2017 Annual Report,

Notice of 2018 Annual Meeting &

Proxy Statement

To Our Stockholders, Customers and Employees:

Hilltop Holdings had an outstanding year in 2017, and we are very proud of the results produced by our four operating companies. For the full year Hilltop generated consolidated net income of $133 million, and excluding the impact of tax legislation passed in 2017, Hilltop generated consolidated net income of $161 million.

In addition to a strong financial performance, 2017 was a year of major accomplishments for Hilltop. 2017 marked the first full year of the company's quarterly dividend, where a combined $0.24 per share was distributed to stockholders totaling $23.1 million. Additionally, Hilltop repurchased a cumulative 1.1 million outstanding shares totaling $27.4 million. In aggregate, Hilltop returned $50.5 million of capital to our stockholders in 2017. Finally, Hilltop and PlainsCapital Bank received investment grade ratings with a stable outlook from Kroll Bond Rating Agency in October of 2017.

Hilltop also continued to invest in the growth and development of our employees as they serve our valuable customers. We have enhanced the systems that support our daily functions and hired experienced and talented individuals to carry our company forward. Demonstrating this, in May of 2017, Hilltop announced the hiring of Toby Pennycuff as Chief Information Officer in order to provide strategic leadership to the diverse set of information technology solutions used by our operating companies and holding company. Additionally, in the fall of 2017, Hilltop formalized plans to relocate the headquarters of National Lloyds to Dallas where the company is in closer proximity to other Hilltop lines of business and has a larger metropolitan area from which to recruit talent.

Hilltop has a stated goal of building a premier Texas-based bank and prominent diversified financial services company, and with that goal comes strong ties into numerous communities within the state of Texas. In August of 2017, Hurricane Harvey made landfall along the gulf coast of Texas bringing with it a devastating impact to many communities and lives. In the days following Harvey's landfall, Hilltop's family of companies and outstanding employees rallied together to help provide humanitarian aid and relief assistance, as well as a $200,000 donation toward recovery efforts.

As of December 31, 2017 Hilltop had $13.4 billion of assets, $1.9 billion of common equity and approximately 5,500 employees across 475 locations in 45 states. Hilltop will continue to develop talent, grow our franchise, invest in our long-term success and, most importantly, serve our customers and their communities as we move into 2018.

Operating Subsidiaries:

- PlainsCapital Bank offers commercial banking, personal banking and wealth management products and services throughout Texas. The bank ended the year with $9.6 billion of assets, $7.6 billion of deposits and 63 branches. PlainsCapital continues to serve as an exemplary banking partner by pursuing long-term relationships with its customers. During 2017, the bank grew loans and deposits organically, delivered a net interest margin of 4.31% and contributed pre-tax income of $164 million.

- PrimeLending is a nationwide mortgage originator with a focus on purchase mortgage originations operating in 330 locations in 45 states. The mortgage company had another successful year where the emphasis on home purchases proved to be a strong foundation for the organization. For the 6th year in a row the company is a top 10 purchase lender in the United States, ranking 10th overall. Also, PrimeLending was once again named a top 10 best workplace in Finance and Insurance for

2017 by Fortune. The mortgage company originated $14.5 billion in mortgage loans in 2017 and contributed pre-tax income of $49.6 million.

- HilltopSecurities delivers a broad range of investment banking and related financial services to corporate clients, individual and institutional investors, broker-dealers, government entities and financial intermediaries. For 2017, HilltopSecurities was the largest municipal financial advisor in the nation by number of bond and note issues completed. The broker-dealer continues to build on the successful integration of the merger of FirstSouthwest and Southwest Securities by increasing pre-tax income by 64% versus 2016 to $64.6 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. 2017 was a severe storm year in Texas and included the devastation brought by a category 4 hurricane landing in August along the Texas gulf coast. While National Lloyds did suffer a loss in 2017, it outperformed many peers which is a testament to the strong business practices of the insurance company.

Hilltop continues to emphasize strong credit and risk management strategies to ensure long-term success. We are committed to maintaining great relationships with our regulators and managing our balance sheet in a responsible fashion. As evidence, in 2017 Hilltop's non-covered charge-offs on loans held for sale equated to $5 million, or 8 basis points on the average balance.

In February of 2018, Hilltop announced the acquisition of The Bank of River Oaks. We are excited to expand our Houston banking footprint with the addition of a commercial-focused lender that culturally aligns with the existing PlainsCapital and Hilltop set of principles. We expect regulatory approval in mid-2018 and are focused on a successful integration onto the PlainsCapital platform. Beyond this transaction, we will continue to seek profitable organic growth alongside our diligent pursuit of M&A opportunities that enhance our financial services institution.

In closing, we would like sincerely thank the entire Hilltop organization. We are proud of the results that were produced in 2017, and know that they are a reflection of the hard work and dedication shown by each employee under the Hilltop family of companies. We would like to also thank the customers who trust in Hilltop, PlainsCapital, PrimeLending, HilltopSecurities and National Lloyds for their financial service needs. Finally, we would like that thank the Hilltop Board members and stockholders for their continued support of our stewardship of Hilltop Holdings. 2017 was a successful year, and we look forward to another great year in 2018.

Sincerely,

Jeremy B. Ford
President and Co-Chief Executive Officer

Alan B. White
Vice Chairman and Co-Chief Executive Officer

Hilltop Holdings Inc.
May 24, 2018

Hilltop Holdings Inc.
2323 Victory Avenue, Suite 1400
Dallas, Texas 75219
Tel: 214.855.2177
Fax: 214.855.2173
www.hilltop-holdings.com
NYSE: HTH

NOTICE OF 2018 ANNUAL MEETING
AND PROXY STATEMENT

April 30, 2018

You are cordially invited to attend our 2018 Annual Meeting of Stockholders at 10:00 a.m., Dallas, Texas, local time, on July 25, 2018. The meeting will be held at 2323 Victory Avenue, 5th Floor, Dallas, Texas 75219.

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

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

The Notice of Internet Availability of Proxy Materials or this Proxy Statement and the accompanying proxy card, as applicable, Notice of 2018 Annual Meeting of Stockholders and annual report for the year ended December 31, 2017 will be provided to stockholders of record on or about May 24, 2018.

We look forward to seeing you at the meeting.

Very truly yours,

Jeremy B. Ford	Alan B. White
President and Co-Chief Executive Officer	Vice Chairman and Co-Chief Executive Officer

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JULY 25, 2018.

Our Proxy Statement and our annual report for the fiscal year ended December 31, 2017 are both available at www.proxyvote.com.

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Notice of 2018 Annual Meeting of Stockholders
To Be Held on July 25, 2018

WHEN:	Thursday, July 25, 2018, at 10:00 a.m., Dallas, Texas local time
WHERE:	2323 Victory Avenue, 5th Floor Dallas, Texas 75219
WHY:	At this meeting, you will be asked to:

1. Elect 20 directors to serve on our Board of Directors until the 2019 annual meeting of stockholders or until their successors are duly elected and qualified;
2. Conduct an advisory vote to approve executive compensation;
3. Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018; and
4. Transact any other business that may properly come before the meeting and any adjournments or postponements of the meeting.

WHO MAY VOTE: Stockholders of record at the close of business on May 10, 2018.

ANNUAL REPORT: Our 2017 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, 2017, over the Internet. As a result, we are providing to many of our stockholders a Notice of Internet Availability of Proxy Materials instead of a paper copy of our proxy materials. The notice contains instructions on how to access those proxy materials over the Internet, as well as instructions on how to request a paper copy of our proxy materials. All stockholders who are not sent a notice will be sent a paper copy of our proxy materials by mail. This electronic distribution process reduces the environmental impact and lowers the costs of printing and distributing our proxy materials.

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

By Order of the Board of Directors,

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

April 30, 2018
Dallas, Texas

PROXY STATEMENT
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HILLTOP HOLDINGS INC.
2323 Victory Avenue, Suite 1400
Dallas, Texas 75219

PROXY STATEMENT
2018 Annual Meeting of Stockholders
To be Held on July 25, 2018

GENERAL INFORMATION

The Notice of Internet Availability of Proxy Materials, or this Proxy Statement and the accompanying proxy card, as applicable, Notice of 2018 Annual Meeting of Stockholders and Annual Report for the year ended December 31, 2017 will be provided to stockholders of record on or about May 24, 2018.

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 "FNB" refer to First National Bank, references to "SWS" refer to the former SWS Group, Inc., 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 2018 Annual Meeting of Stockholders, or the Annual Meeting, which will take place at 10:00 a.m. (Dallas, Texas local time) on Thursday, July 25, 2018, at 2323 Victory Avenue, 5th Floor, Dallas, Texas 75219. This Proxy Statement describes matters on which you, as a stockholder, are entitled to vote. This Proxy Statement also gives you information on these matters so that you can make an informed decision 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 May 24, 2018, 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 20 directors to serve on our Board of Directors until the 2019 annual meeting of stockholders or until their successors are duly elected and qualified;
- Conduct an advisory vote to approve executive compensation;
- Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018; and
- Transact any other business that may properly come before the Annual Meeting and any adjournments or postponements of the Annual Meeting.

What are the Board of Directors' recommendations?

The Board of Directors recommends that you vote your shares:

- **FOR** each of our director candidates;
- **FOR** the approval, on an advisory basis, of the compensation of our named executive officers;
- **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018.

Who is entitled to vote?

Holders of record of our common stock at the close of business on May 10, 2018 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 May 10, 2018. 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 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, executive compensation and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018.

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, on an advisory basis, of our executive compensation, and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018.

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 2018 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 59.

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 27, 2018, we had 96,064,044 shares of common stock outstanding.

How many votes are needed for approval?

Election of Directors

The 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.

Advisory Vote to Approve Executive Compensation

The affirmative vote of a majority of the votes cast on the matter is required to approve, on an advisory basis, 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 2018 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 May 10, 2018 (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 59. If you do not have an admission ticket, you must show proof of your ownership of the Company’s common stock at the registration table at the door.

PROPOSAL ONE — ELECTION OF DIRECTORS

General

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

Our Board of Directors oversees our management on your behalf. The Board of Directors reviews our long-term strategic plans and exercises direct decision-making authority on key issues, such as the approval of business combination transactions, the authorization of dividends, the selection of the Chief Executive Officers, 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 all 20 persons currently serving as directors whose terms are expiring 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 51

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 72

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 53

Mr. Bolt has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from September 2009 to November 2012. In 1994, Mr. Bolt co-founded Hartman Leito & Bolt, LLP, an accounting and consulting firm based in Fort Worth, Texas, where he served as a partner and a member of the firm's leadership committees until its sale in June 2014. Mr. Bolt holds a Bachelor of Science and Master of Science from the University of North Texas, and he is a certified public accountant. He currently serves as a business advisor to numerous management teams, public and private company boards, not for profit organizations and trusts.

W. Joris Brinkerhoff
Age 66

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

J. Taylor Crandall
Age 64

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 ("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 81

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; 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 serving as a director until its sale in 2005. Prior to that, he served as a Managing Director of AEA Investors, Inc., a private investment firm. Prior to 1979, he was a partner with Arthur Young & Company.

Hill A. Feinberg
Age 71

Mr. Feinberg serves as Chairman and Chief Executive Officer of Hilltop Securities, a continuation of Mr. Feinberg's previous role with First Southwest since 1991. He has also served as a director of Hilltop since our acquisition of PlainsCapital in November 2012. He previously served as a director of PlainsCapital from December 31, 2008 (in conjunction with PlainsCapital's acquisition of First Southwest) to November 2012. Prior to joining First Southwest, Mr. Feinberg was a senior managing director at Bear Stearns & Co. Mr. Feinberg is a past chairman of the Municipal Securities Rulemaking Board, the self-regulatory organization with responsibility for authoring the rules that govern the municipal securities activities of registered brokers. Mr. Feinberg 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
Age 73

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 43 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 Scientific Games Corporation and Mechanics Bank. Mr. Gerald J. Ford previously served as Chairman of Pacific Capital Bancorp and a director of 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., a private equity fund. Hilltop's President and Co-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
Age 43

Mr. Jeremy B. Ford was appointed Co-Chief Executive Officer of Hilltop in September 2016 and prior to that he served as the sole 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 20 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
Age 74

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 including general partner of Goldman, Sachs & Co. and co-head of its Financial Services Industry Group. From 1967 to 1973, Mr. Green worked in the Research Department and Investment Banking Division of Merrill Lynch. Mr. Green is Chairman Emeritus of Owner Resource Group, a private equity firm. He is Chairman of ORG Chemical Holdings, LLC a portfolio company of Owner Resource Group.

William T. Hill, Jr.
Age 75

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 66

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 57

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 73

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

C. Clifton Robinson
Age 80

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

Kenneth D. Russell
Age 69

Mr. Russell has served as a director of Hilltop since August 2010. Mr. Russell currently serves as the President and 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 52

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.

Robert C. Taylor, Jr.
Age 70

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 68

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., a private equity fund 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.

Alan B. White
Age 69

Mr. White is one of PlainsCapital's founders. He has served as Co-Chief Executive Officer of Hilltop since September 2016. He also has served as Chairman and Chief Executive Officer of PlainsCapital since 1987. He has served as a director of Hilltop since our acquisition of PlainsCapital in November 2012 and is the Vice-Chairman of the Board of Directors and the Chairman of Hilltop's Executive Committee. Mr. White's current charitable and civic service includes serving as a member of the Cotton Bowl Athletic Association Board of Directors, the MD Anderson Cancer Center Living Legend Committee and the Dallas Citizens Council. He was also the founding chairman of the Texas Tech School of Business Chief Executive's Roundtable; the former Chairman of the Texas Tech Board of Regents, the Covenant Health System Board of Trustees, and the Methodist Hospital System Board of Trustees; and a member of the Texas Tech University President's Council and the Texas Hospital Association Board.

Director Independence

Our Board of Directors has affirmatively determined that 12 of the 20 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, W. Joris Brinkerhoff, J. Taylor Crandall, Charles R. Cummings, J. Markham Green, William T. Hill, Jr., Andrew J. Littlefair, W. Robert Nichols, III, A. Haag Sherman and Robert C. Taylor, Jr.

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 — has, 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 has, 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. 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 1.4% of the outstanding shares of common stock of Clean Energy Fuels Corp. at April 10, 2018. From late 2011 through March 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.

Meeting Attendance

Our Board of Directors met six times during 2017. No director attended fewer than 75% of the meetings of the Board of Directors and of the board committees on which he or she served during 2017, other than Mr. Brinkerhoff who did not attend two special meetings of the Board of Directors and two special meetings of the Compensation Committee. Our Board of Directors has not adopted a formal policy with regard to director attendance at the annual meetings of stockholders. We, however, encourage members of the Board of Directors to attend annual meetings. Messrs. Gerald J. Ford, Jeremy B. Ford, Alan B. White, James R. Huffines and Hill A. Feinberg attended the 2017 annual meeting of stockholders.

Vote Necessary to Elect Directors

The 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 2017, 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 (a)	32,500	6,500
Merger and Acquisition Committee	15,000	5,000
Executive Committee (b)	—	5,000

(a) Effective July 1, 2017, the Compensation Committee of the Board of Directors approved an increase in annual fee compensation to from $15,000 to $50,000 for the chairman of the Risk Committee and from $5,000 to $8,000 for other members of the Risk Committee.

(b) The chairman of the Executive Committee is Alan B. White, Co-Chief Executive Officer of the Company. As a result, no fee is 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, in arrears on a calendar quarterly basis, with no vesting requirements. Customarily, these payments and issuances occur by the 15th day of the month following the applicable calendar quarter-end. The value of the common stock awarded is based upon the average closing price per share of our common stock for the last ten consecutive trading days of the applicable calendar quarter. In lieu of fractional shares of common stock that would otherwise be issuable to directors, we pay cash to the director based upon the value of those fractional shares at the value 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.

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

2017 Director Compensation

Director Compensation Table for 2017(a)

Name	Fees Earned or Paid in Cash ($)	Fees Earned or Paid in Stock ($)	All Other Compensation ($)	Total ($)
Charlotte Jones Anderson	29,057	28,943	—	58,000
Rhodes R. Bobbitt	88,000	—	—	88,000
Tracy A. Bolt	22	93,478	—	93,500
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)	72	214,928	853,200 (c)	1,068,200
Jeremy B. Ford	—	—	—	—
J. Markham Green	67,500	—	—	67,500
William T. Hill, Jr.	39,401	23,599	—	63,000
James R. Huffines (d)	—	—	—	—
Lee Lewis	53,000	—	—	53,000
Andrew J. Littlefair	26,552	26,448	—	53,000
W. Robert Nichols, III	68,000	—	—	68,000
C. Clifton Robinson	48,000	—	—	48,000
Kenneth D. Russell	54,500	—	—	54,500
A. Haag Sherman	68,000	—	—	68,000
Robert C. Taylor, Jr.	29,057	28,943	—	58,000
Carl B. Webb	52	52,948	—	53,000
Alan B. White	—	—	—	—

(a) Fees earned for services performed in 2017 include annual retainers, meeting fees and chairperson remuneration. Aggregate fees paid to non-employee directors for annual retainers and committee chairmanships were paid quarterly in arrears. Cash was paid in lieu of the issuance of fractional shares. Service for any partial quarter is calculated and paid on the basis of time served during the applicable calendar quarter. Non-employee directors are solely responsible for the payment of taxes payable on remuneration paid by the Company. The number of shares awarded was determined based upon the average closing price per share of our common stock for the last ten consecutive trading days of the calendar quarter during which the stock was earned, and the dollar value reported in the table represents the aggregate dollar amount of cash fees forgone.

(b) Mr. Ford held an aggregate 120,000 unvested RSUs as of April 27, 2018.

(c) Reflects grant date fair value of stock awards calculated in accordance with the provisions of the Stock Compensation Topic of the Accounting Standards Codification (“ASC”), with the exception that the amount shown assumes no forfeitures. Such awards represent time-based RSUs that cliff vest upon the earlier of February 23, 2020 and a change of control.

(d) Mr. Huffines retired effective December 31, 2017, from all positions with the Company and its subsidiaries, including as a member of the Board of Directors.

As described above, the 2017 stock awards were issued to each non-employee director who elected to receive all or part of his or her director compensation in the form of our common stock, generally within 15 days following each applicable calendar quarter-end. All of our personnel, as well as non-employee directors, are subject to trading restrictions with regard to our common stock, and trading may only occur during a “trading window.” Provided that any such party does not possess material, non-public information about us, this trading period commences on the next trading day following two trading days after the public release of quarterly or annual financial information and continues until the close of business on last day of the month preceding the last month of the next fiscal quarter.

The following numbers of shares of our common stock were issued to our directors for services performed during 2017:

Name	Number of Shares
Charlotte Jones Anderson	1,125
Tracy A. Bolt	3,648
Gerald J. Ford	8,354
William T. Hill, Jr.	929
Andrew J. Littlefair	1,028
Robert C. Taylor, Jr.	1,125
Carl B. Webb	2,058

For further information about the stockholdings of these directors and our management, see "Security Ownership of Certain Beneficial Owners and Management" commencing on page 22 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 59.

Committee Membership

The following table shows the current membership of, and the 2017 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							●
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			●		
Robert C. Taylor, Jr.*			●			●	
Carl B. Webb							●
Alan B. White							Chairman
Meetings in Fiscal 2017	9	6	4	8	5	1	6

* Denotes independent director.

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 57. 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 and the Hilltop Holdings Inc. 2012 Equity Incentive Plan and produces the annual report on executive compensation for inclusion in our annual proxy statement, which appears on page 38. 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, strategic, legal, compliance and such other risks as necessary;
- The Company's capital and liquidity and funding; and
- The performance of the Company's Chief Risk Officer.

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

Investment Committee

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

Merger and Acquisition Committee

The purpose of the Merger and Acquisition Committee is to review potential mergers, acquisitions or dispositions of material assets or a material portion of any business proposed by management and to report its findings and conclusions to the Board of Directors. Each member 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 59.

Board Leadership Structure

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

Risk Oversight

Our Board of Directors and the Risk Committee of the Board of Directors oversee an enterprise-wide approach to risk management, 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 the Chief Risk Officer who is overseen by the Risk Committee.

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

Board Performance

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

Director Qualifications for Service

As described below, the Nominating and Corporate Governance Committee considers a variety of factors when evaluating a potential candidate to fill a vacancy on the Board of Directors or when nomination of an incumbent director for re-election is under consideration. The Nominating and Corporate Governance Committee and the Board of Directors strive to balance a diverse mix of experience, perspective, skill and background with the practical requirement that the Board of Directors will operate collegially, with the common purpose of overseeing our business on behalf of our stockholders. All of our directors possess relevant experience, and each of them approaches the business of the Board of Directors and 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 matters that is essential to our Audit Committee's and Board of Directors' oversight responsibilities.
W. Joris Brinkerhoff	Mr. Brinkerhoff has participated, and continues to participate, in a number of business interests. Accordingly, he brings knowledge and additional perspectives to our Board of Directors from experiences with those interests.
J. Taylor Crandall	Mr. Crandall has significant experience in finance and management and board governance, including his experience serving on the boards of directors of 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 43 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's career has focused on mergers and acquisitions in the financial services industry. Accordingly, he has been actively involved in numerous acquisitions, including our acquisitions of NLC, PlainsCapital, substantially all of the assets of FNB, and SWS. His extensive knowledge of our operations makes him a valuable member of our Board of Directors.
J. Markham Green	Mr. Green has an extensive background in financial services, as well as board service. His investment banking background also provides our Board of Directors with expertise surrounding acquisitions and investments.
William T. Hill, Jr.	Mr. Hill's experience with legal and compliance matters, along with his management of a large group of highly skilled professionals, have given him considerable knowledge concerning many matters that come before our Board of Directors. Mr. Hill has also served on several civic and charitable boards, which has given him invaluable experience in corporate governance matters.
Lee Lewis	Through his service on our Board of Directors and PlainsCapital's Board of Directors, Mr. Lewis has many years of knowledge of PlainsCapital and the challenges and opportunities that it is presented. The background of Mr. Lewis as 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 significant customers.
W. Robert Nichols III	Mr. Nichols has broad experience in managing and leading enterprises. This significant experience provides our Board of Directors with additional perspectives on our operations.
C. Clifton Robinson	Mr. Robinson possesses particular knowledge and experience in the insurance industry, as we purchased NLC from him in 2007. Mr. Robinson provides our Board of Directors with expertise in regards to our insurance operations.
Kenneth D. Russell	Mr. Russell's extensive background in accounting and operating entities provides valuable insight to our Board of Directors, including merger and acquisition activities.
A. Haag Sherman	Mr. Sherman has significant experience concerning investing, legal and accounting matters that is essential to our Board of Director's oversight responsibilities.
Robert C. Taylor, Jr.	Through his service on our Board of Directors and PlainsCapital's Board of Directors, Mr. Taylor has many years of knowledge of PlainsCapital and the challenges and opportunities that it is presented. The background of Mr. Taylor as a manager of a Texas-based company also provides unique insight to the Board of Directors.
Carl B. Webb	Mr. Webb possesses particular knowledge and experience in strategic planning and the financial industry, as well as expertise in finance, that strengthen the Board of Directors' collective qualifications, skills and experience.

Alan B. White	Mr. White possesses knowledge of our business and industry through his lengthy tenure as PlainsCapital's Chief Executive Officer, and his service as our Co-Chief Executive Officer, which aid him in efficiently and effectively identifying and executing our strategic priorities.

Executive Board Sessions

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

Communications with Directors

Our Board of Directors has established a process to receive communications from stockholders and other interested parties. Stockholders and other interested parties may contact any member or all members of the Board of Directors by mail. To communicate with our Board of Directors, any individual director or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual director or group or committee of directors by either name or title. The correspondence should be sent to Hilltop Holdings Inc., c/o Secretary, 2323 Victory Avenue, Suite 1400, Dallas, Texas 75219.

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

Code of Business Conduct and Ethics

We have adopted a Senior Officer Code of Ethics applicable to our Co-Chief Executive Officers, 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 59. We intend to disclose any amendments to, or waivers from, our Senior Officer Code of Ethics and our General Code of Ethics and Business Conduct at the same website address provided above.

Director Nomination Procedures

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

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

Once a person has been identified by the Nominating and Corporate Governance Committee as a potential candidate, the committee expects to collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating and Corporate Governance Committee determines that the candidate warrants further

consideration, and if the person expresses a willingness to be considered and to serve on the Board of Directors, the Nominating and Corporate Governance Committee expects to request information from the candidate, review the person's accomplishments and qualifications, including in light of any other candidates that the committee might be considering, and conduct one or more interviews with the candidate. In certain instances, members of the Nominating and Corporate Governance Committee may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accomplishments.

In addition to formally nominating individuals for election as directors in accordance with our Third Amended and Restated Bylaws, as summarized below on page 59 under "Stockholder Proposals for 2019," stockholders may send written recommendations of potential director candidates to the Nominating and Corporate Governance Committee for its consideration. Such recommendations should be submitted to the Nominating and Corporate Governance Committee "c/o Secretary" at Hilltop Holdings Inc., 2323 Victory Avenue, Suite 1400, Dallas, Texas 75219. 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 59); and
- all other information that would be required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and the rules promulgated thereunder.

The stockholder recommendation and information described above must be delivered to the corporate Secretary not earlier than the 120th day and not later than 5:00 p.m., Dallas, Texas local time, on the 90th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting of stockholders; *provided, however*, that if the date of the annual meeting is

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

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

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

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

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 27, 2018 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) 200 Crescent Court, Suite 1350 Dallas, Texas 75201	15,591,587	16.2 %
The Vanguard Group (c) 100 Vanguard Boulevard Malvern, Pennsylvania 19355	5,966,147	6.2 %
Dimensional Fund Advisors LP (d) Building One 6300 Bee Cave Road Austin, Texas 78746	5,661,685	5.9 %
FMR LLC (e) 245 Summer Street Boston, Massachusetts 02210	4,969,942	5.2 %

(a) Based on 96,064,044 shares of common stock outstanding on April 27, 2018. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 27, 2018 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 39,047 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 manager 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. Turtle Creek Revocable Trust is the sole member of Diamond HTH Stock Company GP, LLC and 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, Diamond HTH Stock Company GP, LLC and Turtle Creek Revocable Trust may be deemed to have shared voting and dispositive power of these shares. Excludes 120,000 restricted stock units, or RSUs, that will not vest within 60 days of April 27, 2018.

(c) Based on the Schedule 13G (Amendment No. 2) filed with the SEC by The Vanguard Group on February 9, 2018. According to the Schedule 13G (Amendment No. 2), The Vanguard Group has sole voting power over 82,742 shares of our common stock, shared voting power over 9,980 shares of our common stock, sole dispositive power over 5,880,540 shares of our common stock and shared dispositive power over 85,607 shares of our common stock. The Schedule 13G (Amendment No. 2) reports that Vanguard Fiduciary Trust Company, a wholly owned subsidiary of The Vanguard Group, is the beneficial owner of 75,627 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 17,095 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. 1) filed with the SEC by Dimensional Fund Advisors LP on February 9, 2018. According to the Schedule 13G (Amendment No. 1), Dimensional Fund Advisors LP, 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 the Issuer that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, according to the Schedule 13G, all securities reported are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the Schedule 13G disclaims that the reporting person or any of its affiliates is the beneficial owner of any securities covered by the Schedule 13G for any purposes other than Section 13(d) of the Securities Exchange Act of 1934.

(e) Based on the Schedule 13G filed with the SEC by FMR LLC on February 13, 2018. According to the Schedule 13G, FMR LLC has sole voting power over 2,421 shares of our common stock and sole dispositive power over 4,969,942 shares of our common stock. According to the Schedule 13G, Abigail P. Johnson is a Director, the Chairman, and the Chief Executive Officer of FMR LLC. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act of 1940 advised by Fidelity Management & Research Company, a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds' Boards of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fidelity Funds' Boards of Trustees.

Security Ownership of Management

The following table sets forth information regarding the number of shares of our common stock beneficially owned as of April 27, 2018, 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., 2323 Victory Avenue, Suite 1400, Dallas, Texas 75219. 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	9,746		*
Rhodes Bobbitt	126,059	(b)	*
Tracy A. Bolt	20,456		*
W. Joris Brinkerhoff	25,228		*
J. Taylor Crandall	—	(c)	*
Charles R. Cummings	37,476		*
Hill A. Feinberg	934,882	(d)	1.0%
Gerald J. Ford 200 Crescent Court, Suite 1350 Dallas, Texas 75201	15,591,587	(e)	16.2%
Jeremy B. Ford	671,163	(f)	*
William B. Furr	13,974	(g)	*
J. Markham Green	114,763		*
William T. Hill, Jr.	31,423	(h)	*
James R. Huffines	387,860	(i)	*
Lee Lewis	656,199	(j)	*
Andrew J. Littlefair	13,080		*
W. Robert Nichols, III	31,000	(k)	*
C. Clifton Robinson	1,265,024		1.3%
Kenneth D. Russell	—		*
Todd L. Salmans	12,040	(l)	*
A. Haag Sherman	14,422		*
Robert C. Taylor, Jr.	35,211		*
Carl B. Webb	113,407		*
Alan B. White	1,552,043	(m)	1.6%
All Directors and Executive Officers, as a group (26 persons)	21,454,827	(n)	22.3%

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

(a) Based on 96,064,044 shares of common stock outstanding on April 27, 2018. Shares issuable under instruments to purchase our common stock that are exercisable within 60 days of April 27, 2018 are treated as if outstanding for computing the percentage ownership of the person holding these instruments, but are not treated as outstanding for purposes of computing the percentage ownership of any other person.

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

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

(d) Includes 25,776 shares of common stock held directly by Mr. Feinberg's wife. Also includes 776 shares of common stock held by the Max McDermott Trust for the benefit of Mr. Feinberg's stepson. Mr. Feinberg's wife is the trustee of the trust. Excludes 47,249 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

(e) The shares of common stock beneficially owned by Mr. Gerald J. Ford include 39,047 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 manager 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. Turtle Creek Revocable Trust is the sole member of Diamond HTH Stock Company GP, LLC and 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, Diamond HTH Stock Company GP, LLC and Turtle Creek Revocable Trust may be deemed to have shared voting and dispositive power of these shares. Excludes 120,000 RSUs that will not vest within 60 days of April 27, 2018.

(f) Jeremy B. Ford is a beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, LP (see footnote (e)). Excludes 162,942 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018 and 15,544,674 shares of common stock held by Diamond A Financial, LP.

(g) Excludes 50,699 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

(h) Includes 15,550 shares of common stock held in a SEP IRA account for the benefit of Mr. Hill.

(i) Includes 47,000 shares of common stock held by the James Huffines 1994 Trust for the benefit of Mr. Huffines and 12,028 shares of common stock held in a self-directed individual retirement account. Excludes 20,214 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

(j) 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.

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

(l) Excludes 48,374 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

(m) Includes (a) 9,785 shares of common stock held directly by Mr. White's wife, (b) 453 shares of common stock held in a self-directed individual retirement account of Mr. White's wife, (c) 23,806 shares of common stock held by Double E Investments ("Double E"), (d) 12,883 shares of common stock held by EAW White Family Partnership, Ltd. ("EAW"), (e) 8,045 shares of common stock held by Maedgen, White and Maedgen ("MW&M"), and (f) 1,316,458 shares of common stock held by Maedgen & White, Ltd. As the manager of Double E, the managing partner of MW&M and the sole member of the general partner of EAW, Mr. White has exclusive authority to vote and/or dispose of the securities held by Double E, MW&M and EAW, respectively, and may, therefore, be deemed to have sole voting and dispositive power over the shares of common stock held by Double E, MW&M and EAW. Mr. White is the sole general partner of Maedgen & White, Ltd. and may be deemed to beneficially own the shares held by Maedgen & White, Ltd. As the sole general partner of Maedgen & White, Ltd., Mr. White has the power to vote the shares held by Maedgen & White, Ltd. The Agreement of Limited Partnership of Maedgen & White, Ltd. requires the approval of 80% of the limited partnership interests in Maedgen & White, Ltd. before its general partner may dispose of the shares held by Maedgen & White, Ltd. Mr. White, directly and indirectly, controls approximately 77% of the limited partnership interests of Maedgen & White, Ltd. and therefore may be deemed to share dispositive power over the shares held by Maedgen & White, Ltd. Excludes 96,747 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

(n) Represents 26 persons. Excludes 514,743 shares of common stock deliverable upon the vesting of RSUs that will not vest within 60 days of April 27, 2018.

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 27, 2018:

Name	Age	Position	Officer Since
Keith E. Bornemann	45	Executive Vice President, Corporate Controller and Principal Accounting Officer	2017
Hill A. Feinberg	71	Chairman and Chief Executive Officer of Hilltop Securities	2012
Jeremy B. Ford	43	President and Co-Chief Executive Officer	2010
William B. Furr	40	Executive Vice President, Chief Financial Officer	2016
Darren E. Parmenter	55	Executive Vice President, Chief Administrative Officer	2007
Corey G. Prestidge	44	Executive Vice President, General Counsel and Secretary	2008
Todd L. Salmans	69	Chief Executive Officer of PrimeLending	2012
Jerry L. Schaffner	60	President and Chief Executive Officer of the Bank	2012
Alan B. White	69	Vice Chairman and Co-Chief Executive Officer	2012

Business Experience of Executive Officers

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

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.

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 since September 2016. Mr. Parmenter previously served as Executive Vice President and Principal Financial Officer of Hilltop since February 2014 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 Co-Chief Executive Officer, Jeremy B. Ford.

Todd L. Salmans. Mr. Salmans has served as Chief Executive Officer of PrimeLending since January 2011 and has continued in that position since our acquisition of PlainsCapital in November 2012. He also previously held the office of President of PrimeLending until August 2013. As Chief Executive Officer, Mr. Salmans is responsible for the strategic direction and day-to-day management of PrimeLending, including financial performance, compliance, business development, board and strategic partner communications and team development. He also serves as a member of PrimeLending's Board of Directors. Mr. Salmans joined PrimeLending in 2006 as Executive Vice President and Chief Operating Officer, with responsibility over daily operations, loan processing and sales. He was promoted to President in April 2007. Mr. Salmans has over 40 year of experience in the mortgage banking industry. Prior to joining PrimeLending, he served as regional executive vice president of CTX/Centex, regional senior vice

president of Chase Manhattan/Chase Home Mortgage Corp., and regional senior vice president of First Union National Bank/First Union Mortgage Corp. Mr. Salmans is currently a board member of the Texas Mortgage Bankers Association.

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

Terms of Office and Relationships

Our executive officers are elected 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 5 and under "Management — Executive Officers — Business Experience of Executive Officers" on page 25, (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 year 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 section reviews the compensation program for our named executive officers ("NEOs"), which include our principal executive officers, principal financial officer and our three other most highly-compensated executive officers, during the year ended December 31, 2017.

For 2017, our NEOs were:

Named Executive Officer	Title/Role
Jeremy B. Ford	President and Co-Chief Executive Officer
Alan B. White	Vice Chairman and Co-Chief Executive Officer
William B. Furr	Executive Vice President, Chief Financial Officer
Hill A. Feinberg	Chairman and Chief Executive Officer of Hilltop Securities
James R. Huffines (a)	Former Executive Vice President, Chief Operating Officer of Subsidiaries
Todd L. Salmans	Chief Executive Officer of PrimeLending

(a) Mr. Huffines retired effective December 31, 2017, from all positions with the Company and its subsidiaries, including as a member of the Board of Directors.

2017 Business and Financial Highlights

2017 represented another strong year for the Company, with the following key accomplishments:

- Generated $132.5 million in income applicable to common stockholders, or $1.36 per diluted share, during 2017, after giving effect to non-recurring charges as a result of the Tax Cuts and Jobs Act. Return on average equity was 7.00% and return on average assets was 1.03% for 2017.
- Maintained strong asset quality compared to peers with non-performing assets as a percentage of total assets of 0.33% as of December 31, 2017, excluding covered loans and covered other real estate owned.
- Maintained strong capital ratios with a Tier 1 Leverage Ratio of 12.94% and a Common Equity Tier 1 Risk Based Capital Ratio of 17.69% at December 31, 2017.
- Distributed $23.1 million, or $0.24 per common share, of capital to stockholders, equating to a dividend payout ratio of 17.59% (excluding the results of the SWS Group Inc. appraisal matter).

These results contributed to an increase in our book value per share from $18.98 at December 31, 2016 to $19.92 at December 31, 2017. Additional detail regarding our results and achievements can be found in our Annual Report on Form 10-K for the year ended December 31, 2017.

Our 2017 Executive Compensation Program

The Compensation Committee, or, as used in this Compensation Discussion and Analysis, 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, 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.

Philosophy and Objectives of Our Executive Compensation Program

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 restricted stock units, or RSUs, to support our goals for alignment, ownership and retention. Half of the RSUs awarded vest upon achievement of predefined performance goals. The value of these performance-based RSUs ultimately depends upon our total stockholder return, or TSR, relative to members of the KBW Regional Banking Index and our cumulative earnings per share calculated in accordance with generally accepted accounting principles, or EPS, over the three-year vesting period. Commencing with awards in 2016, 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 relative TSR during the same period.
- *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.

Governance Highlights

The Committee maintains the following compensation best practices:

- Robust stock ownership guidelines for executive officers and directors;
- Clawback policy for incentive compensation;
- Anti-hedging and pledging policy;
- Limited perquisites;
- No excise tax gross-ups in new employment agreements;
- One year holding requirement on all vested equity awards; and
- Annual compensation risk assessment.

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

The Company provides its stockholders with the opportunity to cast an annual advisory vote on executive compensation. At the Company's annual meeting of stockholders held in June 2017, over 71% 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 a significant decline from the 97% support received in 2016 and sought to understand stockholder perspectives on our executive compensation program. We reached out to our top 25 stockholders, representing 57% of our outstanding common stock (excluding common stock owned by our directors and executives), to offer a conversation with Mr. Sherman, the chair of our Committee. Mr. Sherman had conversations with six stockholders, representing 24% of our outstanding common stock, during this process.

During these conversations, stockholders provided their perspectives on our executive compensation programs with our Committee Chair. Several stockholders expressed concerns with severance provisions in the retention agreement we entered into with Mr. White upon our acquisition of PlainsCapital Corporation in 2012 and subsequently amended in 2016 upon his promotion to Co-CEO of the Company. In these discussions, Mr. Sherman highlighted the origins of these provisions in Mr. White's agreement, namely that they were designed to keep Mr. White whole for amounts which would have otherwise been due to him immediately upon any termination of his employment agreement following our acquisition of PlainsCapital Corporation, the company he founded. The Committee did not believe it was appropriate to revise these provisions when asking Mr. White to assume additional responsibilities, particularly given that the revised agreement did not provide for any increases in compensation. Mr. Sherman also discussed with stockholders the Committee's intention to avoid similar provisions in any new employment arrangements going forward.

Stockholders generally conveyed that they were otherwise supportive of the design of our executive compensation program and provided several items to consider. As such, the Committee has maintained our current programs and will evaluate the suggestions received. The Committee remains open to stockholder perspectives on our executive compensation programs and will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for the NEOs.

Background on Our Executive Employment Arrangements

We completed the acquisition of PlainsCapital on November 30, 2012, and the compensation of our NEOs who were employed by PlainsCapital is, therefore, in part based upon the compensation they were paid by PlainsCapital prior to the acquisition. Four of our NEOs, Messrs. White, Feinberg, Huffines and Salmans, were employed by PlainsCapital or its subsidiaries prior to the acquisition. As discussed above, in connection with the acquisition of PlainsCapital, and to ensure continuity following the closing, we entered into a retention agreement with Mr. White that was negotiated based upon the pre-existing rights in his employment agreement with PlainsCapital Corporation. All other existing employment agreements at PlainsCapital or its subsidiaries, other than Mr. Jerry Schaffner, were amended to terminate on November 30, 2014. Following the expiration of the employment agreements with Messrs. Huffines and Salmans, we entered into new employment agreements with them that are consistent with our current compensation philosophy. The term of Mr. Huffines' employment agreement terminated on December 4, 2017, and he retired from the Company on December 31, 2017. We also entered into an employment agreement with Mr. Furr in connection with his appointment as our Chief Financial Officer effective September 1, 2016. For a more detailed discussion of these employment agreements and Mr. White's retention agreement, see "Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table — Employment Contracts and Incentive Plans — Employment Contracts."

Elements of our Executive Compensation Program

The basic elements of our executive compensation program are summarized below. Our compensation policies and programs are considered by the Committee in a total rewards framework, which considers both "pay" — base salary, annual incentive awards and long-term incentive awards — and "benefits" — perquisites and other benefits and compensation. Our executive compensation program consists primarily of the following components:

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

Base Salary

We provide base salaries for each 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. Except for the increases to the salaries of the Co-Chief Executive Officers noted in the table below, the Committee determined to maintain the current salaries of all NEOs for 2017, as they were found to be competitive with the Company's peers. The following table lists the base salaries for our NEOs in 2016 and 2017:

	Base Salary		
Name	2016	2017	% Increase
Jeremy B. Ford	$ 700,000	$ 725,000 (a)	3.6 %
Alan B. White	$ 1,350,000	$ 1,400,000 (b)	3.7 %
William B. Furr	$ 425,000 (c)	$ 425,000	—
Hill A. Feinberg	$ 500,000	$ 500,000	—
James R. Huffines	$ 690,000	$ 690,000	—
Todd L. Salmans	$ 750,000	$ 750,000	—

(a) Mr. Ford's base salary increased to $725,000 on April 1, 2017.

