 |
| Deposits in FDIC-insured institutions | 82,837 | 85,138 |
| | $ 484,959 | $ 644,073 |

The amounts above include interest-bearing deposits of $271.5 million and $469.4 million at December 31, 2019 and 2018, respectively. Cash on hand and deposits at the Federal Reserve Bank satisfy regulatory reserve requirements at December 31, 2019 and December 31, 2018.

**8. Premises and Equipment**

The components of premises and equipment are summarized as follows (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Land and premises | $ 130,312 | $ 147,783 |
| Furniture and equipment | 285,617 | 259,082 |
| | 415,929 | 406,865 |
| Less accumulated depreciation and amortization | (195,947) | (169,492) |
| | $ 219,982 | $ 237,373 |

The amounts shown above include gross assets recorded under capital leases of $7.8 million and $7.8 million, with accumulated amortization of $4.2 million and $3.6 million at December 31, 2019 and 2018, respectively.

Occupancy expense was reduced by rental income of $2.7 million, $1.4 million and $1.8 million during 2019, 2018 and 2017, respectively. Depreciation and amortization expense on premises and equipment, which includes amortization of capital leases, amounted to $29.6 million, $33.1 million and $34.6 million during 2019, 2018 and 2017, respectively.

**9. Goodwill and Other Intangible Assets**

At December 31, 2019, the carrying amount of goodwill of $291.4 million was comprised of $39.6 million recorded in connection with the BORO Acquisition, $24.0 million recorded in connection with the acquisition of NLC and $227.8 million recorded in connection with the PlainsCapital Merger.

Other intangible assets of $30.2 million and $38.0 million at December 31, 2019 and 2018, 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 performed required annual impairment tests of its goodwill and other intangible assets having an indefinite useful life as of October 1st for each of its reporting units. At October 1, 2019, the Company determined that the estimated fair value of each of its reporting units exceeded its carrying value. The Company estimated the fair values of its reporting units based on both a market and income approach using historical, normalized actual and forecasted results. Based on this evaluation, at December 31, 2019, the Company concluded that the goodwill and other identifiable intangible assets were fully realizable.

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, 2019 | Estimated Useful Life (Years) | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
|---|---|---|---|---|
| Core deposits | 4 - 12 | $ 48,930 | $ (36,576) | $ 12,354 |
| Trademarks and trade names | 15 - 20 | 20,000 | (9,825) | 10,175 |
| Noncompete agreements | 4 - 6 | 4,310 | (4,310) | — |
| Customer contracts and relationships | 12 - 14 | 21,400 | (16,776) | 4,624 |
| Agent relationships | 13 | 3,600 | (3,598) | 2 |
| | | $ 98,240 | $ (71,085) | $ 27,155 |

| December 31, 2018 | Estimated Useful Life (Years) | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
|---|---|---|---|---|
| Core deposits | 4 - 12 | $ 48,930 | $ (31,062) | $ 17,868 |
| Trademarks and trade names | 15 - 20 | 20,000 | (8,844) | 11,156 |
| Noncompete agreements | 4 - 6 | 11,650 | (11,650) | — |
| Customer contracts and relationships | 12 - 14 | 21,400 | (15,465) | 5,935 |
| Agent relationships | 13 | 3,600 | (3,554) | 46 |
| | | $ 105,580 | $ (70,575) | $ 35,005 |

Amortization expense related to intangible assets during 2019, 2018 and 2017 was $7.8 million, $8.4 million and $8.3 million, respectively.

The estimated aggregate future amortization expense for intangible assets at December 31, 2019 is as follows (in thousands).

| | |
|---|---|
| 2020 | $ 6,538 |
| 2021 | 5,313 |
| 2022 | 3,987 |
| 2023 | 2,860 |
| 2024 | 1,825 |
| Thereafter | 6,632 |
| | $ 27,155 |

## 10. Mortgage Servicing Rights

The following tables present the changes in fair value of the Company's MSR asset, as included in other assets within the consolidated balance sheets, and other information related to the serviced portfolio (dollars in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 66,102 | $ 54,714 | $ 61,968 |
| Additions | 13,755 | 25,028 | 16,401 |
| Sales | — | (9,303) | (17,499) |
| Changes in fair value: | | | |
| Due to changes in model inputs or assumptions [1] | (16,054) | 159 | (1,722) |
| Due to customer payoffs | (8,299) | (4,496) | (4,434) |
| Balance, end of year | $ 55,504 | $ 66,102 | $ 54,714 |

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Mortgage loans serviced for others | $ 4,948,441 | $ 5,086,461 |
| MSR asset as a percentage of serviced mortgage loans | 1.12 % | 1.30 % |

(1) Primarily represents normal customer payments, 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 asset were as follows.

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Weighted average constant prepayment rate | 13.16 % | 10.51 % |
| Weighted average discount rate | 11.14 % | 11.11 % |
| Weighted average life (in years) | 6.0 | 7.1 |

A sensitivity analysis of the fair value of the Company's MSR asset to certain key assumptions is presented in the following table (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Constant prepayment rate: | | |
| Impact of 10% adverse change | $ (3,072) | $ (2,512) |
| Impact of 20% adverse change | (5,943) | (4,980) |
| Discount rate: | | |
| Impact of 10% adverse change | (2,094) | (2,677) |
| Impact of 20% adverse change | (4,028) | (5,139) |

This sensitivity analysis presents the effect of hypothetical changes in key assumptions on the fair value of the MSR asset. 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 asset 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 $25.3 million, $23.3 million and $20.7 million during 2019, 2018 and 2017, respectively, were included in other noninterest income within the consolidated statements of operations.

## 11. Deposits

Deposits are summarized as follows (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Noninterest-bearing demand | $ 2,769,556 | $ 2,560,750 |
| Interest-bearing: | | |
| NOW accounts | 1,552,209 | 1,358,196 |
| Money market | 2,641,116 | 2,725,541 |
| Brokered - money market | 5,000 | 5,000 |
| Demand | 329,405 | 393,685 |
| Savings | 199,076 | 184,700 |
| Time | 1,505,375 | 1,308,284 |
| Brokered - time | 30,477 | — |
| | $ 9,032,214 | $ 8,536,156 |

At December 31, 2019, deposits include $798.9 million of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000. Scheduled maturities of interest-bearing time deposits at December 31, 2019 are as follows (in thousands).

| | |
|---|---|
| 2020 | $ 1,172,822 |
| 2021 | 183,529 |
| 2022 | 118,529 |
| 2023 | 44,246 |
| 2024 and thereafter | 16,726 |
| | $ 1,535,852 |

## 12. Short-term Borrowings

Short-term borrowings are summarized as follows (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Federal funds purchased | $ 81,625 | $ 100,100 |
| Securities sold under agreements to repurchase | 612,125 | 576,707 |
| Federal Home Loan Bank | 600,000 | 200,000 |
| Short-term bank loans | 111,000 | 189,000 |
| Commercial paper | 19,260 | — |
| | $ 1,424,010 | $ 1,065,807 |

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 the Hilltop Broker-Dealers execute transactions to sell securities under agreements to repurchase with both customers and other broker-dealers. Securities involved in these transactions are held by the Bank, the Hilltop Broker-Dealers or a third-party 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, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Average balance during the year | $ 605,858 | $ 701,622 | $ 588,847 |
| Average interest rate during the year | 2.48 % | 1.96 % | 1.06 % |
| Maximum month-end balance during the year | 693,750 | 849,568 | 904,704 |

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Average interest rate at end of year | 1.97 % | 2.43 % |
| Securities underlying the agreements at end of year: | | |
| Carrying value | $ 612,515 | $ 587,609 |
| Estimated fair value | $ 661,023 | $ 618,231 |

FHLB short-term borrowings 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, 2019, the Bank had available collateral of $3.9 billion, substantially all of which was blanket collateral. Other information regarding FHLB short-term borrowings is shown in the following tables (dollars in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Average balance during the year | $ 329,356 | $ 214,110 | $ 390,616 |
| Average interest rate during the year | 2.16 % | 2.09 % | 1.08 % |
| Maximum month-end balance during the year | $ 700,000 | $ 675,000 | $ 850,000 |

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Average interest rate at end of year | 1.56 % | 2.65 % |

The Hilltop Broker-Dealers use 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, 2019 and 2018 was 2.52% and 3.35%, respectively.

During 2019, Hilltop Securities initiated two commercial paper programs in the ordinary course of its business to fund a portion of its securities inventories. The commercial paper notes ("CP Notes") may be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issuable under two separate programs, Series 2019-1 CP Notes and Series 2019-2 CP Notes, in maximum aggregate amounts of $300 million and $200 million, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The CP Notes are secured by a pledge of collateral owned by Hilltop Securities. At December 31, 2019, the amount outstanding under these secured arrangements was collateralized by securities held for firm accounts valued at $20.9 million. As of December 31, 2019, the weighted average maturity of the CP Notes was 90 days at a rate of 2.208%.

## 13. Notes Payable

Notes payable consisted of the following (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Senior Notes due April 2025, net of discount of $1,232 and $1,393, respectively | $ 148,768 | $ 148,607 |
| FHLB notes, including premium of $146 and $222, respectively, with maturities ranging from September 2020 to June 2030 and interest payable monthly | 28,848 | 4,391 |
| NLIC note payable due May 2033, three-month LIBOR plus 4.10% (6.01% at December 31, 2019) with interest payable quarterly | 10,000 | 10,000 |
| NLIC note payable due September 2033, three-month LIBOR plus 4.05% (5.96% at December 31, 2019) with interest payable quarterly | 10,000 | 10,000 |
| ASIC note payable due April 2034, three-month LIBOR plus 4.05% (5.96% at December 31, 2019) with interest payable quarterly | 7,500 | 7,500 |
| Ventures Management lines of credit due May 2020 | 78,653 | 48,374 |
| | $ 283,769 | $ 228,872 |

*Senior Notes*

On April 9, 2015, Hilltop completed an offering of $150.0 million aggregate principal amount of its 5% senior notes due 2025 ("Senior Unregistered Notes") in a private offering that was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The Senior Unregistered Notes were offered within the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to persons outside of the United States under Regulation S under the Securities Act. The Senior Unregistered Notes were issued pursuant to an indenture, dated as of April 9, 2015, by and between Hilltop and U.S. Bank National Association, as trustee. The net proceeds from the offering, after deducting estimated fees and expenses and the initial purchasers' discounts, were approximately $148 million. Hilltop used the net proceeds of the offering to redeem all of Hilltop's outstanding Non-Cumulative Perpetual Preferred Stock, Series B at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million, and Hilltop utilized the remainder for general corporate purposes. Unamortized debt issuance costs presented as a reduction from the Senior Notes are discussed further in Note 1 to the consolidated financial statements.

In connection with the issuance of the Senior Unregistered Notes, on April 9, 2015, the Company entered into a registration rights agreement with the initial purchasers of the Senior Unregistered Notes. Under the terms of the registration rights agreement, the Company agreed to offer to exchange the Senior Unregistered Notes for notes

registered under the Securities Act (the "Senior Registered Notes"). The terms of the Senior Registered Notes are substantially identical to the Senior Unregistered Notes for which they were exchanged (including principal amount, interest rate, maturity and redemption rights), except that the Senior Registered Notes generally are not subject to transfer restrictions. On May 22, 2015 and subject to the terms and conditions set forth in the Senior Registered Notes prospectus, the Company commenced an offer to exchange the Senior Unregistered Notes for Senior Registered Notes. Substantially all of the Senior Unregistered Notes were tendered in the exchange offer, and on June 22, 2015, the Company fulfilled its requirements under the registration rights agreement for the Senior Unregistered Notes by issuing Senior Registered Notes in exchange for the tendered Senior Unregistered Notes. The Senior Registered Notes and the Senior Unregistered Notes that remain outstanding are collectively referred to as the "Senior Notes."