(b) Mr. White's original base salary of $1,350,000 was set forth in his retention agreement, which became effective upon the closing of the acquisition of PlainsCapital. An increase in base salary to $1,400,000 was approved and made effective on April 1, 2017.

(c) Mr. Furr's base salary effective upon his hiring as our Chief Financial Officer on September 1, 2016.

In March 2018, the Committee assessed base salaries of the NEOs and decided to provide the following increases beginning on April 1, 2018: $25,000 for Mr. Ford (new salary $750,000), $50,000 for Mr. White (new salary $1,450,000), and $25,000 for Mr. Furr (new salary $450,000).

Annual Incentive Awards

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

Target Annual Incentive Opportunities

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 annual incentive targets (as a percent of salary) for Mr. Ford and Mr. Feinberg following a review of market practices. The following table sets for information concerning Annual Incentive Plan opportunities for 2017:

	Annual Incentive Value			
		Target		
Name	Threshold ($)	Amount ($)	% of Annual Base Salary	Maximum ($) (b)
Jeremy B. Ford	130,500	725,000	100 %	1,087,500
Alan B. White (a)	—	1,400,000	100 %	—
William B. Furr	67,500	375,000	88 %	562,500
Hill A. Feinberg	90,000	750,000	150 %	1,125,000
James R. Huffines	99,900	555,000	80 %	832,500
Todd L. Salmans	90,000	750,000	100 %	1,125,000

(a) Mr. White's annual incentive compensation is determined pursuant to his retention agreement for the achievement of specified performance criteria.
(b) Awards are capped at 150% of the target amount.

Performance Measures

Each NEO had pre-defined performance objectives based upon measurable performance of both our Company and the individual, other than Mr. White, whose pre-defined performance objectives are based solely upon Hilltop's performance. At least 70% of each executive's incentive was based on the net income of our Company and/or their relevant business unit. Our 2017 goals were intended to be realistic and reasonable but challenging in order to drive performance. The Committee and management believe that by using these metrics we are encouraging profitable top line growth and value for stockholders without creating excessive risk.

The measures and weights of the performance objectives for each NEO for 2017 are summarized in the following table:

Name	Hilltop Net Income	Business Unit Net Income	Strategic/ Individual Goals
Jeremy B. Ford	70 %	—	30 %
Alan B. White (a)	100 %	—	—
William B. Furr	70 %	—	30 %
Hill A. Feinberg	20 %	50 %	30 %
James R. Huffines	70 %	—	30 %
Todd L. Salmans	20 %	50 %	30 %

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

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

The individual 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 2017:

- Mr. Ford: execute the Company's 2017 strategic plan, continue to identify strategic acquisition opportunities that complement the Company's business mix and lead our shared-services initiative.
- Mr. Furr: execute our shared-services initiative, redesign our procurement process, and complete successful Dodd-Frank Act Stress Test submission.
- Mr. Feinberg: support our shared-services initiative, select and finalize new broker-dealer technology and support system, develop capital markets strategy that compliments municipal efforts and execute on risk management and inventory control.

- Mr. Huffines: support our shared-services initiative, effective risk management by subsidiary management, attract and retain talent, execute on subsidiary strategic plans, succession planning and effective enterprise communication.
- Mr. Salmans: support our shared-services initiative, maintain customer and employee satisfaction, protect and grow company culture, foster and drive organic growth in existing and new markets, grow joint venture business, succession planning and development and growth of key successors.

Performance Results and Payouts

The Committee, in its sole discretion, determines the final amount of each participant's 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.

At the end of the fiscal year, the Committee determined a payout based on net income performance. 2017 performance goals and actual net income performance were as follows (dollars in millions):

2017 Performance Goal	Threshold ($)	Target ($)	Stretch ($)	Actual ($)	Achievement
Hilltop Adjusted Net Income	89.7	149.5	186.9	160.9	108 %
PlainsCapital Pre-Tax Income	89.2	148.6	185.8	151.6	102 %
Hilltop Securities Pre-Tax Income	34.0	56.6	70.8	64.9	115 %
PrimeLending Pre-Tax Income	33.7	56.2	70.2	53.7	96 %

Based upon evaluation of their respective individual performance in 2017, the Committee awarded the NEOs scores ranging from 70% to 135% for their 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 2017 annual cash incentive payments were awarded as follows relative to the 2017 target value:

Name	2017 Annual Incentive Payment ($)	% of 2017 Target Annual Incentive
Jeremy B. Ford	790,000	109 %
Alan B. White (a)	1,450,000	104 %
William B. Furr	425,000	113 %
Hill A. Feinberg	900,000	120 %
James R. Huffines	555,000	100 %
Todd L. Salmans	825,000	110 %

(a) The Committee used its discretionary authority to increase Mr. White's 2017 Annual Incentive Plan Award above the level determined pursuant to his retention agreement for the achievement of earnings target.

See "Executive Compensation — 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 Incentive Awards

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 be:

Award Vehicle Mix	% of Award
Time-Based Restricted Stock Units	50%
Performance-Based Restricted Stock Units	50%

Time-based RSUs cliff vest on the third anniversary of the date of grant. Performance-based RSUs are earned and cliff vest subject to certain performance goals being met after the three-year performance period from January 1, 2017 through December 31, 2019.

Under the current form of RSU award agreement, the percentage of performance-based RSUs that vest following a performance period is determined based on Hilltop's three-year cumulative EPS relative to pre-established performance objectives, multiplied by a modifier that is determined based on Hilltop's TSR relative to the KBW Regional Banking Index. The EPS component of the performance calculation ranges from 50% at threshold to 150% at maximum, and the TSR modifier ranges from 80% at threshold to 120% at maximum. The total number of shares earned from the performance awards can range from 40% to 180% of the target number of RSUs granted. No shares will be awarded if EPS results are below threshold.

All shares of common stock delivered pursuant to the RSUs are subject to a one-year holding period requirement after vesting. 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.

In 2017, 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 23, 2017, to the following NEOs as set forth below:

Name	Time-Based RSUs Awarded	Performance-Based RSUs Awarded (at Target)	Total RSUs Awarded
Jeremy B. Ford	27,734	27,734	55,468
Alan B. White	12,307	12,306	24,613
William B. Furr	6,154	6,153	12,307
Hill A. Feinberg	6,154	6,153	12,307
James R. Huffines	7,033	7,032	14,065
Todd L. Salmans	6,154	6,153	12,307

On March 5, 2018, the Committee continued the same mix of long-term incentive awards and approved a grant of RSUs to the NEOs, excluding Mr. Huffines who retired from the Company on December 31, 2017, as set forth below:

Name	Time-Based RSUs Awarded	Performance-Based RSUs Awarded (at Target)	Total RSUs Awarded
Jeremy B. Ford	31,766	31,766	63,532
Alan B. White	14,096	14,096	28,192
William B. Furr	7,753	7,752	15,505
Hill A. Feinberg	8,055	8,055	16,110
Todd L. Salmans	7,048	7,048	14,096

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.

Payout for 2015-2017 Performance Based RSUs

The following table provides the calculation of the payout for performance-based RSUs granted in 2015. Payouts for the 2015 awards were based on our three-year cumulative EPS results and our three-year TSR relative to members of the KBW Regional Banking Index. Performance-based RSUs granted during 2015 are earned and cliff vest after three years based 50% on EPS performance and 50% on relative TSR.

Metric	Threshold	Target	Maximum	Actual Performance
Cumulative EPS	$ 2.44	$ 3.25	$ 4.06	$ 4.94
Relative TSR percentile	35th	50th	75th	13th

Our three-year cumulative EPS results generated a maximum payout of 150% of target, while our TSR results were below the threshold for a payout. Accordingly, the aggregate payout for the performance-based RSUs awarded in 2015 was 75% of target.

Perquisites and Other Benefits

We provide various perquisites and other benefits to certain NEOs. Messrs. Jeremy B. Ford and Alan B. White are provided access to company aircraft. Messrs. White, Huffines and Salmans are or 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 available to all employees of that entity.

Severance and Other Post-Termination Compensation

We generally do not currently maintain any severance or change in control programs other than change in control provisions in our 2012 Equity Incentive Plan (with exceptions noted below). However, we have historically paid severance, the amount of which is generally determined both by length of tenure and level of compensation, when termination occurs other than for cause and pursuant to which certain benefits may be provided to the 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.

In connection with our acquisition of PlainsCapital in 2012, we entered into employment agreements with Messrs. Huffines and Salmans. We subsequently entered into new employment agreements with Messrs. Huffines and Salmans in 2014 following the expiration of their previous agreements. Mr. Huffines' agreement was amended in September 2016 to reflect changes in his responsibilities. The term of Mr. Huffines' employment agreement expired on December 4, 2017, and he retired from the Company on December 31, 2017. Mr. Salmans' agreement was amended in November 2017 to extend the term of the agreement to December 31, 2019. A description of these employment agreements and the post-contractual benefits provided thereunder is discussed in further detail under "Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table — Employment Contracts and Incentive Plans — Employment Contracts" and "Potential Payments Upon Termination or Change-in-Control" below.

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

Legacy Retention Agreement

Pursuant to Mr. White's retention agreement:

(1) we agreed to contribute an amount of cash equal to $6,430,890 as deferred compensation to Mr. White in satisfaction of Mr. White's rights under Section 6 (Termination Upon Change in Control) of his previous employment agreement with PlainsCapital, which such amount accrues interest at the prevailing money market rate and is payable to Mr. White on the 55th day following termination of his employment; and

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

applicable employment period under the retention agreement. Such severance is payable over the "severance period," which is the greater of two years from the date of termination and the number of full and partial years from the date of termination through the end of the applicable employment period under the retention agreement.

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

Mr. White's retention agreement was amended in 2016 solely to recognize his promotion to Co-Chief Executive Officer of the Company and to specify that his annual incentive would be based on the consolidated results of Hilltop (as opposed to just the results of PlainsCapital). The amendment did not include any changes to his pay opportunity or the other terms of his employment. The Committee did not believe it was appropriate to alter other terms of the agreement given that it (a) increased his duties and responsibilities without providing Mr. White additional compensation and (b) was negotiated as part of our acquisition of PlainsCapital to secure Mr. White's continued employment, including the amounts payable under subparagraph (1) above which would otherwise have been due to Mr. White immediately upon any termination of his employment following our acquisition of PlainsCapital. Further, Mr. White had the right to terminate his employment in the event other modifications were required in connection with the amendment.

Furr Employment Agreement

Pursuant to our employment agreement with Mr. Furr, upon termination of employment by us other than for cause, Mr. Furr is entitled receive, subject to such termination of employment being on or after September 1, 2017, a lump-sum cash payment equal to the sum of (i) his annual base salary rate immediately prior to the effective date of such termination, and (ii) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. If his employment is terminated without "cause" within the twelve months immediately following, or the six months immediately preceding, a "change in control," he will be entitled to receive, if the "change in control" is on or after September 1, 2017, a lump-sum cash payment equal to two times the sum of (A) his annual base salary rate immediately prior to the effective date of such termination and (B) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. The immediately foregoing cash amount represents a "double trigger" benefit. Finally, if any payment made as a result of a change in control would constitute a "parachute payment" as defined under Section 280G of the Code, then the benefits payable will be reduced to $1 below the parachute limit.

Huffines and Salmans Employment Agreements

Pursuant to our employment agreements with Messrs. Huffines and Salmans, upon termination of employment by us other than for cause, the applicable executive is entitled to a lump-sum cash payment equal to the sum of (i) his annual base salary rate immediately prior to the effective date of such termination, and (ii) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. If his employment is terminated without "cause" within the twelve months immediately following, or the six months immediately preceding, a "change in control," he will be entitled to receive a lump-sum cash payment equal to two times the sum of (A) his annual base salary rate immediately prior to the effective date of such termination and (B) an amount equal to the annual incentive cash bonus paid to him in respect of the calendar year immediately preceding the year of the termination. The immediately foregoing cash amount represents a "double trigger" benefit. Finally, if any payment made as a result of a change in control would constitute a "parachute payment" as defined under Section 280G of the Code, then the benefits payable will be reduced to $1 below the parachute limit. The term of Mr. Huffines' employment agreement expired on December 4, 2017, and he retired from the Company on December 31, 2017. In November 2017, the term of Mr. Salmans' employment agreement was extended until December 31, 2019.

Further discussion of the agreements with Messrs. White, Furr, Huffines and Salmans, including the definitions of "cause" and "disability" under such arrangements, as well as potential payments made pursuant thereto may be found under the headings "Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table" and "Executive Compensation — Potential Payments Upon Termination or Change-in-Control" below.

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 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. Further discussion of the change in control payments 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 any awards made pursuant to such plan.

Risk Considerations in Our Compensation Program

We do not believe that our compensation policies and practices for 2017 give rise to risks that are reasonably likely to have a material adverse effect on our Company. In reaching this conclusion for 2017, we considered the following factors:

- Base salary is fixed and the only compensation components that are variable are the annual incentives and performance-based RSUs 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.
- The Annual 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 Process, Programs and Policies

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 Co-Chief Executive Officers, as well as assessing their 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.

Role of the Co-Chief Executive Officers in Compensation Decisions

The Co-Chief Executive Officers provide input and recommendations to the Committee regarding compensation decisions for their 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 Co-Chief Executive Officers make their recommendations based on their assessment of the individual officer's performance, performance of the officer's respective business or function and employee retention considerations. The Committee reviews and considers the Co-Chief Executive Officers' recommendations when determining any compensation changes affecting our officers or executives. Neither Co-Chief Executive Officer plays any role with respect to his own compensation.

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 2017, 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.

During 2017, the Company paid Meridian fees totaling $10,000 related to the valuation of performance-based RSUs. Meridian has provided the Committee with appropriate assurances and confirmation of its independent status pursuant to the charter and other factors. The Committee believes that Meridian has been independent throughout its service for the Committee and there is no conflict of interest between Meridian and the Committee.

Benchmarking Compensation

The Committee regularly assesses the components of the executive compensation program with advice from its independent compensation consultant. In October 2016, 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 2017 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. The Committee approved changes to our peer group in July 2016 in order to account for changes among the peer companies and to position Hilltop more closely to the median asset size of the peers.

The following financial institutions were included in the compensation peer group:

Cullen/Frost Bankers, Inc.	First Financial Bankshares, Inc.*	First Midwest Bancorp, Inc.
Hancock Holding Company	IBERIABANK Corporation	International Bancshares Corporation
LegacyTexas Financial Group, Inc.*	MB Financial, Inc.	Old National Bancorp
Pinnacle Financial Partners, Inc.*	Prosperity Bancshares, Inc.	Simmons First National Corporation*
South State Corporation	TCF Financial Corporation	Texas Capital Bancshares, Inc.
Trustmark Corporation	UMB Financial Corporation	Umpqua Holdings Corporation
Union Bankshares Corporation	WesBanco, Inc.	Wintrust Financial Corporation

* *Added to the peer group in 2016. Associated Banc-Corp, First Citizens BancShares, Inc., First Horizon National Corporation, FirstMerit Corporation and United Bankshares, Inc. were removed from the peer group.*

Other Factors

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

Stock Ownership Requirements

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

- Six times annual base salary for the Co-Chief Executive Officers; 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. Our director compensation program permits directors to elect to receive their director compensation in cash, Company common stock or a combination of cash and Company common stock.

In calculating equity ownership for purposes of this requirement, we 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 27, 2018, 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. Annual Incentive Plan awards are subject to any clawback, recoupment or forfeiture provisions (i) required by law or regulation and applicable to Hilltop or its subsidiaries or (ii) set forth in any policies adopted or maintained by Hilltop or any of its subsidiaries.

Tax Considerations

Section 162(m) of the Code imposes a $1.0 million limit on the tax-deductibility of compensation paid to 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 time-based RSUs.

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; however, it is currently uncertain how the transition relief will be interpreted and applied. 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.

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 and short sale transactions and are subject to restrictions on pledging our securities.

Compensation Committee Report

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

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

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 2017, 2016 and 2015 by the NEOs, who were either serving in such capacities on December 31, 2017, during 2017, or are reportable pursuant to applicable SEC regulations.

Summary Compensation Table
Fiscal Years 2017, 2016 and 2015

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	2017	718,500	—	1,582,502	—	790,000	—	70,310	3,161,312
President and	2016	700,000	—	699,996	—	715,000	—	60,534	2,175,530
Co-Chief Executive Officer	2015	662,500	—	679,741	—	740,000	—	70,861	2,153,102
Alan B. White	2017	1,387,500	1,450,000	702,209	—	—	44,519	170,383	3,754,611
Vice Chairman and	2016	1,350,000	1,400,000	699,996	—	—	29,392	126,848	3,606,236
Co-Chief Executive Officer	2015	1,350,000	1,350,000	679,741	—	—	29,261	110,142	3,519,144
William B. Furr	2017	425,000	—	351,119	—	425,000	—	117,270	1,318,389
Executive Vice President and	2016	143,438	518,000 (g)	939,528	—	—	—	31,562	1,632,528
Chief Financial Officer (f)	2015	—	—	—	—	—	—	—	—
Hill A. Feinberg	2017	500,000	—	351,119	—	900,000	—	25,176	1,776,295
Chairman and Chief Executive	2016	500,000	—	299,994	—	750,000	—	18,177	1,568,171
Officer of Hilltop Securities	2015	500,000	—	242,765	—	650,000	—	11,896	1,404,661
James R. Huffines (h)	2017	690,000	—	401,274	—	555,000	—	58,464	1,704,738
Former Executive Vice President and	2016	690,000	—	419,994	—	555,000	—	58,471	1,723,465
and Chief Operating Officer of Subsidiaries	2015	690,000	—	407,849	—	555,000	—	41,824	1,694,673
Todd L. Salmans	2017	750,000	—	351,119	—	825,000	—	43,095	1,969,214
Chief Executive Officer of	2016	750,000	—	349,998	—	1,100,000	—	55,122	2,255,120
PrimeLending	2015	750,000	—	339,871	—	1,000,000	—	53,292	2,143,163

(a) Represents bonuses paid for services during 2017, 2016 and 2015, as applicable.
(b) Reflects the grant date fair value calculated in accordance with the provisions of the Stock Compensation Topic of the ASC, with the exception that the amounts shown assume no forfeitures. 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:

Name	Year	Performance-Based Stock Awards (Probable Achievement) ($)	Performance-Based Stock Awards (Maximum Achievement) ($)
Jeremy B. Ford	2017	793,747	1,190,621
	2016	349,998	524,997
	2015	332,624	498,936
Alan B. White	2017	352,198	528,297
	2016	349,998	524,997
	2015	332,624	498,936
William B. Furr	2017	176,099	264,148
	2016	—	—
	2015	—	—
Hill A. Feinberg	2017	176,099	264,148
	2016	149,997	224,995
	2015	118,794	178,191
James R. Huffines	2017	201,256	301,884
	2016	209,989	314,984
	2015	199,567	299,350
Todd L. Salmans	2017	176,099	264,148
	2016	174,991	262,487
	2015	166,312	249,468

(c) For 2017, represents cash awards earned under the Annual Incentive Plan for services during 2017, but paid in March 2018. For 2016, represents cash awards earned under the Annual Incentive Plan for services during 2016, but paid in March 2017. For 2015, represents cash awards earned under the Annual Incentive Plan for services during 2015, but paid in March 2016.
(d) Represents interest earned on non-qualified deferred compensation contributions to Mr. White during 2017, 2016 and 2015, as applicable. For additional information, see "— Non-Qualified Deferred Compensation."
(e) Includes amounts paid during 2017, 2016 and 2015, 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. The table following these footnotes is a breakdown of all other compensation included in the "Summary Compensation Table" for the NEOs.
(f) Mr. Furr began serving as our Executive Vice President and Chief Financial Officer effective September 1, 2016.
(g) Includes sign-on bonus of $143,000.
(h) Mr. Huffines retired effective December 31, 2017, from all positions with the Company and its subsidiaries.

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 ($)	Insurance Policies (b) ($)	Total All Other Compensation ($)
Jeremy B. Ford	2017	60,164	366	9,000	780	70,310
	2016	50,754	—	9,000	780	60,534
	2015	70,081	—	—	780	70,861
Alan B. White	2017	95,699	80	9,000	65,604	170,383
	2016	105,275	—	9,000	12,573	126,848
	2015	100,236	—	—	9,906	110,142
William B. Furr	2017	71,659	36,161	9,000	450	117,270
	2016	19,572	9,730	2,125	135	31,562
	2015	—	—	—	—	—
Hill A. Feinberg	2017	—	108	9,000	16,068	25,176
	2016	—	—	8,271	9,906	18,177
	2015	—	—	9,000	2,896	11,896
James R. Huffines	2017	37,494	2,064	9,000	9,906	58,464
	2016	38,714	—	9,000	10,757	58,471
	2015	36,676	—	—	5,148	41,824
Todd L. Salmans	2017	22,000	2,189	9,000	9,906	43,095
	2016	32,000	4,216	9,000	9,906	55,122
	2015	43,386	—	—	9,906	53,292

(a) Year 2017: For Mr. Jeremy B. Ford, reflects $1,800 gym membership allowance and personal use of company airplane of $58,364. For Mr. White, reflects car allowance of $36,000, club expenses of $25,721, personal use of company airplane of $31,326 and personal use of company automobile of $1,288. For Mr. Furr, reflects a cellular phone reimbursement of $1,500, a moving reimbursement of $14,669 and taxable moving expenses of $55,490. For Mr. Huffines, includes a car allowance of $24,000, club expenses of $10,729 and a cellular phone reimbursement of $1,500. For Mr. Salmans, includes a car allowance of $12,000 and club expenses of $10,000. 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, 2016 and 2015, for Messrs. Ford, Furr, Feinberg, Huffines, and Salmans, as applicable. For Mr. White, represents group term life insurance of $12,804 and key man life insurance of $52,800.

Grants of Plan-Based Awards

Grants of Plan-Based Awards Table
Fiscal Year 2017

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a) Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards (b) Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (c) (#)	Grant Date Fair Value of Share and Option Awards (d) ($)
Jeremy B. Ford	2/23/2017							27,734	788,755
	2/23/2017				13,867	27,734	41,601		793,747
	2/23/2017	130,500	725,000	1,087,500					
Alan B. White	2/23/2017							12,307	350,011
	2/23/2017				12,306	12,306	12,306		352,198
	2/23/2017	—	1,400,000 (e)	—					
William B. Furr	2/23/2017							6,154	175,020
	2/23/2017				3,077	6,153	9,230		176,099
	2/23/2017	67,500	375,000	562,500					
Hill A. Feinberg	2/23/2017							6,154	175,020
	2/23/2017				3,077	6,153	9,230		176,099
	2/23/2017	90,000	750,000	1,125,000					
James R. Huffines	2/23/2017							7,033	200,019
	2/23/2017				3,516	7,032	10,548		201,256
	2/23/2017	99,900	555,000	832,500					
Todd L. Salmans	2/23/2017							6,154	175,020
	2/23/2017				3,077	6,153	9,230		176,099
	2/23/2017	90,000	750,000	1,125,000					

(a) Represent the value of potential payments under the Annual Incentive Plan to the NEOs based on 2017 performance. Management incentive award amounts shown above represent potential awards that may have been earned based on performance during 2017. The actual amounts earned pursuant to Annual Incentive Plan awards for 2017 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, 2017 and ending December 31, 2019. 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 earlier of the third anniversary of the date of grant and a change of control. 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."

(d) Reflects the grant date fair value calculated in accordance with the provisions of the Stock Compensation Topic of the ASC, with the exception that the amounts shown assume no forfeitures. 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) Represents the amount Mr. White would be entitled to under his retention agreement.

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

Employment Contracts and Incentive Plans

Set forth below is a summary of our retention agreement with Mr. White and our employment agreements with Messrs. Furr, Huffines and Salmans. We do not have employment agreements with Messrs. Jeremy B. Ford or Feinberg. 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 a retention agreement with Mr. White. We amended the retention agreement on September 12, 2016 solely for the purpose of recognizing his promotion to Co-CEO of Hilltop, including a corresponding change to compensate him based upon the consolidated results of Hilltop, as opposed to PlainsCapital. The term of the retention agreement is three years, with automatic one-year renewals at the end of the second year of the agreement and each anniversary thereof unless notice has been given otherwise. Pursuant to the agreement, Mr. White's annual base salary is at least $1,350,000. He is also entitled to an annual bonus that varies based upon the performance of the Company. If Hilltop's annual net income is less than or equal to $70,000,000 but greater than $15,000,000, Mr. White is entitled to a bonus equal to the average of his annual bonus in the prior three calendar years. If Hilltop's annual net income exceeds $70,000,000, he is entitled to a bonus equal to 100% of his annual base salary. Additionally, in accordance with the agreement, Mr. White is entitled to participate in all of the Company's employee benefit plans and programs. Further, the agreement provides that the Company will provide Mr. White with the use of a corporate aircraft and an automobile allowance, each at the same level that such benefits were available to Mr. White immediately prior to our acquisition of PlainsCapital. He continues to have bank-owned life insurance and access to the country club that was available to him through PlainsCapital's membership prior to our acquisition of PlainsCapital. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. Mr. White's non-competition and non-solicitation obligations terminate thirty-six (36) months after his termination. For a description of compensation and benefits to which Mr. White is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Mr. 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 remains in effect until the third anniversary of the effective date. Pursuant to this agreement, Mr. Furr is entitled to an annual base salary of $425,000 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. With respect to calendar year 2016, the Employment Agreement provides that Mr. Furr was entitled to receive a minimum bonus of $325,000 under the Annual Incentive Plan and a long-term incentive plan award having a value of at least $300,000. 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. Additionally, the employment agreement provides that Mr. Furr was entitled to receive a grant of RSUs having an aggregate fair market value of $200,000 on the date of grant. In addition, the employment agreement provides that Mr. Furr was entitled to receive a cash sign-on bonus of $143,000 and a grant of RSUs having a value of $739,519, in each case, which was based upon the value of KeyCorp stock. The employment agreement provides that Mr. Furr was entitled to be reimbursed for airfare and up to approximately $148,200 of out-of-pocket costs related to Mr. Furr's relocation to Dallas, Texas. 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 twelve (12) months following the earlier of (i) his termination and (ii) the termination of his employment agreement. 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. Huffines

On December 4, 2014, we entered into an employment agreement with Mr. Huffines, which was amended on September 12, 2016 to reflect his new role as Chief Operating Officer for Subsidiaries of the Company. The employment agreement with Mr. Huffines had an original three-year term and provided for an annual base salary of $690,000. Mr. Huffines was eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee and (2) any long-term incentive award programs adopted by the Compensation Committee. Mr. Huffines was also entitled to participate in the employee benefit programs generally available to employees of the Company. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. Mr. Huffines' non-competition and non-solicitation obligations continue for twelve (12) months following the earlier of (i) his termination and (ii) the termination of his employment agreement. The term of Mr. Huffines' employment agreement terminated on December 4, 2017, and he retired from the Company on December 31, 2017. For a description of compensation and benefits to which Mr. Huffines was entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Mr. Salmans

On December 4, 2014, we entered into an employment agreement with Mr. Salmans, pursuant to which Mr. Salmans will continue to serve as Chief Executive Officer of PrimeLending. Mr. Salmans's previous employment agreement expired on November 30, 2014 in accordance with its terms. In November 2017, the term of Mr. Salmans' employment was extended until December 31, 2019. Pursuant to this agreement, Mr. Salmans is entitled to an annual base salary of $750,000 and is eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee and (2) any long-term incentive award programs adopted by the Compensation Committee. Mr. Salmans is also entitled to participate in the employee benefit programs generally available to employees of the Company. Additionally, the agreement provides for a one-time cash bonus of $260,000, which was paid to Mr. Salmans upon execution of the agreement. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. Mr. Salmans's non-competition and non-solicitation obligations continue for twelve (12) months following the earlier of (i) his termination and (ii) the termination of his employment agreement. For a description of compensation and benefits to which Mr. Salmans is entitled in the event of his termination or a change in control, see "Potential Payments Upon Termination or Change-in-Control" below.

Equity Incentive Plans

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

Annual Incentive Plan

On September 20, 2012, our stockholders approved the Annual Incentive Plan, which provides for a cash bonus to key employees who are selected by the Compensation Committee for participation in the plan. The Annual Incentive Plan is intended to permit the payment of amounts that constitute "performance-based compensation" under Section 162(m) of the Internal Revenue Code and is designed to reward executives whose performance during the fiscal year enabled 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 approved by the Compensation Committee. We may amend or terminate the Annual Incentive Plan at any time.

Outstanding Equity Awards at Fiscal Year End

The following table presents information pertaining to all outstanding equity awards held by the NEOs as of December 31, 2017.

	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	18,004 (b)	456,041	18,004 (c)	456,041
	21,971 (d)	556,525	21,971 (e)	556,525
	27,734 (f)	702,502	27,734 (g)	702,502
	31,766 (h)	804,633	31,766 (i)	804,633
Alan B. White	18,004 (b)	456,041	18,004 (c)	456,041
	21,971 (d)	556,525	21,971 (e)	556,525
	12,307 (f)	311,736	12,306 (g)	311,711
	14,096 (h)	357,052	14,096 (i)	357,052
William B. Furr	22,540 (j)	570,937	—	—
	8,965 (k)	227,083	—	—
	6,154 (f)	155,881	6,153 (g)	155,855
	7,753 (h)	196,383	7,752 (i)	196,358
Hill A. Feinberg	6,430 (b)	162,872	6,430 (c)	162,872
	9,416 (d)	238,507	9,416 (e)	238,507
	6,154 (f)	155,881	6,153 (g)	155,855
	8,055 (h)	204,033	8,055 (i)	204,033
James R. Huffines	— (l)	—	10,802 (c)	273,615
	— (l)	—	13,182 (e)	333,900
	— (l)	—	7,032 (g)	178,121
Todd L. Salmans	9,002 (b)	228,021	9,002 (c)	228,021
	10,986 (d)	278,275	10,985 (e)	278,250
	6,154 (f)	155,881	6,153 (g)	155,855
	7,048 (h)	178,526	7,048 (i)	178,526

(a) Value based upon the closing price of $25.33 for our common stock on December 29, 2017. With respect to performance-based RSUs, the number of shares underlying each award was calculated based on the achievement of target level performance.
(b) Represents time-based RSUs that cliff vested on February 24, 2018.
(c) Represents performance-based RSUs that vested on February 24, 2018 upon the achievement of certain performance goals during the three-year period beginning January 1, 2015 and ending December 31, 2017. Based on applicable performance goal threshold performance during the noted period and as approved by the Compensation Committee on March 5, 2018, actual shares issued under performance awards were 75% of unvested shares reported in the table above at December 31, 2017.
(d) Represents time-based RSUs that cliff vest upon the earlier of February 23, 2019 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, 2016 and ending December 31, 2018.
(f) Represents time-based RSUs that cliff vest upon the earlier of February 23, 2020 and 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, 2017 and ending December 31, 2019.
(h) Represents time-based RSUs that cliff vest upon the earlier of March 5, 2021 and a change of control.
(i) 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.
(j) Represents outstanding time-based RSUs that vest upon the earlier of (i) four installments of 10,607; 8,618; 10,607; and 3,315 that commenced on February 15, 2017 and annually thereafter or (ii) a change of control.
(k) Represents time-based RSUs that cliff vest upon the earlier of September 6, 2019 and a change of control.
(l) Mr. Huffines' time-based RSUs vested pro-rata upon his retirement on December 31, 2017.

Option Exercises and Stock Vested in 2017

The following table presents information pertaining to any outstanding stock awards held by the NEOs that vested during 2017. There were no option awards outstanding during 2017.

Name	Stock Awards: Number of Shares Acquired on Vesting (#)	Stock Awards: Value Realized on Vesting ($)
Jeremy B. Ford	22,218	623,437 (a)
Alan B. White	25,921	727,343 (a)
William B. Furr	10,607	296,784 (b)
Hill A. Feinberg	7,777	218,223 (a)
James R. Huffines	35,767	735,159 (c)
Todd L. Salmans	12,961	363,686 (a)

(a) Value based upon the closing price of $28.06 for our common stock on February 23, 2017 multiplied by the number of vested RSUs.
(b) Value based upon the closing price of $27.98 for our common stock on February 15, 2017 multiplied by the number of vested RSUs.
(c) 15,553 shares vested based upon the closing price of $28.06 for our common stock on February 23, 2017, with 11,794 shares vesting based on the closing price of $25.33 for our common stock on December 29, 2017 (the last business day before Mr. Huffines' retirement on December 31, 2017).

Non-Qualified Deferred Compensation

The following table shows the non-qualified deferred compensation activity for our NEOs during the fiscal year ended December 31, 2017.

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	—	—	44,519	—	6,594,577
William B. Furr	—	—	—	—	—
Hill A. Feinberg	—	—	—	—	—
James R. Huffines	—	—	—	—	—
Todd L. Salmans	—	—	—	—	—

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

Potential Payments Upon Termination or Change-in-Control

The 2012 Equity Incentive Plan, under which we have granted awards to the 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.

Employment Contracts

Mr. White

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

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

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

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

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

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

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

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 will also 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 will also vest.

If Mr. Furr's employment is terminated without "Cause" within the 12 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 will also 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. Huffines

On December 4, 2014, we entered into an employment agreement with Mr. Huffines, which was amended on September 12, 2016 to reflect his new role as Chief Operating Officer for Subsidiaries of the Company. The employment agreement with Mr. Huffines had an original three-year term and provided for an annual base salary of $690,000. Mr. Huffines was eligible to participate in (1) an annual incentive bonus program adopted by the Compensation Committee and (2) any long-term incentive award programs adopted by the Compensation Committee. Mr. Huffines was also entitled to participate in the employee benefit programs generally available to employees of the Company. The agreement also includes, among other things, customary non-competition, non-solicitation and confidentiality provisions. Mr. Huffines' non-competition and non-solicitation obligations continue for twelve (12) months following the earlier of (i) his termination and (ii) the termination of his employment agreement. The term of Mr. Huffines' employment agreement terminated on December 4, 2017, and he retired from the Company on December 31, 2017.

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

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

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

Mr. Salmans

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

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

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

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

For the purposes of Mr. White's retention agreement and the employment agreements of Messrs. Furr, Huffines and Salmans, "cause" means: (i) an intentional act of fraud, embezzlement or theft in connection with the executive's duties or in the course of his employment with the Company or its affiliates; (ii) intentional wrongful damage to property of the Company or its affiliates; (iii) intentional wrongful disclosure of trade secrets or confidential information of the Company or its affiliates; (iv) intentional violation of any law, rule or regulation (other than traffic violations or similar offenses) or a final "Cease and Desist Order;" (v) intentional breach of fiduciary duty involving personal profit; or (vi) intentional action or inaction that causes material economic harm to the Company or its affiliates. In addition to items above, the definition of "cause" in Messrs. Furr, Huffines and Salmans employment agreements includes (a) a material violation of the Company's written policies, standards or guidelines applicable to the executive officer or (b) the failure or refusal of the executive officer to follow the reasonable lawful directives of the Board of Directors or the executive officer's supervisors.

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

Set forth below are the amounts that Messrs. Jeremy B. Ford, White, Furr, Feinberg, Huffines and Salmans would have received if the specified events had occurred on December 31, 2017:

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)	—	451,140	451,140	3,430,138
Welfare benefits	—	—	—	—
Total	$ —	$ 451,140	$ 451,140	$ 3,430,138

(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, 2017. 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, 2017. 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."

Alan B. White	Termination for Cause	Termination due to Death or Disability or by Executive for any Reason	Termination Without Cause or Non-Renewal of Retention Agreement	Change of Control
Accrued amounts (a)	$ 1,400,000	$ 1,400,000	$ 1,400,000	$ —
Cash payment (b)	6,594,577	6,594,577	6,594,577	—
Cash severance (c)	—	—	5,533,333	—
Restricted stock units (d)	—	234,041	234,041	2,648,581
Welfare benefits	—	—	—	—
Total	$ 7,994,577	$ 8,228,618	$ 13,761,951	$ 2,648,581

(a) Accrued amounts calculation based upon the sum of: (i) Mr. White's annual base salary through December 31, 2017, to the extent not already paid and not deferred; (ii) any annual bonus earned, to the extent not already paid and not deferred; (iii) any business expenses incurred that have not yet been reimbursed as of the date of termination; and (iv) any other amounts or benefits, including all unpaid and/or vested, nonforfeitable amounts owing or accrued to Mr. White.

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

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

(d) 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, 2017. 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, 2017. 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	—	—	800,000	1,600,000
Restricted stock units (a)	—	113,360	113,360	1,109,757
Welfare benefits	—	—	—	—
Total	$ —	$ 113,360	$ 913,360	$ 2,709,757

(a) The 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, 2017. 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, 2017. 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	—	—	—	—
Cash severance	—	—	—	—
Restricted stock units (a)	—	110,247	110,247	1,114,495
Welfare benefits	—	—	—	—
Total	$ —	$ 110,247	$ 110,247	$ 1,114,495

(a) The 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, 2017. 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, 2017. 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."

James R. Huffines	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)	—	135,480	135,480	1,571,347
Welfare benefits	—	—	—	—
Total	$ —	$ 135,480	$ 135,480	$ 1,571,347

(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, 2017. 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, 2017. 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 addition 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	—	—	—	—
Cash severance (a)	—	—	1,250,000	2,500,000
Restricted stock units (b)	—	117,024	117,024	1,324,303
Welfare benefits	—	—	—	—
Total	$ —	$ 117,024	$ 1,367,024	$ 3,824,303

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

(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, 2017. 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, 2017. 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.

Our 2012 Equity Incentive Plan is a "single trigger" plan, meaning that accelerated vesting occurs upon a change in control even if the award holder remains with us after the change in control, regardless of whether awards are assumed or substituted by the surviving company. We believe a "single trigger" change in control provision 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: (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.

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.

Co-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 each of our co-CEOs for 2017 and future years.

In order to determine the median employee, we prepared a list of all employees as of December 31, 2017, along with their gross income as reported on IRS form W-2 for 2017. 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 2017 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 2017 for Jeremy B. Ford, President and Co-Chief Executive Officer, was $2,118,740. The annual compensation for 2017 for Alan B. White, Vice Chairman and Co-Chief Executive Officer, was $3,597,306. The annual compensation for the median employee for 2017 was $96,078. The resulting ratios of Mr. Ford's and Mr. White's pay to that of our median employee for 2017 were 22:1 and 37:1, respectively.

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 2017, 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 2017:

- 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 2017, each of Mr. Jeremy Ford, Hilltop's Co-Chief Executive Officer and President, Mr. White, Hilltop's Vice Chairman and Co-Chief Executive Officer, Mr. Feinberg, Chairman and Chief Executive Officer of Hilltop Securities, and Mr. Huffines, Hilltop's former Executive Vice President and Chief Operating Officer of Subsidiaries, served 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, White and Feinberg and does not believe that these interlocks pose any risks that are likely to have a material adverse effect on us.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information at December 31, 2017 with respect to compensation plans under which shares of our common stock may be issued.

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*	—	$ —	1,634,804
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	1,634,804

* 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, 2017, 2,517,316 awards had been granted pursuant to the 2012 Equity Incentive Plan, while 222,696 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.

Section 16(a) Beneficial Ownership Reporting Compliance

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. Officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of the copies furnished to us and representations from our officers and directors, we believe that all Section 16(a) filing requirements for the year ended December 31, 2017, applicable to our officers, directors and greater than ten percent beneficial owners were timely satisfied.

Based on written representations from our officers and directors, we believe that all Forms 5 for directors, officers and greater than ten percent beneficial owners that have been filed with the SEC are the only Forms 5 required to be filed for the period ended December 31, 2017.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

General

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

Hilltop Sublease

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

Jeremy B. Ford, a director and the President and Co-Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. Diamond A Financial, L.P. owns 16.2% of the outstanding Hilltop common stock as of April 27, 2018. He also is a director and the Secretary of Diamond A Administration Company, LLC, or Diamond A, an affiliate of Gerald J. Ford, the current Chairman of the Board of Directors of Hilltop and the beneficial owner of 16.2% of Hilltop common stock as of April 27, 2018. Diamond A is owned by Hunter's Glen/Ford, Ltd., a limited partnership in which a trust for the benefit of Jeremy B. Ford is a 46% limited partner. The spouse of Corey G. Prestidge, Hilltop's Executive Vice President, General Counsel and Secretary, is the beneficiary of a trust that also owns a 46% limited partnership interest in Hunter's Glen/Ford, Ltd. and a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P.

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

Employment of Certain Family Members

We currently employ 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 Co-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 Vice Chairman and Co-Chief Executive Officer, serves 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, Chief Executive Officer of PrimeLending, serves as Manager, Strategic Sales of PrimeLending; and Ty Tucker, the son-in-law of Mr. Salmans, serves as Project Manager, Joint Venture Strategy of PrimeLending. Pursuant to our employment arrangements with these individuals, during 2017, these individuals received total compensation for their respective services as employees as follows: Corey G. Prestidge $950,059, Lee Ann White $135,714, Logan Passmore $86,658, Kale Salmans $663,810 and Ty Tucker $97,713.

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, the Bank has agreed to pay Cowboys Stadium, L.P. annual payments of $500,000, subject to possible annual escalations, not to exceed 3% per year, beginning with the tenth year of the lease.

Branch Renovation and Construction

During 2017, the Bank utilized a company owned by Mr. Lewis, Lee Lewis Construction, to renovate one of the Bank's branches and to construct another branch for the Bank. The Bank awarded these contracts to Lee Lewis Construction following a bid process. During 2017, the Bank paid Lewis Construction $315,641 to renovate the Bank branch and $830,856 to construct a Bank branch. Construction on the branch will continue into 2018.

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.

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 — 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 Two and the compensation paid to our named executive officers as disclosed commencing on page 26 of this Proxy Statement by voting **FOR**, on an advisory basis, the following resolution:

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

Vote Necessary to Approve, on an Advisory Basis, Executive Compensation

The affirmative vote of a majority of the votes cast on the matter is required to approve, on an 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 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 THREE — RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP served as our independent registered public accounting firm during 2017 and has been selected to serve in that capacity for 2018, 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 2018 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, 2017, 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 Auditing Standard No. 1301, *Communications with Audit Committees*, issued by the Public Company Accounting Oversight Board.

The Audit Committee received from PricewaterhouseCoopers LLP the written disclosures and the letter required by the Public Company Accounting Oversight Board in Rule 3526, 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, 2017.

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, 2017 and 2016, the total fees paid to our independent registered public accounting firm, PricewaterhouseCoopers LLP, were as follows:

	Fiscal Year Ended	
	2017	2016
Audit Fees	$ 5,160,100	$ 5,686,070
Audit-Related Fees	261,000	251,400
Tax Fees	—	—
All Other Fees	2,700	1,800
Total	$ 5,423,800	$ 5,939,270

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, 2017 and 2016, 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 2017 and 2016 these fees primarily related to attestation reports required under various services agreements.

Tax Fees

No tax fees were incurred during 2017 or 2016.

All Other Fees

In 2017 and 2016, 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 2017 and 2016.

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 2017 or 2016 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 2018.

STOCKHOLDER PROPOSALS FOR 2019

Stockholder proposals intended to be presented at our 2019 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 January 24, 2019 and must otherwise comply with the requirements of Rule 14a-8 in order to be considered for inclusion in the 2019 Proxy Statement and proxy. However, pursuant to such rule, if the 2019 Annual Meeting is not held within 30 days of July 25, 2019, then a stockholder proposal submitted for inclusion in our Proxy Statement for the 2019 Annual Meeting must be received by us a reasonable time before we begin to print and mail our Proxy Statement for the 2019 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 March 27, 2019, and not later than 5:00 p.m. Dallas, Texas local time, on April 26, 2019; *provided, however*, that in the event that the date of the 2019 annual meeting is advanced by more than 30 days or advanced by more than 60 days from July 25, 2019, notice by the stockholder in order to be timely must be received no earlier than the 120th day prior to the date of the 2019 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 2019 annual meeting or, if the first public announcement of the 2019 Annual Meeting is less than 100 days prior to the date of the 2019 Annual Meeting, the 10th day following the day on which public announcement of the date of the 2019 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., 2323 Victory Avenue, Suite 1400, Dallas, Texas 75219, 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

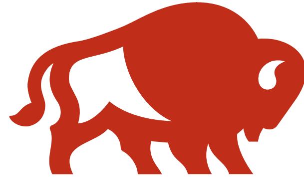
A COPY OF OUR ANNUAL REPORT IS INCLUDED WITH THIS PROXY STATEMENT BUT SHALL NOT BE DEEMED TO BE SOLICITATION MATERIAL. A COPY OF THIS PROXY STATEMENT AND OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017 ALSO IS AVAILABLE WITHOUT CHARGE FROM OUR COMPANY WEBSITE AT WWW.HILLTOP-HOLDINGS.COM OR UPON WRITTEN REQUEST TO: INVESTOR RELATIONS, HILLTOP HOLDINGS INC., 2323 VICTORY AVENUE, SUITE 1400, DALAS, TEXAS 75219.

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.
2323 Victory Avenue, Suite 1400
Dallas, Texas 75219

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



HilltopHoldings

2323 Victory Avenue, Suite 1400
Dallas, Texas 75219
Telephone: (214) 855-2177
Facsimile: (214) 855-2173

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

FORM 10-K

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

For the fiscal year ended: December 31, 2017

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

For the transition period from to

Commission file number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland	**84-1477939**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2323 Victory Avenue, Suite 1400 **Dallas, TX**	**75219**
(Address of principal executive offices)	(Zip Code)

(214) 855-2177
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2017, was approximately $1.95 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 15, 2018 was 95,987,840.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement pertaining to the 2018 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 "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Securities Holdings) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company, LLC (a former wholly owned subsidiary of First Southwest), references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, 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 and the documents incorporated by reference into this report include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included in this Annual Report that address results or developments that we expect or anticipate will or may occur in the future, and statements that are preceded by, followed by or include, words such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goal," "intends," "may," "might," "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 efforts to make strategic acquisitions, our revenue, our liquidity and sources of funding, market trends, operations and business, capital levels, mortgage servicing rights ("MSR") assets, stock repurchases, dividend payments, expectations concerning mortgage loan origination volume and interest rate compression, expected losses on covered loans and related reimbursements from or to the Federal Deposit Insurance Corporation ("FDIC"), anticipated amortization of the value of the receivable under our loss-share agreements with the FDIC ("FDIC Indemnification Asset"), expected levels of refinancing as a percentage of total loan origination volume, projected losses on mortgage loans originated, loss estimates related to natural disasters, anticipated changes in our revenues or earnings, taxes, the effects of government regulation applicable to our operations, the appropriateness of our allowance for loan losses and provision for loan losses, anticipated investment yields, our expectations regarding accretion of discount on loans in future periods, the collectability of loans 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 as well as the effects of changes in the level of, and trends in, loan delinquencies and write-offs;
- changes in general economic, market and business conditions in areas or markets where we compete, including changes in the price of crude oil;
- changes in the interest rate environment;
- risks associated with our concentration in real estate related loans;
- risks associated with merger and acquisition integration;
- severe catastrophic events in Texas and other areas of the southern United States;
- effectiveness of our data security controls in the face of cyber attacks;

- 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;
- our obligations under loss-share agreements with the FDIC, including the possibility that we may be required to make a "true-up" payment to the FDIC;
- failure of our insurance segment reinsurers to pay obligations under reinsurance contracts; and
- our ability to use excess cash 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 cash, excess liquidity and, if necessary or appropriate, additional equity or debt financing sources.

Following our acquisition of PlainsCapital Corporation in November 2012 (the "PlainsCapital Merger"), we further expanded our operations through our assumption of substantially all of the liabilities and acquisition of substantially all of the assets of FNB, including former FNB branches, in an FDIC-assisted transaction on September 13, 2013 (the "FNB Transaction") and our acquisition by merger of SWS for stock and cash consideration on January 1, 2015 (the "SWS Merger"). As a result of the SWS Merger, SWS's broker-dealer subsidiaries, including Hilltop Securities, became subsidiaries of Securities Holdings, a wholly owned subsidiary of Hilltop, and SWS's banking subsidiary was merged into the Bank.

On January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. We use the term "Hilltop Broker-Dealers" to refer to FSC, Hilltop Securities and HTS Independent Network prior to such date and Hilltop Securities and HTS Independent Network after such date.

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, equity trading, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

NLC. NLC is a property and casualty insurance holding company 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.

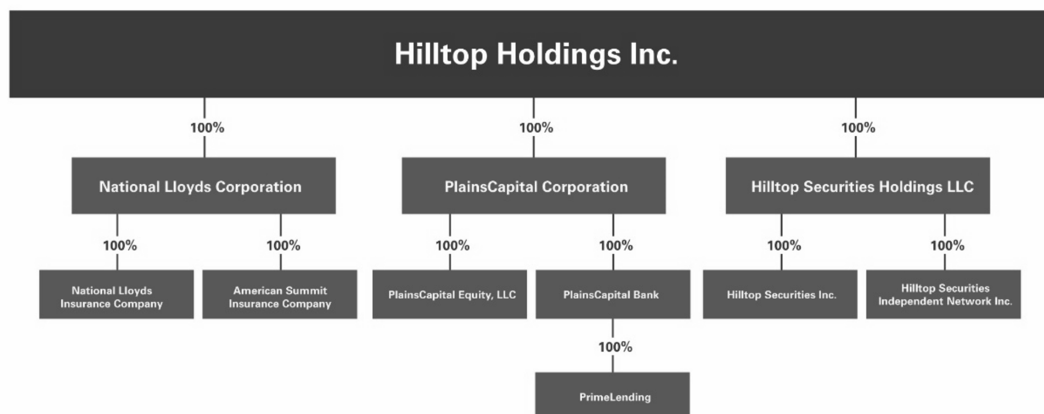
At December 31, 2017, on a consolidated basis, we had total assets of $13.4 billion, total deposits of $8.0 billion, total loans, including loans held for sale, of $8.1 billion and stockholders' equity of $1.9 billion.

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

Our principal office is located at 2323 Victory Avenue, Suite 1400, Dallas, Texas 75219, and our telephone number at that location is (214) 855-2177. Our internet address is www.hilltop-holdings.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on our website at http://ir.hilltop-holdings.com/ under the tab "SEC Filings" as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"). The references to our website in this Annual Report are inactive textual references only. The information on our website is not incorporated by reference into this Annual Report.

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 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 every major market 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. Public finance financial advisory net revenues represented 21% of total net broker-dealer revenues during 2017, and 74% of such public finance financial advisory revenues were from entities located in Texas. Additionally, retail brokerage service net revenues represented 25% of total broker-dealer net revenues during 2017, and 90% of such retail brokerage service revenues were generated through locations in Texas, California and Oklahoma.

PrimeLending provides residential mortgage origination products and services from over 330 locations in 45 states. During 2017, an aggregate of 64.2% of PrimeLending's origination volume was concentrated in ten states. None of the other states in which PrimeLending operated during 2017 had origination volume of 3% or more.

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

	Year Ended December 31,					
	2017		2016		2015	
	Volume	% of Total	Volume	% of Total	Volume	% of Total
Texas	$ 3,129,008	21.6 %	$ 3,352,469	21.7 %	$ 2,967,740	22.2 %
California	1,846,172	12.8 %	2,235,915	14.4 %	1,965,039	14.7 %
Florida	853,727	5.9 %	797,578	5.2 %	644,090	4.8 %
Ohio	634,142	4.4 %	637,435	4.1 %	555,106	4.2 %
Arizona	554,463	3.8 %	527,055	3.4 %	415,215	3.1 %
South Carolina	472,935	3.3 %	446,221	2.9 %	385,347	2.9 %
Washington	465,501	3.2 %	538,857	3.5 %	451,277	3.4 %
Missouri	448,565	3.1 %	441,125	2.9 %	379,621	2.8 %
North Carolina	440,456	3.1 %	512,087	3.3 %	492,879	3.7 %
Maryland	430,668	3.0 %	521,686	3.4 %	452,280	3.4 %
All other states	5,182,276	35.8 %	5,449,785	35.2 %	4,643,525	34.8 %
	$ 14,457,913	100.0 %	$ 15,460,213	100.0 %	$ 13,352,119	100.0 %

Our insurance products are distributed through a broad network of independent agents. During 2017, total gross written premiums were concentrated in five states, with Texas insureds representing 68.8% of the aggregate. None of the other states in which we operated during 2017 had gross written premiums of 3% or more. The following table sets forth our total gross written premiums by state for the periods shown (dollars in thousands).

	Year Ended December 31,					
	2017		2016		2015	
	Gross Written Premiums	% of Total	Gross Written Premiums	% of Total	Gross Written Premiums	% of Total
Texas	$ 102,629	68.8 %	$ 115,108	70.1 %	$ 125,264	70.5 %
Arizona	16,389	11.0 %	16,714	10.2 %	17,117	9.6 %
Tennessee	9,201	6.2 %	9,823	6.0 %	10,575	5.9 %
Oklahoma	8,853	5.9 %	10,258	6.2 %	11,660	6.6 %
Georgia	5,070	3.4 %	5,434	3.3 %	6,050	3.4 %
All other states	7,098	4.7 %	6,971	4.2 %	7,072	4.0 %
Total	$ 149,240	100.0 %	$ 164,308	100.0 %	$ 177,738	100.0 %

Business Segments

Under accounting principles generally accepted in the United States ("GAAP"), our three business units are comprised of four reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, broker-dealer, mortgage origination and insurance. These segments reflect the manner in which operations are managed and the criteria used by our chief operating decision maker function to evaluate segment performance, develop strategy and allocate resources. Our chief operating decision maker function consists of our President and Co-Chief Executive Officer and our Vice Chairman and Co-Chief Executive Officer.

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 including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs. Hilltop's merchant banking investment activities include the identification of attractive opportunities for capital deployment in companies engaged in non-financial activities through its increasingly active merchant bank subsidiary, PlainsCapital Equity, 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 30 in the notes to our consolidated financial statements included under Item 8, "Financial Statements and Supplementary Data."

Banking

The banking segment includes the operations of the Bank, which, at December 31, 2017, had $9.6 billion in assets and total deposits of $7.6 billion. The primary sources of our deposits are residents and businesses located in Texas. At December 31, 2017, the Bank employed approximately 1,200 people.

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

The banking segment's loan portfolio includes "covered loans" acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC, while all other loans held by the Bank are referred to as "non-covered loans." The tables below set forth a distribution of the banking segment's non-covered and covered loans, classified by portfolio segment and segregated between those considered to be purchased credit impaired ("PCI") loans and all other originated or acquired loans at December 31, 2017 (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 non-covered loans category includes a $2.2 billion warehouse line of credit extended to

PrimeLending, of which $1.5 billion was drawn at December 31, 2017. 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.

Non-covered loans	Loans, excluding PCI Loans	PCI Loans	Total Loans	% of Total Non-Covered Loans
Commercial and industrial:				
Secured	$ 3,089,402	$ 6,099	$ 3,095,501	42.8 %
Unsecured	122,889	—	122,889	1.7 %
Real estate:				
Secured by commercial properties	2,217,723	19,675	2,237,398	30.9 %
Secured by residential properties	766,016	9,865	775,881	10.6 %
Construction and land development:				
Residential construction loans	177,252	—	177,252	2.5 %
Commercial construction loans and land development	783,915	1,438	785,353	10.9 %
Consumer	40,319	127	40,446	0.6 %
Total non-covered loans	$ 7,197,516	$ 37,204	$ 7,234,720	100.0 %

Covered loans	Loans, excluding PCI Loans	PCI Loans	Total Loans	% of Total Covered Loans
Commercial and industrial:				
Secured	$ 861	$ 194	$ 1,055	0.6 %
Unsecured	—	—	—	— %
Real estate:				
Secured by commercial properties	11,794	23,559	35,353	19.4 %
Secured by residential properties	80,650	63,356	144,006	79.1 %
Construction and land development:				
Residential construction loans	—	—	—	— %
Commercial construction loans and land development	1,711	4	1,715	0.9 %
Total covered loans	$ 95,016	$ 87,113	$ 182,129	100.0 %

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.

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 properties that include retail, office, multi-family, industrial, warehouse and non-owner occupied single family residences. Commercial mortgage lending can involve high principal loan amounts, and the repayment of these loans is dependent, in large part, on a borrower's on-going business operations or on income generated from the properties that are leased to third parties. Accordingly, we apply the measures described above for commercial and industrial loans to our commercial real estate lending, with increased emphasis on analysis of collateral values. As a general practice, the Bank requires its commercial mortgage loans to (i) be secured with first lien positions on the underlying property, (ii) 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 transactions are generally secured by first liens on the underlying real property. The Bank conducts periodic completion inspections, either directly or through an agent, prior to approval of periodic draws on these loans.

In addition to the real estate lending activities described above, a portion of the Bank's real estate portfolio consists of single family residential mortgage loans typically collateralized by owner occupied properties located in its market areas. These residential mortgage loans are generally secured by a first lien on the underlying property and have maturities up to thirty years. At December 31, 2017, the Bank had $569.7 million in one-to-four family residential loans, which represented 9.7% of its total loans held for investment.

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, Internet 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, 2017, the Bank had $40.4 million of loans for these purposes, which are shown in the non-covered loans 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

We conduct operations through Hilltop Securities and HTS Independent Network. From the date of the SWS Merger until January 22, 2016, when we merged FSC into Hilltop Securities to form a combined firm operating under the "Hilltop Securities" name, our broker-dealer segment was operated through FSC, Hilltop Securities and HTS Independent Network as separate broker-dealers under coordinated leadership. At December 31, 2017, the Hilltop Broker-Dealers employed approximately 900 people and maintained 48 locations in 19 states.

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 First Southwest Asset Management, LLC, a wholly-owned subsidiary of Hilltop Securities. 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"). At December 31, 2017, Hilltop Securities had consolidated assets of $3.4 billion and net capital of $186.8 million, which was $176.3 million in excess of its minimum net capital requirement of $10.5 million.

Our broker-dealer segment has six primary lines of business: (i) public finance, (ii) capital markets, (iii) retail, (iv) structured finance, (v) clearing services, and (vi) securities lending.

Public Finance. The public finance group assists public bodies 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 group provides specialized advisory and investment banking services for airports, convention centers, healthcare institutions, institutions of higher education, housing, industrial development agencies, toll road authorities, and public power and utility providers.

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

Capital Markets. The capital markets group 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 customer activities, and trades equities and option orders 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 capital markets group provides asset and liability management advisory services to community banks.

Additionally, the equity trading department focuses on executing equity and option orders on an agency basis for clients, while the syndicate department, housed within its fixed income sales group, coordinates the distribution of managed and co-managed corporate equity underwritings, accepts invitations to participate in competitive or negotiated underwritings managed by other investment banking firms and allocates and markets the sales of allotments to institutional clients and to other broker-dealers.

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. Through our retail group, we extend margin credit on a secured basis to our retail customers in order to facilitate securities transactions. Through our insurance subsidiaries, we hold insurance licenses to facilitate the sale of insurance and annuity products by 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 group, 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, 2017, we employed 120 registered representatives in 16 retail brokerage offices and had contracts with 218 independent retail representatives for the administration of their securities business.

Structured Finance. The structured finance group provides structured asset and liability services and commodity hedging advisory services to facilitate balance sheet management primarily to public finance clients. In addition, the structured finance group 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.

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, 2017, we provided services to 162 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, 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 2017, funded loan volume through ABAs was less than 5% of the mortgage origination segment's total loan volume. At December 31, 2017, our mortgage origination segment operated from over 330 locations in 45 states, originating 21.6% and 12.8%, respectively, of its mortgage loans (by dollar volume) from its Texas and California 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 typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased 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 a warehouse line of credit maintained with the Bank. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. PrimeLending's determination 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 MSR asset through different strategies, including varying the percentage of mortgage loans sold servicing released and opportunistically selling MSR assets. As mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. Loans sold are subject to certain standard indemnification provisions with investors, including the repurchase of loans sold and the repayment of sales proceeds to investors under certain conditions.

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

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

PrimeLending had a staff of approximately 3,000 people as of December 31, 2017 that produced $14.5 billion in closed mortgage loan volume during 2017, 83% 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”), Veteran 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 are ineligible for sale to the Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corporation (“FHLMC”) or Government National Mortgage Association (“GNMA”), or that do not comply with applicable 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 five states.

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 2017. 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 conducted in two product lines: personal lines and commercial lines. The personal lines include homeowners, dwelling fire, manufactured home, flood and vacant policies. The commercial lines include commercial multi-peril, builders risk, builders risk renovation, sports liability and inland marine policies.

The NLC companies specialize in writing fire and homeowners insurance coverage for low value dwellings and manufactured homes. The vast majority of NLC’s property coverage is written on policies that provide actual cash value payments, as opposed to replacement cost. Under actual cash value policies, the insured is entitled to receive only the cost of replacing or repairing damaged or destroyed property with comparable new property, less depreciation. Replacement cost coverage does not include such a deduction for depreciation; however, it does include limited water coverage.

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 successful securities traders, stock loan professionals and investment bankers among securities firms and other competitors is intense. Our broker-dealer business competes directly with numerous other financial advisory and investment banking firms, broker-dealers and banks, including large national and major regional firms and smaller niche companies, some of whom are not broker-dealers and, therefore, are not subject to the broker-dealer regulatory framework. Further, our broker-dealer segment competes with discount brokerage firms that do not offer equivalent services but offer discounted prices. 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.

Employees

At December 31, 2017, we employed approximately 5,500 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.

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

The Dodd-Frank Act, among other things:

- Established the Consumer Financial Protection Bureau (the "CFPB"), an independent organization within the Federal Reserve which has the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial products or services, including banks and mortgage originators. The CFPB has broad rule-making authority for a wide range of consumer protection laws, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has exclusive examination authority and primary enforcement authority with respect to financial institutions with total assets of more than $10.0 billion and their affiliates for purposes of federal consumer protection laws. After June 30, 2011, a financial institution becomes subject to the CFPB's exclusive examination authority and primary enforcement authority after it has reported total assets of greater than $10.0 billion in its quarterly call reports for four consecutive quarters.
- Established the Financial Stability Oversight Council, tasked with the authority to identify and monitor institutions and systems which pose a systemic risk to the financial system, and to impose standards regarding capital, leverage, liquidity, risk management, and other requirements for financial firms.
- Changed the base for FDIC insurance assessments.
- Increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% (the FDIC subsequently increased it by regulation to 2.00%).
- Permanently increased the deposit insurance coverage amount from $100,000 to $250,000.
- Directed the Federal Reserve to establish interchange fees for debit cards pursuant to a restrictive "reasonable and proportional cost" per transaction standard.
- Limits the ability of banking organizations to sponsor or invest in private equity and hedge funds and to engage in proprietary trading in a provision known as the "Volcker Rule".
- Grants the U.S. government authority to liquidate or take emergency measures with respect to troubled nonbank financial companies that fall outside the existing resolution authority of the FDIC, including the establishment of an orderly liquidation fund.
- Increases regulation of asset-backed securities, including a requirement that issuers of asset-backed securities retain at least 5% of the risk of the asset-backed securities.

- Increases regulation of consumer protections regarding mortgage originations, including banker compensation, minimum repayment standards, and prepayment consideration.
- Establishes new disclosure and other requirements relating to executive compensation and corporate governance.

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

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

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

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

Corporate

Hilltop is a legal entity separate and distinct from PCC and its other subsidiaries. On November 30, 2012, concurrent with the consummation of the PlainsCapital Merger, Hilltop became a financial holding company registered under the Bank Holding Company Act, as amended by the Gramm-Leach-Bliley Act ("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, 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 $1.92 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 are subject to capital adequacy requirements under the recently adopted 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 but will not be fully phased-in until 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 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 Office of the Comptroller of the Currency 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 final Basel III rules take important steps toward improving the quality and increasing the quantity of capital for all banking organizations as well as setting higher standards for large, internationally active banking organizations. The regulatory agencies believe that the new rules will result in capital requirements that better reflect banking organizations' risk profiles, thereby improving the overall resilience of the banking system. The regulatory agencies carefully considered the potential impacts on all banking organizations, including community and regional banking organizations such as Hilltop and 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;
- includes certain unrealized holding gains on equity securities; and
- excludes 50% of the insurance underwriting deduction.

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 will be phased-in through 2019.

The following table summarizes the Basel III phase-in schedule for periods beginning January 1, 2017.

Year (as of January 1)	2017	2018	2019
Minimum common equity Tier 1 capital ratio	4.5 %	4.5 %	4.5 %
Common equity Tier 1 capital conservation buffer	1.25 %	1.875 %	2.5 %
Minimum common equity Tier 1 capital ratio plus capital conservation buffer	5.75 %	6.375 %	7.0 %
Minimum Tier 1 capital ratio	6.0 %	6.0 %	6.0 %
Minimum Tier 1 capital ratio plus capital conservation buffer	7.25 %	7.875 %	8.5 %
Minimum total capital ratio	8.0 %	8.0 %	8.0 %
Minimum total capital ratio plus capital conservation buffer	9.25 %	9.875 %	10.5 %
Phase-in of certain capital deductions (1)	80.0 %	100.0 %	100.0 %

(1) On November 21, 2017, the regulatory agencies proposed an amendment that extends the phase-in schedule for certain capital deductions, including 10 percent and 15 percent common equity Tier 1 threshold deduction items that are over the limits, minority interest and significant and non-significant investments in the capital of unconsolidated financial institutions. Other capital deductions, such as intangible assets and deferred tax assets arising from net operating losses, are subject to the original phase-in schedule.

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 percent at the beginning of the quarter. A banking organization with a buffer greater than 2.5 percent would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5 percent would be subject to increasingly stringent limitations as the buffer approaches zero. 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 are fully phased-in in 2019, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds. During 2017, our eligible retained income was positive and our capital conservation buffer was greater than 2.5 percent, and therefore, we were not subject to limits on capital distributions or discretionary bonus payments. We anticipate similar results during 2018.

At December 31, 2017, Hilltop had a total capital to risk-weighted assets ratio of 18.78%, Tier 1 capital to risk-weighted assets ratio of 18.24% and a common equity Tier 1 capital to risk-weighted assets ratio of 17.71%. 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 and on a fully phased-in basis as if such requirements were currently in effect.

At December 31, 2017, PlainsCapital had a total capital to risk-weighted assets ratio of 15.29%, Tier 1 capital to risk-weighted assets ratio of 14.47% and a common equity Tier 1 capital to risk-weighted assets ratio of 14.47%.

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 and on a fully phased-in basis as if such requirements were currently in effect.

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. 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. As a bank with less than $10 billion in assets, the Bank became subject to the regulations issued by the CFPB on July 21, 2011, although the Federal Reserve Board continued to examine the Bank for compliance with federal consumer protection laws. As of December 31, 2017, the Bank's total assets were $9.6 billion. If the Bank's total assets were to increase, either organically or through an acquisition, merger or combination, to over $10.0 billion (as measured on four consecutive quarterly call reports of the Bank and any institutions it acquires), the Bank would become subject to the CFPB's supervisory and enforcement authority with respect to federal consumer financial laws beginning in the following quarter.

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, 2017.

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

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

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 percent by September 30, 2020. Pursuant to its authority in the Dodd-Frank Act, the FDIC on December 20, 2010, published a final rule establishing a higher long-term target DIF ratio of greater than 2%. Deposit insurance assessment rates are subject to change by the FDIC and will be impacted by the overall economy and the stability of the banking industry as a whole. The FDIC will notify the Bank concerning an assessment rate that we will be charged for the assessment period. As a result of the new regulations, we expect to incur higher annual deposit insurance

assessments, which could have a significant adverse impact on our financial condition and results of operations. Accruals for DIF assessments were $2.4 million during 2017.

In March 2016, the FDIC published final rules to increase the DIF to the statutorily required minimum level of 1.35% by imposing on banks with at least $10 billion in assets a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. If the Bank reaches an asset size of more than $10 billion, the Bank will be subject to this surcharge.

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.

During the third quarter of 2015, the Bank received a "satisfactory" CRA rating in connection with its most recent CRA performance evaluation. A CRA rating of less than "satisfactory" adversely affects a bank's ability to establish new branches and impairs a bank's ability to commence new activities that are "financial in nature" or acquire companies engaged in these activities. See "Risk factors — We are subject to extensive supervision and regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to generate income."

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

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

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

- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

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

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

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

Capital Requirements. The Federal Reserve Board and the Texas Department of Banking monitor the capital adequacy of 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.

Under the regulatory capital guidelines within the Basel III capital rules, PlainsCapital must maintain a total risk-based capital to risk-weighted assets ratio of at least 8.0%, a Tier 1 capital to risk-weighted assets ratio of at least 6.0%, a common equity Tier 1 capital to risk-weighted assets ratio of at least 4.5%, and a Tier 1 capital to average total assets ratio of at least 4.0% (3.0% for banks receiving the highest examination rating) to be considered "adequately capitalized." See the discussion herein under "The FDIC Improvement Act." At December 31, 2017, PlainsCapital's ratio of total risk-based capital to risk-weighted assets was 15.29%, PlainsCapital's ratio of Tier 1 capital to risk-weighted assets was 14.47%, PlainsCapital's common equity Tier 1 capital to risk-weighted assets ratio was 14.47%, and PlainsCapital's ratio of Tier 1 capital to average total assets was 12.32%.

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

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 the bank. At December 31, 2017, 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 February 24, 2017, the Federal Reserve published its annual adjustment to the consolidated asset threshold, increasing it from $10 billion to $10.122 billion through December 31, 2017. As of December 31, 2017, the Bank's total assets were $9.6 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, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

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, 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, 2017, the Hilltop Broker-Dealers were in compliance with applicable net capital requirements.

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

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

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

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

Anti-Money Laundering. The Hilltop Broker-Dealers must also comply with the USA PATRIOT Act 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. First Southwest 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."

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 additional regulatory requirements affecting our mortgage origination operations will result in increased compliance costs and may impact revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance

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

State insurance holding company regulation. NLC controls two operating insurance companies, NLIC and ASIC, and is subject to the insurance holding company laws of Texas, the state in which those insurance companies are domiciled. These laws generally require NLC to register with the Texas Department of Insurance ("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, 2017, NLIC and ASIC capital and surplus levels exceeded the minimum RBC requirements that would trigger regulatory attention. In their 2017 statutory financial statements, both NLIC and ASIC complied with the NAIC's RBC reporting requirements.

The NAIC's Insurance Regulatory Information System ("IRIS") was developed to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies. IRIS identifies twelve industry ratios and specifies a range of "usual values" for each ratio. Departure from the usual values on four or more of these ratios can lead to inquiries from state insurance commissioners as to certain aspects of an insurer's business. For 2017, all ratios for both NLIC and ASIC were within the usual values with two exceptions. Both companies fell below the indicated minimum investment yield range of 3%, with NLIC at 1.4% and ASIC at 0.8%, due to the concentration in cash at each company. We expect improvement in the yields at both companies as appropriate investment opportunities are

identified. Both NLIC and ASIC also fell below the bottom of the gross change in policyholder surplus and change in adjusted policyholder surplus range of -10%, with NLIC at -29% and ASIC at -25%. This is a result of $43.0 million of aggregate dividends paid from NLIC and ASIC in June 2017. Surplus levels remain within acceptable premium to surplus ranges.

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

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.

In November 2002, in response to the tightening supply in certain insurance and reinsurance markets resulting from, among other things, the September 11, 2001 terrorist attacks, the Terrorism Risk Insurance Act ("TRIA") was enacted. TRIA was modified and extended by the Terrorism Risk Insurance Extension Act of 2005 and extended again by the Terrorism Risk Insurance Program Reauthorization Act of 2007. These Acts created a Federal Program designed to ensure the availability of commercial insurance coverage for terrorist acts in the United States. This Program helped the commercial property and casualty insurance industry cover claims related to terrorism-related losses and requires such companies to offer coverage for certain acts of terrorism. As a result, NLC is prohibited from adding certain terrorism exclusions to the policies written by its insurance company subsidiaries. The 2005 Act extended the Program through 2007, but eliminated commercial auto, farm-owners and certain other commercial coverages from its scope.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 further extended the Program through December 31, 2020 and set the reimbursement percentage at 85%, subject to a decrease of one percentage point per calendar year until it equals 80%, and the deductible at 20%. Although NLC is protected by federally funded terrorism reinsurance as provided for in the TRIA, there is a substantial deductible that must be met, the payment of which could have an adverse effect on its financial condition and results of operations. NLC's deductible under the Program was $0.6 million for 2017 and is estimated to be $0.6 million in 2018. Potential future changes to the TRIA could also adversely affect NLC by causing its reinsurers to increase prices or withdraw from certain markets where terrorism coverage is required. NLC had no terrorism-related losses in 2017.

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, 2017, the extraordinary dividend limit for NLIC and ASIC was $13.1 million and $3.1 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 2017, 2016 or 2015. 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 recently levied an assessment on participating companies totaling $64.6 million, of which NLC's insurance subsidiaries' share is estimated to be $0.8 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 businesses, results of operations and financial condition. Thus, the following should not be considered a complete discussion of all of the risks and uncertainties we may face, and the order of their respective significance may change.

Risks Related to our Business

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

As a lender, we are exposed to the risk that we could sustain losses because our borrowers may not repay their loans in accordance with the terms of their loans. We have historically accounted for this risk by maintaining an allowance for loan losses in an amount intended to cover Bank management's estimate of losses inherent in the loan portfolio. Under the acquisition method of accounting requirements, we were required to estimate the fair value of the loan portfolios acquired in each of the PlainsCapital Merger, the FNB Transaction and the SWS Merger (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 or SWS, 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 issued the Current Expected Credit Loss ("CECL") standard, which 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 would be 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. Accordingly, the CECL model could require financial institutions, such as the Bank, to increase their allowance for loan losses. 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 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 international political unrest, increases 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 certain government-backed loans.

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 system upgrades and other technology enhancements. 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, 2017, substantially all of the real estate loans in our loan portfolio were secured by properties located in our four largest markets within Texas, with 36%, 24%, 12% and 11% 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. At December 31, 2017, energy loans, including those within the exploration and production, oilfield services, pipeline construction, distribution and transportation sectors, comprised 2.6% of the Bank’s loan portfolio. The Bank also has loans extended to businesses that depend on the energy industry. 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 2017, 21.6% and 12.8% of our mortgage loans originated (by dollar volume) were collateralized by properties located in Texas and California, respectively. Further, Texas insureds accounted for 68.8% and 70.1% of our insurance segment’s gross premiums written in 2017 and 2016, respectively. Also, in our broker-dealer segment, 74% of public finance financial advisory 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.

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 2017, the Federal Open Market Committee of the Federal Reserve Board raised its target range for short-term interest rates by 100 basis points, and further increases to the target rate are projected to occur in 2018. 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. Moreover, increases in interest rates could also lead to increases in our loan losses.

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

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

At December 31, 2017, over 80% 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.

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, 2017, 43% of the loan portfolio of our banking segment was comprised of loans with real estate as the primary component of collateral. The real estate collateral in each case provides a source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values generally, and in Texas 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.

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 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 Hurricanes Harvey and Irma in the third quarter of 2017, for example, our insurance segment recorded a loss, excluding reinstatement premium, of $4.4 million after reinsurance.

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.

We may be forced to make a "true-up" or reimbursement payment to the FDIC if we continue to experience favorable resolutions within our covered assets portfolio.

Under the terms of the loss-share agreements we entered into with the FDIC in connection with the FNB Transaction, the FDIC is obligated to reimburse us for the following amounts with respect to the covered assets (including covered loans): (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 are defined as book value losses plus certain defined expenses incurred in the resolution of assets, less subsequent recoveries. The loss-share agreements also provide that we may be obligated to reimburse the FDIC under certain circumstances. Under the loss-share agreement for commercial assets, the amount of subsequent recoveries that are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to September 13, 2013 (the "Bank Closing Date"). There is 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 are in effect for five years and ten years, respectively, and the loss recovery provisions to the FDIC are in effect for eight years and ten years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if our actual net realized losses over the life of the loss-share agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the Purchase and Assumption Agreement we entered into with the FDIC in connection with the FNB Transaction. The initial estimate of the FDIC Indemnification Asset at the Bank Closing Date was recorded at the present value of 80% of $240.4 million. As of December 31, 2017, the Bank projects that the sum of actual plus projected covered losses and reimbursable expenses subject to the loss-share agreements will

be less than $240.4 million. As a result, the Bank has recorded, and expects that it will continue to record, amortization associated with its FDIC Indemnification Asset. While the ultimate amount of any "true-up" payment is unknown at this time and will vary based upon the amount of future losses or recoveries within our covered loan portfolio, the Bank has recorded a related "true-up" payment accrual of $16.3 million at December 31, 2017 based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements. Additionally, as estimates of realized losses on covered assets change, the value of the receivable under the loss-share agreements with the FDIC ("FDIC Indemnification Asset") will be adjusted and therefore may not be realized. As noted above, if the Bank continues to experience favorable resolutions within its covered assets portfolio and covered losses, the Bank may be required to increase its "true-up" payment accrual and recognize amortization on the FDIC Indemnification Asset. If such changes occur, our financial position and results of operations may be adversely affected.

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 2017, Texas accounted for 68.8%, Arizona accounted for 11.0%, Tennessee accounted for 6.2%, Oklahoma accounted for 5.9% and Georgia accounted for 3.4% 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 these regions or significant portions of these regions could adversely affect our insurance segment's financial condition and results of operations more significantly than other insurance companies that conduct business across a broader geographic area. Although our insurance segment purchases catastrophe reinsurance to limit its exposure to these types of catastrophes, in the event of one or more major catastrophes resulting in losses to it in excess of $105.0 million, our insurance segment's losses would exceed the limits of its reinsurance coverage.

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

We continue to refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, 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 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.

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 that could be material to our business.

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, we cannot provide assurance that these measures will promptly detect intrusions, and that we will not experience losses or incur costs or other damage related to intrusions that go undetected, at levels that adversely affect our financial results or reputation. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances, as a means to promote political ends. If one or more of these events occurs, it could result in the disclosure of confidential client 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, 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 system.

FINRA and the SEC's Office of Compliance Inspections and Examinations have issued guidance, including risk alerts, relating to principles, effective practices, summary examination findings and compliance issues with respect to cybersecurity policies and procedures and preparedness. In 2017, Securities Holdings evaluated its cybersecurity program by participating in various internal and external, independent information security assessments based on the Critical Security Controls (CSCs) standards established by the Center for Internet Security. Nonetheless, these assessments may be insufficient and may fail to identify particular vulnerabilities and risks associated with our cybersecurity policies, procedures and preparedness.

We continue to evaluate our cybersecurity program and will consider incorporating new practices as necessary to meet the expectations of such 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, 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.

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, including the Bank and its subsidiary, PrimeLending, NLC and its two insurance company subsidiaries, NLIC and ASIC, and Securities Holdings and its subsidiaries. We conduct no material business or other activity other than activities incidental to holding stock in the Bank, NLC and Securities Holdings. 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, NLC and Securities Holdings is subject to significant regulatory restrictions limiting its ability to declare and pay dividends to us. Accordingly, if the Bank, NLC or Securities Holdings are unable to make cash distributions to us, then we may be unable to satisfy our 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, 2017, on a consolidated basis, we had total deposits of $8.0 billion and other indebtedness of $1.5 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.

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 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 FINRA are primarily intended to protect customers of broker-dealer businesses rather than stockholders or other debt holders.

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

During the third quarter of 2015, 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.

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

In July 2013, the Federal Reserve Board approved a final rule that substantially amends the risk-based capital rules applicable to Hilltop and PlainsCapital. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule includes new minimum risk-based capital and leverage ratios, which became effective on a phase-in basis for Hilltop and PlainsCapital on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The final rule also establishes a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios and results in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. As of January 1, 2018, the capital conservation buffer requirement is currently being phased in at 1.875% of risk-weighted assets and will increase each year until fully implemented in January 2019. Based on the Basel III phase-in schedule, as of January 1, 2018, the minimum capital requirements including the capital conservation buffer requirement are: (i) a common equity Tier 1 capital ratio of 6.375% (increased from 5.75%); (ii) a Tier 1 to risk-based assets capital ratio of 7.875% (increased from 7.25%); (iii) a total capital ratio of 9.875% (increased from 9.25%); and (iv) a Tier 1 leverage ratio of 4%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions. The application of more stringent capital requirements for Hilltop and 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.

In addition, the Federal Reserve Board adopted a final rule in February 2014 that clarifies how companies should incorporate the Basel III regulatory capital reforms into their capital and business projections during the 2014 and subsequent cycles of capital plan submissions and stress tests required under the Dodd-Frank Act. At December 31, 2017, Hilltop and PlainsCapital had $13.4 billion and $9.6 billion, respectively, in total consolidated assets and their average of total consolidated assets for the four most recent consecutive quarters was $13.1 billion and $9.6 billion, respectively. In addition, banks with $10.0 billion in total consolidated assets are primarily examined by the CFPB with respect to various consumer financial protection laws and regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB’s examination and regulatory authority might impact the Company’s and PlainsCapital’s businesses. As a result of the SWS Merger, Hilltop has more than $10.0 billion in assets. Accordingly, the Dodd-Frank Act Stress Testing program requires Hilltop to submit its annual company-run stress test to the Federal Reserve Board using our capital planning tools. Hilltop is required to publicly disclose a summary of the results of these

forward looking, company-run stress tests that assess the impact of hypothetical macroeconomic baseline, adverse and severely adverse economic scenarios provided by the Federal Reserve Board. If we are deemed to have inadequate capital under the hypothetical economic scenarios, then our regulator may, among other things, require us to limit any dividend or other capital distributions we may make to stockholders or increase our capital levels, modify our business and growth strategies or decrease our exposure to various asset classes, any of which could have a material adverse effect on our financial condition or results of operations. Our regulators may also consider preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval the Company may make, including requests for approvals on unrelated matters.