The Senior Notes bear interest at a rate of 5% per year, payable semi-annually in arrears in cash on April 15 and October 15 of each year. The Senior Notes will mature on April 15, 2025, unless Hilltop redeems the Senior Notes, in whole at any time or in part from time to time, on or after January 15, 2025 (three months prior to the maturity date of the Senior Notes) at its election at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The indenture contains covenants that limit the Company's ability to, among other things and subject to certain significant exceptions: (i) dispose of or issue voting stock of certain of the Company's bank subsidiaries or subsidiaries that own voting stock of the Company's bank subsidiaries, (ii) incur or permit to exist any mortgage, pledge, encumbrance or lien or charge on the capital stock of certain of the Company's bank subsidiaries or subsidiaries that own capital stock of the Company's bank subsidiaries and (iii) sell all or substantially all of the Company's assets or merge or consolidate with or into other companies. The indenture also provides for certain events of default, which, if any of them occurs, would permit or require the principal amount, premium, if any, and accrued and unpaid interest on the then outstanding Senior Notes to be declared immediately due and payable.

*Federal Home Loan Bank notes*

The FHLB notes have interest rates ranging from 1.96% to 5.70%, with a weighted average interest rate of 2.18% at December 31, 2019. The FHLB notes, as well as other borrowings from the FHLB, are collateralized by FHLB stock, a blanket lien on commercial and real estate loans, as well as by the amount of securities that are in safekeeping at the FHLB, the value of which was $3.9 billion at December 31, 2019.

*NLIC and ASIC 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 and ASIC 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, 2019.

*Ventures Management Lines of Credit*

At December 31, 2019, Ventures Management's ABAs had combined available lines of credit totaling $150.0 million, $100.0 million of which was with a single unaffiliated bank and $50.0 million of which was with the Bank. At December 31, 2019, Ventures Management had outstanding borrowings of $95.0 million, $16.4 million of which was with the Bank with stated interest rates of the greater of a calculated index rate on mortgage notes or 3.25% to 3.75%. The weighted average interest rate of these lines of credit at December 31, 2019 was 3.31%. The Ventures Management lines of credit are collateralized by mortgage notes, and the loan agreements relating to the lines of credit contain various financial and other covenants which must be maintained until all indebtedness to the financial institution is repaid. As of December 31, 2019, the net worth of two of the ABAs was less than the amount required by the unaffiliated bank's debt covenants. Both ABAs received a waiver for this covenant from the unaffiliated bank as of December 31, 2019.

*Scheduled Maturities*

Scheduled maturities for notes payable outstanding at December 31, 2019 are as follows (in thousands).

| | | |
|---|---|---|
| 2020 | $ | 80,868 |
| 2021 | | 413 |
| 2022 | | — |
| 2023 | | — |
| 2024 | | — |
| Thereafter | | 203,573 |
| | $ | 284,854 |

## 14. Leases

Hilltop and its subsidiaries lease space, primarily for corporate offices, branch facilities and automated teller machines, under both operating and finance leases. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases between its subsidiaries, and these transactions and balances have been eliminated in consolidation and are not reflected in the tables and information presented below.

Supplemental balance sheet information related to finance leases is as follows (in thousands).

| | | December 31, 2019 |
|---|---|---|
| Finance leases: | | |
| Premises and equipment | $ | 7,780 |
| Accumulated depreciation | | (4,178) |
| Premises and equipment, net | $ | 3,602 |

Operating lease rental cost and finance lease amortization of ROU assets is included within occupancy and equipment, net in the consolidated statements of operations. Finance lease interest expense is included within other interest expense in the consolidated statements of operations. The Company does not generally enter into leases which contain variable payments, other than due to the passage of time. The components of lease costs, including short-term lease costs, are as follows (in thousands).

| | | Year Ended December 31, 2019 |
|---|---|---|
| Operating lease cost | $ | 44,331 |
| Less operating lease and sublease income | | (2,657) |
| Net operating lease cost | $ | 41,674 |
| | | |
| Finance lease cost: | | |
| Amortization of ROU assets | $ | 590 |
| Interest on lease liabilities | | 596 |
| Total finance lease cost | $ | 1,186 |

Supplemental cash flow information related to leases is as follows (in thousands):

| | Year Ended December 31, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 37,527 |
| Operating cash flows from finance leases | 587 |
| Financing cash flows from finance leases | 603 |
| Right-of-use assets obtained in exchange for new lease obligations: | |
| Operating leases | $ 27,055 |
| Finance leases | — |

Information regarding the lease terms and discount rates of the Company's leases is as follows.

| | December 31, 2019 | |
|---|---|---|
| **Lease Classification** | **Weighted Average Remaining Lease Term (Years)** | **Weighted Average Discount Rate** |
| Operating | 5.9 | 5.29 % |
| Finance | 6.5 | 4.79 % |

Maturities of lease liabilities at December 31, 2019, under lease agreements that had commenced as of or subsequent to January 1, 2019, are presented below (in thousands).

| | Operating Leases | Finance Leases |
|---|---|---|
| 2020 | $ 35,676 | $ 1,197 |
| 2021 | 28,974 | 1,212 |
| 2022 | 22,942 | 1,241 |
| 2023 | 18,114 | 1,280 |
| 2024 | 11,847 | 1,163 |
| Thereafter | 33,879 | 2,297 |
| Total minimum lease payments | $ 151,432 | $ 8,390 |
| Less amount representing interest | (23,030) | (2,895) |
| Lease liabilities | $ 128,402 | $ 5,495 |

As of December 31, 2019, the Company had no additional operating leases that have not yet commenced.

A related party is the lessor in an operating lease with Hilltop. Hilltop's minimum payment under the lease is $0.5 million annually through 2028, for an aggregate remaining obligation of $4.6 million at December 31, 2019.

The Company adopted ASC 842, *Leases* on January 1, 2019, using the modified retrospective transition under the option to apply the new standard at its effective date without adjusting the prior period comparative financial statements. As such, disclosures for comparative periods under the predecessor standard, ASC 840, *Leases*, are required in the year of transition. Future minimum lease payments under ASC 840 as of December 31, 2018, under lease agreements that had commenced as of December 31, 2018, are presented below (in thousands).

| | Operating Leases | Capital Leases |
|---|---|---|
| 2019 | $ 36,171 | $ 1,186 |
| 2020 | 29,109 | 1,197 |
| 2021 | 21,058 | 1,212 |
| 2022 | 16,386 | 1,241 |
| 2023 | 12,361 | 1,280 |
| Thereafter | 18,264 | 3,460 |
| Total minimum lease payments | $ 133,349 | 9,576 |
| Amount representing interest | | (1,221) |
| Present value of minimum lease payments | | $ 8,355 |

## 15. Junior Subordinated Debentures and Trust Preferred Securities

PCC 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 PCC (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 PCC; however, PCC 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 PCC.

Information regarding the PCC 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, 2019 was 5.14%. The term, rate and other features of the preferred securities are the same as the Debentures. PCC'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.

## 16. Income Taxes

The significant components of the income tax provision are as follows (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Current: | | | |
| Federal | $ 61,934 | $ 19,504 | $ 63,769 |
| State | $ 9,253 | $ 2,349 | $ 5,440 |
| | 71,187 | 21,853 | 69,209 |
| Deferred: | | | |
| Federal | $ (2,500) | $ 11,352 | $ 40,176 |
| State | $ (1,355) | $ 1,845 | $ 757 |
| | (3,855) | 13,197 | 40,933 |
| | $ 67,332 | $ 35,050 | $ 110,142 |

The income tax provision differs from the amount that would be computed by applying the statutory Federal income tax rate to income before income taxes as a result of the following (in thousands). The applicable corporate federal income tax rates were 21% for 2019 and 2018 and 35% for 2017.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Computed tax at federal statutory rate | $ 63,065 | $ 33,763 | $ 85,150 |
| Tax effect of: | | | |
| Tax Legislation | — | — | 28,363 |
| Non-taxable acquisition adjustment | — | 263 | (6,682) |
| Nondeductible transaction costs | — | 86 | 774 |
| Nondeductible expenses | 2,728 | 2,864 | 3,089 |
| State income taxes | 6,239 | 3,313 | 4,028 |
| Tax-exempt income, net | (1,727) | (1,432) | (2,758) |
| Minority interest | (1,614) | (900) | (210) |
| Share-based compensation benefit | (145) | (273) | (412) |
| Prior year return to provision adjustment | (980) | (1,682) | (943) |
| Other | (234) | (952) | (257) |
| | $ 67,332 | $ 35,050 | $ 110,142 |

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, | |
|---|---|---|
| | 2019 | 2018 |
| Deferred tax assets: | | |
| Net operating and built-in loss carryforward | $ 7,823 | $ 9,656 |
| Purchase accounting adjustment - loans | 15,851 | 19,673 |
| Allowance for loan losses | 14,796 | 14,137 |
| Compensation and benefits | 17,813 | 14,865 |
| Legal and other reserves | 1,272 | 3,483 |
| Foreclosed property | 5,456 | 3,974 |
| Operating lease ROU assets | 29,125 | — |
| Other | 9,774 | 15,142 |
| | 101,910 | 80,930 |
| Deferred tax liabilities: | | |
| Premises and equipment | 10,079 | 12,344 |
| Intangible assets | 7,684 | 9,326 |
| Derivatives | 4,342 | 4,169 |
| Loan servicing | 13,278 | 15,761 |
| Operating lease liabilities | 26,498 | — |
| Other | 9,652 | 7,074 |
| | 71,533 | 48,674 |
| Net deferred tax asset | $ 30,377 | $ 32,256 |

The Company’s effective tax rate was 22.4%, 21.8% and 45.3% during 2019, 2018 and 2017, respectively. The 2019 and 2018 effective tax rates approximated statutory rates and includes the effect of investments in tax-exempt instruments, offset by nondeductible expenses. The effective tax rate during 2017 was higher than the statutory rate primarily due to the revaluation of deferred tax assets as a result of the Tax Legislation, partially offset by a non-taxable gain recorded in the resolution of the SWS appraisal proceedings as the SWS Merger was a tax-free reorganization.

At December 31, 2019 and 2018, the Company had net operating loss carryforwards for Federal income tax purposes of $11.4 million and $20.9 million, respectively (or $2.4 million and $4.4 million, respectively, on a tax effected basis at applicable rates for respective tax years). The net operating loss carryforwards are subject to an annual Section 382 limitation on their usage. These net operating loss carryforwards expire in starting in 2033. 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. At December 31, 2019, the Company also had a recognized built-in loss (“RBIL”) carryover of $20.5 million from the ownership change resulting from the SWS Merger. These RBILs that were recognized during a five year recognition period before January 1, 2020 are subject to the annual Section 382 limitation rules similar to the Company’s net operating loss carryforwards. The RBILs are expected to be fully realized prior to any expiration.

Based on the Company’s evaluation of its deferred tax assets, management determined that no valuation allowance against its gross deferred tax assets was necessary at December 31, 2019 or 2018.

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, 2019 and 2018, the total amount of gross unrecognized tax benefits was $2.8 million and $3.1 million, respectively, of which $2.1 million and $2.5 million, respectively, if recognized, would favorably impact the Company’s effective tax rate.