Compliance with these capital planning and stress testing requirements has increased our cost of regulatory compliance and necessitated the hiring of additional compliance and other personnel, the design and implementation of additional internal controls and processes, and attention from management. We cannot assure you that our efforts will be deemed sufficient or that we will be deemed to have adequate capital under the hypothetical economic stress scenarios which would affect our ability to take certain capital actions in the future. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities.

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 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.

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

As a result, the revenues and operating results of our broker-dealer segment may vary significantly from quarter to quarter and from year to year. Unfavorable financial or economic conditions could reduce the number and size of transactions in which we provide financial advisory, underwriting and other services. Disruptions in fixed income and equity markets could lead to a decline in the volume of transactions executed for customers and, therefore, to declines in revenues from commissions and clearing services. Our broker-dealer business is much smaller and has much less capital than many

competitors in the securities industry. In addition, 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 financial holding company.

Market fluctuations could adversely impact our broker-dealer business.

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

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

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

Poor investment returns and declines in client assets in our investment advisory business, due to either general market conditions or underperformance (relative to our competitors or to benchmarks) by investment products, 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 portfolio trading business is highly price competitive and serves a very limited market.

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

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

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

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

We offer a variety of services and products, such as individual retirement accounts and municipal bonds, 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. National municipal issuances surged in the fourth quarter of 2017 due to the anticipated effects of the Tax Cuts and Jobs Act. A number of national municipal issuers elected to accelerate certain capital raising initiatives before these changes were enacted. As a result, we anticipate lower

municipal issuance volume in 2018, which could negatively impact our broker-dealer segment's public finance business, financial condition, results of operations, or cash flows.

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

We intend to sell, and not hold for investment, substantially all residential mortgage loans that we originate through PrimeLending. At times, however, we may originate a loan or execute an interest rate lock commitment ("IRLC") with a customer pursuant to which we agree to originate a mortgage loan on a future date at an agreed-upon interest rate without having identified a purchaser for such loan. An identified purchaser may also decline to purchase a loan for a variety of reasons. In these instances, we will bear interest rate risk on an IRLC until, and unless, we are able to find a buyer for the loan underlying such IRLC and the risk of investment on a loan until, and unless, we are able to find a buyer for such loan. In addition, 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, we may be responsible for repairs for uninsured damage.

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 interest rate swaps and swaptions, and 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, 2017, the mortgage origination segment's MSR asset had a fair value of $55.8 million. All income related to retained servicing, including changes in the value of the MSR asset, is included in noninterest income. Depending on the interest rate environment, it is possible that the fair value of our MSR asset may be reduced in the future. If such changes in fair value significantly reduce the carrying value of our MSR asset, our financial condition and results of operations would be negatively affected.

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

In connection with the Bank Transactions, we acquired loans at an aggregate discount of $523.2 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. In future periods, if actual historical results combined with future projections of these factors (amount, timing, or credit losses) differ from the initial projections, the effective yield and the amount of discount recognized will change. Volatility may increase as the variance of actual results from initial projections increases. As the acquired loans are

removed from our books, the related discount will no longer be available for accretion into income. Aggregate accretion of $58.4 million on loans purchased at a discount in the Bank Transactions was recorded as interest income during 2017. As of December 31, 2017, the balance of our discount on loans in the aggregate was $120.7 million.

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

As a result of purchase accounting in connection with our acquisition of NLC, the PlainsCapital Merger, the FNB Transaction and the SWS Merger, our consolidated balance sheet at December 31, 2017, included goodwill of $251.8 million and other intangible assets, net of accumulated amortization, of $36.4 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, 2017, the fair values of each of our reporting units indicated no impairment of goodwill. This analysis and the resulting estimated fair value of our insurance reporting unit exceeded the carrying value by approximately 12%, which represented a decline in estimated excess fair value over carrying value from recent annual goodwill assessments. This decrease in the excess fair value over carrying value from our 2016 assessment to our 2017 assessment was primarily a result of a reduction in projected discounted cash flows driven by the insurance reporting unit's current operating performance being below expectations, which was primarily attributable to catastrophic and sub-catastrophic weather-related events which occurred in 2017. In the event future operating performance is below our forecasted projections, there are negative changes to long-term growth rates or discount rates increase, the fair value of the insurance reporting unit may decline and we may be required to record a goodwill impairment charge.

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 significant portion of its revenues from advisory fees paid to it by its clients, in large part upon the successful completion of the client's transaction. 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 group 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, and we have experienced losses resulting from fraud in the past. 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. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation.

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, a number of new, proposed or potential industry developments also could increase competition in our insurance segment's industry. These developments include changes in practices and other effects caused by the Internet (including direct marketing campaigns by our insurance segment's competitors in established and new geographic markets), which have led to greater competition in the insurance business and increased expectations for customer service.

These developments could prevent our insurance business from expanding its book of business. Our insurance business also faces competition from new entrants into the insurance market. New entrants do not have historic claims or losses to address and, therefore, may be able to price policies on a basis that is not favorable to our insurance business. New competition could reduce the demand for our insurance segment's insurance products, which could have a material adverse effect on our financial condition and results of operations.

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 2017, our insurance segment's personal lines ceded 8.3% of its direct insurance premiums written (primarily through excess of loss, quota share and catastrophe reinsurance treaties) and its commercial lines ceded 6.2% 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, increased 13.7% during 2017, compared with 2016, which was primarily attributable to reinstatement premium associated with Hurricane Harvey, offset by lower premium rates. 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, 2017, our insurance segment had $13.1 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 in reimbursing our insurance segment for losses paid, its liability for these claims could materially and adversely affect its financial condition and results of operations.

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

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

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

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

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

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

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

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

The 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. In addition, NLC has other credit arrangements with its affiliates and other third-parties.

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

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

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

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

The success of any acquisition or business combination will depend upon, among other things, the ability of management and our employees to integrate personnel, operations, products and technologies effectively, to 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 The Bank of River Oaks pending acquisition or any other 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 available cash 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.

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 2017, we declared and paid cash dividends of $0.24 per common share. In January 2017, our board of directors reauthorized the stock repurchase program originally approved during the second quarter of 2016 through January 2018, under which it authorized us to repurchase, in the aggregate, up to $50.0 million of our outstanding common stock. During 2017, we paid $27.4 million to repurchase an aggregate of 1,057,656 shares of our common stock at an average price of $25.87 per share. In January 2018, our board of directors authorized a stock repurchase program through January 2019. Pursuant to the stock repurchase program, we are authorized to repurchase, in the aggregate, up to $50.0 million of our outstanding common stock.

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.

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

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

Risks Related to Our Common Stock

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

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

- may significantly dilute the equity interest of our stockholders;

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

Our board of directors, in its sole discretion, may designate and issue one or more additional series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our articles of incorporation, our board of directors is empowered to determine the designation and number of shares constituting each series of preferred stock, as well as any designations, qualifications, privileges, limitations, restrictions or special or relative rights of additional series. The rights of preferred stockholders may supersede the rights of common stockholders. Preferred stock could be issued with voting and conversion rights that could adversely affect the voting power of the shares of our common stock. The issuance of preferred stock could also result in a series of securities outstanding that would have preferences over the common stock with respect to dividends and in liquidation.

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

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

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

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

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, 2017, 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 includes 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.

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.

Banking. At December 31, 2017, our banking segment conducted business at 71 locations throughout Texas, including seven support facilities. We lease 34 banking locations, including our principal offices, and we own the remaining 37 banking locations.

Broker-Dealer. At December 31, 2017, our broker-dealer segment conducted business from 48 locations in 19 states. Each of these locations is leased by Hilltop Securities.

Mortgage Origination. At December 31, 2017, our mortgage origination segment conducted business from over 330 locations in 45 states. Each of these locations is leased by PrimeLending.

Insurance. At December 31, 2017, 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 18 to our Consolidated Financial Statements, which is incorporated by reference herein.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Securities, Stockholder and Dividend Information

Our common stock is listed on the New York Stock Exchange under the symbol "HTH". Our common stock closed at $25.33 on February 15, 2018. At February 15, 2018, there were 95,987,840 shares of our common stock outstanding with 468 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 2017, we declared and paid cash dividends of $0.24 per common share. On January 25, 2018, we announced that our board of directors increased our quarterly dividend to $0.07 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 Substantial Cash Position and Related Strategies for its Use — There can be no assurance that we will continue to declare cash dividends or repurchase stock."

As a holding company, we are ultimately dependent upon our subsidiaries to provide funding for our operating expenses, debt service and dividends. Various laws limit the payment of dividends and other distributions by our subsidiaries to us, and may therefore limit our ability to pay dividends on our common stock. In addition, 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. See Part I, Item I, "Business — Government Supervision and Regulation — Corporate — Capital Adequacy Requirements and BASEL III" for more information on regulatory capital requirements limiting our and our banking segment's ability to declare and pay dividends.

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

The following table discloses for each quarter of 2017 and 2016 the high and low sales prices for our common stock and the cash dividends declared per share. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	Year Ended December 31,					
	2017			2016		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
First Quarter	$ 30.60	$ 25.86	$ 0.06	$ 19.21	$ 14.28	$ —
Second Quarter	$ 28.86	$ 24.65	$ 0.06	$ 22.05	$ 17.91	$ —
Third Quarter	$ 26.98	$ 21.47	$ 0.06	$ 22.94	$ 19.97	$ —
Fourth Quarter	$ 26.55	$ 21.96	$ 0.06	$ 30.24	$ 22.21	$ 0.06

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information at December 31, 2017 with respect to compensation plans under which shares of our common stock may be issued. Additional information concerning our stock-based compensation plans is presented in Note 20, Stock-Based Compensation, in the notes to our consolidated financial statements.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders*	—	$ —	1,634,804
Total	—	$ —	1,634,804

* 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, 2017, 2,517,316 awards had been granted pursuant to the 2012 Plan, while 222,696 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, 2017.

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, 2017	—	$ —	—	$ 22,610,603
November 1 - November 30, 2017	—	—	—	22,610,603
December 1 - December 31, 2017	—	—	—	22,610,603
Total	—	$ —	—	

(1) On June 13, 2016, we announced a stock repurchase program which authorized us to repurchase, in the aggregate, up to $50.0 million of our outstanding common stock. On January 26, 2017, we announced that our board of directors reauthorized this stock repurchase program through January 2018. As of December 31, 2017, we had repurchased an aggregate of $27.4 million of our outstanding common stock under this stock repurchase program. On January 25, 2018, we announced that our board of directors authorized a new stock repurchase program under which we may repurchase, in the aggregate, up to $50.0 million of our outstanding common stock through January 2019.

Recent Sales of Unregistered Securities

On October 5, 2017, we issued an aggregate of 4,900 shares of common stock under the 2012 Plan to certain non-employee directors as compensation for their service on our board of directors during the third quarter of 2017. 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, 2017 and 2016 and our consolidated statements of operations data for the years ended December 31, 2017, 2016 and 2015 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 FNB Transaction and SWS Merger are included in our operating results beginning September 14, 2013 and January 1, 2015, respectively (dollars in thousands, except per share data and weighted average shares outstanding).

	2017	2016	2015	2014	2013
Statement of Operations Data:					
Total interest income	$ 507,156	$ 455,954	$ 469,838	$ 388,769	$ 329,075
Total interest expense	85,408	58,423	61,255	27,628	32,874
Net interest income	421,748	397,531	408,583	361,141	296,201
Provision for loan losses	14,271	40,620	12,715	16,933	37,158
Net interest income after provision for loan losses	407,477	356,911	395,868	344,208	259,043
Total noninterest income	1,205,064	1,286,965	1,227,642	799,311	850,085
Total noninterest expense	1,369,255	1,412,471	1,340,016	965,353	911,735
Income before income taxes	243,286	231,405	283,494	178,166	197,393
Income tax expense	110,142	83,461	70,915	65,608	70,684
Net income	133,144	147,944	212,579	112,558	126,709
Less: Net income attributable to noncontrolling interest	600	2,050	1,606	908	1,367
Income attributable to Hilltop	132,544	145,894	210,973	111,650	125,342
Dividends on preferred stock (1)	—	—	1,854	5,703	4,327
Income applicable to Hilltop common stockholders	$ 132,544	$ 145,894	$ 209,119	$ 105,947	$ 121,015
Per Share Data:					
Net income - basic	$ 1.36	$ 1.48	$ 2.10	$ 1.18	$ 1.43
Weighted average shares outstanding - basic	97,137	98,404	99,074	89,710	84,382
Net income - diluted	$ 1.36	$ 1.48	$ 2.09	$ 1.17	$ 1.40
Weighted average shares outstanding - diluted	97,353	98,629	99,962	90,573	90,331
Book value per common share	$ 19.92	$ 18.98	$ 17.56	$ 14.93	$ 13.27
Tangible book value per common share	$ 16.92	$ 15.97	$ 14.46	$ 11.47	$ 9.70
Cash dividends declared per common share	$ 0.24	$ 0.06	$ —	$ —	$ —
Dividend payout ratio (2)	17.59 %	4.05 %	— %	— %	— %
Balance Sheet Data:					
Total assets	$ 13,365,786	$ 12,738,062	$ 11,867,001	$ 9,242,416	$ 8,904,122
Cash and due from banks	486,977	669,357	652,036	782,473	713,099
Securities	1,852,094	1,215,372	1,219,874	1,109,461	1,261,989
Investment in SWS common stock (3)	—	—	—	70,282	—
Loans held for sale	1,715,357	1,795,463	1,533,678	1,309,693	1,089,039
Non-covered loans, net of unearned income	6,273,669	5,843,499	5,207,617	3,920,476	3,514,646
Covered loans	182,129	256,127	380,294	642,640	1,006,369
Allowance for loan losses	(63,686)	(54,599)	(46,947)	(41,652)	(34,302)
Goodwill and other intangible assets, net	288,240	296,503	306,676	311,591	322,729
Total deposits	7,978,119	7,063,811	6,952,683	6,369,892	6,722,918
Notes payable	208,809	317,912	238,716	56,684	56,327
Junior subordinated debentures	67,012	67,012	67,012	67,012	67,012
Total stockholders' equity	1,914,807	1,874,520	1,738,125	1,461,239	1,311,922
Performance Ratios (4):					
Return on average stockholders' equity (5)	7.00 %	8.13 %	12.32 %	8.01 %	10.48 %
Return on average assets (5)	1.03 %	1.21 %	1.70 %	1.26 %	1.66 %
Net interest margin (6) (7)	3.61 %	3.68 %	3.71 %	4.71 %	4.44 %
Net interest margin (taxable equivalent) (7) (8)	3.63 %	3.71 %	3.74 %	4.74 %	4.47 %
Asset Quality Ratios (4):					
Total nonperforming assets to total loans and other real estate	1.33 %	1.39 %	2.34 %	4.14 %	3.70 %
Allowance for loan losses to nonperforming loans	139.58 %	193.05 %	137.99 %	74.01 %	136.39 %
Allowance for loan losses to total loans	0.99 %	0.90 %	0.84 %	0.91 %	0.76 %
Net charge-offs to average loans outstanding	0.08 %	0.57 %	0.14 %	0.21 %	0.18 %
Capital Ratios:					
Equity to assets ratio	14.31 %	14.68 %	14.64 %	15.80 %	14.73 %
Tangible common equity to tangible assets	12.42 %	12.65 %	12.37 %	11.59 %	10.19 %

	2017	2016	2015	2014	2013
Regulatory Capital Ratios (3):					
Hilltop - Leverage ratio	12.94 %	13.51 %	12.65 %	14.17 %	12.81 %
Hilltop - Common equity Tier 1 risk-based capital ratio (9)	17.71 %	18.30 %	17.87 %		
Hilltop - Tier 1 risk-based capital ratio	18.24 %	18.87 %	18.48 %	19.02 %	18.53 %
Hilltop - Total risk-based capital ratio	18.78 %	19.34 %	18.89 %	19.69 %	19.13 %
PlainsCapital - Leverage ratio	12.32 %	12.35 %	13.22 %	10.31 %	9.29 %
PlainsCapital - Common equity Tier 1 risk-based capital ratio (9)	14.47 %	14.64 %	16.23 %		
PlainsCapital - Tier 1 risk-based capital ratio	14.47 %	14.64 %	16.25 %	13.74 %	13.38 %
PlainsCapital - Total risk-based capital ratio	15.29 %	15.38 %	16.99 %	14.45 %	14.00 %
Other Data:					
Banking Segment:					
Efficiency ratio (10)	58.24 %	58.87 %	56.45 %	61.17 %	42.58 %
Return on average assets (5)	0.85 %	0.94 %	1.36 %	1.20 %	1.78 %
Net interest margin (6)	4.31 %	4.65 %	5.05 %	4.97 %	5.12 %
Net interest margin (taxable equivalent) (8)	4.33 %	4.68 %	5.08 %	5.00 %	5.17 %
Broker-Dealer Segment:					
Net revenue (11)	$ 412,156	$ 416,938	$ 367,466	$ 131,595	$ 114,778
Compensation as a % of net revenue	60.8 %	60.6 %	69.6 %	59.7 %	59.5 %
Mortgage Origination Segment:					
Mortgage loan originations volume - Home purchases	$ 11,974,571	$ 11,276,378	$ 9,891,792	$ 8,295,994	$ 8,178,970
Mortgage loan originations volume - Refinancings	2,483,342	4,183,835	3,460,327	2,067,854	3,613,592
Mortgage loan originations volume - Total	14,457,913	15,460,213	13,352,119	10,363,848	11,792,562
Mortgage loan sales volume	14,454,260	15,155,340	13,129,069	10,164,350	12,045,842
Insurance Segment:					
Net loss and LAE ratio	66.6 %	57.4 %	61.1 %	57.4 %	70.3 %
Expense ratio	39.9 %	33.5 %	33.8 %	31.9 %	32.3 %
Combined ratio	106.5 %	90.9 %	94.9 %	89.3 %	102.6 %
Statutory surplus (12)	$ 116,590	$ 161,790	$ 152,342	$ 141,987	$ 125,054
Statutory premiums to surplus ratio	117.5 %	92.3 %	105.4 %	115.8 %	130.7 %

(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) For periods prior to 2014, Hilltop's investment in SWS common stock was accounted for and included within its available for sale securities portfolio.
(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 Legislation. Certain Tax Legislation amounts are considered reasonable estimates as of December 31, 2017 and could be adjusted during the measurement period, which will end in December 2018, as a result of further refinement our calculations, changes in interpretations and assumptions made, guidance that may be issued and actions we may take as a result of the Tax Legislation.
(6) Net interest margin is defined as net interest income divided by average interest-earning assets
(7) Noted measures during 2016 and 2015 reflect certain asset category reclassifications within the detailed calculations to conform with the current period presentation.
(8) 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 35% federal income tax rate. 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 $2.2 million, $2.4 million, $3.0 million, $2.3 million and $2.4 million, respectively, and for the banking segment were $1.6 million, $1.5 million, $1.8 million, $2.0 million and $2.0 million, respectively.
(9) Common equity Tier 1 risk-based capital ratio applicable for reporting periods beginning after January 1, 2015.
(10) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the year.
(11) Net revenue is defined as the sum of total broker-dealer net interest income plus total broker-dealer noninterest income.
(12) Statutory surplus includes combined surplus of NLIC and ASIC.

GAAP Reconciliation and Management's Explanation of Non-GAAP Financial Measures

We present two measures in our selected financial data that are not measures of financial performance recognized by GAAP. "Tangible book value per common share" is defined as our total stockholders' equity, excluding preferred stock, reduced by goodwill and other intangible assets, divided by total common shares outstanding. "Tangible common equity to tangible assets" is defined as our total stockholders' equity, excluding preferred stock, reduced by goodwill and other intangible assets divided by total assets reduced by goodwill and other intangible assets. These measures are important to investors interested in changes from period to period in tangible common equity per share exclusive of changes in intangible assets. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill and other intangible assets related to those transactions.

You should not view this disclosure as a substitute for results determined in accordance with GAAP, and our disclosure is not necessarily comparable to that of other companies that use non-GAAP measures.

The following table reconciles these non-GAAP financial measures to the most comparable GAAP financial measures, "book value per common share" and "Hilltop stockholders' equity to total assets" (dollars in thousands, except per share data).

	December 31,				
	2017	2016	2015	2014	2013
Book value per common share	$ 19.92	$ 18.98	$ 17.56	$ 14.93	$ 13.27
Effect of goodwill and intangible assets per share	$ (3.00)	$ (3.01)	$ (3.10)	$ (3.46)	$ (3.57)
Tangible book value per common share	$ 16.92	$ 15.97	$ 14.46	$ 11.47	$ 9.70
Hilltop stockholders' equity	$ 1,912,081	$ 1,870,509	$ 1,736,954	$ 1,460,452	$ 1,311,141
Less: preferred stock	—	—	—	114,068	114,068
Less: goodwill and intangible assets, net	288,240	296,503	306,676	311,591	322,729
Tangible common equity	1,623,841	1,574,006	1,430,278	1,034,793	874,344
Total assets	13,365,786	12,738,062	11,867,001	9,242,416	8,904,122
Less: goodwill and intangible assets, net	288,240	296,503	306,676	311,591	322,729
Tangible assets	13,077,546	12,441,559	11,560,325	8,930,825	8,581,393
Equity to assets	14.31 %	14.68 %	14.64 %	15.80 %	14.73 %
Tangible common equity to tangible assets	12.42 %	12.65 %	12.37 %	11.59 %	10.19 %

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), 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 "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of Securities Holdings) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company, LLC (a former wholly owned subsidiary of First Southwest), references to "PrimeLending" refer to PrimeLending, a PlainsCapital Company (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, 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, equity trading, clearing, securities lending, structured finance and retail brokerage services throughout the United States.

NLC. NLC is a property and casualty insurance holding company 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 2017, our net income to common stockholders was $132.5 million, or $1.36 per diluted share. We declared and paid total common dividends of $0.24 per share, or $23.1 million, during 2017, which resulted in a dividend payout ratio of 17.59%. 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 $27.4 million to repurchase our common stock during 2017.

We reported $243.3 million of consolidated income before income taxes during 2017, including the following contributions from our four reportable business segments.

- The banking segment contributed $164.0 million of income before income taxes during 2017;
- The broker-dealer segment contributed $64.6 million of income before income taxes during 2017;
- The mortgage origination segment contributed $49.6 million of income before income taxes during 2017; and
- The insurance segment incurred a loss before income taxes of $4.1 million during 2017.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Legislation") was enacted. The Tax Legislation significantly revises the U.S. corporate income tax by lowering corporate income tax rates. Our results during 2017 include the estimated impact of a non-recurring, non-cash charge of $28.4 million as a result of the enactment of the Tax Legislation. The charge was primarily due to the revaluation of deferred tax assets as a result of the reduction in the corporate tax rate from 35% to 21%, and other anticipated impacts associated with the Tax Legislation. Certain Tax Legislation amounts are considered reasonable estimates as of December 31, 2017 and could be adjusted during the measurement period, which will end in December 2018, as a result of further refinement of our calculations, changes in interpretations and assumptions made, guidance that may be issued and actions we may take as a result of the Tax Legislation. The charge resulting from the Tax Legislation is expected to be recovered through lower projected effective tax rates due to reduction of the corporate tax rate to 21%, which we expect to be partially offset by the loss of deductions for certain expenses. In addition, the Tax Legislation eliminates our ability to carryback any net operating losses against prior period taxable income in future years, which impacts the amount of the allowable deferred tax assets included in our common equity Tier 1 capital in our capital calculations, starting in 2018.

During August and September 2017, Hurricanes Harvey and Irma affected both the Company and its customers. The estimated pre-tax earnings impact from these hurricanes on our 2017 operating results was $8.2 million. Specifically, within our insurance segment, the total estimated loss and loss adjustment expenses ("LAE") incurred associated with the hurricanes was $19.3 million at December 31, 2017, down from $19.5 million at September 30, 2017. However, since the losses exceeded excess of loss retention coverage, net exposure to the insurance segment was $4.4 million retention and $1.4 million in reinstatement premiums, down from a combined $6.0 million at September 30, 2017. The effect on our broker-dealer segment's operating results were limited to $0.3 million associated with waived customer fees. While the mortgage origination and banking segments did not identify any immediate losses based on client interactions and the

review of collateral domiciled in the affected areas, each recorded loss estimates within its third quarter 2017 operating results. As of December 31, 2017, the mortgage origination segment held a $0.1 million indemnification liability reserve associated with loss exposures related to funded loans, not yet sold into the secondary markets, as well as loans upon which it owns the mortgage servicing rights, a decrease from the $1.5 million reserve that was originally recorded as of September 30, 2017. This decrease in indemnification liability reserve was due to a reduction in the estimated number of loans with loss exposures from September 30, 2017 to December 31, 2017. The banking segment has reflected $2.0 million associated with estimated hurricane loss exposures within the qualitative factors used to determine its allowance for loan losses during the year ended December 31, 2017. Loan balances in the affected areas represented approximately 12% of total bank loans as of December 31, 2017 and are summarized by portfolio segment in the following table (dollars in millions).

Commercial and industrial	$	100
Real estate		576
Construction and land development		—
Consumer		1
Broker-dealer		—
Total loans in affected areas	$	677

Additionally, during 2017, our consolidated income before taxes included the recognition within corporate of a pre-tax net increase to other noninterest income of $11.6 million related to the resolution of the appraisal proceedings from the SWS Merger (as defined below) as discussed in detail in Note 18, Commitments and Contingencies.

During 2016, the Bank discovered irregularities with respect to a non-covered loan that was in default, including the genuineness of certain underlying documents that supported the loan and the operations of the borrower's business. As a result of the payment default and other irregularities, the Bank increased its provision for loan losses and recorded a $24.5 million charge-off during the second quarter of 2016, representing the entire outstanding principal balance of the loan. The banking segment's financial results for 2016 reflect this charge-off. During the second quarter of 2017, the bank recorded other noninterest income of $15.0 million from coverage provided by an insurance policy for forgery of a document delivered in connection with this loan. The Bank is actively pursuing legal remedies to recover losses arising from this isolated incident, including litigation against the borrower and guarantors. The Bank cannot currently estimate the amount of any future recoveries or additional expenses related to this charged-off loan.

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 and regulatory, and compliance requirements and competition. All of these factors have the potential to impact on 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.

At December 31, 2017, on a consolidated basis, we had total assets of $13.4 billion, total deposits of $8.0 billion, total loans, including loans held for sale, of $8.1 billion and stockholders' equity of $1.9 billion.

On January 25, 2018, our board of directors declared a quarterly cash dividend of $0.07 per common share, payable on February 28, 2018 to all common stockholders of record as of the close of business on February 15, 2018.

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 Federal Deposit Insurance Corporation (the "FDIC"), as receiver, and reopened former branches of FNB acquired from the FDIC under the "PlainsCapital Bank" name (the "FNB Transaction"). Pursuant to the Purchase and Assumption Agreement by and among the FDIC as receiver for FNB, the FDIC and the Bank (the "P&A Agreement"), the Bank and the FDIC entered into loss-share agreements whereby the FDIC agreed to share in the losses of certain covered loans and covered other real estate owned ("OREO") that the Bank acquired in the FNB Transaction.

On January 1, 2015, we acquired SWS in a stock and cash transaction (the "SWS Merger"), whereby SWS's broker-dealer subsidiaries, Southwest Securities, Inc. and SWS Financial Services, Inc., became subsidiaries of Securities Holdings and SWS's banking subsidiary, Southwest Securities, FSB ("SWS FSB"), was merged into the Bank, an indirect wholly owned subsidiary of Hilltop. On October 5, 2015, Southwest Securities, Inc. and SWS Financial Services, Inc. were renamed "Hilltop Securities Inc." and "Hilltop Securities Independent Network Inc.", respectively. As a result of the SWS Merger, each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop's closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.1 million, consisting of 10.1 million shares of common stock, $78.2 million in cash and $70.3 million associated with our existing investment in SWS common stock. Based on purchase date valuations, the fair value of the assets acquired was $3.3 billion, including $707.5 million in securities, $863.8 million in non-covered loans and $1.2 billion in broker-dealer and clearing organization receivables. The fair value of liabilities assumed was $2.9 billion, consisting primarily of deposits of $1.3 billion and $1.1 billion in broker-dealer and clearing organization payables. The operations acquired in the SWS Merger, including a bargain purchase gain of $81.3 million, are included in our operating results beginning January 1, 2015.

On January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. We use the term "Hilltop Broker-Dealers" to refer to FSC, Hilltop Securities and HTS Independent Network prior to such date and Hilltop Securities and HTS Independent Network after such date.

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, 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 FSC through January 22, 2016, and since January 1, 2015, 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, and First Southwest Asset Management, LLC, a wholly-owned subsidiary of Securities Holdings, is a registered investment adviser 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 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 including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs.

The elimination of intercompany transactions are included in "All Other and Eliminations." Additional information concerning our reportable segments is presented in Note 30, Segment and Related Information, in the notes to our consolidated financial statements. The following tables present certain information about the operating results of our reportable segments (in thousands).

Year Ended December 31, 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 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

Year Ended December 31, 2016	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 363,083	$ 31,172	$ (11,589)	$ 3,164	$ (7,257)	$ 18,958	$ 397,531
Provision for loan losses	40,673	(53)	—	—	—	—	40,620
Noninterest income	52,579	385,766	704,126	164,841	2	(20,349)	1,286,965
Noninterest expense	244,715	377,524	614,741	146,601	29,938	(1,048)	1,412,471
Income (loss) before income taxes	$ 130,274	$ 39,467	$ 77,796	$ 21,404	$ (37,193)	$ (343)	$ 231,405

Year Ended December 31, 2015	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 369,493	$ 32,971	$ (10,423)	$ 3,187	$ (5,109)	$ 18,464	$ 408,583
Provision for loan losses	12,795	(80)	—	—	—	—	12,715
Noninterest income	62,639	334,495	597,163	171,185	81,289	(19,129)	1,227,642
Noninterest expense	243,926	367,812	539,257	158,720	31,926	(1,625)	1,340,016
Income (loss) before income taxes	$ 175,411	$ (266)	$ 47,483	$ 15,652	$ 44,254	$ 960	$ 283,494

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 $421.7 million in net interest income during 2017, compared with net interest income of $397.5 million and $408.6 million during 2016 and 2015, respectively. Changes in net interest income during 2017, compared with 2016, primarily included increases within our banking, broker-dealer and mortgage origination segments. The decrease in net interest income during 2016, compared with 2015, included decreases within our banking and broker-dealer segments, offset by an increase in interest expense incurred on our $150.0 million aggregate principal amount of 5% senior notes due 2025 ("Senior Notes") that were not issued until the second quarter of 2015.

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 $266.3 million, $273.9 million and $276.6 million in securities brokerage commissions and fees and investment advisory fees and commissions, and $91.1 million, $102.2 million and $56.8 million in gains on derivative and trading portfolio activities (included within other noninterest income) during 2017, 2016 and 2015, respectively.

(ii) *Income from mortgage operations.* Through PrimeLending, we generate noninterest income by originating and selling mortgage loans. During 2017, 2016 and 2015, we generated $632.4 million, $703.3 million and $596.8 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 that generated $142.3 million, $155.5 million and $162.1 million in net insurance premiums earned during 2017, 2016 and 2015, respectively.

In the aggregate, we generated $1.2 billion, $1.3 billion and $1.2 billion in noninterest income during 2017, 2016 and 2015, respectively. Excluding the bargain purchase gain of $81.3 million related to the SWS Merger in 2015, our noninterest income during 2015 was $1.1 billion. We are presenting this financial measure because certain investors may use it to evaluate our business and financial results. The decrease in noninterest income during 2017, compared with 2016, was predominantly attributable to decreases in noninterest income in our mortgage origination, broker-dealer and insurance segments, partially offset by increases in noninterest income due to the previously mentioned increase in other noninterest income of $15.0 million within the banking segment and the $11.6 million increase within corporate related to the resolution of the appraisal proceedings from the SWS Merger. The increase in noninterest income during 2016, compared with 2015, other than bargain purchase gain, was primarily due to increases in noninterest income in our mortgage origination and broker-dealer segments.

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 2017 was $132.5 million, or $1.36 per diluted share, compared with net income applicable to common stockholders of $145.9 million, or $1.48 per diluted share, during 2016, and net income applicable to common stockholders of $209.1 million, or $2.09 per diluted share, during 2015. The consolidated operating results during 2017 included the previously mentioned $28.4 million estimated non-cash charge related to the Tax Legislation, the previously mentioned estimated pre-tax earnings impact from the hurricanes of $8.2 million, the previously mentioned increase to other noninterest income of $15.0 million from coverage provided by an insurance policy for forgery of a document delivered in connection with a single, large loan charged off by the Bank in 2016 and the pre-tax net increase to other noninterest income $11.6 million (or $14.2 million after income tax benefit of $2.6 million) related to the resolution of the appraisal proceedings from the SWS Merger. The consolidated operating results during 2016 included the previously mentioned $24.5 million charge-off of a single large loan by the Bank and a specific legal reserve of $16.0 million related to one matter involving Hilltop Securities that was settled in the first quarter of 2017. The consolidated operating results during 2015 include the recognition of a bargain purchase gain related to the SWS Merger of $81.3 million, or $0.81 per diluted share. Included in the bargain purchase gain is a reversal of a $33.4 million valuation allowance against SWS deferred tax assets. This amount is based on our expected ability to realize these acquired deferred tax assets through our consolidated core earnings, the implementation of certain tax planning strategies and reversal of timing differences. SWS's net operating loss carryforwards are subject to an annual limitation on their usage because of the ownership change effected in connection with the SWS Merger. In addition, the bargain purchase gain reflects our acquisition date fair value allocation to identifiable intangible assets of $7.5 million.

Our consolidated operating results during 2017 also included transaction costs related to the SWS Merger, while our consolidated operating results during 2016 and 2015 included both transaction costs and integration-related costs associated with employee expenses (such as severance and retention), professional fees (such as consulting and legal) and contractual costs (such as vendor contract termination and lease), incurred as a result of the integration of the operations and systems acquired in the SWS Merger.

During 2017, we incurred $2.1 million in pre-tax transaction costs related to the SWS Merger. During 2016, we incurred $7.4 million in pre-tax transaction costs related to the SWS Merger, while pre-tax integration-related costs associated with employee, professional fee and contractual expenses during this same period were $2.9 million, $2.9 million and $0.1 million, respectively. During 2015, we incurred $31.6 million in pre-tax transaction costs related to the SWS Merger, while pre-tax integration-related costs associated with employee, professional fee, and contractual expenses during this same period were $8.7 million, $6.5 million and $2.7 million, respectively. On January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. The integration of FSC and Hilltop

Securities is complete and Hilltop Securities does not expect to incur any additional integration costs in relation to the SWS Merger.

Certain items included in net income for 2017, 2016 and 2015 resulted from purchase accounting associated with the PlainsCapital Merger, the FNB Transaction and the SWS Merger (collectively, the “Bank Transactions”). Income before income taxes during 2017 includes net accretion of $5.3 million, $47.7 million and $3.1 million on earning assets and liabilities acquired in the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, offset by amortization of identifiable intangibles of $6.3 million, $0.6 million and $0.9 million, respectively. Income before income taxes during 2016 includes net accretion of $9.7 million, $50.7 million and $4.6 million on earning assets and liabilities acquired in the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, offset by amortization of identifiable intangibles of $7.9 million, $0.8 million and $1.0 million, respectively. Income before income taxes during 2015 includes net accretion of $15.3 million, $60.4 million and $17.3 million on earning assets and liabilities acquired in the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, offset by amortization of identifiable intangibles of $8.7 million, $0.9 million and $1.0 million, respectively.

In addition, the Bank recorded “true-up” accruals with respect to the FNB Transaction loss-share agreements with the FDIC of $2.1 million in 2017, compared to $8.7 million in 2016 and $5.5 million in 2015. The total true-up accrual at December 31, 2017 was $16.3 million. This true-up accrual is 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 are below a stated threshold. In 2017, the Bank also recorded $17.1 million of amortization of excess book value of its receivables under the loss-share agreements (the “FDIC Indemnification Asset”) due to lower projected collections from the FDIC than were initially estimated at the acquisition date.

We consider the ratios shown in the table below to be key indicators of our performance.

	Year Ended December 31,		
	2017	2016	2015
Performance Ratios:			
Return on average stockholder's equity (1)	7.00 %	8.13 %	12.32 %
Return on average assets (1)	1.03 %	1.21 %	1.70 %
Net interest margin (2) (3) (4) (5)	3.61 %	3.68 %	3.71 %
Net interest margin (taxable equivalent) (3) (4) (5) (6)	3.63 %	3.71 %	3.74 %

(1) Noted measures during 2017 include estimated non-cash, non-recurring charges of $28.4 million primarily attributable to the revaluation of deferred tax assets as a result of the enactment of the Tax Legislation. Certain Tax Legislation amounts are considered reasonable estimates as of December 31, 2017 and could be adjusted during the measurement period, which will end in December 2018, as a result of further refinement of our calculations, changes in interpretations and assumptions made, guidance that may be issued and actions we may take as a result of the Tax Legislation.
(2) Net interest margin is defined as net interest income divided by average interest-earning assets.
(3) Noted measures during 2016 and 2015 reflect certain asset category reclassifications within the detailed calculations to conform with the current period presentation.
(4) 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 35% federal income tax rate. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. See footnote 2 to the consolidated net interest income table below for the taxable equivalent adjustments to interest income.
(5) 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 48 basis points, 55 basis points, and 81 basis points during 2017, 2016 and 2015, respectively.
(6) During 2017, 2016 and 2015, purchase accounting contributed 52 basis points, 66 basis points and 91 basis points, respectively, to net interest margin and taxable equivalent net interest margin.

We present net interest margin in the previous table, and net interest margin and net interest income in the following discussion and tables below, on a taxable equivalent basis. 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 2017, purchase accounting contributed 52 basis points to our consolidated taxable equivalent net interest margin of 3.63%, primarily related to accretion of discount on loans of $7.8 million, $47.7 million and $2.9 million associated with the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $2.4 million. During 2016, purchase accounting contributed 66 basis

points to our consolidated taxable equivalent net interest margin of 3.71%, primarily related to accretion of discount on loans of $12.9 million, $50.7 million and $4.2 million associated with the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $3.1 million. During 2015, purchase accounting contributed 91 basis points to our consolidated taxable equivalent net interest margin of 3.74%, primarily related to accretion of discount on loans of $19.0 million, $60.4 million and $16.7 million associated with the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $3.4 million.

The FNB Transaction-related accretion of discount on loans of $47.7 million, $50.7 million and $60.4 million during 2017, 2016 and 2015, respectively, included accretion of approximately $5 million, $16 million and $35 million, respectively, due to better-than-expected resolution of covered purchased credit impaired ("PCI") loans during the respective periods. The performance of the covered PCI loan portfolio since 2014, which has exceeded our expectations at the time of acquisition, has led to higher yields calculated as a result of the Bank's quarterly cash flow recast process. The recast process performed during 2017, 2016 and 2015 resulted in the reclassification of $9.1 million, $41.2 million and $70.9 million, respectively, from nonaccretable difference to accretable yield.

The table below provides additional details regarding our consolidated net interest income (dollars in thousands). The 2016 and 2015 detailed calculations reflect certain asset category reclassifications to conform with the current period presentation.

	Year Ended December 31,								
	2017			2016			2015		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
Assets									
Interest-earning assets									
Loans, gross [1]	$ 7,718,933	$ 411,988	5.34 %	$ 7,153,769	$ 389,637	5.45 %	$ 6,550,164	$ 390,359	5.96 %
Investment securities - taxable	1,399,379	36,378	2.60 %	1,038,838	25,129	2.42 %	1,112,524	25,997	2.34 %
Investment securities - non-taxable [2]	234,741	8,012	3.41 %	282,780	8,674	3.07 %	250,870	9,629	3.84 %
Federal funds sold and securities purchased under agreements to resell	140,337	923	0.66 %	150,337	316	0.21 %	99,037	120	0.12 %
Interest-bearing deposits in other financial institutions	572,829	6,114	1.07 %	574,777	2,886	0.50 %	800,806	2,005	0.25 %
Securities borrowed	1,518,041	41,048	2.70 %	1,523,195	29,518	1.94 %	2,121,643	41,051	1.93 %
Other	85,125	4,897	5.75 %	66,088	2,247	3.40 %	67,936	3,678	5.41 %
Interest-earning assets, gross [2]	11,669,385	509,360	4.36 %	10,789,784	458,407	4.25 %	11,002,980	472,839	4.30 %
Allowance for loan losses	(59,153)			(51,925)			(42,924)		
Interest-earning assets, net	11,610,232			10,737,859			10,960,056		
Noninterest-earning assets	1,345,599			1,457,945			1,521,202		
Total assets	$ 12,955,831			$ 12,195,804			$ 12,481,258		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 5,220,359	$ 24,695	0.47 %	$ 4,824,374	$ 15,843	0.33 %	$ 4,804,077	$ 15,523	0.32 %
Securities loaned	1,378,748	32,337	2.35 %	1,428,829	22,510	1.58 %	2,025,107	29,893	1.48 %
Notes payable and other borrowings	1,515,874	28,376	1.87 %	1,237,609	20,070	1.62 %	1,103,045	15,839	1.44 %
Total interest-bearing liabilities	8,114,981	85,408	1.05 %	7,490,812	58,423	0.78 %	7,932,229	61,255	0.77 %
Noninterest-bearing liabilities									
Noninterest-bearing deposits	2,309,776			2,241,561			2,187,336		
Other liabilities	634,630			665,878			647,985		
Total liabilities	11,059,387			10,398,251			10,767,550		
Stockholders' equity	1,894,009			1,795,219			1,713,030		
Noncontrolling interest	2,435			2,334			678		
Total liabilities and stockholders' equity	$ 12,955,831			$ 12,195,804			$ 12,481,258		
Net interest income [2]		$ 423,952			$ 399,984			$ 411,584	
Net interest spread [2]			3.31 %			3.47 %			3.53 %
Net interest margin [2]			3.63 %			3.71 %			3.74 %

(1) Average balance includes non-accrual loans.

(2) Presented on a taxable equivalent basis with taxable equivalent adjustments based on a 35% federal income tax rate. The adjustment to interest income was $2.2 million, $2.4 million and $3.0 million during 2017, 2016 and 2015, 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 $24.2 million during 2017, compared with 2016, while net interest income decreased $11.1 million during 2016, compared with 2015. The increase in net interest income during 2017, compared with 2016, was primarily related to increases in the net interest earned on mortgage-backed securities and increases in the average stock borrowing balances in our broker-dealer segment and net volume and yield changes on the loan portfolio within our banking segment as a result of the changes in year-over-year accretion of discount on loans. The change in net interest income during 2016, compared with 2015, was primarily related to a lower yield on the loan portfolio within our banking segment, a decrease in average stock borrow/loan program balances in our broker-dealer segment and an increase in interest expense at corporate on our outstanding Senior Notes, the offering of which was completed during the second quarter of 2015.

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The consolidated provision for loan losses, substantially all of which relates to the banking segment, was $14.3 million, $40.6 million and $12.7 million during 2017, 2016 and 2015, respectively. During 2017, the provision for loan losses was comprised of charges relating to newly originated loans and acquired loans without credit impairment at acquisition of $12.5 million and charges on PCI loans of $1.8 million. As previously mentioned, the consolidated provision for loan losses during 2016 included a $24.5 million charge-off of a single large loan by the Bank. The provision for loan losses during 2016 and 2015 was comprised of charges relating to newly originated loans and acquired loans without credit impairment at acquisition of $41.6 million and $13.8 million, respectively, partially offset by the recapture of PCI loans of $1.0 million and $1.1 million, respectively.

Consolidated noninterest income decreased $81.9 million during 2017, compared with 2016, while consolidated noninterest income increased $59.3 million during 2016, compared with 2015. Consolidated noninterest income during 2017 included the previously mentioned increase to other noninterest income of $15.0 million in our banking segment and the pre-tax net increase to other noninterest income of $11.6 million within corporate related to the resolution of the appraisal proceedings from the SWS Merger. The year-over-year changes in noninterest income, other than the previously mentioned non-recurring items, during 2017, compared with 2016, were primarily driven by decreases in noninterest income within our broker-dealer, mortgage origination, and insurance segments. Consolidated noninterest income during 2015 included the recognition of a bargain purchase gain related to the SWS Merger of $81.3 million. The increase in noninterest income, other than bargain purchase gain, during 2016, compared with 2015, of $140.6 million was primarily driven by an increase in noninterest income within our mortgage origination segment of $107.0 million and an increase in income earned on derivative and trading portfolio activities within our broker-dealer segment of $45.5 million, partially offset by decreases in noninterest income in our banking and insurance segments.

Consolidated noninterest expense during 2017 decreased $43.2 million, compared with 2016, while consolidated noninterest expense during 2016 increased $72.5 million, compared with 2015. The decrease in noninterest expense during 2017, compared with 2016, primarily included decreases in noninterest expense within our broker-dealer and mortgage origination segments, partially offset by an increase within our banking segment and an increase within our insurance segment due to the effects of hurricanes as well as other weather-related losses experienced during 2017. During 2017, we incurred pre-tax transaction and integration costs related to the SWS Merger of $2.1 million, compared with $13.3 million during 2016. The increase in noninterest expense during 2016, compared with 2015, primarily included an increase in noninterest expense within our mortgage origination segment, as well as an increase within our broker-dealer segment, partially offset by a decrease within our insurance segment. In addition to the previously mentioned pre-tax transaction and integration costs incurred during 2016 related to the SWS Merger, changes between 2016 and 2015 within the major components of consolidated noninterest expense included increases of $68.2 million in employees' compensation and benefits, $27.0 million in other expenses primarily attributable to increases in our mortgage origination and broker-dealer segments, as well as increased costs associated with regulatory compliance throughout the

organization, partially offset by a decrease of $7.5 million in occupancy and equipment, net, primarily related to our broker-dealer segment.

Consolidated income tax expense during 2017, 2016 and 2015 was $110.1 million, $83.5 million and $70.9 million, respectively, reflecting effective rates of 45.3%, 36.1% and 25.0%, respectively. 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 estimated effects of the Tax Legislation discussed above, partially offset by the previously discussed non-taxable gain recorded in the resolution of the SWS appraisal proceedings as the SWS Merger was a tax-free reorganization. Our effective tax rate during 2016 was relatively consistent with the statutory rate but did include gross effects related to non-deductible transaction costs associated with the SWS Merger, offset by the reversal of a valuation allowance of $2.2 million previously established on a deferred tax asset associated with the SWS Merger and the recognition of excess tax benefits on share-based payment awards as a result of the adoption of Accounting Standards Update ("ASU") 2016-09 as of January 1, 2016. The lower effective tax rate during 2015 was primarily due to no income taxes being recorded during 2015 in connection with the bargain purchase gain of $81.3 million associated with the SWS Merger because the acquisition was a tax-free reorganization under Section 368(a) of the Internal Revenue Code. In addition, during 2015, we recorded an income tax benefit of $2.1 million as a result of the SWS Merger to reverse our deferred tax liability for the difference between book and tax basis on Hilltop's investment in SWS common stock and also reversed a valuation allowance of $1.9 million previously established on a deferred tax asset for a capital loss carryforward.

Segment Results

Banking Segment

Income before income taxes in our banking segment during 2017, 2016 and 2015 was $164.0 million, $130.3 million and $175.4 million, respectively. The increase in income before income taxes during 2017, compared with 2016, was primarily due to the inclusion of the previously mentioned increase to other noninterest income of $15.0 million during 2017 and the $24.5 million charge-off within the provision for loan losses during 2016. Income before income taxes also increased during 2017, compared with 2016, due to an increase in net interest income associated with net volume and yield changes. See discussion in the Overview for the effect of recent hurricanes on the banking segment's operating results. The decrease in income before income taxes during 2016, compared with 2015, was primarily due to the increase in the provision for loan losses associated with the previously mentioned $24.5 million charge-off of a single large loan by the Bank during the second quarter of 2016, a decrease in net interest income associated with the decline in accretion of discount on loans, and a decrease in noninterest income associated with the prior year recognition of gains on securities acquired in the SWS Merger and subsequently sold.

We consider the ratios shown in the table below to be key indicators of the performance of our banking segment.

	Year Ended December 31,		
	2017	2016	2015
Performance Ratios:			
Efficiency ratio (1)	58.24 %	58.87 %	56.45 %
Return on average assets (2)	0.85 %	0.94 %	1.36 %
Net interest margin (3) (5)	4.31 %	4.65 %	5.05 %
Net interest margin (taxable equivalent) (4) (5)	4.33 %	4.68 %	5.08 %

(1) Efficiency ratio is defined as noninterest expenses divided by the sum of total noninterest income and net interest income for the period.

(2) Return on average assets during 2017 includes estimated non-cash, non-recurring charges of $25.7 million primarily attributable to the revaluation of deferred tax assets as a result of the enactment of the Tax Legislation. Certain Tax Legislation amounts are considered reasonable estimates as of December 31, 2017 and could be adjusted during the measurement period, which will end in December 2018, as a result of further refinement of our calculations, changes in interpretations and assumptions made, guidance that may be issued and actions we may take as a result of the Tax Legislation.

(3) Net interest margin is defined as net interest income divided by average interest-earning assets.

(4) 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 35% federal income tax rate. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. See footnote 2 to the following tables for the taxable equivalent adjustments to interest income.

(5) During 2017, 2016 and 2015, purchase accounting contributed 72 basis points, 93 basis points and 142 basis points, respectively, to net interest margin and taxable equivalent net interest margin.

The banking segment presents net interest margin in the previous table, and net interest margin and net interest income in the following discussion and tables below, on a taxable equivalent basis. 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 2017, purchase accounting contributed 72 basis points to the banking segment's taxable equivalent net interest margin of 4.33%, primarily related to accretion of discount on loans of $7.8 million, $47.7 million and $2.9 million associated with the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $2.4 million. During 2016, purchase accounting contributed 93 basis points to the banking segment's taxable equivalent net interest margin of 4.68%, primarily related to accretion of discount on loans of $12.9 million, $50.7 million and $4.2 million associated with the PlainsCapital Merger, FNB Transaction and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $3.1 million. During 2015, purchase accounting contributed 142 basis points to the banking segment's taxable equivalent net interest margin of 5.08%, primarily related to accretion of discount on loans of $19.0 million, $60.4 million and $16.7 million associated with the PlainsCapital Merger, FNB Transaction, and SWS Merger, respectively, and PlainsCapital Merger-related amortization of premium on acquired securities of $3.4 million.

The FNB Transaction-related accretion of discount on loans of $47.7 million, $50.7 million and $60.4 million during 2017, 2016 and 2015, respectively, included accretion of approximately $5 million, $16 million and $35 million, respectively, due to better-than-expected resolution of covered PCI loans during the respective periods. The performance of the covered PCI loan portfolio since 2014, which has exceeded our expectations at the time of acquisition, has led to higher yields calculated as a result of the Bank's quarterly cash flow recast process. The recast process performed during 2017, 2016 and 2015 resulted in the reclassification of $9.1 million, $41.2 million and $70.9 million, respectively, from nonaccretable difference to accretable yield.

The table below provides additional details regarding our banking segment's net interest income (dollars in thousands).

	Year Ended December 31,								
	2017			2016			2015		
	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate	Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate
Assets									
Interest-earning assets									
Loans, gross [1]	$ 5,695,927	$ 326,906	5.74 %	$ 5,301,117	$ 317,695	5.99 %	$ 4,789,972	$ 328,384	6.86 %
Subsidiary warehouse lines of credit	1,436,401	54,701	3.81 %	1,261,016	49,075	3.89 %	1,055,525	37,772	3.58 %
Investment securities - taxable	851,066	16,275	1.91 %	714,096	13,911	1.95 %	791,994	17,241	2.18 %
Investment securities - non-taxable [2]	123,969	4,747	3.83 %	136,141	4,998	3.67 %	141,186	5,295	3.75 %
Federal funds sold and securities purchased under agreements to resell	5,947	50	0.85 %	28,297	155	0.55 %	21,821	65	0.30 %
Interest-bearing deposits in other financial institutions	316,186	3,499	1.11 %	335,136	1,823	0.54 %	484,553	1,366	0.28 %
Other	70,123	2,412	3.44 %	56,867	2,075	3.65 %	49,988	1,745	3.49 %
Interest-earning assets, gross [2]	8,499,619	408,590	4.81 %	7,832,670	389,732	4.98 %	7,335,039	391,868	5.34 %
Allowance for loan losses	(59,007)			(51,706)			(42,579)		
Interest-earning assets, net	8,440,612			7,780,964			7,292,460		
Noninterest-earning assets	947,484			1,036,910			1,125,974		
Total assets	$ 9,388,096			$ 8,817,874			$ 8,418,434		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 4,932,689	$ 33,420	0.68 %	$ 4,523,079	$ 19,815	0.44 %	$ 4,413,352	$ 16,992	0.39 %
Notes payable and other borrowings	741,561	6,953	0.94 %	675,011	3,633	0.54 %	585,732	2,118	0.36 %
Total interest-bearing liabilities [3]	5,674,250	40,373	0.71 %	5,198,090	23,448	0.45 %	4,999,084	19,110	0.38 %
Noninterest-bearing liabilities									
Noninterest-bearing deposits	2,297,390			2,257,440			2,144,282		
Other liabilities	48,303			57,501			49,388		
Total liabilities	8,019,943			7,513,031			7,192,754		
Stockholders' equity	1,368,153			1,304,843			1,225,680		
Total liabilities and stockholders' equity	$ 9,388,096			$ 8,817,874			$ 8,418,434		
Net interest income [2]		$ 368,217			$ 366,284			$ 372,758	
Net interest spread [2]			4.10 %			4.52 %			4.96 %
Net interest margin [2]			4.33 %			4.68 %			5.08 %

(1) Average balance includes non-accrual loans.
(2) Presented on a taxable equivalent basis with taxable equivalent adjustments based on a 35% federal income tax rate. The adjustment to interest income was $1.6 million, $1.5 million and $1.8 million during 2017, 2016 and 2015, respectively.
(3) Only considers debt of PlainsCapital without the allocation of interest expense on PCC debt of $1.5 million and $1.4 million during 2016 and 2015, respectively. Interest expense on PCC debt was not allocated to PlainsCapital beginning January 1, 2017.

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,					
	2017 vs. 2016			2016 vs. 2015		
	Change Due To [1]			Change Due To [1]		
	Volume	Yield/Rate	Change	Volume	Yield/Rate	Change
Interest income						
Loans, gross	$ 23,649	$ (14,438)	$ 9,211	$ 35,042	$ (45,731)	$ (10,689)
Subsidiary warehouse lines of credit	6,822	(1,196)	5,626	7,353	3,950	11,303
Investment securities - taxable	2,671	(307)	2,364	(1,696)	(1,634)	(3,330)
Investment securities - non-taxable [2]	(447)	196	(251)	(189)	(108)	(297)
Federal funds sold and securities purchased under agreements to resell	(123)	18	(105)	19	71	90
Interest-bearing deposits in other financial institutions	(102)	1,778	1,676	(421)	878	457
Other	484	(147)	337	240	90	330
Total interest income [2]	32,954	(14,096)	18,858	40,348	(42,484)	(2,136)
Interest expense						
Deposits	$ 1,789	$ 11,816	$ 13,605	$ 422	$ 2,401	$ 2,823
Notes payable and other borrowings	359	2,961	3,320	323	1,192	1,515
Total interest expense	2,148	14,777	16,925	745	3,593	4,338
Net interest income [2]	$ 30,806	$ (28,873)	$ 1,933	$ 39,603	$ (46,077)	$ (6,474)

(1) Changes attributable to both volume and yield/rate are included in yield/rate column.
(2) Taxable equivalent.

Taxable equivalent net interest income increased $1.9 million during 2017, compared with 2016. Changes in the yields earned on interest-earning assets decreased taxable equivalent net interest income by $14.1 million during 2017, compared with 2016, primarily due to a decrease in accretion of discount on loans of $9.4 million. Accretion of discount on loans is expected to decrease in future periods as loans acquired in the Bank Transactions are repaid, refinanced or renewed. We experienced interest rate margin compression during 2017, which was driven by the rising interest rate environment and the rate floors in effect for a portion of the Bank's loan portfolio, 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 interest rate compression will continue until contractual rate resets allow our entire loan portfolio to reprice above applicable rate floors. Increases in the volume of interest-earning assets, primarily on the loan portfolio and additional amounts drawn on the subsidiary warehouse lines of credit, increased taxable equivalent net interest income by $33.0 million during 2017, compared with 2016. Changes in rates paid on interest-bearing liabilities decreased taxable equivalent net interest income by $14.8 million during 2017, compared with 2016, due to increases in market interest rates. Taxable equivalent net interest income decreased $6.5 million during 2016, compared with 2015. Changes in the yields earned on interest-earning assets decreased taxable equivalent net interest income by $42.5 million during 2016, compared with 2015, primarily due to the net effects of lower yields on the loan portfolio as a result of the decline in accretion of discount on loans, partially offset by the favorable change in yields on warehouse lines of credit extended to other subsidiaries. Increases in the volume of interest-earning assets, primarily on the loan portfolio and additional amounts drawn on the subsidiary warehouse lines of credit, increased taxable equivalent net interest income by $40.3 million during 2016, compared with 2015.

The banking segment's noninterest income was $59.9 million, $52.6 million and $62.6 million during 2017, 2016 and 2015, respectively. Other than the previously mentioned increase to other noninterest income of $15.0 million, the changes in noninterest income during 2017, compared to 2016, were primarily driven by year-over-year decreases in exchange fee income due to the impact of the Durbin amendment, which became applicable to the Bank on July 1, 2016, and intercompany financing charges. The decrease during 2016, compared with 2015, was primarily due to $4.4 million of realized gains on securities acquired in the SWS Merger and subsequently sold during 2015, that did not recur during 2016, as well as year-over-year decreases in subsidiary management fees, exchange fee income due to the impact of the Durbin Act and OREO income.

The banking segment's noninterest expenses were $248.4 million, $244.7 million and $243.9 million during 2017, 2016 and 2015, respectively. The change in noninterest expenses during 2017, compared with 2016, included increases in employees' compensation and benefits of $1.8 million primarily due to increased benefit costs, net expenses associated with covered assets of $10.4 million, repossession and foreclosure expenses of $3.2 million, as well as legal expenses associated with the Bank's previously mentioned efforts to recover losses associated with a charged-off loan, partially offset by a year-over-year decrease of $12.5 million associated with downward valuation adjustments on a significant covered OREO property recorded during the first nine months of 2016, as well as decreases in occupancy expenses associated with closed branches and expenses associated with organizational changes. The change in noninterest expenses during 2016, compared with 2015, was relatively flat, but included an increase in compensation and benefits costs and a year-over-year increase in the "true-up" payment accrual associated with covered assets of $3.3 million, offset by a $3.0 million decrease in pre-tax integration-related costs directly attributable to the integration of the former SWS FSB related to employee expenses and a decrease in occupancy expenses associated with closed branches and related costs.

In addition, as discussed under the heading "— Financial Condition — Covered Loan Portfolio" that follows, the Bank projects that the sum of actual plus projected covered losses and reimbursable expenses subject to the loss-share agreements will be less than its initial estimate. As a result, the Bank has recorded, and expects that it will continue to record, amortization associated with its FDIC Indemnification Asset. Changes to the FDIC Indemnification Asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the consolidated statements of operations over the life of the loss-share agreements.

Broker-Dealer Segment

Income before income taxes in our broker-dealer segment was $64.6 million and $39.5 million during 2017 and 2016, respectively, compared with a loss before income taxes during 2015 of $0.3 million. The increase in income before income taxes during 2017, compared with 2016, was primarily the result of a specific legal reserve of $16.0 million during the fourth quarter of 2016 related to one matter that was settled in the first quarter of 2017, a decrease in pre-tax integration-related costs of $5.9 million, an increase in the federal funds rate during 2017, which led to an increase of $12.3 million in fees earned on money market and FDIC insured bank deposits, and an increase in the interest earned on mortgage-backed securities, offset by a decrease of $8.7 million in investment banking and advisory fees primarily earned on the underwriting of municipal bond transactions and the secondary trading of these and other municipal securities within our public finance and capital markets business lines. The change in income before income taxes during 2016, compared with 2015, was primarily the result of increases in trading gains associated with the structured finance business and the decrease in pre-tax transaction and integration-related costs of $9.3 million, partially offset by a specific legal reserve of $16.0 million during the fourth quarter of 2016 related to one matter that was settled in the first quarter of 2017.

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 paid to it by its clients, in large part 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 and other borrowings.

The following table provides additional details regarding our broker-dealer operating results (in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Net interest income:					
Securities lending	$ 8,711	$ 7,008	$ 11,158	$ 1,703	$ (4,150)
Structured finance	9,597	3,319	1,549	6,278	1,770
Clearing	2,199	278	6,307	1,921	(6,029)
Other	23,228	20,567	13,957	2,661	6,610
Total net interest income	43,735	31,172	32,971	12,563	(1,799)
Noninterest income:					
Securities commissions and fees by business line [1]:					
Capital markets	45,915	54,992	56,570	(9,077)	(1,578)
Retail	81,075	75,271	78,470	5,804	(3,199)
Clearing	34,008	27,850	20,840	6,158	7,010
Other	4,475	3,698	6,150	777	(2,452)
	165,473	161,811	162,030	3,662	(219)
Investment banking and advisory fees by business line:					
Public finance	86,075	90,851	92,308	(4,776)	(1,457)
Capital markets	707	4,621	2,384	(3,914)	2,237
Retail	16,306	14,635	15,258	1,671	(623)
Structured finance	5,675	5,369	5,678	306	(309)
Clearing	1,152	515	48	637	467
Other	5	1	256	4	(255)
	109,920	115,992	115,932	(6,072)	60
Other:					
Structured finance	66,233	81,352	38,738	(15,119)	42,614
Capital markets	24,878	20,813	17,903	4,065	2,910
Other	1,917	5,798	(108)	(3,881)	5,906
	93,028	107,963	56,533	(14,935)	51,430
Total noninterest income	368,421	385,766	334,495	(17,345)	51,271
Net revenue [2]	412,156	416,938	367,466	(4,782)	49,472
Noninterest expense [3]:					
Compensation and benefits expenses	250,614	252,772	255,629	(2,158)	(2,857)
Other	96,898	124,699	112,103	(27,801)	12,596
Total noninterest expense	347,512	377,471	367,732	(29,959)	9,739
Income before income taxes	$ 64,644	$ 39,467	$ (266)	$ 25,177	$ 39,733

(1) Securities commissions and fees includes income of $9.1 million, $3.9 million, and $1.4 million during 2017, 2016, and 2015, respectively, that is eliminated in consolidation.
(2) Net revenue is defined as the sum of total net interest income and total noninterest income.
(3) Noninterest expense includes provision for loan losses associated with the broker-dealer segment within other noninterest expenses.

The broker-dealer segment had net interest income of $43.7 million, $31.2 million and $33.0 million during 2017, 2016 and 2015, respectively. 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 2017, compared with 2016, was primarily due to an increase in the net interest earned on mortgage-backed securities and an increase in the average stock borrowing balances offset by an increase in repo interest expense and bank loans due to increased borrowing rates and daily balances. The decrease in net interest income during 2016, compared with 2015 was primarily due to a decrease of 21% in the broker-dealer segment's average stock borrowing balances.

Noninterest income was $368.4 million, $385.8 million and $334.5 million during 2017, 2016 and 2015, respectively. The decrease in noninterest income of $17.3 million during 2017, compared with 2016, was primarily due to a decrease of $14.9 million in other noninterest income and a decrease of $6.1 million in investment banking and advisory fees. The increase in noninterest income of $51.3 million during 2016, compared with 2015, was primarily due to an increase of $51.4 million in other noninterest income.

Securities commissions and fees increased $3.7 million during 2017, compared with 2016. The increase was primarily attributable to fees earned on money market accounts and FDIC insured bank deposits by the clearing and retail businesses resulting from the 61-basis point increase in the federal funds rate during 2017. This increase was partially offset by a reduction in securities commissions and fees earned in the capital markets business on the sale of over-the-counter, municipal and mortgage backed security products. Although securities commissions and fees were relatively flat between 2015 and 2016, the securities commissions and fees earned by our clearing business increased $7.0 million from fees earned on money markets and FDIC insured bank deposits resulting from the 25-basis point increase in the federal funds rate in December 2015, partially offset by a reduction in securities commissions and fees earned in our capital markets and retail businesses of $4.8 million from decreases in municipal bond transactions and insurance product sales.

Investment banking and advisory fees decreased $6.1 million during 2017, compared with 2016, 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. Although public finance revenues decreased in 2017 compared to 2016, national municipal issuances surged in the fourth quarter of 2017, due to the anticipated effects of the Tax Legislation. A number of national municipal issuers elected to accelerate certain capital raising initiatives before these changes were enacted. As a result, we anticipate lower municipal issuance volume in 2018. Investment banking and advisory fees were relatively flat between 2015 and 2016.

The decrease in other noninterest income during 2017, compared with 2016, was primarily due to a decrease of $15.1 million in income earned from trading gains associated with the structured finance business and a decrease of $4.5 million in the value of broker-dealer segment investments held at corporate, partially offset by increases of $4.1 million in income earned from trading gains associated with the capital markets business from the sale of municipal bonds and $0.7 million in the value of investments held in the broker-dealer segment's deferred compensation plan. The increase in other noninterest income during 2016, compared with 2015, was primarily due to an increase of $45.5 million in income earned from trading gains associated with the structured finance and capital markets businesses and a $4.1 million increase in other noninterest income due to a non-recurring reversal of a contingent liability associated with an investment.

Noninterest expenses were $347.5 million, $377.5 million and $367.8 million during 2017, 2016 and 2015, respectively. The decrease in noninterest expenses of $30.0 million during 2017, compared with 2016, was primarily due to a decrease of $24.4 million in legal expenses associated with settled litigation, a decrease in pre-tax integration-related professional costs of $2.9 million and a decrease of $2.2 million in compensation and benefits expenses, which was in part a product of the integration and merger of FSC and Hilltop Securities and in part due to the decrease in the variable compensation and benefits expense components that are based on each business lines' performance. The increase in noninterest expenses of $9.7 million during 2016, compared with 2015, was primarily due to an increase in legal expenses associated with both resolved and ongoing litigation matters, partially offset by a decrease of $2.9 million in compensation and benefits expenses. This decrease in compensation and benefits expense was primarily as a result of a decrease in salaries and benefits, which was in part a product of the integration and merger of FSC and Hilltop Securities, partially offset by an increase in incentive pay given the improvement in year-over-year operating performance. During 2016, the broker-dealer segment incurred pre-tax integration-related costs resulting from employee expenses, professional fees and contractual expenses of $2.9 million, $2.9 million and $0.1 million, respectively, compared with pre-tax transaction costs of $0.8 million, and employee expenses, professional fees, and contractual expenses of $6.9 million, $5.6 million and $1.9 million, respectively, during 2015 directly attributable to the integration of the operations acquired in the SWS Merger.

Effective as of January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. The integration is complete and Hilltop Securities does not expect to incur any additional integration costs in relation to the SWS Merger.

Selected information concerning the broker-dealer segment follows (dollars in thousands).

	Year Ended December 31,		
	2017	2016	2015
Compensation as a % of net revenue	60.8 %	60.6 %	69.6 %
FDIC insured program balances at PlainsCapital Bank (end of period)	$ 1,301,148	$ 1,000,310	$ 845,569
Other FDIC insured program balances (end of period)	$ 1,093,493	$ 1,517,482	$ 1,380,030
Customer margin balances (end of period)	$ 349,794	$ 332,806	$ 414,013
Customer funds on deposit, including short credits (end of period)	$ 411,989	$ 385,104	$ 474,773
Public finance:			
Number of issues	1,561	1,747	1,655
Aggregate amount of offerings	$ 83,907,144	$ 82,561,809	$ 70,021,094
Capital markets:			
Total volumes	$ 65,559,604	$ 76,482,509	$ 76,737,890
Net inventory (end of period)	$ 491,370	$ 95,925	$ 62,879
Retail:			
Retail employee representatives (end of period)	120	117	118
Independent registered representatives (end of period)	218	224	234
Structured finance:			
Lock production/TBA volume	$ 5,938,788	$ 6,088,319	$ 3,848,214
Clearing:			
Total tickets [1]	1,325,760	1,669,856	2,396,478
Correspondents (end of period)	162	175	205
Securities lending:			
Interest-earning assets - stock borrowed (end of period)	$ 1,386,821	$ 1,436,069	$ 1,307,741
Interest-bearing liabilities - stock loaned (end of period)	$ 1,215,093	$ 1,283,676	$ 1,235,466

(1) Effective May 2016, a single correspondent began compressing multiple executions when delivering trades for processing, resulting in a decrease in year-over-year ticket count for the broker-dealer segment's clearing business line. This modification did not significantly impact the correspondent's clearing revenues.

Mortgage Origination Segment

Income before income taxes in our mortgage origination segment during 2017, 2016 and 2015 was $49.6 million, $77.8 million and $47.5 million, respectively. The year-over-year decrease in income before income taxes during 2017, compared with 2016, was primarily due to a decrease in noninterest income, partially offset by decreases in noninterest expense and net interest expense. The increase in income before income taxes during 2016, compared with 2015, was primarily due to an increase in noninterest income, partially offset by an increase in noninterest expense. Net interest expense of $0.9 million, $11.6 million and $10.4 million during 2017, 2016 and 2015, respectively, was primarily comprised of interest incurred on a warehouse line of credit held with the Bank as well as related intercompany financing costs, partially offset by interest income earned on loans held for sale. The improvement in net interest expense during 2017 compared with 2016 included the effects of increased average hold periods and improved net yields on mortgage loans held for sale.

The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Historically, the mortgage origination segment has typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased loan origination volume from refinancings. During 2017, PrimeLending's refinancing volume was $2.5 billion, a decrease from $4.2 billion during 2016. Due to increases in mortgage interest rates since the fourth quarter of 2016, refinancing volume and refinancing volume as a percentage of total loan origination volume decreased to 17.2% in 2017 as compared to 27.1% in 2016. We anticipate the percentage of refinance volume relative to total loan origination volume will decrease slightly in 2018.

The mortgage origination segment primarily originates its mortgage loans through a retail channel, with limited lending through its affiliated business relationships ("ABAs"). For 2017, funded loan volume through ABAs was less than 5% of the mortgage origination segment's total loan volume. Currently, PrimeLending owns a 51% membership interest in three ABAs. We expect production within the ABA channel to represent approximately 5% of the total loan volume during 2018, a slight increase from 2017.

The following table provides certain details regarding our mortgage loan originations and sales for the periods indicated below (dollars in thousands).

	Year Ended December 31,					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Mortgage Loan Originations - units	62,058		66,881		59,621	
Mortgage Loan Originations - volume	$ 14,457,913		$ 15,460,213		$ 13,352,119	
Mortgage Loan Originations:						
Conventional	$ 8,666,935	59.95 %	$ 9,897,230	64.02 %	$ 8,394,709	62.87 %
Government	3,440,264	23.80 %	3,595,219	23.25 %	3,395,587	25.43 %
Jumbo	1,415,682	9.79 %	1,312,800	8.49 %	961,598	7.20 %
Other	935,032	6.46 %	654,964	4.24 %	600,225	4.50 %
	$ 14,457,913	100.00 %	$ 15,460,213	100.00 %	$ 13,352,119	100.00 %
Home purchases	$ 11,974,571	82.82 %	$ 11,276,378	72.94 %	$ 9,891,792	74.08 %
Refinancings	2,483,342	17.18 %	4,183,835	27.06 %	3,460,327	25.92 %
	$ 14,457,913	100.00 %	$ 15,460,213	100.00 %	$ 13,352,119	100.00 %
Texas	$ 3,129,008	21.64 %	$ 3,352,469	21.69 %	$ 2,967,740	22.23 %
California	1,846,172	12.77 %	2,235,915	14.46 %	1,965,039	14.72 %
Florida	853,727	5.90 %	797,578	5.16 %	644,090	4.82 %
Ohio	634,142	4.39 %	637,435	4.12 %	555,106	4.16 %
Arizona	554,463	3.84 %	527,055	3.41 %	415,215	3.11 %
South Carolina	472,935	3.27 %	446,221	2.89 %	385,347	2.88 %
Washington	465,501	3.22 %	538,857	3.49 %	451,277	3.38 %
Missouri	448,565	3.10 %	441,125	2.85 %	379,621	2.84 %
North Carolina	440,456	3.05 %	512,087	3.31 %	492,879	3.69 %
Maryland	430,668	2.98 %	521,686	3.37 %	452,280	3.39 %
All other states	5,182,276	35.84 %	5,449,785	35.25 %	4,643,525	34.78 %
	$ 14,457,913	100.00 %	$ 15,460,213	100.00 %	$ 13,352,119	100.00 %
Mortgage Loan Sales - volume	$ 14,454,260		$ 15,155,340		$ 13,129,069	

Refinancing volume decreased to $2.5 billion during 2017 from $4.2 billion during 2016 (representing 17.2% and 27.1%, respectively, of total loan origination volume), while home purchases volume increased 6.2% to $12.0 billion during 2017 from $11.3 billion during 2016. Refinancing volume increased to $4.2 billion from $3.5 billion during 2016, compared with 2015 (representing 27.1% and 25.9%, respectively, of total loan origination volume), while home purchases volume increased 14.0% to $11.3 billion during 2016 from $9.9 billion during 2015.

The mortgage origination segment's total loan origination volume during 2017 decreased 6.5%, compared with 2016, while income before income taxes during 2017 decreased 36.3%, compared with 2016. The decrease in income before income taxes during 2017 was primarily due to a decrease in net gains from sale of loans, in addition to a decrease in the change in net fair value of interest rate lock commitments ("IRLCs") and loans held for sale. These changes were partially offset by decreases in compensation that varies with the volume of mortgage loan originations ("variable compensation"), net interest expense, and lender paid closing costs. The mortgage origination segment's total loan origination volume increased 15.8% between 2016 and 2015, while income before income taxes during 2016 increased 63.8%, compared with 2015. The increase in income before income taxes between 2016 and 2015 was primarily due to an increase in net gains from sale of loans, partially offset by increases in variable compensation and segment operating costs.

Noninterest income was $632.4 million, $704.1 million and $597.2 million during 2017, 2016 and 2015, respectively, and was comprised of the following (in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Net gains from sale of loans	$ 536,007	$ 577,003	$ 491,532	$ (40,996)	$ 85,471
Mortgage loan origination fees	94,244	96,267	77,708	(2,023)	18,559
Other mortgage production income:					
Change in net fair value and related derivative activity:					
Interest rate lock commitments and loans held for sale	(14,451)	13,357	13,796	(27,808)	(439)
Mortgage servicing rights asset	(4,132)	(6,277)	(5,424)	2,145	(853)
Servicing fees	20,720	23,776	19,551	(3,056)	4,225
	$ 632,388	$ 704,126	$ 597,163	$ (71,738)	$ 106,963

Net gains from sale of loans and mortgage origination fees decreased 7.1% and 2.1% during 2017, respectively, compared with 2016, while net gains from sale of loans and mortgage origination fees increased 17.4% and 23.9% during 2016, respectively, compared with 2015. The decrease in net gains from sale of loans during 2017, compared with 2016, was primarily the result of a 4.6% decrease in total loan sales volume in addition to a decrease in average loan sales margin during the same periods. The decrease in mortgage loan origination fees was primarily the result of a decrease in total loan origination volume during 2017, compared with 2016, partially offset by an increase in average mortgage loan origination fees during the same periods. The increase in net gains from sale of loans during 2016, compared with 2015, was primarily the result of a 15.4% increase in total loan sales volume as well as a slight increase in average loan sales margin. The increase in mortgage loan origination fees during 2016 was a result of increases in total loan origination volume and average mortgage loan origination fees, compared with 2015.

Noninterest income included a decrease of $14.5 million during 2017, and increases of $13.4 million and $13.8 million during 2016 and 2015, respectively, 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 mortgage loans held for sale. The decrease during 2017, compared with 2016, was primarily the result of decreases in the total volume of individual IRLCs and mortgage loans and the average value of individual IRLCs and mortgage loans at the end of these periods. The increase during 2016, compared with 2015, was primarily the result of increases in the volume of IRLCs and mortgage loans held and the average value of individual IRLCs and mortgage loans 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 2017, 2016 and 2015, the mortgage origination segment retained servicing on approximately 11%, 16% and 18% 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 mortgage servicing rights ("MSR") asset was valued at $55.8 million on $4.9 billion of serviced loan volume at December 31, 2017, compared with a value of $63.3 million on $5.6 billion of serviced loan volume at December 31, 2016. 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 interest rate swaps, swaptions, forward commitments to sell mortgage-backed securities, and U.S. Treasury bond futures and options, 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 of $4.1 million, $6.3 million and $5.4 million during 2017, 2016 and 2015, respectively. Additionally, net servicing income was $8.6 million, $10.2 million and $8.9 million during 2017, 2016 and 2015, respectively. In March 2017 and May 2016, the mortgage origination segment sold MSR assets of $17.5 million and $7.6 million, respectively, which represented $1.7 billion and $917.4 million, respectively, of its serviced loan volume at the time.

Noninterest expense was $581.9 million, $614.7 million and $539.3 million during 2017, 2016 and 2015, respectively, and was comprised of the following (in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Variable compensation	$ 244,333	$ 266,373	$ 228,590	$ (22,040)	$ 37,783
Segment operating costs	299,453	299,733	263,049	(280)	36,684
Lender paid closing costs	26,031	35,061	37,010	(9,030)	(1,949)
Servicing expense	12,082	13,574	10,608	(1,492)	2,966
	$ 581,899	$ 614,741	$ 539,257	$ (32,842)	$ 75,484

Employees' compensation and benefits accounted for the majority of the noninterest expenses incurred during all periods presented. Variable compensation decreased $22.0 million during 2017, compared with 2016, and comprised 59.1% and 61.5% of the total employees' compensation and benefits expenses during 2017 and 2016, respectively. Variable compensation increased $37.8 million during 2016, compared with 2015, and comprised 62.2% of the total employees' compensation and benefits expenses during 2015. 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.

While total loan origination volumes decreased 6.5% during 2017, compared with 2016, the mortgage origination segment's operating costs remained relatively unchanged. The largest fluctuations in segment operating costs during 2017, compared with 2016, were an increase in costs resulting from an increase in the number of mortgage branch locations and decreases in both corporate and loan processing headcount as a result of decreased loan volume. During 2016, operating costs increased 13.9%, compared with 2015, while total loan origination volumes increased 15.8%. The increase in segment operating costs was primarily the result of increases in headcount related to loan processing, loan fulfillment and technology functions. The increases in loan processing and fulfillment headcount levels were initiated during 2015 primarily to address growth in loan origination volume that began in 2014 and to address October 2015 implementation of TILA RESPA Integrated Disclosures ("TRID"). Additional increases in segment operating costs during 2016, compared with 2015, were primarily increases in costs associated with loan servicing, an increase in mortgage branch locations, business development and administrative activities. Historically, segment operating costs tend to fluctuate with, but at a lesser magnitude than, loan origination volume, as these costs are comprised of salaries, benefits, occupancy and administrative costs, which are not normally highly sensitive to changes in loan origination volume.

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, 2008 and December 31, 2017, the mortgage origination segment sold mortgage loans totaling $101.5 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 2008, it does not anticipate experiencing significant losses in the future on loans originated prior to 2008 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, 2008 and December 31, 2017 (dollars in thousands).

	Original Loan Balance			Loss Recognized		
		Amount	% of Loans Sold		Amount	% of Loans Sold
Claims resolved with no payment	$	214,259	0.21%	$	—	0.00%
Claims resolved because of a loan repurchase or payment to an investor for losses incurred (1)		241,529	0.24%		16,332	0.02%
	$	455,788	0.45%	$	16,332	0.02%

(1) Losses incurred include refunded purchased servicing rights.

The mortgage origination has established a specific claims indemnification liability reserve for each loan it concludes its obligation to a claimant is both probable and reasonably estimable. 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, 2017 and 2016, the mortgage origination segment's total indemnification liability reserve totaled $23.5 million and $18.2 million, respectively. The related provision for indemnification losses was $4.0 million, $4.6 million, and $4.0 million during 2017, 2016 and 2015, respectively.

Insurance Segment

Losses before income taxes in our insurance segment were $4.1 million during 2017, compared with income before income taxes of $21.4 million and $15.7 million during 2016 and 2015, respectively. These year-over-year changes during 2017, compared with 2016 and 2015, were driven primarily by a decline in net insurance premiums earned, loss and LAE effects of Hurricane Harvey, and other non-catastrophic weather-related losses experienced during 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 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 reduce 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.