The aggregate changes in gross unrecognized tax benefits, which excludes interest and penalties, are as follows (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 3,056 | $ 1,574 | $ 1,704 |
| Increases related to tax positions taken during a prior year | 317 | 770 | 476 |
| Decreases related to tax positions taken during a prior year | (423) | — | (1,273) |
| Increases related to tax positions taken during the current year | 288 | 712 | 667 |
| Decreases related to expiration of the statute of limitations | (430) | — | — |
| Balance, end of year | $ 2,808 | $ 3,056 | $ 1,574 |

Specific positions that may be resolved include issues involving apportionment and tax credits. At December 31, 2019, the unrecognized tax benefit is recorded as taxes receivable, which is included in other assets within the consolidated balance sheet.

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 United States until the applicable statute of limitations expires. The Company is no longer subject to U.S. federal tax examinations for tax years prior to 2016. The Company is open for various state tax audits for tax years 2015 and later.

**17. 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 based on the amount of eligible employees’ contributions and salaries. The amount charged to operating expense for these matching contributions totaled $15.7 million, $15.0 million and $13.9 million during 2019, 2018 and 2017, respectively.

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. At December 31, 2019 and 2018, the recorded liability, including interest, was $2.6 million and $9.2 million, respectively. The decrease in the recorded liability was in connection with the retirement in April 2019 of Alan B. White, the Company’s former Vice Chairman and Co-Chief Executive Officer, whereby payments due under Mr. White’s retention agreement were triggered and paid.

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, 2019 and 2018, the carrying value of the policies included in other assets was $26.2 million and $26.5 million, respectively. During each of 2019, 2018 and 2017,

the Bank recorded income of $1.0 million, $0.6 million and $0.6 million, respectively, related to the policies that was reported in other noninterest income within the consolidated statement of operations.

*Deferred Compensation Plan*

As a result of the SWS Merger, the Company assumed a deferred compensation plan (the "SWS Plan") that allows former SWS eligible officers and employees to defer a portion of their bonus compensation and commissions. The SWS Plan matched 15% of the deferrals made by participants up to a predetermined limit through matching contributions that vest ratably over four years. Pursuant to the terms of the SWS Plan, the trustee periodically purchased the former SWS common stock in the open market. As a result of the SWS Merger, the former SWS common shares were converted into Hilltop common stock based on the terms of the merger agreement. No further contributions can be made to this plan.

The assets of the SWS Plan are held in a rabbi trust and primarily include investments in company-owned life insurance ("COLI") and Hilltop common stock. These assets are consolidated with those of the Company. Investments in COLI are carried at the cash surrender value of the insurance policies and recorded in other assets within the consolidated balance sheet at December 31, 2019 and 2018, respectively. Investments in Hilltop common stock, which are carried at cost, and the corresponding liability related to the deferred compensation plan are presented as components of stockholders' equity as employee stock trust and deferred compensation employee stock trust, net, respectively, at December 31, 2019 and 2018, respectively.

**18. Related Party Transactions**

Jeremy B. Ford, a director and the President and Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P., which owned 17.3% of the outstanding Hilltop common stock at December 31, 2019.

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 $5 thousand and $1.2 million at December 31, 2019 and 2018, 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 2019, there were no principal additions and total principal payments were $1.1 million.

At December 31, 2019 and 2018, the Bank held deposits of related parties of $141.2 million and $126.3 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 $4.6 million at December 31, 2019.

The Bank purchased loans from a company for which a related party served as a director, president and chief executive officer. At December 31, 2019 and 2018, the outstanding balance of the purchased loans was $0.7 million and $1.2 million, respectively. The loans were purchased with recourse in the ordinary course of business and the related party had no direct financial interest in the transaction.

*Hilltop Plaza Investment*

On July 31, 2018, Hillcrest Land LLC purchased approximately 1.7 acres of land in the City of University Park, Texas for $38.5 million. Hillcrest Land LLC is owned equally between Hilltop Investments I, LLC, a wholly owned entity of Hilltop, and Diamond Ground, LLC, an affiliate of Mr. Gerald J. Ford. Each of Hilltop Investments I, LLC and Diamond Ground, LLC contributed $19.3 million to Hillcrest Land LLC to complete the purchase. As the voting rights of Hillcrest Land LLC are shared equally between the Company and Diamond Ground, LLC, there is no primary beneficiary, and Diamond Ground, LLC's interest in Hillcrest Land LLC has been reflected as a noncontrolling interest in the Company's consolidated financial statements. Therefore, the Company has consolidated Hillcrest Land LLC under the VIE model

according to the "most-closely associated" test. The purchased land is included within premises and equipment, net in the consolidated balance sheets. Any income (loss) associated with Hillcrest Land LLC is included within other noninterest income in the consolidated statements of operations. Trusts for which Jeremy Ford and the wife of Corey Prestidge are a beneficiary own 10.2% and 10.1%, respectively, of Diamond Ground, LLC.

In connection with the purchase of the land, Hillcrest Land LLC entered into a 99-year ground lease of the land with three tenants-in-common: SPC Park Plaza Partners LLC ("Park Plaza LLC"), an unaffiliated entity which received an undivided 50% leasehold interest; HTH Project LLC, a wholly owned subsidiary of Hilltop, which received an undivided 25% leasehold interest; and Diamond Hillcrest, LLC ("Diamond Hillcrest"), an entity owned by Mr. Gerald J. Ford, which received an undivided 25% leasehold interest (collectively, the "Co-Owners"). The ground lease is triple net. The base rent from the Co-Owners under the ground lease commences 18 months after the ground lease was signed at $1.8 million per year and increases 1.0% per year each January 1 thereafter. The ground lease was classified as an operating lease under ASC 840, and the accounting commencement date was determined to be July 31, 2018, the date the land was available to the Co-Owners.

Concurrent with the ground lease, the Co-Owners entered into an agreement to purchase the improvements currently being constructed on the land, which is a mixed-use project containing a six-story building ("Hilltop Plaza"). HTH Project LLC and Diamond Hillcrest each own an undivided 25% interest in Hilltop Plaza. Park Plaza LLC owns the remaining undivided 50% interest in Hilltop Plaza. Park Plaza LLC has agreed to serve as the Co-Owner property manager under the Co-Owners Agreement; however, certain actions require unanimous approval of all Co-Owners. Hilltop Plaza will be funded through a $41.0 million construction loan from an unaffiliated third party bank, as well as cash contributions of $5.3 million from each of HTH Project LLC and Diamond Hillcrest. HTH Project LLC's undivided interest in Hilltop Plaza is accounted for as an equity method investment as the tenants-in-common have joint control over decisions regarding Hilltop Plaza. The investment is included within other assets in the consolidated balance sheets and any income (loss) is included within other noninterest income in the consolidated statements of operations.

Hilltop and the Bank entered into leases for a significant portion of the total rentable corporate office space in Hilltop Plaza to serve as the headquarters for both companies. Affiliates of Mr. Gerald J. Ford also entered into leases for office space in the building. The two separate 129-month office and retail leases of Hilltop and the Bank, respectively, have combined total base rent of approximately $35 million with the first nine months of rent abated. The accounting commencement date of both leases was determined to be June 20, 2019, the date the building was delivered in order for tenant improvement work to commence. The combined operating lease liability, net of lease incentives, recognized during the second quarter of 2019 as a result of the commencement of these leases was $18.9 million. During 2018, the office and retail leases were considered under the build-to-suit provisions of ASC 840, and the Company was determined to be the accounting owner of the project as its affiliate, HTH Project LLC, has an equity investment in the project. As such, the assets of Hilltop Plaza were recognized during the construction period through December 31, 2018, as costs were incurred to construct the asset, with a corresponding liability representing the costs paid for by the lessor (the Co-Owners). At December 31, 2018, the $27.8 million of costs incurred to date were included within premises and equipment and other liabilities, respectively, in the consolidated balance sheets. The Company reassessed its accounting ownership of the Hilltop Plaza assets under construction as of January 1, 2019, under the build-to-suit provisions of the newly adopted ASC 842, *Leases* and concluded it was not the accounting owner. As such, the assets and liabilities of the project were derecognized on January 1, 2019, with the $1.4 million offset representing deferred expenses recognized on the date through December 31, 2018, recorded as an increase to retained earnings.

All intercompany transactions associated with the Hilltop Plaza investment and the related transactions discussed above are eliminated in consolidation.

## 19. Commitments and Contingencies

During 2017, the Bank acted as agent on behalf of certain correspondent banks in the purchase and sale of federal funds that aggregated to $3.0 million at December 31, 2017. There were no such transactions during 2019 and 2018.

*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. A portion 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, the Company does not take into account the availability of insurance coverage, other than that provided by reinsurers in the insurance segment. 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 probable 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. As available information changes, however, 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 is complete; whether meaningful settlement discussions have 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.

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.

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, except related to specific matters disclosed above, 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 matter, including 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.

*Indemnification Liability Reserve*

The mortgage origination segment may be responsible to agencies, investors, or other parties 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 or indemnifies the claimant

against loss. The mortgage origination segment has established an indemnification liability reserve for such probable losses.

Generally, the mortgage origination segment first becomes aware that an agency, investor, or other party believes a loss has been incurred on a sold loan when it receives a written request from the claimant to repurchase the loan or reimburse the claimant's losses. Upon completing its review of the claimant's request, the mortgage origination segment establishes a specific claims reserve for the loan if it concludes its obligation to the claimant is both probable and reasonably estimable.

An additional reserve has been established for probable agency, investor or other party 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 claimant requests, actual 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 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 claims to date, and therefore, are not a primary factor considered in the calculation of this reserve.

At December 31, 2019 and 2018, the mortgage origination segment's indemnification liability reserve totaled $11.8 million and $10.7 million, respectively. The provision for indemnification losses was $3.1 million, $3.2 million and $4.0 million during 2019, 2018 and 2017, respectively.

The following tables provide for a rollforward 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, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 33,784 | $ 33,702 | $ 40,669 |
| Claims made | 20,054 | 22,156 | 42,330 |
| Claims resolved with no payment | (14,154) | (13,169) | (37,439) |
| Repurchases | (6,170) | (8,250) | (6,490) |
| Indemnification payments | (1,370) | (655) | (5,368) |
| Balance, end of year | $ 32,144 | $ 33,784 | $ 33,702 |

| | Indemnification Liability Reserve Activity Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 10,701 | $ 23,472 | $ 18,239 |
| Additions for new sales | 3,116 | 3,170 | 3,962 |
| Repurchases | (495) | (612) | (466) |
| Early payment defaults | (380) | (368) | (228) |
| Indemnification payments (1) | (352) | (13,687) | (713) |
| Change in reserves for loans sold in prior years | (814) | (1,274) | 2,678 |
| Balance, end of year | $ 11,776 | $ 10,701 | $ 23,472 |

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Reserve for Indemnification Liability: | | |
| Specific claims | $ 1,071 | $ 676 |
| Incurred but not reported claims | 10,705 | 10,025 |
| Total | $ 11,776 | $ 10,701 |

(1) Indemnification payments in 2018 included $13.5 million related to agreements with the DOJ and HUD in exchange for release of any civil claims related to certain loans originated by PrimeLending. These claims were included in incurred but not reported claims in prior periods.

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.

*Other Contingencies*

As discussed in Note 17 to the consolidated financial statements, effective upon completion of the PlainsCapital Merger, Hilltop entered into separate retention agreements with certain executive officers. As of December 31, 2019, a single retention agreement remains, with an initial term of two years (with automatic one-year renewals at the end of the first year and each anniversary thereof). This retention agreement provides for severance pay benefits if the executive officer's employment is terminated without "cause".

In addition to this retention agreement, 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.

## 20. 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 $2.1 billion at December 31, 2019 and outstanding financial and performance standby letters of credit of $90.9 million at December 31, 2019.