The noted negative impact on premiums written and earned and the significance of the higher net loss and LAE incurred due to current year weather-related events, including Hurricane Harvey, have had a negative impact on current year operating results. In response, we continue to undertake initiatives to help grow net insurance premiums written and earned, streamline business activities and expenses, mitigate the impact of future significant weather-related events, as well as evaluate product offerings and pricing to improve the insurance segment's long-term financial condition and operating results. These initiatives, as well as other assumptions and conditions, were reflected in the insurance segment's annual impairment evaluation of goodwill and other intangible assets as of October 1, 2017, which indicated no impairment of goodwill. This analysis and the resulting estimated fair value of our insurance reporting unit exceeded the carrying value by approximately 12%, which represented a decline in estimated excess fair value over carrying value from

recent annual goodwill assessments. This decrease in the excess fair value over carrying value from our 2016 assessment to our 2017 assessment was primarily a result of a reduction in projected discounted cash flows driven by the insurance reporting unit's current operating performance being below expectations, which was primarily attributable to catastrophic and sub-catastrophic weather-related events that occurred in 2017. In the event future operating performance is below our forecasted projections, there are negative changes to long-term growth rates or discount rates increase, the fair value of the insurance reporting unit may decline and we may be required to record a goodwill impairment charge.

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 2017 totaled $38.1 million through December 31, 2017, with a net loss, after reinsurance, of $33.5 million during 2017. During 2016, and based on our estimates of the ultimate losses, claims associated with severe weather-related events during 2016 totaled $44.0 million through December 31, 2016, with a net loss, after reinsurance, of $34.0 million during 2016. During 2015, and based on our estimates of the ultimate losses, claims associated with severe weather-related events totaled $35.3 million through December 31, 2015, with a net loss, after reinsurance, of $26.2 million during 2015.

The insurance segment's operations resulted in a combined ratio of 106.5% during 2017, compared with 90.9% and 94.9% during 2016 and 2015, respectively. The increase in the combined ratio during 2017, compared with 2016, included increases in the loss and LAE ratio and the underwriting expense ratio as previously discussed. The decrease in the combined ratio during 2016, compared with 2015, was primarily due to the benefit of the current reinsurance structure that has limited the insurance segment's retention of claims losses associated with sub-catastrophic weather-related events experienced through December 31, 2016. Additionally, premiums earned decreasing at a lower rate than loss and LAE expense also contributed to the decline in the combined ratio during 2016, compared with 2015. 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.

Noninterest income of $151.4 million, $164.8 million and $171.2 million during 2017, 2016 and 2015, respectively, included net insurance premiums earned of $142.3 million, $155.5 million and $162.1 million, respectively. The decreases in net insurance premiums earned during 2017 and 2016, compared with 2016 and 2015, respectively, were primarily due to the effect of decreases in net insurance premiums written.

Direct insurance premiums written by major product line are presented in the table below (in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Direct Insurance Premiums Written:					
Homeowners	$ 54,706	$ 64,816	$ 72,939	$ (10,110)	$ (8,123)
Fire	42,414	46,792	52,167	(4,378)	(5,375)
Mobile Home	36,925	37,953	38,161	(1,028)	(208)
Commercial	2,884	3,225	3,536	(341)	(311)
Other	162	184	222	(22)	(38)
	$ 137,091	$ 152,970	$ 167,025	$ (15,879)	$ (14,055)

The total direct insurance premiums written for our three largest insurance product lines decreased by $15.5 million during 2017, compared with 2016, and $13.7 million during 2016, compared with 2015, due primarily to the effects of competitive pressures in our Texas market.

Net insurance premiums earned by major product line are presented in the table below (in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Net Insurance Premiums Earned:					
Homeowners	$ 56,784	$ 65,907	$ 70,781	$ (9,123)	$ (4,874)
Fire	44,025	47,580	50,623	(3,555)	(3,043)
Mobile Home	38,328	38,592	37,032	(264)	1,560
Commercial	2,993	3,279	3,431	(286)	(152)
Other	168	187	215	(19)	(28)
	$ 142,298	$ 155,545	$ 162,082	$ (13,247)	$ (6,537)

Net insurance premiums earned during 2017 and 2016 decreased, compared to 2016 and 2015, respectively, primarily due to the decreases in net premiums written noted above.

Noninterest expenses of $158.4 million, $146.6 million and $158.7 million during 2017, 2016 and 2015, respectively, 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 2017 was $94.7 million, compared to $89.2 million and $99.1 million during 2016 and 2015, respectively, resulting in loss and LAE ratios during 2017, 2016 and 2015 of 66.6%, 57.4% and 61.1%, respectively. The increase in the loss and LAE ratio during 2017, compared with 2016, was primarily driven by a 6.1% increase in loss and LAE expense and a decrease in premiums earned of 8.5%. The increase in the loss and LAE ratio during 2017 was attributable to non-catastrophic weather-related losses as well as Hurricane Harvey. The actual loss related to Hurricanes Harvey and Irma, excluding reinstatement premium, was $4.4 million after reinsurance. The lower claims loss experience during 2016, compared with 2015, was primarily driven by the benefit of the current reinsurance structure previously discussed, the effects of premiums earned decreasing at a lower rate than loss and LAE expense, and the decrease in claims loss reserves associated with prior period adverse development of $6.1 million.

The insurance segment seeks to generate underwriting profitability. Management evaluates NLC’s loss and LAE ratio by bifurcating the losses to derive catastrophic and non-catastrophic loss ratios. The non-catastrophic loss ratio excludes Property Claims Services events that exceed $1.0 million of losses to NLC. Catastrophic events, including those that do not exceed our reinsurance retention, affect insurance segment loss ratios. During 2017, catastrophic events that did not exceed reinsurance retention accounted for $33.5 million of the total loss and LAE, as compared to $34.0 million and $26.2 million during 2016 and 2015, respectively. The inclusion of catastrophic events increased insurance segment combined ratios by 23.5%, 21.9% and 16.2% during 2017, 2016 and 2015, respectively.

Policy acquisition and other underwriting expenses encompass all expenses incurred relative to NLC operations, and include elements of multiple categories of expense otherwise reported as noninterest expense in the consolidated statements of operations.

The following table details the calculation of the underwriting expense ratio for the periods presented (dollars in thousands).

	Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Amortization of deferred policy acquisition costs	$ 36,549	$ 38,502	$ 40,258	$ (1,953)	$ (1,756)
Other underwriting expenses	23,930	16,998	17,609	6,932	(611)
Total	60,479	55,500	57,867	4,979	(2,367)
Agency expenses	(3,745)	(3,460)	(3,128)	(285)	(332)
Total less agency expenses	$ 56,734	$ 52,040	$ 54,739	$ 4,694	$ (2,699)
Net insurance premiums earned	$ 142,298	$ 155,545	$ 162,082	$ (13,247)	$ (6,537)
Expense ratio	39.9 %	33.5 %	33.8 %	6.4 %	(0.3)%

Corporate

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 including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs. Hilltop’s merchant banking investment activities include the identification of attractive opportunities for capital deployment in companies engaged in non-financial activities through its increasingly active merchant bank subsidiary, PlainsCapital Equity, LLC (“PCE”).

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. Investment and interest income earned was $0.3 million during 2017, and $0.4 million during each of 2016 and 2015, respectively. Investment and interest income during 2016 and 2015 included $0.2 million and $0.3 million, respectively, of intercompany interest earned on notes receivable held with Securities Holdings that were paid off in January 2016 and March 2016, respectively.

As a result of previously disclosed strategic leadership and organizational changes, certain interest expenses, headcount and related noninterest expenses of PCC, which were previously allocated to the banking and mortgage origination segments, are included within corporate effective January 1, 2017.

Interest expense was $10.4 million, $7.6 million and $5.5 million during 2017, 2016 and 2015, respectively. On April 9, 2015, as previously discussed, Hilltop completed its offering of $150.0 million aggregate principal amount of Senior Notes and used the net proceeds of the offering to redeem all of its outstanding Non-Cumulative Perpetual Preferred Stock, Series B (“Series B Preferred Stock”) at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million. Consequently, recurring annual interest expense of $7.5 million is being incurred. In addition, interest expense during 2017 of $3.0 million on junior subordinated debentures of $67.0 million issued by PCC (the “Debentures”) was included within corporate as a result of the organizational changes noted above. During 2016, interest expense on the Debentures of $2.7 million was reported within our operating segments.

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 income during 2016 was nominal, while noninterest income of $81.3 million during 2015 represented the recognition of a bargain purchase gain related to the SWS Merger. Included in the bargain purchase gain was a reversal of a $33.4 million valuation allowance against SWS deferred tax assets. This amount was based on our expected ability to realize these acquired deferred tax assets through our consolidated core earnings, the implementation of certain tax planning strategies and reversal of timing differences. SWS’s net operating loss carryforwards are subject to an annual Section 382 limitation on their usage because of the ownership change.

Noninterest expenses of $34.0 million, $29.9 million and $31.9 million during 2017, 2016 and 2015, respectively, were primarily comprised of employees’ compensation and benefits and professional fees, including corporate governance, legal and transaction costs. During 2017, compared with 2016, the change in noninterest expenses primarily included increases associated with the organizational changes noted above related to employees’ compensation and benefits costs of $3.7 million, professional fees of $4.0 million, and occupancy and equipment expenses of $3.0 million, partially offset by a decrease of $5.3 million in transaction-related costs directly attributable to the SWS Merger. Specifically, during 2017, Hilltop incurred pre-tax transaction costs related to the SWS Merger of $2.1 million, compared with $7.4 million during 2016. During 2016, compared with 2015, noninterest expenses included a year-over-year decrease in transaction and integration-related costs directly attributable to the SWS Merger, partially offset by increases in employees’ compensation and benefits costs of $2.3 million associated with increases in headcount and incentive compensation costs, as well as other professional fees. During 2016, Hilltop incurred pre-tax transaction costs related to the SWS Merger of $7.4 million, compared with pre-tax transaction costs related to the SWS merger of $12.9 million and pre-tax integration-related costs associated with professional fees of $0.5 million during 2015.

Financial Condition

The following discussion contains a more detailed analysis of our financial condition at December 31, 2017 as compared to December 31, 2016 and 2015.

Securities Portfolio

At December 31, 2017, 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, and held to maturity.

Trading securities are bought and held principally for the purpose of selling them in the near term and are carried at fair value, marked to market through operations and held at the Bank and 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). However, with the adoption of Accounting Standards Update 2016-01 in January 2018, the Company will reclassify all equity investments out of trading and available for sale securities, with all subsequent changes in fair value recognized in net income, leaving only debt securities within these categories of investment securities. 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,		
	2017	2016	2015
Trading securities, at fair value			
U.S. Treasury securities	$ —	$ 5,940	$ 20,481
U.S. government agencies:			
Bonds	52,078	36,303	36,244
Residential mortgage-backed securities	372,817	2,539	12,505
Commercial mortgage-backed securities	6,125	15,171	19,280
Collateralized mortgage obligations	5,122	5,607	264
Corporate debt securities	96,182	60,699	34,735
States and political subdivisions	170,413	89,946	58,588
Unit investment trusts	22,612	41,409	18,400
Private-label securitized product	1,631	4,292	12,324
Other	3,705	3,628	1,325
	730,685	265,534	214,146
Securities available for sale, at fair value			
U.S. Treasury securities	24,669	31,801	44,603
U.S. government agencies:			
Bonds	96,640	122,652	296,636
Residential mortgage-backed securities	243,505	133,138	35,853
Commercial mortgage-backed securities	12,023	8,715	9,207
Collateralized mortgage obligations	233,812	114,702	52,701
Corporate debt securities	68,662	79,129	97,950
States and political subdivisions	65,008	87,515	118,725
Commercial mortgage-backed securities	—	515	531
Equity securities	21,241	19,840	17,500
	765,560	598,007	673,706
Securities held to maturity, at amortized cost			
U.S. Treasury securities	—	—	25,146
U.S. government agencies:			
Bonds	39,015	40,513	69,379
Residential mortgage-backed securities	16,130	19,606	23,735
Commercial mortgage-backed securities	71,373	31,767	18,658
Collateralized mortgage obligations	173,928	217,954	167,541
States and political subdivisions	55,403	41,991	27,563
	355,849	351,831	332,022
Total securities portfolio	$ 1,852,094	$ 1,215,372	$ 1,219,874

We had a net unrealized loss of $2.4 million related to the securities available for sale portfolio at December 31, 2017, compared with a net unrealized loss of $0.2 million, and a net unrealized gain of $3.7 million at December 31, 2016 and 2015, respectively.

Our net unrealized losses associated with the securities held to maturity portfolio were $5.9 million, $6.7 million and $0.6 million at December 31, 2017, 2016 and 2015, respectively.

Banking Segment

The banking segment's securities portfolio plays a role in the management of our interest rate sensitivity and generates additional interest income. In addition, the securities portfolio is used to meet collateral requirements for public and trust deposits, securities sold under agreements to repurchase and other purposes. The available for sale securities portfolio serves as a source of liquidity. Historically, the Bank's policy has been to invest primarily in securities of the U.S. government and its agencies, obligations of municipalities in the State of Texas and other high grade fixed income securities to minimize credit risk. At December 31, 2017, the banking segment's securities portfolio of $993.0 million was comprised of trading securities of $6.5 million, available for sale securities of $630.7 million and held to maturity securities of $355.8 million.

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 $724.2 million at December 31, 2017. 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 sheet, had a value of $232.8 million at December 31, 2017. The Hilltop Broker-Dealers continue to evaluate market opportunities and from time to time will hold residential mortgage-backed securities in firm inventory which is sold to institutional clients and other counterparties.

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, 2017, the insurance segment's securities portfolio was comprised of $134.9 million in available for sale securities and $5.8 million of other investments included in other assets within the consolidated balance sheet.

The following table sets forth the estimated maturities of our debt securities, excluding trading securities, at December 31, 2017. 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	$ 16,106	$ 3,597	$ 4,962	$ —	$ 24,665
Fair value	$ 16,049	$ 3,551	$ 5,069	$ —	$ 24,669
Weighted average yield	1.17 %	1.14 %	2.65 %	—	1.47 %
U.S. government agencies:					
Bonds:					
Amortized cost	$ 52,951	$ 30,893	$ 36,349	$ 14,999	$ 135,192
Fair value	$ 52,898	$ 30,577	$ 36,436	$ 14,556	$ 134,467
Weighted average yield	1.20 %	1.97 %	2.49 %	1.99 %	1.81 %
Residential mortgage-backed securities:					
Amortized cost	$ 43	$ 95	$ 677	$ 262,022	$ 262,837
Fair value	$ 43	$ 101	$ 694	$ 258,841	$ 259,679
Weighted average yield	1.85 %	3.61 %	6.40 %	2.22 %	2.23 %
Commercial mortgage-backed securities:					
Amortized cost	$ —	$ 3,393	$ 71,622	$ 8,324	$ 83,339
Fair value	$ —	$ 3,378	$ 71,142	$ 8,382	$ 82,902
Weighted average yield	—	2.39 %	2.22 %	3.14 %	2.31 %
Collateralized mortgage obligations:					
Amortized cost	$ 58	$ 9,268	$ 7,239	$ 395,211	$ 411,776
Fair value	$ 58	$ 9,122	$ 7,128	$ 387,482	$ 403,790
Weighted average yield	2.22 %	2.07 %	1.76 %	1.97 %	1.97 %
Corporate debt securities:					
Amortized cost	$ 5,751	$ 31,512	$ 28,687	$ 918	$ 66,868
Fair value	$ 5,810	$ 32,273	$ 29,573	$ 1,006	$ 68,662
Weighted average yield	5.53 %	3.13 %	3.37 %	6.24 %	3.48 %
States and political subdivisions:					
Amortized cost	$ 1,510	$ 2,595	$ 15,276	$ 100,046	$ 119,427
Fair value	$ 1,509	$ 2,587	$ 15,295	$ 100,698	$ 120,089
Weighted average yield	1.46 %	2.51 %	2.40 %	2.71 %	2.65 %
Total securities portfolio:					
Amortized cost	$ 76,419	$ 81,353	$ 164,812	$ 781,520	$ 1,104,104
Fair value	$ 76,367	$ 81,589	$ 165,337	$ 770,965	$ 1,094,258
Weighted average yield	1.53 %	2.43 %	2.50 %	2.17 %	2.19 %

Non-Covered Loan Portfolio

Consolidated non-covered loans held for investment are detailed in the table below, classified by portfolio segment and segregated between those considered to be PCI loans and all other originated or acquired loans (in thousands). PCI loans showed evidence of credit deterioration on the date of acquisition that made it probable that all contractually required principal and interest payments would not be collected.

December 31, 2017	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,675,106	$ 6,099	$ 1,681,205
Real estate	2,981,984	29,540	3,011,524
Construction and land development	961,167	1,438	962,605
Consumer	40,319	127	40,446
Broker-dealer	577,889	—	577,889
Non-covered loans, gross	6,236,465	37,204	6,273,669
Allowance for loan losses	(58,919)	(2,038)	(60,957)
Non-covered loans, net of allowance	$ 6,177,546	$ 35,166	$ 6,212,712

December 31, 2016	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,687,781	$ 8,672	$ 1,696,453
Real estate	2,777,768	38,999	2,816,767
Construction and land development	783,383	3,467	786,850
Consumer	41,058	294	41,352
Broker-dealer	502,077	—	502,077
Non-covered loans, gross	5,792,067	51,432	5,843,499
Allowance for loan losses	(51,089)	(3,097)	(54,186)
Non-covered loans, net of allowance	$ 5,740,978	$ 48,335	$ 5,789,313

December 31, 2015	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,539,455	$ 13,350	$ 1,552,805
Real estate	2,260,464	52,775	2,313,239
Construction and land development	700,206	5,150	705,356
Consumer	44,893	779	45,672
Broker-dealer	590,545	—	590,545
Non-covered loans, gross	5,135,563	72,054	5,207,617
Allowance for loan losses	(40,929)	(4,486)	(45,415)
Non-covered loans, net of allowance	$ 5,094,634	$ 67,568	$ 5,162,202

December 31, 2014	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,366,984	$ 13,442	$ 1,380,426
Real estate	1,670,684	24,151	1,694,835
Construction and land development	404,465	9,178	413,643
Consumer	51,009	2,138	53,147
Broker-dealer	378,425	—	378,425
Non-covered loans, gross	3,871,567	48,909	3,920,476
Allowance for loan losses	(31,722)	(5,319)	(37,041)
Non-covered loans, net of allowance	$ 3,839,845	$ 43,590	$ 3,883,435

December 31, 2013	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,318,737	$ 36,816	$ 1,355,553
Real estate	1,418,003	39,250	1,457,253
Construction and land development	344,734	19,817	364,551
Consumer	51,067	4,509	55,576
Broker-dealer	281,713	—	281,713
Non-covered loans, gross	3,414,254	100,392	3,514,646
Allowance for loan losses	(30,104)	(3,137)	(33,241)
Non-covered loans, net of allowance	$ 3,384,150	$ 97,255	$ 3,481,405

Banking Segment

The loan portfolio constitutes the major earning asset of the banking segment and typically offers the best alternative for obtaining the maximum interest spread above the banking segment's cost of funds. The overall economic strength of the banking segment generally parallels the quality and yield of its loan portfolio. The banking segment's loan portfolio consists of the non-covered loan portfolio and the covered loan portfolio. The covered loan portfolio consists of loans acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC and is discussed below. The non-covered loan portfolio includes all other loans held by the Bank and is discussed herein.

The banking segment's total non-covered loans, net of the allowance for non-covered loan losses, were $7.2 billion, $6.9 billion and $5.9 billion at December 31, 2017, 2016 and 2015, respectively. The banking segment's non-covered loan portfolio includes a warehouse line of credit extended to PrimeLending, of which $1.5 billion, $1.6 billion and $1.4 billion was drawn at December 31, 2017, 2016 and 2015, respectively. Effective April 1, 2017, this warehouse line of credit was increased to $2.2 billion to address seasonal fluctuations in loan origination volumes. Amounts advanced against the warehouse line of credit are eliminated from net loans on our consolidated balance sheets. The banking segment does not generally participate in syndicated loan transactions and has no foreign loans in its portfolio.

At December 31, 2017, the banking segment had non-covered loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of total non-covered loans in its real estate portfolio. The areas of concentration within our non-covered real estate portfolio were non-construction commercial real estate loans, non-construction residential real estate loans, and construction and land development loans, which represented 35.6%, 12.4% and 15.3%, respectively, of the banking segment's total non-covered loans at December 31, 2017. The banking segment's non-covered loan concentrations were within regulatory guidelines at December 31, 2017.

Broker-Dealer Segment

The loan portfolio of the broker-dealer segment consists primarily of margin loans to customers and correspondents. These loans are collateralized by the securities purchased or by other securities owned by the clients and, because of collateral coverage ratios, are believed to present minimal collectability exposure. Additionally, these loans are subject to a number of regulatory requirements as well as the Hilltop Broker-Dealers' internal policies. The broker-dealer segment's total non-covered loans, net of the allowance for non-covered loan losses, were $577.5 million, $501.9 million and $590.3 million at December 31, 2017, 2016 and 2015, respectively. The increase during 2017, compared to 2016, was primarily attributable to increases of $17.0 million in borrowings in margin accounts and $58.1 million in receivables from customers. The decrease during 2016, compared to 2015, was primarily attributable to decreases of $81.2 million in borrowings in margin accounts and $6.3 million in receivables from customers.

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,		
	2017	2016	2015
Loans held for sale:			
Unpaid principal balance	$ 1,528,834	$ 1,706,383	$ 1,410,445
Fair value adjustment	52,770	42,115	50,390
	$ 1,581,604	$ 1,748,498	$ 1,460,835
IRLCs:			
Unpaid principal balance	$ 850,850	$ 944,550	$ 944,942
Fair value adjustment	18,851	23,269	23,762
	$ 869,701	$ 967,819	$ 968,704

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, 2017, 2016 and 2015 were

$2.0 billion, $2.1 billion and $2.0 billion, respectively, while the related estimated fair values were ($0.2) million, $8.5 million and $(1.2) million, respectively.

Covered Loan Portfolio

Banking Segment

Loans acquired in the FNB Transaction that are subject to loss-share agreements with the FDIC are referred to as "covered loans" and reported separately in our consolidated balance sheets. Under the terms of the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets (including covered loans): (i) 80% of 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 are 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 are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is 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 are in effect for five years and ten years, respectively, and the loss recovery provisions to the FDIC are in effect for eight years and ten years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if our actual net realized losses over the life of the loss-share agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. The initial estimate of the FDIC Indemnification Asset at the Bank Closing Date was recorded at the present value of 80% of $240.4 million. As of December 31, 2017, the Bank projects that the sum of actual plus projected covered losses and reimbursable expenses subject to the loss-share agreements will be less than $240.4 million. As a result, the Bank has recorded, and expects that it will continue to record, amortization associated with its FDIC Indemnification Asset. As of December 31, 2017, the Bank had billed $184.7 million of covered net losses to the FDIC, of which 80%, or $147.8 million, were reimbursable under the loss-share agreements. As of December 31, 2017, the Bank had received aggregate reimbursements of $145.8 million from the FDIC. While the ultimate amount of any "true-up" payment is unknown at this time and will vary based upon the amount of future losses or recoveries within our covered loan portfolio, the Bank has recorded a related "true-up" payment accrual of $16.3 million at December 31, 2017 based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements. Additionally, as estimates of realized losses on covered assets change, the value of the FDIC Indemnification Asset will be adjusted and therefore may not be realized. As noted above, if the Bank continues to experience favorable resolutions within its covered assets portfolio and covered losses, the Bank will be required to increase its "true-up" payment accrual and recognize amortization on the FDIC Indemnification Asset.

In connection with the FNB Transaction, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. Based on purchase date valuations, the banking segment's portfolio of acquired covered loans had a fair value of $1.1 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses. Unless the banking segment acquires additional loans subject to loss-share agreements with the FDIC, the covered portfolio will continue to decrease as covered loans are liquidated.

Covered loans held for investment are detailed in the table below and classified by portfolio segment (in thousands).

December 31, 2017	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 861	$ 194	$ 1,055
Real estate	92,444	86,915	179,359
Construction and land development	1,711	4	1,715
Covered loans, gross	95,016	87,113	182,129
Allowance for loan losses	(32)	(2,697)	(2,729)
Covered loans, net of allowance	$ 94,984	$ 84,416	$ 179,400

December 31, 2016	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,185	$ 1,512	$ 2,697
Real estate	117,431	127,038	244,469
Construction and land development	3,757	5,204	8,961
Covered loans, gross	122,373	133,754	256,127
Allowance for loan losses	(69)	(344)	(413)
Covered loans, net of allowance	$ 122,304	$ 133,410	$ 255,714

December 31, 2015	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 1,294	$ 7,507	$ 8,801
Real estate	147,502	193,546	341,048
Construction and land development	9,524	20,921	30,445
Covered loans, gross	158,320	221,974	380,294
Allowance for loan losses	(32)	(1,500)	(1,532)
Covered loans, net of allowance	$ 158,288	$ 220,474	$ 378,762

December 31, 2014	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 10,345	$ 20,435	$ 30,780
Real estate	183,886	368,964	552,850
Construction and land development	13,021	45,989	59,010
Covered loans, gross	207,252	435,388	642,640
Allowance for loan losses	(77)	(4,534)	(4,611)
Covered loans, net of allowance	$ 207,175	$ 430,854	$ 638,029

December 31, 2013	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 28,533	$ 38,410	$ 66,943
Real estate	223,304	564,678	787,982
Construction and land development	25,376	126,068	151,444
Covered loans, gross	277,213	729,156	1,006,369
Allowance for loan losses	(179)	(882)	(1,061)
Covered loans, net of allowance	$ 277,034	$ 728,274	$ 1,005,308

At December 31, 2017, the banking segment had covered loan concentrations (loans to borrowers engaged in similar activities) that exceeded 10% of total covered loans in its real estate portfolio. The areas of concentration within our covered real estate portfolio were non-construction residential real estate loans and non-construction commercial real estate loans, which represented 79.1% and 19.4%, respectively, of the banking segment's total covered loans at December 31, 2017. The banking segment's covered loan concentrations were within regulatory guidelines at December 31, 2017.

Loan Portfolio Maturities

Banking Segment

The following table provides information regarding the maturities of the banking segment's non-covered and covered commercial and real estate loans held for investment, net of unearned income (in thousands).

	December 31, 2017			
	Due Within One Year	Due From One To Five Years	Due After Five Years	Total
Commercial and industrial	$ 2,714,142	$ 372,710	$ 132,594	$ 3,219,446
Real estate (including construction and land development)	1,087,957	2,269,534	799,467	4,156,958
Total	$ 3,802,099	$ 2,642,244	$ 932,061	$ 7,376,404
Fixed rate loans	$ 2,791,110	$ 2,219,687	$ 801,508	$ 5,812,305
Floating rate loans	1,010,989	422,557	130,553	1,564,099
Total	$ 3,802,099	$ 2,642,244	$ 932,061	$ 7,376,404

In the table above, floating rate loans that have reached their applicable rate floor or ceiling are classified as fixed rate loans rather than floating rate loans. The majority of floating rate loans carry an interest rate tied to The Wall Street Journal Prime Rate, as published in The Wall Street Journal.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses inherent in our existing non-covered and covered loan portfolios. Management has responsibility for determining the level of the allowance for loan losses, subject to review by the 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:

- 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. The magnitude of the impact of these factors on our qualitative assessment of the allowance for loan loss changes from quarter to quarter.

The loan review program is designed to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes 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 PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in each of the FNB Transaction and the SWS Merger are accounted for in pools as well as on an individual loan basis. We have established under our PCI accounting policy a framework to aggregate certain acquired loans into various loan pools based on a minimum of two layers of 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 the FNB and SWS 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.

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, generally accepted accounting principles, general economic conditions and

other factors related to the ability to collect loans in its portfolio. The provision for loan losses, primarily in the banking segment, was $14.3 million, $40.6 million and $12.7 million during 2017, 2016 and 2015, respectively. The significant changes in the provision for loan losses during 2017, compared with 2016, and during 2016, compared with 2015, were primarily the result of the previously mentioned $24.5 million charge-off of a single large loan by the Bank during the second quarter of 2016.

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 non-covered and covered portfolios at December 31, 2017, 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 non-covered and covered loan portfolios for the periods presented (in thousands). Substantially all of the activity shown below occurred within the banking segment. With respect to the covered portfolio, the year ended December 31, 2013 below refers to the period from September 14, 2013 through December 31, 2013.

	Year Ended December 31,				
Non-Covered Portfolio	**2017**	**2016**	**2015**	**2014**	**2013**
Balance, beginning of year	$ 54,186	$ 45,415	$ 37,041	$ 33,241	$ 3,409
Provisions charged to operations	11,406	41,741	12,173	7,747	36,093
Recoveries of non-covered loans previously charged off:					
Commercial and industrial	1,833	1,931	3,558	2,943	3,439
Real estate	225	395	520	218	282
Construction and land development	7	—	—	185	265
Consumer	79	123	127	105	61
Broker-dealer	—	—	123	1	—
Total recoveries	2,144	2,449	4,328	3,452	4,047
Non-covered loans charged off:					
Commercial and industrial	6,253	33,776	7,144	6,926	9,359
Real estate	305	1,439	605	114	209
Construction and land development	13	—	—	—	524
Consumer	208	203	378	359	216
Broker-dealer	—	1	—	—	—
Total charge-offs	6,779	35,419	8,127	7,399	10,308
Net charge-offs	(4,635)	(32,970)	(3,799)	(3,947)	(6,261)
Balance, end of year	$ 60,957	$ 54,186	$ 45,415	$ 37,041	$ 33,241
Non-covered allowance for loan losses as a percentage of gross non-covered loans	0.97 %	0.93 %	0.87 %	0.94 %	0.95 %

Covered Portfolio	2017	2016	2015	2014	2013
	Year Ended December 31,				
Balance, beginning of period	$ 413	$ 1,532	$ 4,611	$ 1,061	$ —
Provisions charged to (recapture from) operations	2,865	(1,121)	542	9,186	1,065
Recoveries of covered loans previously charged off:					
Commercial and industrial	6	—	222	—	—
Real estate	6	17	120	—	—
Construction and land development	10	104	—	—	—
Total recoveries	22	121	342	—	—
Covered loans charged off:					
Commercial and industrial	49	6	915	90	4
Real estate	522	62	2,869	5,399	—
Construction and land development	—	51	179	147	—
Total charge-offs	571	119	3,963	5,636	4
Net recoveries (charge-offs)	(549)	2	(3,621)	(5,636)	(4)
Balance, end of period	$ 2,729	$ 413	$ 1,532	$ 4,611	$ 1,061
Covered allowance for loan losses as a percentage of gross covered loans	1.50 %	0.16 %	0.40 %	0.72 %	0.11 %

The distribution of the allowance for loan losses among loan types and the percentage of the loans for that type to gross loans, excluding unearned income, within our non-covered and covered loan portfolios are presented in the tables below (dollars in thousands).

Non-Covered Portfolio	2017 Reserve	2017 % of Gross Non-Covered Loans	2016 Reserve	2016 % of Gross Non-Covered Loans	2015 Reserve	2015 % of Gross Non-Covered Loans	2014 Reserve	2014 % of Gross Non-Covered Loans	2013 Reserve	2013 % of Gross Non-Covered Loans
	December 31,									
Commercial and industrial	$ 23,674	26.80 %	$ 21,369	29.03 %	$ 19,845	29.82 %	$ 18,833	35.21 %	$ 16,717	38.57 %
Real estate (including construction and land development)	36,619	63.35 %	32,238	61.67 %	25,047	57.96 %	17,581	53.78 %	16,288	51.84 %
Consumer	311	0.64 %	424	0.71 %	314	0.88 %	461	1.36 %	88	1.58 %
Broker-dealer	353	9.21 %	155	8.59 %	209	11.34 %	166	9.65 %	148	8.01 %
Total	$ 60,957	100.00 %	$ 54,186	100.00 %	$ 45,415	100.00 %	$ 37,041	100.00 %	$ 33,241	100.00 %

Covered Portfolio	2017 Reserve	2017 % of Gross Covered loans	2016 Reserve	2016 % of Gross Covered Loans	2015 Reserve	2015 % of Gross Covered Loans	2014 Reserve	2014 % of Gross Covered Loans	2013 Reserve	2013 % of Gross Covered Loans
	December 31,									
Commercial and industrial	$ 24	0.58 %	$ 35	1.05 %	$ 758	2.31 %	$ 1,193	4.79 %	$ 1,053	6.65 %
Real estate (including construction and land development)	2,705	99.42 %	378	98.95 %	774	97.69 %	3,418	95.21 %	8	93.35 %
Total	$ 2,729	100.00 %	$ 413	100.00 %	$ 1,532	100.00 %	$ 4,611	100.00 %	$ 1,061	100.00 %

Potential Problem Loans

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor’s potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. If such potential weaknesses persist without improving, the loan is subject to downgrade, typically to substandard, in three to six months. 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. Within our non-covered loan portfolio, we had five credit relationships totaling $27.3 million of potential problem loans at December 31, 2017,

compared with four credit relationships totaling $3.8 million of potential problem loans at December 31, 2016 and two credit relationships totaling $1.6 million of potential problem loans at December 31, 2015. Within our covered loan portfolio, we had one credit relationship totaling $0.4 million of potential problem loans at December 31, 2017, compared with one credit relationship totaling $0.5 million with potential problem loans at December 31, 2016 and December 31, 2015.

Non-Performing Assets

The following table presents components of our non-covered non-performing assets (dollars in thousands).

	December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Non-covered loans accounted for on a non-accrual basis:					
Commercial and industrial	$ 20,878	$ 9,515	$ 17,764	$ 16,648	$ 16,730
Real estate	18,978	13,932	7,160	4,707	6,511
Construction and land development	611	755	114	703	112
Consumer	56	244	7	—	—
Broker-dealer	—	—	—	—	—
	$ 40,523	$ 24,446	$ 25,045	$ 22,058	$ 23,353
Non-covered non-performing loans as a percentage of total non-covered loans	0.51 %	0.32 %	0.37 %	0.42 %	0.51 %
Non-covered other real estate owned	$ 3,883	$ 4,507	$ 394	$ 808	$ 4,805
Other repossessed assets	$ 323	$ 1,117	$ —	$ 361	$ 13
Non-covered non-performing assets	$ 44,729	$ 30,070	$ 25,439	$ 23,227	$ 28,171
Non-covered non-performing assets as a percentage of total assets	0.33 %	0.24 %	0.21 %	0.25 %	0.32 %
Non-covered loans past due 90 days or more and still accruing	$ 85,113	$ 47,486	$ 50,776	$ 19,237	$ 7,301
Troubled debt restructurings included in accruing non-covered loans	$ 1,150	$ 1,196	$ 1,418	$ 2,901	$ 1,055

At December 31, 2017, total non-covered non-performing assets increased $14.7 million to $44.7 million, compared with $30.1 million at December 31, 2016. Total non-covered non-performing assets increased $4.7 million to $30.1 million, compared with $25.4 million at December 31, 2015. Non-covered non-performing loans totaled $40.5 million, $24.4 million and $25.0 million at December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, non-covered non-accrual loans included 19 commercial and industrial relationships with loans of $20.9 million secured by accounts receivable, life insurance, oil and gas, livestock, and equipment. Non-covered non-accrual loans at December 31, 2017 also included $19.0 million characterized as real estate loans, including eight commercial real estate loan relationships totaling $14.6 million and $4.4 million in loans secured by residential real estate, $2.7 million of which were classified as loans held for sale, as well as construction and land development loans of $0.6 million. At December 31, 2016, non-covered non-accrual loans included 19 commercial and industrial relationships with loans of $9.5 million secured by accounts receivable, life insurance, livestock, oil and gas, and equipment. Non-covered non-accrual loans at December 31, 2016 also included $13.9 million characterized as real estate loans, including five commercial real estate loan relationships of $11.0 million and loans secured by residential real estate of $2.9 million, $1.7 million of which were classified as loans held for sale, as well as construction and land development loans of $0.8 million. The $16.1 million increase in non-covered non-accrual loans from December 31, 2016 to December 31, 2017 was primarily due to $15.4 million in loans at the Bank (two commercial and industrial relationships and one real estate relationship) being moved to non-accrual during 2017. At December 31, 2015, non-covered non-accrual loans included 20 commercial and industrial relationships with loans of $17.4 million secured by accounts receivable, inventory, life insurance, livestock, ad oil and gas, and a total of $0.3 million in lease financing receivables. Non-covered non-accrual loans at December 31, 2015 also included $7.2 million characterized as real estate loans, including four commercial real estate loan relationships of $4.6

million and loans secured by residential real estate of $2.6 million, $1.6 million of which were classified as loans held for sale, as well as construction and land development loans of $0.1 million.

Non-covered OREO decreased $0.6 million to $3.9 million at December 31, 2017, compared with $4.5 million at December 31, 2016. Changes in non-covered OREO included the addition of six properties totaling $2.2 million, the disposal of eight properties totaling $2.0 million and downward valuation adjustments of $0.8 million. At December 31, 2017, non-covered OREO included commercial properties of $3.6 million and other real estate properties of $0.3 million. At December 31, 2016, non-covered OREO included commercial properties of $4.2 million and other real estate properties of $0.3 million.

Non-covered non-PCI loans past due 90 days or more and still accruing were $85.1 million, $47.5 million and $50.8 million at December 31, 2017, 2016 and 2015, respectively, substantially all of which were loans held for sale and guaranteed by U.S. Government agencies, including loans that are subject to repurchase, or have been repurchased, by PrimeLending. The increase in non-covered loans past due 90 days or more and still accruing from December 31, 2016 to December 31, 2017 was primarily due to an increase in Government National Mortgage Association related loans subject to repurchase within our mortgage origination segment. This increase in loans subject to repurchase was partially due to increased delinquencies resulting from the granting of forbearance by loan servicers to provide flexibility to borrowers impacted by natural disasters during 2017.

At December 31, 2017, troubled debt restructurings (“TDRs”) on non-covered loans totaled $10.7 million. These TDRs were comprised of $1.2 million of non-covered loans that were considered to be performing and non-covered non-performing loans of $9.6 million reported in non-accrual loans. At December 31, 2016, TDRs on non-covered loans totaled $6.4 million, consisting of $1.2 million related to non-covered loans that were considered to be performing and non-covered non-performing loans of $5.2 million reported in non-accrual loans. At December 31, 2015, TDRs on non-covered loans totaled $9.3 million, consisting of $1.4 million related to non-covered loans that were considered to be performing and non-covered non-performing loans of $7.9 million reported in non-accrual loans.

The following table presents components of our covered non-performing assets (dollars in thousands).

	December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Covered loans accounted for on a non-accrual basis:					
Commercial and industrial	$ —	$ 52	$ 68	$ 1,325	$ 973
Real estate	5,087	3,765	2,958	31,869	249
Construction and land development	17	19	5,952	1,029	575
	$ 5,104	$ 3,836	$ 8,978	$ 34,223	$ 1,797
Covered non-performing loans as a percentage of total covered loans	2.80 %	1.50 %	2.36 %	5.33 %	0.18 %
Covered other real estate owned:					
Real estate - residential	$ 2,433	$ 7,396	$ 17,718	$ 15,711	$ 11,634
Real estate - commercial	6,933	9,558	33,425	40,889	51,897
Construction and land development - residential	4,667	7,926	9,190	21,719	36,866
Construction and land development - commercial	22,711	26,762	38,757	58,626	42,436
	$ 36,744	$ 51,642	$ 99,090	$ 136,945	$ 142,833
Other repossessed assets	$ —	$ —	$ —	$ —	$ —
Covered non-performing assets	$ 41,848	$ 55,478	$ 108,068	$ 171,168	$ 144,630
Covered non-performing assets as a percentage of total assets	0.31 %	0.44 %	0.91 %	1.85 %	1.62 %
Covered loans past due 90 days or more and still accruing	$ 283	$ 173	$ —	$ 67	$ —
Troubled debt restructurings included in accruing covered loans	$ 283	$ 503	$ 515	$ 326	$ —

At December 31, 2017, covered non-performing assets decreased by $13.6 million to $41.8 million, compared with $55.5 million at December 31, 2016, due to a decrease in covered other real estate owned of $14.9 million, partially offset by an increase in covered non-accrual loans of $1.3 million. At December 31, 2016, covered non-performing assets decreased by $52.6 million to $55.5 million, compared with $108.1 million at December 31, 2015, due to decreases in covered non-accrual loans of $5.1 million and covered other real estate owned of $47.4 million. Covered non-performing loans totaled $5.1 million, $3.8 million and $9.0 million at December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, covered non-performing loans included 53 residential real estate loan relationships of $5.1 million. At December 31, 2016, covered non-performing loans included one commercial and industrial relationship with loans of $0.1 million, three commercial real estate loan relationships of $0.7 million and 31 residential real estate loan relationships of $3.0 million. At December 31, 2015, covered non-performing loans included four commercial and industrial relationships with loans of $0.1 million secured by accounts receivable and inventory, two commercial real estate loan relationships of $0.4 million, 25 residential real estate loan relationships of $2.5 million, as well as construction and land development loans of $6.0 million.