The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans held for investment. 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, the Hilltop Broker-Dealers execute, settle, and finance various securities transactions that may expose the Hilltop Broker-Dealers 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 accounts of the Hilltop Broker-Dealers, use of derivatives to support certain non-profit housing organization clients and to hedge changes in the fair value of certain securities, clearing agreements between the Hilltop Broker-Dealers and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

## 21. Stock-Based Compensation

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Company may grant nonqualified stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights and other awards to employees of the Company, its subsidiaries and outside directors of the Company. In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2019, 556,368 shares of common stock remain available for issuance pursuant to the 2012 Plan, including shares that may be delivered pursuant to outstanding awards. Compensation expense related to the 2012 Plan was $11.8 million, $9.1 million and $10.8 million during 2019, 2018 and 2017, respectively.

During 2019, 2018 and 2017, Hilltop granted 26,659, 30,400 and 16,859 shares of common stock, respectively, pursuant to the 2012 Plan to certain non-employee members of the Company's board of directors for services rendered to the Company.

*Restricted Stock Awards and RSUs*

The Compensation Committee of the board of directors of the Company issued restricted shares of Hilltop common stock ("Restricted Stock Awards") and RSUs pursuant to the 2012 Plan.

The Restricted Stock Awards generally cliff vested on the third anniversary of the grant date and were 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 award agreements governing the Restricted Stock Awards provided for accelerated vesting under certain conditions. During 2017, 3,881 Restricted Stock Awards vested with a weighted average grant date fair value of $19.95. As of September 30, 2017, all remaining Restricted Stock Awards had vested and none were outstanding.

Certain RSUs are subject to time-based vesting conditions and generally provided for a cliff vest on the third anniversary of the grant date, while other RSUs provided for vesting based upon the achievement of certain performance goals over a three-year period subject to service conditions set forth in the award agreements, with associated costs generally recognized on a straight-line basis over the respective vesting periods. The RSUs are not transferable, and the shares of common stock issuable upon conversion of vested RSUs may be 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.

The following table summarizes information about nonvested RSU activity (shares in thousands).

| | RSUs | |
|---|---|---|
| | Outstanding | Weighted Average Grant Date Fair Value |
| Balance, December 31, 2016 | 1,456 | $ 19.83 |
| Granted | 450 | $ 26.37 |
| Vested/Released | (451) | $ 22.48 |
| Forfeited | (137) | $ 22.41 |
| Balance, December 31, 2017 | 1,318 | $ 20.89 |
| Granted | 510 | $ 24.00 |
| Vested/Released | (406) | $ 19.92 |
| Forfeited | (152) | $ 20.97 |
| Balance, December 31, 2018 | 1,270 | $ 22.44 |
| Granted | 719 | $ 20.02 |
| Vested/Released | (496) | $ 18.17 |
| Forfeited | (56) | $ 24.12 |
| Balance, December 31, 2019 | 1,437 | $ 22.64 |

Vested/Released RSUs include an aggregate of 303,250 shares withheld to satisfy employee statutory tax obligations during 2019, 2018 and 2017. Pursuant to certain RSU award agreements, an aggregate of 17,692 vested RSUs at December 31, 2019 require deferral of the settlement in shares and statutory tax obligations to a future date.

During 2019, the Compensation Committee of the board of directors of the Company awarded certain executives and key employees an aggregate of 710,425 RSUs pursuant to the 2012 Plan. At December 31, 2019, 603,593 of these outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 91,249 of these outstanding RSUs will cliff vest based upon the achievement of certain performance goals over a three-year period.

At December 31, 2019, in the aggregate, 1,198,953 of the outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 238,145 outstanding RSUs cliff vest based upon the achievement of certain performance goals over a three-year period. At December 31, 2019, unrecognized compensation expense related to outstanding RSUs of $16.0 million is expected to be recognized over a weighted average period of 1.53 years.

## 22. Regulatory Matters

*Banking and Hilltop*

PlainsCapital, which includes the Bank and PrimeLending, 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 PlainsCapital and Hilltop 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 Company is ultimately dependent upon its subsidiaries to provide funding for operating expenses, debt service and dividends. Various laws limit the payment of dividends and other distributions by subsidiaries to parent companies, and may therefore limit the Company's ability to pay dividends on its common stock. In addition, the federal bank regulatory agencies have issued policy statements providing that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. Furthermore, if required payments on the Company's outstanding junior subordinated debentures held by its unconsolidated subsidiary trusts are not made or are suspended, the Company may be prohibited from paying dividends on its common stock. Regulatory authorities could also impose administratively stricter limitations on the ability of the Company's subsidiaries to pay dividends to the Company if such limits were deemed appropriate to preserve certain capital adequacy requirements.

In January 2015, the comprehensive capital framework ("Basel III") for U.S. banking organizations became effective for PlainsCapital and Hilltop for reporting periods beginning after January 1, 2015 (subject to a phase-in period through January 2019). Under Basel III, total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of common equity Tier 1 capital and additional Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital. The Company performs reviews of the classification and calculation of risk-weighted assets to ensure accuracy and compliance with the Basel III regulatory capital requirements. 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 common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, Basel III also implemented a capital conservation buffer, which requires a banking organization to hold a buffer 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. The phase-in of the capital conservation buffer requirements began on January 1, 2016 for PlainsCapital and Hilltop. Based on the actual ratios as shown in the table below, Hilltop and the Bank exceed each of the capital conservation buffer requirements in effect as of December 31, 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. All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2019, under guidance issued by the Board of Governors of the Federal Reserve System.

The following tables show PlainsCapital's and Hilltop's actual capital amounts and ratios in accordance with Basel III compared to the regulatory minimum capital requirements including conservation buffer in effect at the end of the period and on a fully phased-in basis (dollars in thousands). Based on the actual capital amounts and ratios shown in the following table, PlainsCapital's ratios place it in the "well capitalized" (as defined) capital category under regulatory requirements.

| | Actual | | Minimum Capital Requirements Including Conservation Buffer | | |
|---|---|---|---|---|---|
| | | | In Effect at End of Period | Fully Phased In | To Be Well Capitalized |
| | Amount | Ratio | Ratio | Ratio | Ratio |
| **December 31, 2019** | | | | | |
| Tier 1 capital (to average assets): | | | | | |
| PlainsCapital | $ 1,236,289 | 11.61 % | 4.0 % | 4.0 % | 5.0 % |
| Hilltop | 1,822,970 | 12.71 % | 4.0 % | 4.0 % | N/A |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,236,289 | 13.45 % | 7.0 % | 7.0 % | 6.5 % |
| Hilltop | 1,776,381 | 16.70 % | 7.0 % | 7.0 % | N/A |
| Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,236,289 | 13.45 % | 8.5 % | 8.5 % | 8.0 % |
| Hilltop | 1,822,970 | 17.13 % | 8.5 % | 8.5 % | N/A |
| Total capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,299,453 | 14.13 % | 10.5 % | 10.5 % | 10.0 % |
| Hilltop | 1,867,771 | 17.55 % | 10.5 % | 10.5 % | N/A |

| | Actual | | Minimum Capital Requirements Including Conservation Buffer | | |
|---|---|---|---|---|---|
| | | | In Effect at End of Period | Fully Phased In | To Be Well Capitalized |
| | Amount | Ratio | Ratio | Ratio | Ratio |
| **December 31, 2018** | | | | | |
| Tier 1 capital (to average assets): | | | | | |
| PlainsCapital | $ 1,183,447 | 12.47 % | 4.0 % | 4.0 % | 5.0 % |
| Hilltop | 1,680,364 | 12.53 % | 4.0 % | 4.0 % | N/A |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,183,447 | 13.90 % | 6.375 % | 7.0 % | 6.5 % |
| Hilltop | 1,634,978 | 16.58 % | 6.375 % | 7.0 % | N/A |
| Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,183,447 | 13.90 % | 7.875 % | 8.5 % | 8.0 % |
| Hilltop | 1,680,364 | 17.04 % | 7.875 % | 8.5 % | N/A |
| Total capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 1,245,177 | 14.63 % | 9.875 % | 10.5 % | 10.0 % |
| Hilltop | 1,722,602 | 17.47 % | 9.875 % | 10.5 % | N/A |

A reconciliation of equity capital to common equity Tier 1, Tier 1 and total capital (as defined) is as follows (in thousands).

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | PlainsCapital | Hilltop | PlainsCapital | Hilltop |
| Total equity capital | $ 1,523,549 | $ 2,103,039 | $ 1,459,985 | $ 1,949,470 |
| Add: | | | | |
| Net unrealized holding losses (gains) on securities available for sale and held in trust | (9,452) | (11,419) | 7,988 | 8,627 |
| Deduct: | | | | |
| Goodwill and other disallowed intangible assets | (276,249) | (313,756) | (282,238) | (319,942) |
| Other | (1,559) | (1,483) | (2,288) | (3,177) |
| Common equity Tier 1 capital (as defined) | 1,236,289 | 1,776,381 | 1,183,447 | 1,634,978 |
| Add: Tier 1 capital | | | | |
| Trust preferred securities | — | 65,000 | — | 65,000 |
| Deduct: | | | | |
| Additional Tier 1 capital deductions | — | (18,411) | — | (19,614) |
| Tier 1 capital (as defined) | 1,236,289 | 1,822,970 | 1,183,447 | 1,680,364 |
| Add: Allowable Tier 2 capital | | | | |
| Allowance for loan losses, including unfunded commitments | 63,164 | 63,212 | 61,730 | 61,852 |
| Deduct: | | | | |
| Additional Tier 2 capital deductions | — | (18,411) | — | (19,614) |
| Total capital (as defined) | $ 1,299,453 | $ 1,867,771 | $ 1,245,177 | $ 1,722,602 |

*Broker-Dealer*

Pursuant to the net capital requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Hilltop Securities elected to determine its net capital requirement using the alternative method. Accordingly, Hilltop Securities 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 and $1,000,000, respectively, or 2% of aggregate debit balances, as defined in Rule 15c3-3 promulgated under the Exchange Act. Additionally, the net capital rule of the NYSE provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of the aggregate debit items. HTS Independent Network follows the primary (aggregate indebtedness) method, as defined in Rule 15c3-1 promulgated under the Exchange Act, which requires the maintenance of the larger of minimum net capital of $250,000 or 1/15 of aggregate indebtedness.

At December 31, 2019, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

| | Hilltop Securities | HTS Independent Network |
|---|---|---|
| Net capital | $ 318,732 | $ 3,375 |
| Less: required net capital | 7,750 | 250 |
| Excess net capital | $ 310,982 | $ 3,125 |
| Net capital as a percentage of aggregate debit items | 82.3 % | |
| Net capital in excess of 5% aggregate debit items | $ 299,356 | |

Under certain conditions, Hilltop Securities 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 Exchange Act. Assets segregated for regulatory purposes under the provisions of the Exchange Act are restricted and not available for general corporate purposes. At December 31, 2019 and 2018, the Hilltop Broker-Dealers held cash of $157.4 million and $134.0 million, respectively, segregated in special reserve bank accounts for the benefit of customers. The Hilltop Broker-Dealers were not required to segregate cash or securities in special reserve accounts for the benefit of proprietary accounts of introducing broker-dealers at December 31, 2019 and 2018.

*Mortgage Origination*

As a mortgage originator, PrimeLending and its ABAs are subject to minimum net worth and liquidity requirements established by HUD and GNMA, as applicable. On an annual basis, PrimeLending and its ABAs submit audited financial statements to HUD and GNMA, as applicable, documenting their respective compliance with minimum net worth and liquidity requirements. As of December 31, 2019, PrimeLending and its ABAs' net worth and liquidity exceeded the amounts required by HUD and GNMA, as applicable, with two exceptions. As of December 31, 2019, the net worth of two of the ABAs was less than the amount required by HUD. These instances were reported to HUD and cured in January 2020, and as of January 31, 2020, each of these ABAs' net worth exceeded the amount required by HUD.