OREO acquired in the FNB Transaction that is subject to the FDIC loss-share agreements is referred to as "covered OREO" and reported separately in our consolidated balance sheets. Covered OREO decreased $14.9 million to $36.7 million at December 31, 2017, compared with $51.6 million at December 31, 2016. The decrease was primarily due to the disposal of 163 properties totaling $17.7 million and fair value valuation decreases of $3.7 million, partially offset by the addition of 48 properties totaling $6.5 million. Covered OREO decreased $47.5 million to $51.6 million at December 31, 2016, compared with $99.1 million at December 31, 2015. The decrease was primarily due to the disposal of 212 properties totaling $42.9 million and fair value valuation decreases of $18.5 million, partially offset by the addition of 124 properties totaling $13.9 million.

Covered non-PCI loans past due 90 days or more and still accruing totaled $0.3 million at December 31, 2017 and included four residential real estate loans. Covered non-PCI loans past due 90 days or more and still accruing totaled $0.2 million at December 31, 2016 and included one residential real estate loan and one commercial and industrial loan. There were no covered non-PCI loans past due 90 days or more and still accruing at December 31, 2015.

At December 31, 2017, 2016 and 2015, TDRs on covered loans totaled $1.2 million, $1.4 million, and $1.5 million, respectively. At December 31, 2017, TDRs on covered loans consisted of $0.3 million related to covered loans that were considered to be performing and covered non-performing loans of $0.9 million included in non-accrual loans. At December 31, 2016, TDRs on covered loans consisted of $0.5 million related to covered loans that were considered to be performing and covered non-performing loans of $0.9 million included in non-accrual loans. At December 31, 2015, TDRs on covered loans consisted of $0.5 million related to covered loans that were considered to be performing and covered non-performing loans of $1.0 million included in non-accrual loans.

Insurance Losses and Loss Adjustment Expenses

At December 31, 2017, 2016 and 2015, our gross reserve for unpaid losses and LAE was $30.2 million, $35.8 million, and $44.4 million, respectively, including estimated recoveries from reinsurance of $11.5 million, $9.4 million, and $13.5 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, 2017, this equates to approximately plus or minus $1.9 million, or 1.6% of insurance segment equity, and 2.0% of calendar year 2017 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. Average deposits totaled $7.5 billion during 2017 and were higher than average deposits of $7.1 billion during 2016 and $7.0 billion during 2015. 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,					
	2017		2016		2015	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand deposits	$ 2,309,776	0.00 %	$ 2,241,561	0.00 %	$ 2,187,336	0.00 %
Interest-bearing demand deposits	3,671,521	0.29 %	3,185,006	0.14 %	3,011,647	0.13 %
Savings deposits	234,420	0.10 %	301,877	0.15 %	297,857	0.15 %
Time deposits	1,314,418	1.05 %	1,337,491	0.81 %	1,494,573	0.74 %
	$ 7,530,135	0.33 %	$ 7,065,935	0.22 %	$ 6,991,413	0.22 %

The maturity of consolidated interest-bearing time deposits of $100,000 or more at December 31, 2017 is set forth in the table below (in thousands).

Months to maturity:	
3 months or less	$ 200,474
3 months to 6 months	178,623
6 months to 12 months	212,491
Over 12 months	498,772
	$ 1,090,360

The banking segment experienced an increase of $192.6 million in interest-bearing time deposits of $100,000 or more at December 31, 2017, compared to December 31, 2016. This is compared to an increase of $125.8 million in interest-bearing time deposits of $100,000 or more at December 31, 2016, compared to December 31, 2015. The increases during both periods were primarily due to our strategic decision to offer more aggressive time deposit rate options. At December 31, 2017, there were $791.7 million 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,					
	2017		2016		2015	
	Balance	Average Rate Paid	Balance	Average Rate Paid	Balance	Average Rate Paid
Short-term borrowings	$ 1,206,424	1.20 %	$ 1,417,289	0.65 %	$ 947,373	0.56 %
Notes payable	208,809	3.65 %	317,912	3.89 %	238,716	3.93 %
Junior subordinated debentures	67,012	4.50 %	67,012	3.99 %	67,012	3.58 %
	$ 1,482,245	1.84 %	$ 1,802,213	1.57 %	$ 1,253,101	1.38 %

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 $210.9 million decrease in short-term borrowings at December 31, 2017 compared with December 31, 2016 included a net decrease of $735.4 million in our banking segment primarily associated with a decrease in FHLB notes, partially offset by an increase of $549.6 million in short-term bank loans and securities sold under agreements to repurchase used by the Hilltop Broker-Dealers to finance their activities. The $469.9 million increase in short-term borrowings at December 31, 2016 compared with December 31, 2015 included an increase in borrowings of $428.2 million in our banking segment primarily associated with an increase in borrowings under the mortgage origination segment's warehouse line of credit with the Bank and a net increase of $34.5 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, 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 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. Notes payable at December 31, 2016 of $317.9 million was comprised of $148.3 million related to Senior Notes, net of loan origination fees, associated with our debt offering in April 2015, FHLB borrowings with an original maturity greater than one year held by the former SWS FSB within the banking segment of $102.6 million, insurance segment term notes of $50.5 million, and mortgage origination segment borrowings of $16.5 million. The decrease in notes payable at December 31, 2017 compared to December 31, 2016 included the payoff by NLC of its $20.0 million insurance company note payable due March 2035. Notes payable at December 31, 2015 of $238.7 million was comprised of $148.2 million related to Senior Notes, net of loan origination fees, insurance segment term notes of $54.5 million, and FHLB borrowings with an original maturity greater than one year held by the former SWS FSB within the banking segment of $36.0 million. The average rate paid associated with notes payable includes the effect of amortization of the premiums on FHLB borrowings booked as a part of the SWS Merger.

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. At December 31, 2017, Hilltop had $96.8 million in freely available cash and cash equivalents, a decrease of $7.1 million from $103.9 million at December 31, 2016. This decrease

in available cash was primarily due to the net effects of Hilltop's payment of $55.0 million related to the resolution of the SWS appraisal proceeding, $27.4 million associated with our stock repurchase program, $23.1 million in cash dividends declared and paid, a $10.0 million capital contribution to PCE and other general corporate expenses, partially offset by Hilltop's receipt of $94.5 million in dividends from its subsidiaries and receipt of $20.6 million from PCC due to organizational changes. If necessary or appropriate, we may also finance acquisitions with the proceeds from equity or debt issuances. Subject to regulatory restrictions, Hilltop has received, and may also continue to receive, dividends from its subsidiaries. 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.

Dividend Program and Declaration

In October 2016, we announced that our board of directors authorized a dividend program under which we intend pay quarterly dividends on our common stock, subject to quarterly declarations by our board of directors. During 2017, we declared and paid cash dividends of $0.24 per common share, or $23.1 million.

On January 25, 2018, our board of directors declared a quarterly cash dividend of $0.07 per common share, payable on February 28, 2018 to all common stockholders of record as of the close of business on February 15, 2018.

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.

Pending Acquisition

On February 13, 2018, we entered into a definitive agreement to acquire privately-held, Houston-based The Bank of River Oaks ("BORO") in an all-cash transaction. Under the terms of the definitive agreement, we have agreed to pay cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. As of December 31, 2017, BORO had unaudited total assets, gross loans and deposits of approximately $454 million, $344 million and $406 million, respectively. The transaction is subject to customary closing conditions, including regulatory approvals and approval by shareholders of BORO, and is expected to close during the third quarter of 2018.

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, 2017, $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.

Stock Repurchase Program

In January 2017, our board of directors reauthorized the stock repurchase program originally approved during the second quarter of 2016 through January 2018. In January 2018, our board of directors authorized a stock repurchase program through January 2019. Pursuant to the stock repurchase program, we are authorized to repurchase, in the aggregate, up to $50.0 million of our outstanding common stock. Under the stock repurchase program authorized, we may 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 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 2017, the Company paid $27.4 million to repurchase an aggregate of 1,057,656 shares of common stock at an average price of $25.87 per share. The purchases were funded from available cash balances.

Loss-Share Agreements

In connection with the FNB Transaction, the Bank entered into two loss-share agreements with the FDIC that collectively cover $1.2 billion of loans and OREO acquired in the FNB Transaction, which we refer to as "covered assets". Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of 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 are 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 are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is no limit on the amount of subsequent recoveries reimbursable to the FDIC under the loss-share agreement for single family assets. The loss-share agreements for commercial and single family residential loans are in effect for five years and ten years, respectively, from the Bank Closing Date and the loss recovery provisions to the FDIC are in effect for eight years and ten years, respectively, from the Bank Closing Date. In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if our actual net realized losses over the life of the loss-share agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. While the ultimate amount of any "true-up" payment is unknown at this time and will vary based upon the amount of future losses or recoveries within our covered loan portfolio, the Bank has recorded a related "true-up" payment accrual of $16.3 million at December 31, 2017 based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition and results of operations. Under capital adequacy and regulatory requirements, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-

balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In 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. 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 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 phase-in of the capital conservation buffer requirements began on January 1, 2016 for Hilltop and PlainsCapital. 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, 2017, as well as the fully phased-in requirements through 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 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, 2017, under guidance issued by the Board of Governors of the Federal Reserve System.

At December 31, 2017, Hilltop had a total capital to risk weighted assets ratio of 18.78%, Tier 1 capital to risk weighted assets ratio of 18.24%, common equity Tier 1 capital to risk weighted assets ratio of 17.71% and a Tier 1 capital to average assets, or leverage, ratio of 12.94%. Accordingly, 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 and on a fully phased-in basis as if such requirements were currently in effect.

At December 31, 2017, PlainsCapital had a total capital to risk weighted assets ratio of 15.29%, Tier 1 capital to risk weighted assets ratio of 14.47%, common equity Tier 1 capital to risk weighted assets ratio of 14.47%, and a Tier 1 capital to average assets, or leverage, ratio of 12.32%. 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 and on a fully phased-in basis as if such requirements were currently in effect.

We discuss regulatory capital requirements in more detail in Note 21 to our consolidated financial statements, as well as under the caption "Government Supervision and Regulation — Corporate — Capital Adequacy Requirements and BASEL III" set forth in Part I, Item I. of our Annual Report on Form 10-K.

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.

We had deposits of $8.0 billion at December 31, 2017, an increase of $914.3 million from $7.1 billion at December 31, 2016. 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. At December 31, 2017, money market deposits, including brokered deposits, were $2.3 billion; time deposits, including brokered deposits, were $1.4 billion; and noninterest bearing demand deposits were $2.4 billion. Money market deposits, including brokered deposits, increased by $572.7 million from $1.8 billion and time deposits, including brokered deposits, increased $213.5 million from $1.2 billion at December 31, 2016.

The Bank's 15 largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 8.47% of the Bank's total deposits, and the Bank's five largest depositors, excluding Hilltop and Hilltop Securities, collectively accounted for 4.45% of the Bank's total deposits at December 31, 2017. 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 financings 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, 2017, Hilltop Securities had credit arrangements with five unaffiliated banks 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, 2017, Hilltop Securities had borrowed $315.5 million under its credit arrangements and had no borrowings under its credit facility.

Mortgage Origination Segment

PrimeLending funds the mortgage loans it originates through a warehouse line of credit maintained with the Bank. At December 31, 2017, PrimeLending had outstanding borrowings of $1.5 billion against the warehouse line of credit. Effective April 1, 2017, this warehouse line of credit was increased to $2.2 billion to address seasonal fluctuations in loan origination volumes. 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, 2017.

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, 2017, these ABAs have combined available lines of credit totaling $70.0 million, $30.0 million of which was with a single unaffiliated bank, while $40.0 million was with the Bank. At December 31, 2017, Ventures Management had outstanding borrowings of $12.5 million with a single unaffiliated bank.

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 $176.9 million, or 86.8%, equity investments of $21.2 million and other investments of $5.8 million comprised NLC's $203.9 million in total cash and investments at December 31, 2017. 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.

Contractual Obligations

The following table presents information regarding our contractual obligations at December 31, 2017 (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. 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	$ 18,702	$ 9,064	$ 2,055	$ 392	$ 30,213
Short-term borrowings	1,224,567	—	—	—	1,224,567
Long-term debt obligations	38,591	28,145	25,240	327,040	419,016
Capital lease obligations	1,444	3,019	2,578	4,125	11,166
Operating lease obligations	36,602	54,588	30,735	31,422	153,347
FDIC loss-share obligation (1)	—	—	—	16,325	16,325
Total	$ 1,319,906	$ 94,816	$ 60,608	$ 379,304	$ 1,854,634

(1) In accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if our actual net realized losses over the life of the loss-share agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. While the ultimate amount of any "true-up" payment is unknown at this time and will vary based upon the amount of future losses or recoveries within our covered loan portfolio, the Bank has recorded the noted "true-up" payment accrual at December 31, 2017 based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements.

Impact of Inflation and Changing Prices

Our consolidated financial statements included herein have been prepared in accordance with GAAP, which presently require us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the U.S. government, its agencies and various other governmental regulatory authorities.

Off-Balance Sheet Arrangements; Commitments; Guarantees

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and have recorded a liability related to such credit risk in our consolidated financial statements.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be

entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.9 billion at December 31, 2017 and outstanding financial and performance standby letters of credit of $24.4 million at December 31, 2017.

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 management's discussion and analysis of our results of operations and financial condition. Our significant accounting policies are presented in Note 1 to our consolidated financial statements, which are included in this Annual Report. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policies which we believe to be the most critical in preparing our consolidated financial statements relate to allowance for loan losses, FDIC Indemnification Asset, reserve for losses and LAE, goodwill and identifiable intangible assets, mortgage loan indemnification liability, mortgage servicing rights asset and acquisition accounting.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. Loans are charged to the allowance when the loss is confirmed or when a determination is made that a probable loss has occurred on a specific loan. Recoveries are credited to the allowance at the time of recovery. Throughout the year, management estimates the probable level of losses to determine whether the allowance for credit losses is appropriate to absorb losses in the existing portfolio. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be appropriate to absorb losses. Management's judgment regarding the appropriateness of the allowance for loan losses involves the consideration of current economic conditions and their estimated effects on specific borrowers; an evaluation of the existing relationships among loans, potential loan losses and the present level of the allowance; results of examinations of the loan portfolio by regulatory agencies; and management's internal review of the loan portfolio. In determining the ability to collect certain loans, management also considers the fair value of any underlying collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating or other conditions beyond our control. For additional discussion of allowance for loan losses and provisions for loan losses, see the section entitled "Allowance for Loan Losses" earlier in this Item 7.

FDIC Indemnification Asset

The FDIC Indemnification Asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the present value and the undiscounted cash flows we expect to collect from the FDIC will be accreted into noninterest income within the consolidated statements of operations over the life of the FDIC Indemnification Asset. The FDIC Indemnification Asset is reviewed quarterly and the accretion rate is adjusted for changes in the timing of cash flows expected to be collected from the FDIC. Cumulative net losses over the life of the loss-share agreements of less than $240.4 million will reduce the value of the FDIC Indemnification Asset. Any amortization of changes in value of the FDIC Indemnification Asset is limited to the contractual terms of the loss-share agreements. Changes to the FDIC Indemnification Asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the consolidated statements of operations over the life of the loss-share agreements.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and 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 accounting period but have not been paid, less a reduction for reinsurance recoverables related to those liabilities. Months and potentially years may elapse between the occurrence of a loss covered by one of our insurance policies, the reporting of the loss and the payment of the claim. We record a liability for estimates of losses that will be paid for claims that have been reported, which is referred to as case reserves. As claims are not always reported when they occur, we estimate liabilities for claims that have occurred but have not been reported ("IBNR").

Each of our insurance company subsidiaries establishes a reserve for all of its unpaid losses, including case reserves and IBNR reserves, and estimates for the cost to settle the claims. We estimate our IBNR reserves by estimating our ultimate liability for loss and 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, the results of the reserve analysis are summarized and discussed with our senior management. The senior management group considers many factors in determining the amount of reserves to record for financial statement purposes. These factors include the extent and timing of any recent catastrophic events, historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and reported loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, and overall pricing and underwriting trends in the insurance market. As experience develops or new information becomes known, we increase or decrease the level of our reserves in the period in which changes to the estimates are determined. Accordingly, the actual losses and 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 were initially recorded at their estimated fair values at the date of acquisition. Goodwill and other intangible assets having an indefinite useful life are not amortized for financial statement purposes. In the event that facts and circumstances indicate that the goodwill and other identifiable intangible assets may be impaired, an interim impairment test would be required. Intangible assets with finite lives have been fully amortized over their useful lives. We perform required annual impairment tests of our goodwill and other intangible assets as of October 1st for our reporting units.

As of January 1, 2017, we adopted the provisions of ASU 2017-04 which removes Step 2 from the goodwill impairment test and eliminates the determination of goodwill impairment through calculation of the implied fair value when the carrying amount of a reporting unit exceeds its fair value. The goodwill impairment test requires us 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 our peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, we will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

Our evaluation includes multiple assumptions, including estimated discounted cash flows and other estimates that may change over time. If future discounted cash flows become less than those projected by us, future impairment charges may become necessary that could have a materially adverse impact on our results of operations and financial condition in the period in which the write-off occurs.

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 the 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 the estimated loss upon repurchase. Although we consider this reserve to be appropriate, there can be no assurance that the reserve will prove to be appropriate over time to cover ultimate losses, due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters will be considered in the reserving process when known.

Mortgage Servicing Rights 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 negatively 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. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of the MSR 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, including identifiable intangibles, and liabilities assumed based on their estimated fair values at the date of acquisition. Management applies various valuation methodologies to these acquired assets and assumed liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular item being valued. Examples of such items include loans, deposits, identifiable intangible assets and certain other assets and liabilities acquired or assumed in business combinations. Management uses significant estimates and assumptions to value such items, including, among others, projected cash flows, prepayment and default assumptions, discount rates, and realizable collateral values. Purchase date valuations, which are subject to change for up to one year after the acquisition date, determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. 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 periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Company's results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. Market risk represents the risk of loss that may result from changes in value of a financial instrument as a result of changes in interest rates, market prices and the credit perception of an issuer. The disclosure is not meant to be a precise indicator of expected future losses, but rather an indicator of reasonably possible losses, and therefore our actual results may differ from any of the following projections. This forward-looking information provides an indicator of how we view and manage our ongoing market risk exposures.

At December 31, 2017, total debt obligations on our consolidated balance sheet, excluding short-term borrowings and unamortized debt issuance costs and premiums, were $276.9 million, and were comprised of $169.0 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, 2017					
	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	$ 4,405,211	$ 1,067,238	$ 1,421,347	$ 330,929	$ 192,123	$ 7,416,848
Securities	118,943	139,268	227,719	106,494	403,055	995,479
Federal funds sold and securities purchased under agreements to resell	405	—	—	—	—	405
Other interest sensitive assets	265,294	—	—	—	29,160	294,454
Total interest sensitive assets	4,789,853	1,206,506	1,649,066	437,423	624,338	8,707,186
Interest sensitive liabilities:						
Interest bearing checking	$ 3,614,991	$ —	$ —	$ —	$ —	$ 3,614,991
Savings	218,812	—	—	—	—	218,812
Time deposits	311,800	510,904	562,597	13,657	9,797	1,408,755
Notes payable and other borrowings	483,756	11,992	4,955	1,271	6,115	508,089
Total interest sensitive liabilities	4,629,359	522,896	567,552	14,928	15,912	5,750,647
Interest sensitivity gap	$ 160,494	$ 683,610	$ 1,081,514	$ 422,495	$ 608,426	$ 2,956,539
Cumulative interest sensitivity gap	$ 160,494	$ 844,104	$ 1,925,618	$ 2,348,113	$ 2,956,539	
Percentage of cumulative gap to total interest sensitive assets	1.84 %	9.69 %	22.12 %	26.97 %	33.96 %	

The positive GAP in the interest rate analysis indicates that banking segment net interest income would generally rise if rates increase. Because of inherent limitations in interest rate GAP analysis, the banking segment uses multiple interest rate risk measurement techniques. Simulation analysis is used to subject the current repricing conditions to rising and falling interest rates in increments and decrements of 1%, 2% and 3% to determine the effect on net interest income changes for the next twelve months. The banking segment also measures the effects of changes in interest rates on economic value of equity by discounting projected cash flows of deposits and loans. Economic value changes in the investment portfolio are estimated by discounting future cash flows and using duration analysis. Investment security prepayments are estimated using current market information. We believe the simulation analysis presents a more accurate picture than the GAP analysis. Simulation analysis recognizes that deposit products may not react to changes in interest rates as quickly or with the same magnitude as earning assets contractually tied to a market rate index. The sensitivity to changes in market rates varies across deposit products. Also, unlike GAP analysis, simulation analysis takes into account the effect of embedded options in the securities and loan portfolios as well as any off-balance-sheet derivatives.

The table below shows the estimated impact of increases of 1%, 2% and 3% and a decrease of 0.5% in interest rates on net interest income and on economic value of equity for the banking segment at December 31, 2017 (dollars in thousands).

Change in Interest Rates (basis points)	Changes in Net Interest Income		Changes in Economic Value of Equity	
	Amount	Percent	Amount	Percent
+300	$ 64,266	20.34 %	$ 275,309	14.92 %
+200	$ 42,744	13.53 %	$ 192,592	10.44 %
+100	$ 10,365	6.86 %	$ 98,511	5.34 %
-50	$ (4,260)	(1.35)%	$ (48,774)	(2.64)%

The projected changes in net interest income and economic value of equity to changes in interest rates at December 31, 2017 were in compliance with established internal policy guidelines. These projected changes are based on numerous assumptions of growth and changes in the mix of assets or liabilities.

The historically low level of interest rates, combined with the existence of rate floors that are in effect for a portion of the loan portfolio, are projected to cause yields on our earning assets to rise more slowly than increases in market interest rates. As a result, in a rising interest rate environment, our interest rate margins are projected to compress until contractual rate resets allow our entire loan portfolio to reprice above applicable rate floors.

Broker-Dealer Segment

Our broker-dealer segment is exposed to market risk primarily due to its role as a financial intermediary in customer transactions, which may include purchases and sales of securities, use of derivatives and securities lending activities, and in our trading activities, which are used to support sales, underwriting and other customer activities. We are subject to the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates, market prices, investor expectations and changes in credit ratings of the issuer.

Our broker-dealer segment is exposed to interest rate risk as a result of maintaining inventories of interest rate sensitive financial instruments and other interest earning assets including customer and correspondent margin loans and securities borrowing activities. Our exposure to interest rate risk is also from our funding sources including customer and correspondent cash balances, bank borrowings, repurchase agreements and securities lending activities. Interest rates on customer and correspondent balances and securities produce a positive spread with rates generally fluctuating in parallel.

With respect to securities held, our interest rate risk is managed by setting and monitoring limits on the size and duration of positions and on the length of time securities can be held. Much of the interest rates on customer and correspondent margin loans are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

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, 2017				
	1 Year or Less	> 1 Year to 5 Years	> 5 Years to 10 Years	> 10 Years	Total
Trading securities, at fair value					
Municipal obligations	$ 532	$ 10,264	$ 9,435	$ 150,182	$ 170,413
U.S. government and government agency obligations	3,092	(28,224)	(60,684)	356,624	270,808
Corporate obligations	(4,138)	(1,631)	10,409	28,139	32,779
Total debt securities	(514)	(19,591)	(40,840)	534,945	474,000
Corporate equity securities	(8,945)	-	-	-	(8,945)
Other	26,315	-	-	-	26,315
	$ 16,856	$ (19,591)	$ (40,840)	$ 534,945	$ 491,370
Weighted average yield					
Municipal obligations	1.46 %	2.25 %	2.51 %	3.36 %	3.24 %
U.S. government and government agency obligations	1.69 %	1.96 %	2.43 %	3.95 %	3.36 %
Corporate obligations	2.35 %	3.45 %	4.22 %	5.26 %	4.02 %

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 interest rate swaps and swaptions, U.S. Treasury bond futures and options, 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 Co-Principal Executive Officers and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report.

Based upon that evaluation, our Co-Principal Executive Officers and Principal Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company’s management, including our Co-Principal Executive Officers and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Co-Principal Executive Officers 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, 2017. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our assessment, management concluded that, at December 31, 2017, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in its report below, which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2017.

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 2018 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 2018 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 2018 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 2018 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 2018 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.

	Page
1. Financial Statements.	
Hilltop Holdings Inc.	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Comprehensive Income	F-5
Consolidated Statements of Stockholders' Equity	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-8
2. Financial Statement Schedules.	
Schedule I - Insurance Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance	F-82

All other financial statement schedules have been omitted because they are not required, not applicable or the information has been included in our consolidated financial statements.

3. Exhibits. See the Exhibit Index preceding the signature page hereto.

Item 16. Form 10-K Summary.

None.

Exhibit Number	Description of Exhibit
2.1	Purchase and Assumption Agreement — Whole Bank, All Deposits, dated as of September 13, 2013, by and among the Federal Deposit Insurance Corporation, receiver of First National Bank, Edinburg, Texas, PlainsCapital Bank and the Federal Deposit Insurance Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on September 19, 2013 (File No. 001-31987) and incorporated herein by reference).
2.2	Agreement and Plan of Merger by and among SWS Group, Inc., Hilltop Holdings Inc. and Peruna LLC, dated as of March 31, 2014 (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on April 1, 2014 (File No. 001-31987) and incorporated herein by reference).
3.1	Articles of Amendment and Restatement of Affordable Residential Communities Inc., dated February 16, 2004, as amended or supplemented by: Articles Supplementary, dated February 16, 2004; Corporate Charter Certificate of Notice, dated June 6, 2005; Articles of Amendment, dated January 23, 2007; Articles of Amendment, dated July 31, 2007; Corporate Charter Certificate of Notice, dated September 23, 2008; Articles Supplementary, dated December 15, 2010; Articles Supplementary, dated as of November 29, 2012 relating to Subtitle 8 election; Articles Supplementary, dated November 29, 2012 relating to Non-Cumulative Perpetual Preferred Stock, Series B, of Hilltop Holdings Inc.; and Articles of Amendment 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).
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).
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 Award Agreement (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed on May 6, 2013 (File No. 001-31987) and incorporated herein by reference).
10.1.3†	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated herein by reference).

10.1.4†	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 28, 2014 (File No. 001-31987) and incorporated herein by reference).
10.1.5†	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).
10.1.6†	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).
10.1.7†	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).
10.1.8†*	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for awards beginning in 2018.
10.1.9†*	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Section 16 Officers) for awards beginning in 2018.
10.1.10†*	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting for Non-Section 16 Officers) for awards beginning in 2018.
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).
10.4.1†	Employment Agreement, dated as of December 4, 2014, by and between James R. Huffines and Hilltop Holdings Inc. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 9, 2014 (File No. 001-31987) and incorporated herein by reference).
10.4.2†	First Amendment to Employment Agreement by and between Hilltop Holdings Inc. and James R. Huffines, dated as of September 12, 2016 (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 13, 2016 (File No. 001-31987) and incorporated herein by reference).
10.5†	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).
10.5.1†	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).
10.6†	Compensation arrangement of Jeremy B. Ford (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 2, 2015 (File No. 001-31987) and incorporated herein by reference).

10.7† Compensation arrangement with Darren Parmenter (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 2, 2015 (File No. 001-31987) and incorporated herein by reference).

10.8† 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).

10.9.1† Sublease, dated December 1, 2012, by and between Hunter's Glen/Ford, LTD and Hilltop Holdings Inc. (filed as Exhibit 10.19 to the Registrant's Report on Form 10-K for the year ended December 31, 2013 filed on March 3, 2014 (File No. 001-31987) and incorporated herein by reference).

10.9.2† First Amendment to Sublease, dated February 28, 2014, by and between Hunter's Glen/Ford, LTD and Hilltop Holdings Inc. (filed as Exhibit 10.20 to the Registrant's Report on Form 10-K for the year ended December 31, 2013 filed on March 3, 2014 (File No. 001-31987) and incorporated herein by reference).

21.1* List of subsidiaries of the Registrant.

23.1* Consent of PricewaterhouseCoopers LLP.

31.1* Certification of Co-Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

31.2* Certification of Co-Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

31.3* Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

32.1* Certification of Co-Principal Executive Officers 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

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

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* Filed herewith.
† Exhibit is a management contract or compensatory plan.

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 15, 2018

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 Jeremy B. Ford	President, Co-Chief Executive Officer and Director (Co-Principal Executive Officer)	February 15, 2018
/s/ Alan B. White Alan B. White	Co-Chief Executive Officer and Director (Co-Principal Executive Officer)	February 15, 2018
/s/ William B. Furr William B. Furr	Chief Financial Officer (Principal Financial Officer)	February 15, 2018
/s/ Keith E. Bornemann Keith E. Bornemann	Executive Vice President, Corporate Controller (Principal Accounting Officer)	February 15, 2018
Charlotte Jones Anderson	Director	
/s/ Rhodes Bobbitt Rhodes Bobbitt	Director	February 15, 2018
/s/ Tracy A. Bolt Tracy A. Bolt	Director and Audit Committee Member	February 15, 2018
W. Joris Brinkerhoff	Director	
/s/ J. Taylor Crandall J. Taylor Crandall	Director	February 15, 2018
/s/ Charles R. Cummings Charles R. Cummings	Director and Chairman of Audit Committee	February 15, 2018
/s/ Hill A. Feinberg Hill A. Feinberg	Director	February 15, 2018
/s/ Gerald J. Ford Gerald J. Ford	Director	February 15, 2018
/s/ J. Markham Green J. Markham Green	Director and Audit Committee Member	February 15, 2018
/s/ William T. Hill, Jr. William T. Hill, Jr.	Director	February 15, 2018
/s/ Lee Lewis Lee Lewis	Director	February 15, 2018
/s/ Andrew J. Littlefair Andrew J. Littlefair	Director	February 15, 2018
/s/ W. Robert Nichols, III W. Robert Nichols, III	Director	February 15, 2018
C. Clifton Robinson	Director	
/s/ Kenneth D. Russell Kenneth D. Russell	Director	February 15, 2018
/s/ A. Haag Sherman A. Haag Sherman	Director	February 15, 2018
/s/ Robert Taylor, Jr. Robert Taylor, Jr.	Director	February 15, 2018
/s/ Carl B. Webb Carl B. Webb	Director	February 15, 2018

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Hilltop Holdings Inc.

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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, 2017 and 2016, 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, 2017, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

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 on Internal Control over Financial Reporting appearing under Item 9A. 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.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
February 15, 2018

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, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 486,977	$ 669,357
Federal funds sold	405	21,407
Securities purchased under agreements to resell	186,537	89,430
Assets segregated for regulatory purposes	186,578	180,993
Securities:		
Trading, at fair value	730,685	265,534
Available for sale, at fair value (amortized cost of $767,946 and $598,198, respectively)	765,560	598,007
Held to maturity, at amortized cost (fair value of $349,939 and $345,088, respectively)	355,849	351,831
	1,852,094	1,215,372
Loans held for sale	1,715,357	1,795,463
Non-covered loans, net of unearned income	6,273,669	5,843,499
Allowance for non-covered loan losses	(60,957)	(54,186)
Non-covered loans, net	6,212,712	5,789,313
Covered loans, net of allowance of $2,729 and $413, respectively	179,400	255,714
Broker-dealer and clearing organization receivables	1,464,378	1,497,741
Premises and equipment, net	177,577	190,361
FDIC indemnification asset	29,340	71,313
Covered other real estate owned	36,744	51,642
Other assets	549,447	613,453
Goodwill	251,808	251,808
Other intangible assets, net	36,432	44,695
Total assets	$ 13,365,786	$ 12,738,062
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 2,411,849	$ 2,199,483
Interest-bearing	5,566,270	4,864,328
Total deposits	7,978,119	7,063,811
Broker-dealer and clearing organization payables	1,287,563	1,347,128
Short-term borrowings	1,206,424	1,417,289
Securities sold, not yet purchased, at fair value	232,821	153,889
Notes payable	208,809	317,912
Junior subordinated debentures	67,012	67,012
Other liabilities	470,231	496,501
Total liabilities	11,450,979	10,863,542
Commitments and contingencies (see Notes 18 and 19)		
Stockholders' equity:		
Hilltop stockholders' equity:		
Common stock, $0.01 par value, 125,000,000 shares authorized; 95,982,184 and 98,543,774 shares issued and outstanding at December 31, 2017 and 2016, respectively	960	985
Additional paid-in capital	1,526,369	1,572,877
Accumulated other comprehensive income (loss)	(394)	485
Retained earnings	384,545	295,568
Deferred compensation employee stock trust, net	848	903
Employee stock trust (11,672 and 15,492 shares, at cost, respectively)	(247)	(309)
Total Hilltop stockholders' equity	1,912,081	1,870,509
Noncontrolling interests	2,726	4,011
Total stockholders' equity	1,914,807	1,874,520
Total liabilities and stockholders' equity	$ 13,365,786	$ 12,738,062

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2017	**2016**	**2015**
Interest income:			
Loans, including fees	$ 411,988	$ 389,637	$ 390,359
Securities borrowed	41,048	29,518	41,051
Securities:			
Taxable	36,472	26,233	26,584
Tax-exempt	5,807	6,222	6,628
Other	11,841	4,344	5,216
Total interest income	507,156	455,954	469,838
Interest expense:			
Deposits	24,695	15,843	15,523
Securities loaned	32,337	22,510	29,893
Short-term borrowings	13,751	5,803	4,574
Notes payable	10,931	10,849	8,143
Junior subordinated debentures	3,016	2,676	2,401
Other	678	742	721
Total interest expense	85,408	58,423	61,255
Net interest income	421,748	397,531	408,583
Provision for loan losses	14,271	40,620	12,715
Net interest income after provision for loan losses	407,477	356,911	395,868
Noninterest income:			
Net gains from sale of loans and other mortgage production income	538,468	606,991	519,103
Mortgage loan origination fees	93,944	96,267	77,708
Securities commissions and fees	156,464	157,906	160,660
Investment and securities advisory fees and commissions	109,920	115,992	115,932
Net insurance premiums earned	142,298	155,545	162,082
Bargain purchase gain	—	—	81,289
Other	163,970	154,264	110,868
Total noninterest income	1,205,064	1,286,965	1,227,642
Noninterest expense:			
Employees' compensation and benefits	816,994	834,113	765,887
Occupancy and equipment, net	113,943	109,418	119,653
Professional services	101,521	128,176	107,107
Loss and loss adjustment expenses	94,701	89,243	99,066
Other	242,096	251,521	248,303
Total noninterest expense	1,369,255	1,412,471	1,340,016
Income before income taxes	243,286	231,405	283,494
Income tax expense	110,142	83,461	70,915
Net income	133,144	147,944	212,579
Less: Net income attributable to noncontrolling interest	600	2,050	1,606
Income attributable to Hilltop	$ 132,544	$ 145,894	$ 210,973
Dividends on preferred stock	—	—	1,854
Income applicable to Hilltop common stockholders	$ 132,544	$ 145,894	$ 209,119
Earnings per common share:			
Basic	$ 1.36	$ 1.48	$ 2.10
Diluted	$ 1.36	$ 1.48	$ 2.09
Cash dividends declared per common share	$ 0.24	$ 0.06	$ —
Weighted average share information:			
Basic	97,137	98,404	99,074
Diluted	97,353	98,629	99,962

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	$ 133,144	$ 147,944	$ 212,579
Other comprehensive income:			
Net unrealized gains (losses) on securities available for sale, net of tax of $(565), $1,264 and $2,761, respectively	(869)	(2,144)	4,792
Reclassification adjustment for gains (losses) included in net income, net of tax of $(6), $0 and $(1,589), respectively	(10)	—	(2,814)
Comprehensive income	132,265	145,800	214,557
Less: comprehensive income attributable to noncontrolling interest	600	2,050	1,606
Comprehensive income applicable to Hilltop	$ 131,665	$ 143,750	$ 212,951

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Deferred Compensation Employee Stock Trust, Net	Employee Stock Trust		Total Hilltop Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					Shares	Amount			
Balance, December 31, 2014	114	$ 114,068	90,182	$ 902	$ 1,390,788	$ 651	$ (45,957)	$ —	—	$ —	$ 1,460,452	$ 787	$ 1,461,239
Net income	—	—	—	—	—	—	210,973	—	—	—	210,973	1,606	212,579
Other comprehensive income	—	—	—	—	—	1,978	—	—	—	—	1,978	—	1,978
Issuance of common stock	—	—	10,113	101	199,932	—	—	—	—	—	200,033	—	200,033
Stock-based compensation expense	—	—	—	—	8,309	—	—	—	—	—	8,309	—	8,309
Common stock issued to board members	—	—	14	—	281	—	—	—	—	—	281	—	281
Issuance of common stock related to share-based awards, net	—	—	(22)	—	287	—	—	—	—	—	287	—	287
Dividends on preferred stock	—	—	—	—	—	—	(1,854)	—	—	—	(1,854)	—	(1,854)
Redemption of preferred stock	(114)	(114,068)	—	—	—	—	—	—	—	—	(114,068)	—	(114,068)
Repurchases of common stock	—	—	(1,391)	(14)	(22,327)	—	(7,687)	—	—	—	(30,028)	—	(30,028)
Deferred compensation plan	—	—	—	—	—	—	—	1,034	22	(443)	591	—	591
Net cash distributed to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	(1,222)	(1,222)
Balance, December 31, 2015	—	$ —	98,896	$ 989	$ 1,577,270	$ 2,629	$ 155,475	$ 1,034	22	$ (443)	$ 1,736,954	$ 1,171	$ 1,738,125
Net income	—	—	—	—	—	—	145,894	—	—	—	145,894	2,050	147,944
Other comprehensive loss	—	—	—	—	—	(2,144)	—	—	—	—	(2,144)	—	(2,144)
Issuance of common stock	—	—	538	5	4,134	—	—	—	—	—	4,139	—	4,139
Stock-based compensation expense	—	—	—	—	10,058	—	—	—	—	—	10,058	—	10,058
Common stock issued to board members	—	—	22	—	429	—	—	—	—	—	429	—	429
Issuance of common stock related to share-based awards, net	—	—	(96)	(1)	(2,746)	—	—	—	—	—	(2,747)	—	(2,747)
Repurchases of common stock	—	—	(816)	(8)	(16,268)	—	—	—	—	—	(16,276)	—	(16,276)
Dividends on common stock ($0.06 per share)	—	—	—	—	—	—	(5,801)	—	—	—	(5,801)	—	(5,801)
Deferred compensation plan	—	—	—	—	—	—	—	(131)	(7)	134	3	—	3
Net cash distributed from noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	790	790
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

See accompanying notes.

HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Operating Activities			
Net income	$ 133,144	$ 147,944	$ 212,579
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	14,271	40,620	12,715
Depreciation, amortization and accretion, net	(13,869)	(49,765)	(83,360)
Net realized gains on securities	(16)	—	(4,403)
Bargain purchase gain	—	—	(81,289)
Deferred income taxes	40,933	(9,690)	17,376
Other, net	12,085	16,564	7,995
Net change in securities purchased under agreements to resell	(97,107)	16,230	(60,919)
Net change in assets segregated for regulatory purposes	(5,585)	(22,380)	99,010
Net change in trading securities	(465,151)	(51,388)	117,639
Net change in broker-dealer and clearing organization receivables	(42,449)	(46,775)	73,344
Net change in FDIC indemnification asset	24,890	20,577	39,936
Net change in other assets	(47,352)	41,315	(59,142)
Net change in broker-dealer and clearing organization payables	(2,412)	(33,180)	(54,048)
Net change in other liabilities	(55,557)	11,752	(104,897)
Net change in securities sold, not yet purchased	78,932	23,845	129,996
Proceeds from sale of mortgage servicing rights asset	17,499	7,586	—
Net gains from sales of loans	(538,468)	(606,991)	(519,103)
Loans originated for sale	(15,014,118)	(16,026,911)	(13,871,473)
Proceeds from loans sold	15,634,027	16,337,299	14,163,781
Net cash provided by (used in) operating activities	(326,303)	(183,348)	35,737
Investing Activities			
Proceeds from maturities and principal reductions of securities held to maturity	56,359	166,522	88,070
Proceeds from sales, maturities and principal reductions of securities available for sale	298,737	396,572	673,950
Purchases of securities held to maturity	(60,939)	(186,875)	(230,404)
Purchases of securities available for sale	(471,047)	(326,810)	(48,121)
Net change in loans	(216,562)	(555,040)	(150,605)
Purchases of premises and equipment and other assets	(31,152)	(41,941)	(31,270)
Proceeds from sales of premises and equipment and other real estate owned	32,297	73,032	110,922
Proceeds from redemption of bank owned life insurance	—	—	822
Net cash received from (paid for) Federal Home Loan Bank and Federal Reserve Bank stock	34,346	(19,021)	(12,172)
Net cash from acquisition	—	—	41,097
Net cash provided by (used in) investing activities	(357,961)	(493,561)	442,289
Financing Activities			
Net change in deposits	857,155	153,131	(601,386)
Net change in short-term borrowings	(210,865)	469,916	20,437
Proceeds from notes payable	403,136	296,993	150,078
Payments on notes payable	(512,193)	(217,630)	(42,571)
Redemption of preferred stock	—	—	(114,068)
Proceeds from issuance of common stock	—	4,139	—
Payments to repurchase common stock	(27,388)	—	(30,028)
Dividends paid on common stock	(23,140)	(5,801)	—
Dividends paid on preferred stock	—	—	(3,539)
Net cash distributed (to) from noncontrolling interest	(1,885)	790	(1,222)
Taxes paid on employee stock awards netting activity	(3,264)	(2,442)	(75)
Other, net	(674)	(868)	718
Net cash provided by (used in) financing activities	480,882	698,228	(621,656)
Net change in cash and cash equivalents	(203,382)	21,319	(143,630)
Cash and cash equivalents, beginning of year	690,764	669,445	813,075
Cash and cash equivalents, end of year	$ 487,382	$ 690,764	$ 669,445
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$ 84,309	$ 58,429	$ 59,700
Cash paid for income taxes, net of refunds	$ 85,840	$ 88,899	$ 112,459
Supplemental Schedule of Non-Cash Activities			
Conversion of loans to other real estate owned	$ 8,853	$ 20,184	$ 57,838
Common stock issued in acquisition	$ —	$ —	$ 200,626
Additions to mortgage servicing rights	$ 16,401	$ 23,381	$ 24,974

See accompanying notes.