*Insurance*

The statutory financial statements of the Company's insurance subsidiaries are domiciled in the State of Texas and are presented on the basis of accounting practices prescribed or permitted by the Texas Department of Insurance. Texas has adopted the statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") 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, | |
|---|---|---|
| | 2019 | 2018 |
| Statutory capital and surplus: | | |
| National Lloyds Insurance Company | $ 70,112 | $ 78,637 |
| American Summit Insurance Company | 19,201 | 17,908 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Statutory net income (loss): | | | |
| National Lloyds Insurance Company | $ 11,389 | $ 9,114 | $ (1,785) |
| American Summit Insurance Company | 968 | (1,304) | 742 |

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, 2019, 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, 2019, the Company's insurance subsidiaries' RBC ratio exceeded the level at which regulatory action would be required.

## 23. Stockholders' Equity

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2019, $162.6 million of its earnings was available for dividend declaration without prior regulatory approval.

At December 31, 2019, the maximum aggregate dividend that may be paid to NLC from its insurance company subsidiaries without regulatory approval was $10.9 million.

*Dividends*

During 2019, 2018 and 2017, the Company declared and paid cash dividends of $0.32, $0.28 and $0.24 per common share, or $29.6 million, $26.7 million and $23.1 million, respectively.

On January 30, 2020, the Company announced that its board of directors declared a quarterly cash dividend of $0.09 per common share, payable on February 28, 2020, to all common stockholders of record as of the close of business on February 14, 2020.

*Stock Repurchase Programs*

The Company's board of directors has periodically approved stock repurchase programs under which it authorized the Company to repurchase its outstanding common stock. Under the respective stock repurchase program authorized, the Company could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. The extent to which the Company repurchased its shares and the timing of such repurchases depended upon market conditions and other corporate considerations, as determined by Hilltop's management team. Repurchased shares will be returned to the Company's pool of authorized but unissued shares of common stock.

In January 2017, the Hilltop board of directors reauthorized the stock repurchase program originally approved during the second quarter of 2016 through January 2018. During 2017, the Company paid $27.4 million to repurchase an aggregate of 1,057,656 shares of common stock at a weighted average price of $25.87 per share, inclusive of repurchases to offset dilution related to grants of stock-based compensation. This stock repurchase program expired in January 2018. All purchases were funded from available cash balances.

In January 2018, the Hilltop board of directors authorized a stock repurchase program through January 2019 pursuant to which the Company was originally authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock. In July 2018, the Hilltop board of directors authorized an increase to the aggregate amount of common stock the Company may repurchase under this program to $100.0 million, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During 2018, the Company paid $59.0 million to repurchase an aggregate of 2,729,568 shares of common stock at a weighted average price of $21.61 per share. This stock repurchase program expired in January 2019. The purchases were funded from available cash balances.

In January 2019, the Hilltop board of directors authorized a stock repurchase program through January 2020, pursuant to which the Company was authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock. On August 19, 2019, the Company entered into a Securities Purchase Agreement to purchase 2,175,404 shares of its common stock from Oak Hill Capital Partners III, L.P., Oak Hill Capital Management Partners III, L.P. and Oak Hill Capital Management, LLC (collectively, "Oak Hill Capital"). The Hilltop board of directors, other than Messrs. J. Taylor Crandall and Gerald J. Ford, considered and approved the purchase of the shares of Hilltop common stock from Oak Hill Capital. Hilltop director J. Taylor Crandall is a founding Managing Partner of Oak Hill Capital Management, LLC. The purchase was consummated on August 20, 2019 at a purchase price of $48.4 million, or $22.25 per share. The purchase price per share was determined by the weighted average of the closing prices of Hilltop common stock as reported by the New York Stock Exchange for each trading day commencing on August 12, 2019 and ending on August 16, 2019. The repurchase of shares by Hilltop from Oak Hill Capital fully utilized all remaining availability of the stock repurchase program previously authorized in January 2019.

During 2019, the Company paid $73.4 million to repurchase an aggregate of 3,390,247 shares of common stock at a weighted average price of $21.64 per share. These amounts are inclusive of the repurchase of shares by Hilltop from Oak Hill Capital discussed above. This stock repurchase program expired in January 2020. The purchases were funded from available cash balances.

In January 2020, the Hilltop board of directors authorized a new stock repurchase program through January 2021, pursuant to which the Company is authorized to repurchase, in the aggregate, up to $75.0 million of its outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation.

## 24. Other Noninterest Income and Expense

The following table shows the components of other noninterest income and expense (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Other noninterest income: | | | |
| Net gains from Hilltop Broker-Dealer structured product and derivative activities | $ 129,571 | $ 41,543 | $ 70,922 |
| Net gain from trading securities portfolio | 20,521 | 6,197 | 20,210 |
| Service charges on depositor accounts | 15,170 | 14,484 | 14,429 |
| Trust fees | 10,255 | 9,807 | 7,485 |
| Insurance commissions | 5,325 | 5,211 | 4,819 |
| Insurance direct billing and other policy fees | 3,708 | 3,930 | 4,353 |
| Revenue from check and stored value cards | 2,784 | 2,966 | 3,169 |
| Rent and other income from other real estate owned | 438 | 764 | 1,280 |
| SWS merger appraisal proceeding | — | — | 11,757 |
| Other | 9,493 | 11,403 | 25,546 |
| | $ 197,265 | $ 96,305 | $ 163,970 |
| Other noninterest expense: | | | |
| Software and information technology | $ 53,916 | $ 56,986 | $ 45,891 |
| Brokerage commissions and fees | 20,039 | 20,674 | 22,884 |
| Mortgage origination and servicing | 19,892 | 19,705 | 22,353 |
| Unreimbursed loan closing costs | 16,784 | 16,798 | 20,428 |
| Business development | 12,967 | 15,913 | 18,619 |
| Travel, meals and entertainment | 12,526 | 12,389 | 12,839 |
| Amortization of intangible assets | 7,850 | 8,426 | 8,263 |
| Funding fees | 5,393 | 5,414 | 8,464 |
| Office supplies | 5,121 | 6,123 | 7,806 |
| OREO and repossessed assets | 1,858 | 3,885 | 4,004 |
| FDIC indemnification asset amortization | — | 6,509 | 17,083 |
| FDIC "true-up" | — | 250 | 2,100 |
| Other | 47,836 | 51,183 | 51,362 |
| | $ 204,182 | $ 224,255 | $ 242,096 |

## 25. 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 Bank's net interest margin. Additionally, the Bank manages variability of cash flows associated with its variable rate debt in interest-related cash outflows with interest rate swap contracts. PrimeLending has interest rate risk relative to interest rate lock commitments ("IRLCs") and its inventory of mortgage loans held for sale. PrimeLending is exposed to such interest 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") and Eurodollar futures. Additionally, PrimeLending has interest rate risk relative to its MSR asset and uses derivative instruments, including interest rate swaps and U.S. Treasury bond futures and options, to hedge this risk. The Hilltop Broker-Dealers use 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. Additionally, Hilltop Securities uses U.S. Treasury bond, Eurodollar futures and municipal market data, or MMD, rate locks to hedge changes in the fair value of its securities.

*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 and forward commitments 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. These 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 assets, 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 the Hilltop Broker-Dealers' and the Bank's derivative instruments are recorded in other assets or other liabilities, as appropriate. The changes in fair value were recorded as a component of other noninterest income.

Changes in the fair value of derivatives are presented in the following table (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Increase (decrease) in fair value of derivatives during period: | | | |
| PrimeLending | $ 8,550 | $ (12,788) | $ (13,108) |
| Hilltop Broker-Dealers | (3,085) | (381) | 8,142 |
| Bank | (148) | 30 | 334 |

*Hedging Derivative Instruments*

During 2019, the Company entered into interest rate swap contracts with the initial notional of $50 million to manage the variability of cash flows associated with our variable rate borrowings. Under these interest rate swap contract, we receive a floating rate and pay a fixed rate on the outstanding notional amount.

The Company has designated the interest rate swap as a cash flow hedge and assess the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. To the extent that the interest rate swap is highly effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative are included as a component of other comprehensive loss on our consolidated balance sheets. Although the Company has determined at the onset of the hedge that the interest rate swap will be a highly effective hedge throughout the term of the contract, any portion of fair value swap subsequently determined to be ineffective will be recognized in earnings.

Derivative positions are presented in the following table (in thousands).

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Notional Amount | Estimated Fair Value | Notional Amount | Estimated Fair Value |
| Derivative instruments (not designated as hedges): | | | | |
| IRLCs | $ 914,526 | $ 18,222 | $ 677,267 | $ 17,421 |
| Customer-based written options | 31,200 | — | 31,200 | (49) |
| Customer-based purchased options | 31,200 | — | 31,200 | 49 |
| Commitments to purchase MBSs | 3,346,946 | 3,321 | 2,359,630 | 10,467 |
| Commitments to sell MBSs | 5,988,198 | (5,904) | 3,711,477 | (19,315) |
| Interest rate swaps | 15,012 | (178) | 15,104 | 82 |
| U.S. Treasury bond futures and options (1) | 283,500 | — | 367,200 | — |
| Eurodollar futures (1) | 934,000 | — | 104,000 | — |
| Derivative instruments (designated as hedges): | | | | |
| Interest rate swaps designated as cash flow hedges | $ 50,000 | $ 528 | $ — | $ — |

(1) Changes in the fair value of these contracts are settled daily with the respective counterparties of PrimeLending and the Hilltop Broker-Dealers.

PrimeLending has cash collateral advances totaling $4.5 million and $11.9 million to offset net liability derivative positions on its commitments to sell MBSs at December 31, 2019 and 2018, respectively. In addition, PrimeLending and the Hilltop Broker-Dealers advanced cash collateral totaling $3.7 million and $3.4 million on its U.S. Treasury bond futures and options and Eurodollar futures at December 31, 2019 and 2018, respectively. These amounts are included in other assets within the consolidated balance sheets.

## 26. 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, 2019** | | | | | | |
| Securities borrowed: | | | | | | |
| Institutional counterparties | $ 1,634,782 | $ — | $ 1,634,782 | $ (1,586,820) | $ — | $ 47,962 |
| Reverse repurchase agreements: | | | | | | |
| Institutional counterparties | 59,031 | — | 59,031 | (58,619) | — | 412 |
| Forward MBS derivatives: | | | | | | |
| Institutional counterparties | 3,640 | — | 3,640 | (3,640) | — | — |
| | $ 1,697,453 | $ — | $ 1,697,453 | $ (1,649,079) | $ — | $ 48,374 |
| **December 31, 2018** | | | | | | |
| Securities borrowed: | | | | | | |
| Institutional counterparties | $ 1,365,547 | $ — | $ 1,365,547 | $ (1,307,121) | $ — | $ 58,426 |
| Interest rate options: | | | | | | |
| Customer counterparties | 49 | — | 49 | — | — | 49 |
| Interest rate swaps: | | | | | | |
| Institutional counterparties | 88 | — | 88 | — | — | 88 |
| Reverse repurchase agreements: | | | | | | |
| Institutional counterparties | 61,611 | — | 61,611 | (61,390) | — | 221 |
| Forward MBS derivatives: | | | | | | |
| Institutional counterparties | 10,469 | — | 10,469 | (10,469) | — | — |
| | $ 1,437,764 | $ — | $ 1,437,764 | $ (1,378,980) | $ — | $ 58,784 |

| | Gross Amounts of Recognized Liabilities | 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, 2019** | | | | | | |
| Securities loaned: | | | | | | |
| Institutional counterparties | $ 1,555,964 | $ — | $ 1,555,964 | $ (1,509,933) | $ — | $ 46,031 |
| Interest rate swaps: | | | | | | |
| Institutional counterparties | 178 | — | 178 | (112) | — | 66 |
| Repurchase agreements: | | | | | | |
| Institutional counterparties | 586,651 | — | 586,651 | (586,651) | — | — |
| Customer counterparties | 25,474 | — | 25,474 | (25,474) | — | — |
| Forward MBS derivatives: | | | | | | |
| Institutional counterparties | 6,890 | (667) | 6,223 | (2,384) | — | 3,839 |
| | $ 2,175,157 | $ (667) | $ 2,174,490 | $ (2,124,554) | $ — | $ 49,936 |
| **December 31, 2018** | | | | | | |
| Securities loaned: | | | | | | |
| Institutional counterparties | $ 1,186,073 | $ — | $ 1,186,073 | $ (1,136,033) | $ — | $ 50,040 |
| Interest rate options: | | | | | | |
| Institutional counterparties | 49 | — | 49 | — | — | 49 |
| Interest rate swaps: | | | | | | |
| Institutional counterparties | 6 | — | 6 | — | — | 6 |
| Repurchase agreements: | | | | | | |
| Institutional counterparties | 533,441 | — | 533,441 | (533,441) | — | — |
| Customer counterparties | 43,266 | — | 43,266 | (43,266) | — | — |
| Forward MBS derivatives: | | | | | | |
| Institutional counterparties | 19,331 | (15) | 19,316 | (7,728) | — | 11,588 |
| | $ 1,782,166 | $ (15) | $ 1,782,151 | $ (1,720,468) | $ — | $ 61,683 |

*Secured Borrowing Arrangements*

**Secured Borrowings (Repurchase Agreements) —** The Company participates in transactions involving securities sold under repurchase agreements, which are secured borrowings and generally mature one to sixty days from the transaction date or involve arrangements with no definite termination date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities, which is monitored on a daily basis.

**Securities Lending Activities —** The Company's securities lending activities include lending securities for other broker-dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker-dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. Management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

The following tables present the remaining contractual maturities of repurchase agreement and securities lending transactions accounted for as secured borrowings (in thousands). The Company had no repurchase-to-maturity transactions outstanding at both December 31, 2019 and 2018.

| | Remaining Contractual Maturities | | | | |
|---|---|---|---|---|---|
| December 31, 2019 | Overnight and Continuous | Up to 30 Days | 30-90 Days | Greater Than 90 Days | Total |
| Repurchase agreement transactions: | | | | | |
| U.S. Treasury and agency securities | $ 45,950 | $ — | $ — | $ — | $ 45,950 |
| Asset-backed securities | 257,396 | 12,892 | 295,887 | — | 566,175 |
| Securities lending transactions: | | | | | |
| Corporate securities | 120 | — | — | — | 120 |
| Equity securities | 1,555,844 | — | — | — | 1,555,844 |
| Total | $ 1,859,310 | $ 12,892 | $ 295,887 | $ — | $ 2,168,089 |
| Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above | | | | | $ 2,168,089 |
| Amount related to agreements not included in offsetting disclosure above | | | | | $ — |

| | Remaining Contractual Maturities | | | | |
|---|---|---|---|---|---|
| December 31, 2018 | Overnight and Continuous | Up to 30 Days | 30-90 Days | Greater Than 90 Days | Total |
| Repurchase agreement transactions: | | | | | |
| U.S. Treasury and agency securities | $ 131,848 | $ — | $ — | $ — | $ 131,848 |
| Asset-backed securities | 444,859 | — | — | — | 444,859 |
| Securities lending transactions: | | | | | |
| Corporate securities | 113 | — | — | — | 113 |
| Equity securities | 1,185,960 | — | — | — | 1,185,960 |
| Total | $ 1,762,780 | $ — | $ — | $ — | $ 1,762,780 |
| Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above | | | | | $ 1,762,780 |
| Amount related to agreements not included in offsetting disclosure above | | | | | $ — |

## 27. Broker-Dealer and Clearing Organization Receivables and Payables

Broker-dealer and clearing organization receivables and payables consisted of the following (in thousands).

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Receivables: | | |
| Securities borrowed | $ 1,634,782 | $ 1,365,547 |
| Securities failed to deliver | 18,726 | 16,300 |
| Trades in process of settlement | 104,922 | 32,993 |
| Other | 21,850 | 25,447 |
| | $ 1,780,280 | $ 1,440,287 |
| Payables: | | |
| Securities loaned | $ 1,555,964 | $ 1,186,073 |
| Correspondents | 37,036 | 29,311 |
| Securities failed to receive | 8,568 | 75,015 |
| Other | 3,950 | 4,526 |
| | $ 1,605,518 | $ 1,294,925 |

### 28. 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, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 16,633 | $ 16,988 | $ 18,603 |
| Acquisition expenses capitalized | 32,245 | 34,328 | 34,934 |
| Amortization charged to income | (33,206) | (34,683) | (36,549) |
| Balance, end of year | $ 15,672 | $ 16,633 | $ 16,988 |

Amortization is included in policy acquisition and other underwriting expenses in the accompanying consolidated statements of operations.

### 29. Reserve for Losses and Loss Adjustment Expenses

A rollforward of NLC's reserve for unpaid losses and LAE, as included in other liabilities within the consolidated balance sheets, is as follows (in thousands).

| | December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Balance, beginning of year | $ 20,552 | $ 30,213 | $ 35,826 |
| Less reinsurance recoverables | (3,214) | (11,495) | (9,433) |
| Net balance, beginning of year | 17,338 | 18,718 | 26,393 |
| Incurred related to: | | | |
| Current year | 71,687 | 79,881 | 94,444 |
| Prior years | (2,929) | (535) | 257 |
| Total incurred | 68,758 | 79,346 | 94,701 |
| Payments related to: | | | |
| Current year | (60,310) | (66,009) | (83,332) |
| Prior years | (11,449) | (14,717) | (19,044) |
| Total payments | (71,759) | (80,726) | (102,376) |
| Net balance, end of year | 14,337 | 17,338 | 18,718 |
| Plus reinsurance recoverables | 1,005 | 3,214 | 11,495 |
| Balance, end of year | $ 15,342 | $ 20,552 | $ 30,213 |

A summary of claims loss reserve development activity is presented in the following table (in thousands).

| | Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | December 31, 2019 | |
|---|---|---|---|---|---|---|
| Accident Year | December 31, 2019 2016 | 2017 | 2018 | 2019 | Total of Incurred But Not Reported Reserves Plus Development On Reported Claims | Cumulative Number of Reported Claims |
| | Unaudited | | | | | |
| 2016 | $ 84,771 | $ 85,189 | $ 84,076 | $ 83,943 | $ 220 | 20,184 |
| 2017 | | 87,899 | 88,025 | 87,534 | 225 | 20,740 |
| 2018 | | | 75,217 | 73,261 | 1,160 | 15,293 |
| 2019 | | | | 71,687 | 5,430 | 14,218 |
| | | | | $ 316,425 | | |

| Accident Year | Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance December 31, 2019 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| | Unaudited | | | |
| 2016 | $ 71,543 | $ 81,682 | $ 83,169 | $ 83,596 |
| 2017 | | 77,675 | 86,319 | 87,247 |
| 2018 | | | 61,922 | 71,903 |
| 2019 | | | | 60,310 |
| | | | Total | $ 303,056 |
| All outstanding reserves prior to 2016, net of reinsurance | | | | 197 |
| Reserve for unpaid losses and allocated loss adjustment expenses, net of reinsurance | | | | $ 13,566 |

## 30. 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, 2019, total reinsurance recoverables and receivables had a carrying value of $1.0 million, which is included in other assets within the consolidated balance sheet. There was no allowance for uncollectible accounts at December 31, 2019, based on NLC's quality requirements.

Reinsurers with a balance in excess of 5% of the Company's outstanding reinsurance receivables at December 31, 2019 are listed below (in thousands).

| | Balances Due From Reinsurers | A.M. Best Rating |
|---|---|---|
| R+V Versicherung AG | $ 166 | N/A |
| Partner Reinsurance Company Ltd. | 150 | A+ |
| Arch Reinsurance Company | 90 | A+ |
| Aspen Bermuda Ltd | 79 | A |
| Lloyds Syndicate AML #2001 | 66 | A |
| Fidelis Reinsurance | 55 | A- |
| Everest Reinsurance Company | 52 | A+ |
| | $ 658 | |

The effects of reinsurance on premiums written and earned are summarized as follows (in thousands).

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Written | Earned | Written | Earned | Written | Earned |
| Premiums from direct business | $ 125,157 | $ 126,434 | $ 129,611 | $ 133,112 | $ 137,091 | $ 144,990 |
| Reinsurance assumed | 13,148 | 13,041 | 12,917 | 12,516 | 12,150 | 11,767 |
| Reinsurance ceded | (7,191) | (7,191) | (8,749) | (8,877) | (12,280) | (14,459) |
| Net premiums | $ 131,114 | $ 132,284 | $ 133,779 | $ 136,751 | $ 136,961 | $ 142,298 |

The effects of reinsurance on incurred losses are as follows (in thousands).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Losses and LAE incurred | $ 68,130 | $ 76,464 | $ 138,358 |
| Reinsurance recoverables | 810 | 2,883 | (43,657) |
| Net loss and LAE incurred | $ 68,940 | $ 79,347 | $ 94,701 |

*Catastrophic coverage*

NLC’s liabilities for losses and LAE include liabilities for reported losses, liabilities for IBNR losses and liabilities for 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.

Effective July 1, 2019, NLC renewed its catastrophic excess of loss reinsurance coverage for a one year-period. At December 31, 2019, NLC had catastrophic excess of loss reinsurance coverage of losses per event in excess of $8 million retention by NLIC and $2 million retention by ASIC. ASIC maintained an underlying layer of coverage, providing $6 million of reinsurance coverage in excess of its $2 million retention to bridge to the primary program. The reinsurance for NLIC and ASIC in excess of $8 million is comprised of three layers of protection: $12 million in excess of $8 million retention and/or loss; $25 million in excess of $20 million loss; and $50 million in excess of $45 million loss. NLIC and ASIC retain no participation in any of the layers, beyond the first $8 million and $2 million, respectively. At December 31, 2019, total retention for any one catastrophe that affects both NLIC and ASIC was limited to $8 million in the aggregate.

NLC did not renew its underlying excess of loss contract that provides $10.0 million aggregate coverage in excess of NLC’s per event retention of $1.0 million and aggregate retention of $15.0 million for sub-catastrophic events through December 31, 2019. During 2019, NLC retained 37.5% participation in this coverage.

During 2017, NLC experienced losses related to Hurricane Harvey in excess of retention. As of December 31, 2019, the total gross losses and LAE incurred associated with Hurricane Harvey was $16.0 million. However, because the losses exceeded retention, net exposure to NLC was $5.2 million retention and $1.5 million in reinstatement premiums. During 2019 and 2018, NLC experienced no significant catastrophes that resulted in losses in excess of retention at NLIC or ASIC.

There were 9 tornado, hail, monsoon and wind storms during 2019 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 $19.5 million. During 2018, the 11 tornado, hail, monsoon and wind storms that exceeded retention had incurred losses of $21.2 million, which had no reinsured recoverable amount at the 82.5% subscription level. During 2017, the 14 tornado, hail and wind storms that exceeded retention had incurred losses of $33.3 million, which developed a reinsured

recoverable of $1.8 million at the 100% subscription level. These losses have no effect on net loss and LAE incurred beyond retention because the catastrophic events exceeded retention levels and are fully recoverable. Any losses beyond the reinsurance coverage limits of $10.0 million for 2017 are retained by the Company and have an effect on the net loss and LAE incurred. The primary financial effect beyond the reinsurance retention is additional reinstatement premiums payable to the affected reinsurers. In addition to the $1.5 million in reinstatement premiums noted above related to Hurricane Harvey in 2017, reinstatement premiums during 2019, 2018 and 2017 of $0.5 million, $(0.1) million and $1.4 million, respectively, were recorded as ceded premiums.

## 31. 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 chief operating decision maker, the Company's President and Chief Executive Officer, to evaluate segment performance, develop strategy and allocate resources.

The banking segment includes the operations of the Bank, and since August 1, 2018, the operations acquired in the BORO Acquisition. The broker-dealer segment includes the operations of Securities Holdings, the mortgage origination segment is composed of PrimeLending, and 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, merchant banking investment opportunities and management and administrative services to support the overall operations of the Company.

Balance sheet amounts not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations." The following tables present certain information about reportable business segment revenues, operating results, goodwill and assets (in thousands).

| Year Ended December 31, 2019 | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 379,258 | $ 51,308 | $ (6,273) | $ 2,329 | $ (5,541) | $ 20,225 | $ 441,306 |
| Provision (recovery) for loan losses | 7,280 | (74) | — | — | — | — | 7,206 |
| Noninterest income | 41,753 | 404,411 | 634,992 | 143,082 | 2,221 | (20,443) | 1,206,016 |
| Noninterest expense | 231,524 | 366,031 | 563,998 | 127,920 | 50,968 | (634) | 1,339,807 |
| Income (loss) before income taxes | $ 182,207 | $ 89,762 | $ 64,721 | $ 17,491 | $ (54,288) | $ 416 | $ 300,309 |

| Year Ended December 31, 2018 | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 370,732 | $ 50,878 | $ 1,485 | $ 3,025 | $ (9,176) | $ 19,380 | $ 436,324 |
| Provision (recovery) for loan losses | 5,319 | (231) | — | — | — | — | 5,088 |
| Noninterest income | 43,588 | 301,714 | 551,860 | 142,565 | 4,893 | (21,830) | 1,022,790 |
| Noninterest expense | 256,577 | 320,241 | 540,474 | 139,921 | 36,628 | (592) | 1,293,249 |
| Income (loss) before income taxes | $ 152,424 | $ 32,582 | $ 12,871 | $ 5,669 | $ (40,911) | $ (1,858) | $ 160,777 |

| Year Ended December 31, 2017 | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 366,581 | $ 43,735 | $ (915) | $ 2,861 | $ (10,069) | $ 19,555 | $ 421,748 |
| Provision (recovery) for loan losses | 14,073 | 198 | — | — | — | — | 14,271 |
| Noninterest income | 59,904 | 368,421 | 632,388 | 151,382 | 12,798 | (19,829) | 1,205,064 |
| Noninterest expense | 248,404 | 347,314 | 581,899 | 158,354 | 33,983 | (699) | 1,369,255 |
| Income (loss) before income taxes | $ 164,008 | $ 64,644 | $ 49,574 | $ (4,111) | $ (31,254) | $ 425 | $ 243,286 |

| | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | |
| Goodwill | $ 247,368 | $ 7,008 | $ 13,071 | $ 23,988 | $ — | $ — | $ 291,435 |
| Total assets | $ 11,147,344 | $ 3,457,068 | $ 2,357,415 | $ 254,639 | $ 2,393,604 | $ (4,437,622) | $ 15,172,448 |
| **December 31, 2018** | | | | | | | |
| Goodwill | $ 247,368 | $ 7,008 | $ 13,071 | $ 23,988 | $ — | $ — | $ 291,435 |
| Total assets | $ 10,004,971 | $ 3,213,115 | $ 1,627,134 | $ 253,513 | $ 2,243,182 | $ (3,658,343) | $ 13,683,572 |

**32. Earnings per Common Share**

The following table presents the computation of basic and diluted earnings per common share (in thousands, except per share data).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Basic earnings per share: | | | |
| Income attributable to Hilltop | $ 225,291 | $ 121,441 | $ 132,544 |
| Weighted average shares outstanding - basic | 92,345 | 94,969 | 97,137 |
| Basic earnings per common share | $ 2.44 | $ 1.28 | $ 1.36 |
| Diluted earnings per share: | | | |
| Income attributable to Hilltop | $ 225,291 | $ 121,441 | $ 132,544 |
| Weighted average shares outstanding - basic | 92,345 | 94,969 | 97,137 |
| Effect of potentially dilutive securities | 49 | 98 | 216 |
| Weighted average shares outstanding - diluted | 92,394 | 95,067 | 97,353 |
| Diluted earnings per common share | $ 2.44 | $ 1.28 | $ 1.36 |

**33. Financial Statements of Parent**

The following tables present the condensed combined financial statements of the Company's bank holding company entities, Hilltop and PCC. The tables also include the corporate activities associated with Hilltop Opportunity Partners LLC and the Hilltop Plaza Entities (in thousands). Investments in subsidiaries are determined using the equity method of accounting.

*Condensed Combined Statements of Operations and Comprehensive Income*

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Dividends from bank subsidiaries | $ 143,000 | $ 42,000 | $ 53,000 |
| Dividends from nonbank subsidiaries | 36,950 | 37,500 | 41,500 |
| Investment income | 5,933 | 3,089 | 312 |
| Interest expense | 11,474 | 12,265 | 10,381 |
| Other income | 2,221 | 4,893 | 12,798 |
| General and administrative expense | 50,968 | 36,628 | 33,983 |
| Income before income taxes and equity in undistributed earnings of subsidiaries activity | 125,662 | 38,589 | 63,246 |
| Income tax benefit | (12,706) | (7,767) | (15,577) |
| Equity in undistributed earnings of subsidiaries | 94,609 | 79,371 | 54,321 |
| Net income | $ 232,977 | $ 125,727 | $ 133,144 |
| Other comprehensive income (loss), net | 20,046 | (5,656) | (879) |
| Comprehensive income | $ 253,023 | $ 120,071 | $ 132,265 |

*Condensed Combined Balance Sheets*

| | December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 116,471 | $ 54,405 | $ 96,764 |
| Investment in subsidiaries: | | | |
| Bank subsidiaries | 1,523,549 | 1,459,984 | 1,340,093 |
| Nonbank subsidiaries | 533,844 | 483,593 | 603,631 |
| Other assets | 219,740 | 245,200 | 66,490 |
| Total assets | $ 2,393,604 | $ 2,243,182 | $ 2,106,978 |
| Liabilities and Stockholders' Equity: | | | |
| Accounts payable and accrued expenses | $ 53,418 | $ 58,319 | $ 46,442 |
| Notes payable | 215,780 | 215,620 | 148,455 |
| Stockholders' equity | 2,124,406 | 1,969,243 | 1,912,081 |
| Total liabilities and stockholders' equity | $ 2,393,604 | $ 2,243,182 | $ 2,106,978 |

*Condensed Combined Statements of Cash Flows*

| | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Operating Activities: | | | |
| Net income | $ 232,977 | $ 125,727 | $ 133,144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | (94,609) | (79,371) | (54,321) |
| Net realized gains on equity investments | — | (5,336) | — |
| Deferred income taxes | (123) | 217 | 2,511 |
| Other, net | 44,943 | 19,368 | (57,380) |
| Net cash provided by operating activities | 183,188 | 60,605 | 23,954 |
| Investing Activities: | | | |
| Capital contribution to bank and bank holding company subsidiaries | — | — | (10,000) |
| Purchases of equity investments | — | (12,492) | — |
| Purchases of premises and equipment and other | (17,302) | (42,390) | (4,241) |
| Proceeds from sales of equity investments | — | 16,174 | — |
| Net cash used in investing activities | (17,302) | (38,708) | (14,241) |
| Financing Activities: | | | |
| Payments to repurchase common stock | (73,385) | (58,990) | (27,388) |
| Dividends paid on common stock | (29,627) | (26,698) | (23,140) |
| Net cash contributed from noncontrolling interest | 100 | 19,250 | — |
| Other, net | (908) | 2,182 | 19,289 |
| Net cash used in financing activities | (103,820) | (64,256) | (31,239) |
| Net change in cash, cash equivalents and restricted cash | 62,066 | (42,359) | (21,526) |
| Cash, cash equivalents and restricted cash, beginning of year | 54,405 | 96,764 | 118,290 |
| Cash, cash equivalents and restricted cash, end of year | $ 116,471 | $ 54,405 | $ 96,764 |
| Supplemental Schedule of Non-Cash Activities: | | | |
| Construction in progress related to build-to-suit lease obligations | $ — | $ 27,802 | $ — |
| Note receivable contributed from nonbank subsidiary | $ — | $ 111,653 | $ — |

## 34. Recently Issued Accounting Standards

*Accounting Standards Adopted During 2019*

In July 2018, FASB issued ASU 2018-09 which clarifies, corrects and makes minor improvements to a wide variety of topics in the ASC. The amendments make the ASC easier to understand and apply by eliminating inconsistencies and providing clarifications. The transition and effective dates are based on the facts and circumstances of each amendment, with some amendments becoming effective upon issuance of the ASU, and others becoming effective for annual periods beginning after December 15, 2018. The Company adopted the amendments as of January 1, 2019, which did not have a material effect on the Company's consolidated financial statements.

In August 2017, FASB issued ASU 2017-12 which provides targeted improvements to accounting for hedging activities. The FASB has issued various updates, improvements and technical corrections since the issuance of ASU 2017-12. The purpose of the amendment is to better align a company's risk management activities with its financial reporting for hedging relationships, to simplify the hedge accounting requirements and to improve the disclosures of hedging arrangements. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted the standard on January 1, 2019. The Company has not historically applied hedge accounting to its derivative transactions, so the provisions of the amendment did not have a material effect on the Company's consolidated financial statements.

In February 2016, FASB issued the Leasing Standard, which is codified in ASC 842, *Leases*, and is intended to increase transparency and comparability among organizations and require lessees to record an ROU asset and a liability representing the obligation to make lease payments for long-term leases. Accounting by lessors remains largely unchanged. The Company adopted the standard on January 1, 2019, using the modified retrospective transition under the option to apply the Leasing Standard at its effective date without adjusting the prior period comparative financial statements. The Company elected the package of practical expedients to not reassess: (i) whether any existing contracts are or contain a lease, (ii) the lease classification of any existing leases and (iii) initial direct costs related to existing leases. The Company also elected to apply an additional practical expedient to include both the lease and nonlease components of all leases as a single component and account for it as a lease. The Company implemented internal controls and key system functionality to enable the preparation of financial information upon adoption. The implementation of the Leasing Standard had a material impact on our consolidated balance sheets but did not have a material impact on our consolidated statements of operations. On January 1, 2019, the Company recorded operating lease liabilities of $121.8 million and ROU assets of $111.9 million upon adoption of the Leasing Standard. The lease liabilities (at their present value) represent predominantly all of the future minimum lease payments required under operating leases. The balance sheet effects of the new lease accounting standard also impacted regulatory capital ratios, performance ratios and other measures which are dependent upon asset or liability balances. In addition, the Company reassessed its accounting ownership of the Hilltop Plaza assets under construction as of January 1, 2019, under the build-to-suit provisions of ASC 842 and concluded it is not the accounting owner. As such, the assets and liabilities of the project were derecognized during the first quarter of 2019, with the $1.4 million offset representing deferred expenses recognized on the project to date through January 1, 2019, recorded as an increase to retained earnings. Refer to Note 18 for more details regarding the Hilltop Plaza transaction.

*Accounting Standards Issued But Not Yet Adopted*

In December 2019, FASB issued ASU 2019-12 which simplifies the accounting for income taxes by removing certain exceptions to the general principles in the ASC and is intended to improve consistency by clarifying and amending existing guidance. The amendments are effective for annual periods beginning after December 15, 2020. As permitted within the amendment, the Company elected to early adopt and prospectively apply the provisions of this amendment as of January 1, 2020. The removal of the exceptions did not result in a material change in the Company's current or deferred income tax provisions and are not expected to have a material impact on the Company's future consolidated financial statements.

In August 2018, FASB issued ASU 2018-15 which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software licenses). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the

amendments in this update. The amendment also includes presentation and disclosure provisions regarding capitalized implementation costs. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company adopted the provisions of this amendment as of January 1, 2020. The impact of this amendment is limited to presentation and disclosure changes that are not expected to have an impact on the Company's future consolidated financial statements.

In August 2018, FASB issued ASU 2018-13 which includes various removals, modifications and additions to existing guidance regarding fair value disclosures. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company adopted the provisions of these amendments as of January 1, 2020. The impact of these amendments is limited to presentation and disclosure changes that are not expected to have an impact on the Company's future consolidated financial statements.

In June 2016, FASB issued ASU 2016-13 which sets forth a "current expected credit loss" (CECL) model that requires entities to measure all credit losses expected over the life of an exposure (or pool of exposures) for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The FASB has issued various updates, improvements and technical corrections to the standard since the issuance of ASU 2016-13. The new standard, which is codified in ASC 326, *Financial Instruments – Credit Losses*, replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For available for sale securities, the standard modifies the current OTTI model by requiring entities to record an allowance for credit losses rather than reducing the carrying amount of securities. Additionally, the new standard eliminates the current accounting model for PCI loans, but requires an allowance to be recognized for purchase credit deteriorated ("PCD") assets. The new standard also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The new standard is effective for the Company for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2019, with a cumulative-effect adjustment to retained earnings at the date of adoption. The Company adopted the new standard as of January 1, 2020. The Company's implementation efforts have included, among other activities, the development, testing and validation of credit forecasting models and a new credit scoring system for significant loan portfolio segments, reassessment of risk rating grades and matrix, as well as development of the policies, systems and controls required to fully implement CECL. Upon adoption, and dependent on the current loan portfolio and the range of current forecasts of future economic conditions, the Company estimates that the allowance for credit losses will be between approximately $80 million and $100 million, inclusive of the estimate of change in reserve for unfunded commitments of between $6 million and $9 million currently included in other liabilities within the consolidated balance sheets, when adopted on January 1, 2020. The estimated increase is driven by the fact that under CECL the allowance covers expected credit losses over the entire expected life of the loan portfolios and also takes into account forecasts of expected future macroeconomic conditions. This estimated increase, net of tax, will largely be reflected within the banking segment and as a decrease to opening retained earnings at January 1, 2020. While not material, the impact of the adoption of CECL will also affect the Company's regulatory capital, performance and other asset quality ratios. The estimated range noted above and ultimate magnitude of the increase in allowance for credit losses upon adoption is expected to be volatile given dependence upon, among other things, the portfolio composition and quality, as well as the impact of significant drivers, including prepayment assumptions and macroeconomic conditions and forecasts at the time of adoption.

## 35. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information is summarized as follows (in thousands, except per share data).

| | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Full Year |
| Interest income | $ 152,777 | $ 161,956 | $ 150,056 | $ 150,040 | $ 614,829 |
| Interest expense | 41,490 | 48,744 | 42,180 | 41,109 | 173,523 |
| Net interest income | 111,287 | 113,212 | 107,876 | 108,931 | 441,306 |
| Provision (recovery) for loan losses | 6,880 | 47 | (672) | 951 | 7,206 |
| Noninterest income | 299,276 | 341,401 | 312,871 | 252,468 | 1,206,016 |
| Noninterest expense | 336,936 | 350,109 | 343,677 | 309,085 | 1,339,807 |
| Income before income taxes | 66,747 | 104,457 | 77,742 | 51,363 | 300,309 |
| Income tax expense | 15,045 | 22,750 | 17,951 | 11,586 | 67,332 |
| Net income | 51,702 | 81,707 | 59,791 | 39,777 | 232,977 |
| Less: Net income attributable to noncontrolling interest | 2,426 | 2,289 | 1,980 | 991 | 7,686 |
| Income attributable to Hilltop | $ 49,276 | $ 79,418 | $ 57,811 | $ 38,786 | $ 225,291 |
| Earnings per common share: | | | | | |
| Basic | $ 0.54 | $ 0.87 | $ 0.62 | $ 0.41 | $ 2.44 |
| Diluted | $ 0.54 | $ 0.86 | $ 0.62 | $ 0.41 | $ 2.44 |
| Cash dividends declared per common share | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.32 |

| | Year Ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Full Year |
| Interest income | $ 157,702 | $ 148,326 | $ 140,040 | $ 133,360 | $ 579,428 |
| Interest expense | 39,987 | 37,985 | 35,192 | 29,940 | 143,104 |
| Net interest income | 117,715 | 110,341 | 104,848 | 103,420 | 436,324 |
| Provision for loan losses | 6,926 | (371) | 340 | (1,807) | 5,088 |
| Noninterest income | 238,516 | 269,697 | 279,434 | 235,143 | 1,022,790 |
| Noninterest expense | 310,819 | 335,711 | 338,517 | 308,202 | 1,293,249 |
| Income before income taxes | 38,486 | 44,698 | 45,425 | 32,168 | 160,777 |
| Income tax expense | 8,928 | 7,600 | 11,034 | 7,488 | 35,050 |
| Net income | 29,558 | 37,098 | 34,391 | 24,680 | 125,727 |
| Less: Net income attributable to noncontrolling interest | 1,443 | 1,293 | 1,311 | 239 | 4,286 |
| Income attributable to Hilltop | $ 28,115 | $ 35,805 | $ 33,080 | $ 24,441 | $ 121,441 |
| Earnings per common share: | | | | | |
| Basic | $ 0.30 | $ 0.38 | $ 0.35 | $ 0.25 | $ 1.28 |
| Diluted | $ 0.30 | $ 0.38 | $ 0.35 | $ 0.25 | $ 1.28 |
| Cash dividends declared per common share | $ 0.07 | $ 0.07 | $ 0.07 | $ 0.07 | $ 0.28 |

## 36. Subsequent Event

On January 30, 2020, Hilltop entered into an agreement to sell all of the outstanding capital stock of NLC, which comprises the operations of the insurance segment, for a cash purchase price of $150.0 million, subject to post-closing adjustments. Consummation of the transaction is subject to customary closing conditions, including required regulatory approvals.

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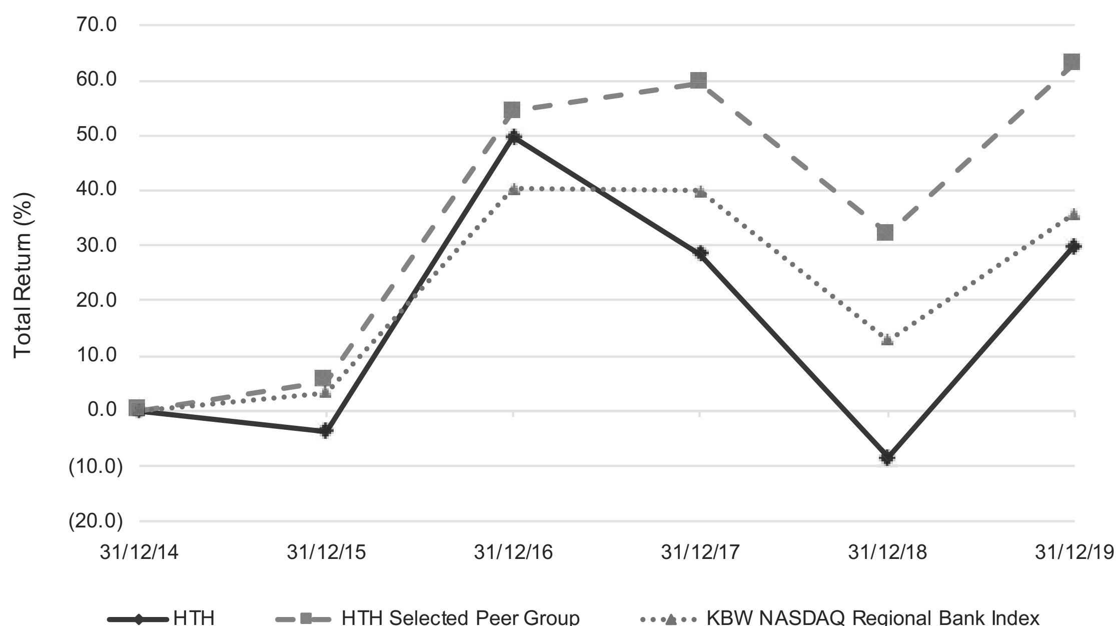
## STOCK PERFORMANCE GRAPH

Our common stock is listed on the New York Stock Exchange under the symbol "HTH." The following graph assumes $100 invested on December 31, 2014, 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, 2019, 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 NASDAQ Regional Banking Index, and (c) our selected peer group of the following institutions: Ameris Bancorp; BancFirst Corporation; BancorpSouth Bank; Cadence Bancorporation; Commerce Bancshares, Inc.; First Financial Bancorp; First Financial Bankshares, Inc.; First Midwest Bancorp, Inc.; Flagstar Bancorp, Inc.; Hancock Whitney Corporation; Independent Bank Group, Inc.; International Bancshares Corporation; Prosperity Bancshares, Inc.; Simmons First National Corporation; South State Corporation; Texas Capital Bancshares, Inc.; TowneBank; Trustmark Corporation; UMB Financial Corporation; Umpqua Holdings Corporation; WesBanco, Inc.; and Renasant Corporation.




| Date | HTH | HTH Selected Peer Group | KBW NASDAQ Regional Bank Index |
|---|---|---|---|
| 12/31/2019 | 30.0 | 63.1 | 35.8 |
| 12/31/2018 | (8.4) | 32.1 | 12.8 |
| 12/31/2017 | 28.5 | 59.4 | 39.9 |
| 12/31/2016 | 49.7 | 54.4 | 40.4 |
| 12/31/2015 | (3.7) | 5.5 | 3.5 |

# CORPORATE INFORMATION

**Corporate Headquarters**

6565 Hilllcrest Avenue
Dallas, Texas 75205
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.
6565 Hillcrest Avenue
Dallas, Texas 75205
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 www.sec.gov.

**Board of Directors**

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Charlotte Jones Anderson
Rhodes Bobbitt
Tracy A. Bolt
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J. Taylor Crandall
Charles R. Cummings
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W. Robert Nichols, III
Kenneth D. Russell
Jonathan S. Sobel
A. Haag Sherman
Robert C. Taylor, Jr.
Carl B. Webb

**Executive Officers**

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*President and Chief Executive Officer*

William B. Furr
*Executive Vice President, Chief Financial Officer*

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Darren E. Parmenter
*Executive Vice President, Chief Administrative Officer*
*Chief Executive Officer of National Lloyds Corporation*

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*Executive Vice President, Principal Accounting Officer and Corporate Controller*

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Todd L. Salmans
*Chairman of PrimeLending*

Stephen Thompson
*President and Chief Executive Officer of PrimeLending*

Hill A. Feinberg
*Chairman Emeritus of Hilltop Securities Inc.*

M. Bradley Winges
*President and Chief Executive Officer of Hilltop Securities Inc.*

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