1. Summary of Significant Accounting and Reporting Policies

Nature of Operations

Hilltop Holdings Inc. (“Hilltop” and, collectively with its subsidiaries, the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956. 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.

On January 1, 2015, Hilltop completed its acquisition of SWS Group, Inc. (“SWS”) in a stock and cash transaction (the "SWS Merger"), whereby SWS’s broker-dealer subsidiaries, Southwest Securities, Inc. and SWS Financial Services, Inc., became subsidiaries of Securities Holdings, and SWS’s banking subsidiary, Southwest Securities, FSB (“SWS FSB”), was merged into the Bank. On October 5, 2015, Southwest Securities, Inc. and SWS Financial Services, Inc. were renamed “Hilltop Securities Inc.” (“Hilltop Securities”) and “Hilltop Securities Independent Network Inc.” (“HTS Independent Network”), respectively. On October 22, 2015, the Financial Industry Regulatory Authority (“FINRA”) granted approval to combine First Southwest Company, LLC (“FSC”) and Hilltop Securities, subject to customary conditions. FSC, Hilltop Securities and HTS Independent Network operated as separate broker-dealers, under coordinated leadership from the date of the SWS Merger until January 22, 2016, when FSC was merged into Hilltop Securities to form a combined firm operating under the “Hilltop Securities” name. The term “Hilltop Broker-Dealers” is used to refer to FSC, Hilltop Securities and HTS Independent Network prior to January 22, 2016 and Hilltop Securities and HTS Independent Network after such date.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates regarding the allowance for loan losses, the fair values of financial instruments, the amounts receivable from the Federal Deposit Insurance Corporation (the “FDIC”) under loss-share agreements (the “FDIC Indemnification Asset”), 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.

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 PlainsCapital Equity, 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 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, HTS Independent Network and First Southwest 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 First Southwest Asset Management, LLC, a wholly-owned subsidiary of First Southwest Holdings, LLC ("First Southwest"), is a registered investment adviser under the Investment Advisers Act of 1940. As discussed above, prior to January 22, 2016, Securities Holdings' subsidiaries also included FSC, First Southwest's principal subsidiary and formerly a broker-dealer registered with the SEC and FINRA and a member of the NYSE.

Hilltop also owns 100% of NLC, which operates through its wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

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. 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.

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.

Securities held but not intended to be held to maturity or on a long-term basis are classified as available for sale. Securities included in this category are those that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes. Securities available for sale are carried at fair value. Unrealized holding gains and losses on securities available for sale, net of taxes, are reported in other comprehensive income (loss) until realized. Premiums and discounts are recognized in interest income using the effective interest method and consider any optionality that may be embedded in the security.

Purchases and sales (and related gain or loss) of securities are recorded on the trade date, based on specific identification. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the other-than-temporary impairment ("OTTI") is related to credit losses. The amount of the OTTI related to other factors is recognized in other comprehensive income (loss). In estimating OTTI, management considers in developing its best estimate of cash flows, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the historic and implied volatility of the security, (iv) failure of the issuer to make scheduled interest payments and (v) changes to the rating of the security by a rating agency.

Loans Held for Sale

Loans held for sale consist primarily of single-family residential mortgages funded through PrimeLending. These loans are generally on the consolidated balance sheet 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. Such loans subject to repurchase no longer qualify for sale accounting and are reported as loans held for sale in the consolidated balance sheets.

Loans

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.

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. PrimeLending originates mortgage loans to customers in its offices, which are located throughout the United States. Substantially all mortgage loans originated by PrimeLending are sold to various investors in the secondary market, the majority with servicing released, although PrimeLending does retain servicing in certain circumstances. The Hilltop Broker-Dealers make loans to customers and correspondents through margin transactions originated by both employees and independent retail representatives throughout the United States. The Hilltop Broker-Dealers control or controlled risk by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines, which may vary based upon market conditions. Securities owned by customers and held as collateral for margin loans are not included in the consolidated financial statements.

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 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") that are subject to a loss-share agreement are referred to as "covered loans" and reported separately in the consolidated balance sheets. Covered loans are reported exclusive of the cash flow reimbursements that may be received from the FDIC. Covered loans are discussed in more detail within Note 6 to the consolidated financial statements.

PCI loans acquired by the Company upon completion of the merger with PCC (the "PlainsCapital Merger") are accounted for on an individual loan basis, while PCI loans acquired in each of the FNB Transaction and SWS Merger are accounted for in pools as well as on an individual loan basis. The Company has established under its PCI accounting policy a framework to aggregate certain acquired loans into various loan pools based on a minimum of two layers of 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 the FNB and SWS PCI loans are risk grade and loan collateral type.

PCI loans showed evidence of credit deterioration that makes it probable that all contractually required principal and interest payments will not be collected. Their fair value was initially based on an estimate of cash flows, both principal and interest, expected to be collected, discounted at prevailing market rates of interest. Management estimated cash flows using key assumptions such as default rates, loss severity rates assuming default, prepayment speeds and estimated collateral values. The excess of cash flows expected to be collected from a loan or pool over its estimated fair value at acquisition is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loan or pool. 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 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 the Bank's control, including the performance of the Bank's loan portfolio, the economy and changes in interest rates.

The Bank's allowance for loan losses consists of three elements: (i) specific valuation allowances established for probable losses on 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 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, 2017 and 2016, NLC determined that no valuation allowance was necessary.

Deferred Policy Acquisition Costs

Costs of acquiring insurance vary with, and are primarily related to, the successful acquisition of new and renewal business, primarily consisting of commissions, premium taxes and underwriting expenses, and are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. Proceeds from reinsurance transactions that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. Future investment income is considered in determining the recoverability of deferred policy acquisition costs. NLC regularly reviews the categories of acquisition costs that are deferred and assesses the recoverability of this asset. A premium deficiency and a corresponding charge to income is recognized if the sum of the expected loss and LAE, unamortized policy acquisition costs, and maintenance costs exceed related unearned insurance premiums and anticipated investment income. At December 31, 2017 and 2016, 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.

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.

Acquired OREO subject to FDIC loss-share agreements is referred to as "covered OREO" and reported separately in the consolidated balance sheets. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral's fair value, less selling costs. Covered OREO was initially recorded at its estimated fair value based on similar market comparable valuations, less estimated selling costs. Subsequently, loan collateral transferred to OREO is recorded at its net realizable value. Any subsequent valuation adjustments due to declines in fair value of the covered OREO will be charged to noninterest expense, while any recoveries of previous valuation decreases will be credited to noninterest expense.

FDIC Indemnification Asset

The Company has elected to account for the FDIC Indemnification Asset in accordance with the Business Combination Topic of the ASC. The FDIC Indemnification Asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the present value and the undiscounted cash flows the Bank expects to collect from the FDIC will be accreted into noninterest income or amortized into noninterest expense within the consolidated statements of operations over the life of the FDIC Indemnification Asset. The FDIC Indemnification Asset is reviewed quarterly and the accretion rate is adjusted for changes in the timing of cash flows expected to be collected from the FDIC. Cumulative net losses over the life of the loss-share agreements of less than $240.4 million will reduce the value of the FDIC Indemnification Asset. Any amortization of changes in value of the FDIC Indemnification Asset is limited to the contractual term of the loss-share agreements. Changes to the FDIC Indemnification Asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the consolidated statements of operations over the life of the loss-share agreements.

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 $0.1 million, $0.1 million, and $0.4 million during 2017, 2016 and 2015, respectively, 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 annually, or whenever events or changes in circumstances indicate that the carrying amount should be assessed. The Company performs required annual impairment tests of its goodwill 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. As of January 1, 2017, the Company adopted the provisions of ASU 2017-04 which removes Step 2 from the goodwill impairment test and eliminates the determination of goodwill impairment through calculation of the implied fair value when the carrying amount of a reporting unit exceeds its fair value. 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 will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the 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 annually 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, and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Mortgage Servicing Rights

The Company determines its classes of residential mortgage servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its servicing assets at fair value and reports changes in fair value through earnings.

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, especially when rates fall. Prepayments in excess of management's estimates would negatively 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 that are reviewed by management on an ongoing basis. A significant increase in the discount rate would reduce the value of the MSR asset.

Derivative Financial Instruments

The Company's hedging policies permit the use of various derivative financial instruments, including forward commitments, interest rate swaps and swaptions, and U.S. Treasury bond futures and options 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 and swaptions, and U.S. Treasury bond futures and options meet the definition of a derivative under the provisions of the Derivatives and Hedging Topic of the ASC.

Derivatives are recorded at fair value in the consolidated balance sheets. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. If derivative instruments are designated as hedges of fair values, the change in the fair value of both the derivative instrument and the hedged item are included in current earnings. Changes in the fair value of derivatives designated as hedges of cash flows are recorded in other comprehensive income (loss). Actual cash

receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the line item where the hedged item's effect on earnings is recorded.

Reserve for Losses and Loss Adjustment Expenses

The liability for losses and LAE includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported ("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 $4.7 million, $5.3 million and $4.6 million during 2017, 2016 and 2015, 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 ("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 Flow Reporting

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as the amount included in the consolidated balance sheet captions "Cash and due from banks" and "Federal funds sold". 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. Restricted Stock Awards, all of which were vested as of September 30, 2017, were the only instruments issued by Hilltop which qualified as participating securities.

Net earnings, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. Basic earnings per common share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. During 2017, restricted stock units ("RSUs") were the only potentially dilutive non-participating instruments issued by Hilltop, while during 2016 and 2015, stock options and RSUs were the only potentially dilutive non-participating instruments. 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

SWS Merger

On January 1, 2015, Hilltop completed its acquisition of SWS in a stock and cash transaction, whereby each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop's closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.1 million, consisting of 10.1 million shares of common stock, $78.2 million in cash and $70.3 million associated with Hilltop's existing investment in SWS common stock. The operations acquired in the SWS Merger are included in the Company's operating results beginning January 1, 2015. Such operating results include a bargain purchase gain of $81.3 million and are not necessarily indicative of future operating results.

The SWS Merger was accounted for using the acquisition method of accounting, and accordingly, purchased assets, including identifiable intangible assets, and assumed liabilities were recorded at their respective acquisition date fair values. The components of the consideration paid are shown in the following table (in thousands).

Fair value of consideration paid:		
Common stock issued	$	200,626
Cash		78,217
Fair value of Hilltop's existing investment in SWS		70,282
Total consideration paid	$	349,125

The resulting fair values of the identifiable assets acquired, and liabilities assumed, in the SWS Merger at January 1, 2015 are summarized in the following table (in thousands).

Cash and due from banks	$	119,314
Federal funds sold and securities purchased under agreements to resell		44,741
Assets segregated for regulatory purposes		181,610
Securities		707,476
Non-covered loans, net		863,819
Broker-dealer and clearing organization receivables		1,221,793
Other assets		159,906
Total identifiable assets acquired		3,298,659
Deposits		(1,287,509)
Broker-dealer and clearing organization payables		(1,109,978)
Short-term borrowings		(164,240)
Securities sold, not yet purchased, at fair value		(140,409)
Notes payable		(76,643)
Other liabilities		(89,466)
Total liabilities assumed		(2,868,245)
Bargain purchase gain		(81,289)
		349,125
Less Hilltop existing investment in SWS		(70,282)
Net identifiable assets acquired	$	278,843

The bargain purchase gain represents the excess of the estimated fair value of the underlying net tangible assets and intangible assets over the merger consideration. The SWS Merger was a tax-free reorganization under Section 368(a) of the Internal Revenue Code, therefore no income taxes were recorded in connection with the bargain purchase gain. The Company used significant estimates and assumptions to value certain identifiable assets acquired and liabilities assumed. The bargain purchase gain was primarily driven by the Company's ability to realize acquired deferred tax assets through its consolidated core earnings and the decline in the price of the Company's common stock between the date the fixed conversion ratio was agreed upon and the closing date.

Included within the fair value of other assets in the table above are identifiable intangible assets recorded in connection with the SWS Merger. The allocation to intangible assets is as follows (in thousands).

	Estimated Useful Life (Years)	Gross Intangible Assets	
Customer relationships	14	$	7,300
Core deposits	4		160
		$	7,460

In connection with the SWS Merger, Hilltop acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses. Acquired loans were segregated between those considered to be PCI loans and those without

credit impairment at acquisition. The following table presents details on acquired loans at the acquisition date (in thousands).

	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial	$ 178,603	$ 9,850	$ 188,453
Real estate	324,477	62,218	386,695
Construction and land development	14,708	1,391	16,099
Consumer	3,216	—	3,216
Broker-dealer [1]	269,356	—	269,356
Total	$ 790,360	$ 73,459	$ 863,819

(1) Acquired loans include margin loans to customers and correspondents of $269.4 million associated with acquired broker-dealer operations, none of which are PCI loans.

The following table presents information about the PCI loans at acquisition (in thousands).

Contractually required principal and interest payments	$ 120,078
Nonaccretable difference	32,040
Cash flows expected to be collected	88,038
Accretable difference	14,579
Fair value of loans acquired with a deterioration of credit quality	$ 73,459

The following table presents information about the acquired loans without credit impairment at acquisition (in thousands).

Contractually required principal and interest payments	$ 901,672
Contractual cash flows not expected to be collected	39,721
Fair value at acquisition	790,360

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 and establishes a framework for measuring fair value in GAAP. 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, 2017 and 2016, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.58 billion and $1.75 billion, respectively, and the unpaid principal balance of those loans was $1.53 billion and $1.71 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.

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. 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. 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 uses dealer quotes to value interest rate swaps and swaptions executed to hedge its MSR asset.

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, 2017	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 3,329	$ 727,356	$ —	$ 730,685
Available for sale securities	21,241	744,318	—	765,559
Loans held for sale	—	1,544,631	36,972	1,581,603
Derivative assets	—	34,150	—	34,150
MSR asset	—	—	54,714	54,714
Securities sold, not yet purchased	156,586	76,235	—	232,821
Derivative liabilities	—	13,197	—	13,197

December 31, 2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 9,481	$ 256,053	$ —	$ 265,534
Available for sale securities	19,840	578,167	—	598,007
Loans held for sale	—	1,712,697	35,801	1,748,498
Derivative assets	—	57,036	—	57,036
MSR asset	—	—	61,968	61,968
Securities sold, not yet purchased	60,715	93,174	—	153,889
Derivative liabilities	—	35,737	—	35,737

The following table includes a rollforward for those financial instruments measured at fair value using Level 3 inputs (in thousands).

				Total Gains or Losses (Realized or Unrealized)		
	Balance at Beginning of Year	Purchases/ Additions	Sales/ Reductions	Included in Net Income	Included in Other Comprehensive Income (Loss)	Balance at End of Year
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
Year ended December 31, 2016						
Trading securities	$ 1	$ —	$ —	$ (1)	$ —	$ —
Loans held for sale	25,880	60,999	(39,637)	(11,441)	—	35,801
MSR asset	52,285	23,381	(7,586)	(6,112)	—	61,968
Total	$ 78,166	$ 84,380	$ (47,223)	$ (17,554)	$ —	$ 97,769
Year ended December 31, 2015						
Trading securities	$ —	$ 7,301	$ (3,397)	$ (3,903)	$ —	$ 1
Loans held for sale	9,017	52,800	(25,514)	(10,423)	—	25,880
MSR asset	36,155	24,974	—	(8,844)	—	52,285
Total	$ 45,172	$ 85,075	$ (28,911)	$ (23,170)	$ —	$ 78,166

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. Excluding the trading securities activity noted above, the unrealized gains (losses) relate to financial instruments still held at December 31, 2017.

For Level 3 financial instruments measured at fair value on a recurring basis at December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows.

Financial instrument	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
Loans held for sale	Discounted cash flows / Market comparable	Projected price	90 - 95 % (95 %)
MSR asset	Discounted cash flows	Constant prepayment rate	10.93 %
		Discount rate	11.03 %

The Company had no transfers between Levels 1 and 2 during the periods presented.

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, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
	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	$ 10,655	$ —	$ 10,655	$ (8,275)	$ —	$ (8,275)	$ (2,970)	$ —	$ (2,970)
MSR asset	(6,156)	—	(6,156)	(6,112)	—	(6,112)	(8,844)	—	(8,844)

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 with a fair value of $172.9 million, $822.8 million and $73.5 million were acquired by the Company upon completion of the PlainsCapital Merger, the FNB Transaction and the SWS Merger, respectively (collectively, the “Bank Transactions”). Substantially all PCI loans acquired in the FNB Transaction are covered by FDIC loss-share agreements. The fair value of PCI loans was determined using Level 3 inputs, including estimates of expected cash flows that incorporated significant unobservable inputs regarding default rates, loss severity rates assuming default, prepayment speeds on acquired loans accounted for in pools (“Pooled Loans”), and estimated collateral values.

At December 31, 2017, estimates for these significant unobservable inputs were as follows.

	PCI Loans		
	PlainsCapital Merger	FNB Transaction	SWS Merger
Weighted average default rate	64 %	41 %	60 %
Weighted average loss severity rate	66 %	18 %	28 %
Weighted average prepayment speed	0 %	7 %	0 %

At December 31, 2017, the resulting weighted average expected loss on PCI loans associated with the PlainsCapital Merger, FNB Transaction and SWS Merger was 42%, 7% and 17%, respectively.

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. In the FNB Transaction, the Bank acquired OREO of $135.2 million, all of which is covered by FDIC loss-share agreements. At December 31, 2017 and 2016, the estimated fair value of covered OREO was $36.7 million and $51.6 million, respectively, and the underlying fair value measurements utilize Level 2 inputs. The fair value of non-covered OREO at December 31, 2017 and 2016

was $3.9 million and $4.5 million, respectively, and is included in other assets within the consolidated balance sheets. During the reported periods, all fair value measurements for non-covered OREO 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, 2017	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**	**2017**	**2016**	**2015**
Non-covered impaired loans	$ —	$ —	$ 29,063	$ 29,063	$ (49)	$ 2,487	$ (126)
Covered impaired loans	—	—	83,849	83,849	(2,353)	1,156	3,034
Non-covered other real estate owned	—	3,883	—	3,883	(704)	(555)	(28)
Covered other real estate owned	—	10,187	—	10,187	(3,732)	(18,481)	(16,555)

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.

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.

Assets Segregated for Regulatory Purposes — Assets segregated for regulatory purposes may consist of cash and securities with carrying amounts that approximate fair value.

Held to Maturity Securities — For securities held to maturity, estimated fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale — Loans held for sale consist primarily of certain mortgage loans held for sale that are subject to purchase by related parties. Such loans are reported at fair value, as discussed above, using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices.

Loans — The fair value of non-covered and covered loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Broker-Dealer and Clearing Organization Receivables and Payables — The carrying amount approximates their fair value.

FDIC Indemnification Asset — The fair value of the FDIC Indemnification Asset is based on Level 3 inputs, including the discounted value of expected future cash flows under the loss-share agreements. The discount rate contemplates the credit worthiness of the FDIC as counterparty to this asset, and considers an incremental discount rate risk premium reflective of the inherent uncertainty associated with the timing of the cash flows.

Deposits — The estimated fair value of demand deposits, savings accounts and NOW accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The carrying amount for variable-rate certificates of deposit approximates their fair values.

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).

		Estimated Fair Value			
December 31, 2017	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 487,382	$ 487,382	$ —	$ —	$ 487,382
Securities purchased under agreements to resell	186,537	—	186,537	—	186,537
Assets segregated for regulatory purposes	186,578	186,578	—	—	186,578
Held to maturity securities	355,849	—	349,939	—	349,939
Loans held for sale	133,754	—	133,754	—	133,754
Non-covered loans, net	6,212,712	—	577,889	5,828,868	6,406,757
Covered loans, net	179,400	—	—	269,386	269,386
Broker-dealer and clearing organization receivables	1,464,378	—	1,464,378	—	1,464,378
FDIC indemnification asset	29,340	—	—	20,122	20,122
Other assets	64,862	—	59,053	5,809	64,862
Financial liabilities:					
Deposits	7,978,119	—	7,973,101	—	7,973,101
Broker-dealer and clearing organization payables	1,287,563	—	1,287,563	—	1,287,563
Short-term borrowings	1,206,424	—	1,206,424	—	1,206,424
Debt	275,821	—	289,719	—	289,719
Other liabilities	4,795	—	4,795	—	4,795

		Estimated Fair Value			
December 31, 2016	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 690,764	$ 690,764	$ —	$ —	$ 690,764
Securities purchased under agreements to resell	89,430	—	89,430	—	89,430
Assets segregated for regulatory purposes	180,993	180,993	—	—	180,993
Held to maturity securities	351,831	—	345,088	—	345,088
Loans held for sale	46,965	—	46,965	—	46,965
Non-covered loans, net	5,789,313	—	502,077	5,459,975	5,962,052
Covered loans, net	255,714	—	—	367,444	367,444
Broker-dealer and clearing organization receivables	1,497,741	—	1,497,741	—	1,497,741
FDIC indemnification asset	71,313	—	—	60,173	60,173
Other assets	62,904	—	58,697	4,207	62,904
Financial liabilities:					
Deposits	7,063,811	—	7,058,837	—	7,058,837
Broker-dealer and clearing organization payables	1,347,128	—	1,347,128	—	1,347,128
Short-term borrowings	1,417,289	—	1,417,289	—	1,417,289
Debt	384,924	—	378,822	—	378,822
Other liabilities	3,708	—	3,708	—	3,708

4. Securities

The fair value of trading securities are summarized as follows (in thousands).

	December 31, 2017	December 31, 2016
U.S. Treasury securities	$ —	$ 5,940
U.S. government agencies:		
Bonds	52,078	36,303
Residential mortgage-backed securities	372,817	2,539
Commercial mortgage-backed securities	6,125	15,171
Collateralized mortgage obligations	5,122	5,607
Corporate debt securities	96,182	60,699
States and political subdivisions	170,413	89,946
Unit investment trusts	22,612	41,409
Private-label securitized product	1,631	4,292
Other	3,705	3,628
Totals	$ 730,685	$ 265,534

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 $232.8 million and $153.9 million at December 31, 2017 and 2016, 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, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$ 24,665	$ 107	$ (103)	$ 24,669
U.S. government agencies:				
Bonds	96,177	829	(366)	96,640
Residential mortgage-backed securities	246,707	538	(3,740)	243,505
Commercial mortgage-backed securities	11,966	105	(48)	12,023
Collateralized mortgage obligations	237,848	106	(4,142)	233,812
Corporate debt securities	66,868	1,819	(25)	68,662
States and political subdivisions	64,024	1,099	(115)	65,008
Commercial mortgage-backed securities	—	—	—	—
Equity securities	19,691	1,666	(116)	21,241
Totals	$ 767,946	$ 6,269	$ (8,655)	$ 765,560

	Available for Sale			
December 31, 2016	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury securities	$ 31,701	$ 144	$ (44)	$ 31,801
U.S. government agencies:				
Bonds	121,838	881	(67)	122,652
Residential mortgage-backed securities	135,371	708	(2,941)	133,138
Commercial mortgage-backed securities	8,771	2	(58)	8,715
Collateralized mortgage obligations	117,879	29	(3,206)	114,702
Corporate debt securities	76,866	2,354	(91)	79,129
States and political subdivisions	86,353	1,498	(336)	87,515
Commercial mortgage-backed securities	499	16	—	515
Equity securities	18,920	1,263	(343)	19,840
Totals	$ 598,198	$ 6,895	$ (7,086)	$ 598,007

	Held to Maturity			
December 31, 2017	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agencies:				
Bonds	$ 39,015	$ —	$ (1,188)	$ 37,827
Residential mortgage-backed securities	16,130	44	—	16,174
Commercial mortgage-backed securities	71,373	241	(735)	70,879
Collateralized mortgage obligations	173,928	19	(3,969)	169,978
States and political subdivisions	55,403	437	(759)	55,081
Totals	$ 355,849	$ 741	$ (6,651)	$ 349,939

	Held to Maturity			
December 31, 2016	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agencies:				
Bonds	$ 40,513	$ —	$ (1,287)	$ 39,226
Residential mortgage-backed securities	19,606	13	(6)	19,613
Commercial mortgage-backed securities	31,767	102	(593)	31,276
Collateralized mortgage obligations	217,954	128	(3,372)	214,710
States and political subdivisions	41,991	70	(1,798)	40,263
Totals	$ 351,831	$ 313	$ (7,056)	$ 345,088

Information regarding available for sale and held to maturities securities that were in an unrealized loss position is shown in the following tables (dollars in thousands).

	December 31, 2017			December 31, 2016		
	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	6	$ 15,449	$ 69	7	$ 21,694	$ 44
Unrealized loss for twelve months or longer	1	4,150	34	—	—	—
	7	19,599	103	7	21,694	44
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	10	83,476	367	1	14,908	67
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	10	83,476	367	1	14,908	67
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	15	121,968	820	12	109,398	2,941
Unrealized loss for twelve months or longer	11	93,358	2,920	—	—	—
	26	215,326	3,740	12	109,398	2,941
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	1	5,048	48	2	7,127	58
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	1	5,048	48	2	7,127	58
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	16	90,886	819	11	91,144	2,340
Unrealized loss for twelve months or longer	17	80,492	3,323	8	19,320	866
	33	171,378	4,142	19	110,464	3,206
Corporate debt securities:						
Unrealized loss for less than twelve months	1	5,073	25	3	5,899	91
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	1	5,073	25	3	5,899	91
States and political subdivisions:						
Unrealized loss for less than twelve months	9	6,981	97	32	17,549	322
Unrealized loss for twelve months or longer	9	2,876	18	1	450	14
	18	9,857	115	33	17,999	336
Equity securities:						
Unrealized loss for less than twelve months	1	944	13	—	—	—
Unrealized loss for twelve months or longer	1	6,800	102	2	11,107	343
	2	7,744	115	2	11,107	343
Total available for sale:						
Unrealized loss for less than twelve months	59	329,825	2,258	68	267,719	5,863
Unrealized loss for twelve months or longer	39	187,676	6,397	11	30,877	1,223
	98	$ 517,501	$ 8,655	79	$ 298,596	$ 7,086

	December 31, 2017			December 31, 2016		
	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	1	$ 5,950	$ 50	4	$ 33,225	$ 1,287
Unrealized loss for twelve months or longer	3	31,877	1,138	—	—	—
	4	37,827	1,188	4	33,225	1,287
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	—	—	—	2	13,178	6
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	—	—	—	2	13,178	6
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	7	39,396	271	5	18,891	588
Unrealized loss for twelve months or longer	2	12,659	464	1	1,401	5
	9	52,055	735	6	20,292	593
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	10	37,064	264	19	187,669	3,372
Unrealized loss for twelve months or longer	12	128,270	3,705	—	—	—
	22	165,334	3,969	19	187,669	3,372
States and political subdivisions:						
Unrealized loss for less than twelve months	22	11,079	71	71	29,862	1,790
Unrealized loss for twelve months or longer	46	18,598	688	1	462	8
	68	29,677	759	72	30,324	1,798
Total held to maturity:						
Unrealized loss for less than twelve months	40	93,489	656	101	282,825	7,043
Unrealized loss for twelve months or longer	63	191,404	5,995	2	1,863	13
	103	$ 284,893	$ 6,651	103	$ 284,688	$ 7,056

During 2017, 2016 and 2015, 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 believed to be 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 available for sale equity securities, at December 31, 2017 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	$ 101,815	$ 101,922	$ 3,245	$ 3,242
Due after one year through five years	95,284	96,442	2,847	2,843
Due after five years through ten years	30,893	32,064	27,051	26,289
Due after ten years	23,742	24,551	61,275	60,534
	251,734	254,979	94,418	92,908
Residential mortgage-backed securities	246,707	243,505	16,130	16,174
Collateralized mortgage obligations	237,848	233,812	173,928	169,978
Commercial mortgage-backed securities	11,966	12,023	71,373	70,879
	$ 748,255	$ 744,319	$ 355,849	$ 349,939

During 2017, 2016 and 2015, the Company realized net gains from its trading portfolio of $20.2 million, $15.9 million and $12.8 million, respectively. In addition, the Hilltop Broker-Dealers realized net gains from structured product trading activities of $62.8 million, $109.8 million and $0.3 million during 2017, 2016 and 2015, respectively. During 2017 and 2015, the Company had other net realized gains on securities of $16 thousand and $4.4 million, respectively. There were no other net realized gains on securities during 2016. All such realized net gains (losses) are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of $738.5 million and $695.1 million (with a fair value of $730.1 million and $688.1 million, respectively) at December 31, 2017 and 2016, respectively, were pledged to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law. Substantially all of these pledged securities were included in the Company's available for sale and held to maturity securities portfolios at December 31, 2017 and 2016.

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, 2017 and 2016, NLC had investments on deposit in custody for various state insurance departments with carrying values of $9.3 million and $9.2 million, respectively.

5. Non-Covered Loans and Allowance for Non-Covered Loan Losses

Non-covered loans refer to loans not covered by the FDIC loss-share agreements. Covered loans are discussed in Note 6 to the consolidated financial statements. Non-covered loans summarized by portfolio segment are as follows (in thousands).

	December 31,	
	2017	2016
Commercial and industrial	$ 1,681,205	$ 1,696,453
Real estate	3,011,524	2,816,767
Construction and land development	962,605	786,850
Consumer	40,446	41,352
Broker-dealer [(1)]	577,889	502,077
	6,273,669	5,843,499
Allowance for non-covered loan losses	(60,957)	(54,186)
Total non-covered loans, net of allowance	$ 6,212,712	$ 5,789,313

(1) 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 non-covered loans both with and without evidence of credit quality deterioration since origination. The following table presents the carrying values and the outstanding balances of the non-covered PCI loans (in thousands).

	December 31,	
	2017	2016
Carrying amount	$ 37,204	$ 51,432
Outstanding balance	51,064	67,988

Changes in the accretable yield for the non-covered PCI loans were as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of period	$ 13,116	$ 17,744	$ 12,814
Additions	—	—	14,579
Reclassifications from nonaccretable difference, net(1)	3,836	6,168	19,759
Disposals of loans	(664)	—	(2,371)
Accretion	(9,275)	(10,796)	(27,037)
Balance, end of period	$ 7,013	$ 13,116	$ 17,744

(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.

The remaining nonaccretable difference for non-covered PCI loans was $19.2 million and $22.8 million at December 31, 2017 and 2016, respectively.

Impaired loans exhibit a clear indication that the borrower's cash flow may not be sufficient to meet principal and interest payments, which is generally when a loan is 90 days past due unless the asset is both well secured and in the process of collection. Non-covered impaired loans include non-accrual loans, troubled debt restructurings ("TDRs"), PCI loans and partially charged-off loans.

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. Non-covered impaired loans, segregated between those considered to be PCI loans and those without credit impairment at acquisition, are summarized by class in the following tables (in thousands).

December 31, 2017	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
PCI					
Commercial and industrial:					
Secured	$ 19,752	$ 3,610	$ 2,489	$ 6,099	$ 89
Unsecured	—	—	—	—	—
Real estate:					
Secured by commercial properties	34,598	7,583	12,092	19,675	1,391
Secured by residential properties	12,600	5,307	4,558	9,865	325
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	2,001	428	1,010	1,438	215
Consumer	2,377	12	115	127	18
Broker-dealer	—	—	—	—	—
	71,328	16,940	20,264	37,204	2,038
Non-PCI					
Commercial and industrial:					
Secured	23,666	15,308	2,072	17,380	365
Unsecured	761	616	—	616	—
Real estate:					
Secured by commercial properties	15,504	10,934	3,686	14,620	932
Secured by residential properties	1,596	1,177	—	1,177	—
Construction and land development:					
Residential construction loans	15	—	—	—	—
Commercial construction loans and land development	653	—	611	611	93
Consumer	162	56	—	56	—
Broker-dealer	—	—	—	—	—
	42,357	28,091	6,369	34,460	1,390
	$ 113,685	$ 45,031	$ 26,633	$ 71,664	$ 3,428

December 31, 2016	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
PCI					
Commercial and industrial:					
Secured	$ 25,354	$ 3,234	$ 5,438	$ 8,672	$ 557
Unsecured	—	—	—	—	—
Real estate:					
Secured by commercial properties	38,005	11,097	17,413	28,510	1,907
Secured by residential properties	13,606	7,401	3,088	10,489	200
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	5,780	1,391	2,076	3,467	377
Consumer	3,223	237	57	294	56
Broker-dealer	—	—	—	—	—
	85,968	23,360	28,072	51,432	3,097
Non-PCI					
Commercial and industrial:					
Secured	6,311	3,313	1,372	4,685	115
Unsecured	946	925	—	925	—
Real estate:					
Secured by commercial properties	10,134	10,000	—	10,000	—
Secured by residential properties	1,344	1,116	—	1,116	—
Construction and land development:					
Residential construction loans	28	28	—	28	—
Commercial construction loans and land development	738	48	679	727	167
Consumer	246	244	—	244	—
Broker-dealer	—	—	—	—	—
	19,747	15,674	2,051	17,725	282
	$ 105,715	$ 39,034	$ 30,123	$ 69,157	$ 3,379

Average investment in non-covered impaired loans is summarized by class in the following table (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Commercial and industrial:			
Secured	$ 18,418	$ 19,730	$ 25,991
Unsecured	771	486	104
Real estate:			
Secured by commercial properties	36,403	40,014	32,149
Secured by residential properties	11,324	12,085	7,769
Construction and land development:			
Residential construction loans	14	125	111
Commercial construction loans and land development	3,122	4,619	7,462
Consumer	361	659	1,459
Broker-dealer	—	—	—
	$ 70,413	$ 77,718	$ 75,045

Non-covered non-accrual loans, excluding those classified as held for sale, are summarized by class in the following table (in thousands).

	December 31, 2017	December 31, 2016
Commercial and industrial:		
Secured	$ 20,262	$ 8,590
Unsecured	616	925
Real estate:		
Secured by commercial properties	14,620	11,034
Secured by residential properties	1,614	1,197
Construction and land development:		
Residential construction loans	—	28
Commercial construction loans and land development	611	727
Consumer	56	244
Broker-dealer	—	—
	$ 37,779	$ 22,745

At December 31, 2017 and 2016, non-covered non-accrual loans included non-covered PCI loans of $3.3 million and $5.0 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these non-covered PCI loans can no longer be reasonably estimated. In addition to the non-covered non-accrual loans in the table above, $2.7 million and $1.7 million of real estate loans secured by residential properties and classified as held for sale were in non-accrual status at December 31, 2017 and 2016, respectively.

Interest income, including recoveries and cash payments, recorded on non-covered impaired loans was $0.5 million, $0.2 million and $8.9 million during 2017, 2016 and 2015, respectively. Except as noted above, non-covered 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.

Information regarding TDRs granted during 2017, 2016 and 2015, respectively, is shown in the following table (in thousands). At December 31, 2017 and 2016, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
	Number of Loans	Balance at Extension	Balance at End of Period	Number of Loans	Balance at Extension	Balance at End of Period	Number of Loans	Balance at Extension	Balance at End of Period
Commercial and industrial:									
Secured	1	$ 1,357	$ 1,186	1	$ 1,196	$ 944	1	$ 89	$ 82
Unsecured	—	—	—	—	—	—	—	—	—
Real estate:									
Secured by commercial properties	2	4,775	4,629	—	—	—	1	1,083	1,040
Secured by residential properties	—	—	—	—	—	—	—	—	—
Construction and land development:									
Residential construction loans	—	—	—	—	—	—	—	—	—
Commercial construction loans and land development	1	655	611	—	—	—	1	76	—
Consumer	—	—	—	—	—	—	—	—	—
Broker-dealer	—	—	—	—	—	—	—	—	—
	4	$ 6,787	$ 6,426	1	$ 1,196	$ 944	3	$ 1,248	$ 1,122

All of the non-covered loan modifications included in the table above involved payment term extensions. The Bank did not grant principal reductions on any restructured non-covered loans during 2017, 2016 or 2015.

The following table presents information regarding TDRs granted during the twelve months preceding December 31, 2017 and 2016, respectively, for which a payment was at least 30 days past due (dollars in thousands).

	Twelve Months Preceding December 31, 2017			Twelve Months Preceding December 31, 2016		
	Number of Loans	Balance at Extension	Balance at End of Period	Number of Loans	Balance at Extension	Balance at End of Period
Commercial and industrial:						
Secured	—	$ —	$ —	1	$ 1,196	$ 944
Unsecured	—	—	—	—	—	—
Real estate:						
Secured by commercial properties	1	1,481	1,352	—	—	—
Secured by residential properties	—	—	—	—	—	—
Construction and land development:						
Residential construction loans	—	—	—	—	—	—
Commercial construction loans and land development	1	655	611	—	—	—
Consumer	—	—	—	—	—	—
Broker-dealer	—	—	—	—	—	—
	2	$ 2,136	$ 1,963	1	$ 1,196	$ 944

An analysis of the aging of the Company's non-covered loan portfolio is shown in the following tables (in thousands).

December 31, 2017	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ 2,060	$ 312	$ 5,714	$ 8,086	$ 1,544,131	$ 6,099	$ 1,558,316	$ 640
Unsecured	642	—	—	642	122,247	—	122,889	—
Real estate:								
Secured by commercial properties	442	—	2,195	2,637	2,213,331	19,675	2,235,643	—
Secured by residential properties	1,490	1,290	418	3,198	762,818	9,865	775,881	—
Construction and land development:								
Residential construction loans	315	—	—	315	176,937	—	177,252	—
Commercial construction loans and land development	1,370	101	—	1,471	782,444	1,438	785,353	—
Consumer	194	20	—	214	40,105	127	40,446	—
Broker-dealer	—	—	—	—	577,889	—	577,889	—
	$ 6,513	$ 1,723	$ 8,327	$ 16,563	$ 6,219,902	$ 37,204	$ 6,273,669	$ 640

December 31, 2016	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ 4,727	$ 704	$ 6,770	$ 12,201	$ 1,576,239	$ 8,672	$ 1,597,112	$ 3,095
Unsecured	596	1	909	1,506	97,835	—	99,341	1
Real estate:								
Secured by commercial properties	550	9,417	1,492	11,459	1,915,126	28,510	1,955,095	—
Secured by residential properties	506	361	369	1,236	849,947	10,489	861,672	—
Construction and land development:								
Residential construction loans	—	28	—	28	128,624	—	128,652	—
Commercial construction loans and land development	2,500	1,784	48	4,332	650,399	3,467	658,198	—
Consumer	176	31	—	207	40,851	294	41,352	—
Broker-dealer	—	—	—	—	502,077	—	502,077	—
	$ 9,055	$ 12,326	$ 9,588	$ 30,969	$ 5,761,098	$ 51,432	$ 5,843,499	$ 3,096

In addition to the non-covered loans shown in the table above, PrimeLending had $84.5 million and $44.4 million of loans included in loans held for sale (with an unpaid principal balance of $85.2 million and $44.9 million, respectively) that were 90 days past due and accruing interest at December 31, 2017 and 2016, 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 the 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 margin 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 non-covered loans, as previously described, in the portfolio by class (in thousands).

December 31, 2017	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,483,502	$ 17,354	$ 51,361	$ 6,099	$ 1,558,316
Unsecured	121,774	—	1,115	—	122,889
Real estate:					
Secured by commercial properties	2,154,595	7,647	53,726	19,675	2,235,643
Secured by residential properties	756,091	—	9,925	9,865	775,881
Construction and land development:					
Residential construction loans	177,252	—	—	—	177,252
Commercial construction loans and land development	780,905	2,259	751	1,438	785,353
Consumer	40,211	—	108	127	40,446
Broker-dealer	577,889	—	—	—	577,889
	$ 6,092,219	$ 27,260	$ 116,986	$ 37,204	$ 6,273,669

December 31, 2016	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,531,895	$ 72	$ 56,473	$ 8,672	$ 1,597,112
Unsecured	97,646	—	1,695	—	99,341
Real estate:					
Secured by commercial properties	1,888,231	3,693	34,661	28,510	1,955,095
Secured by residential properties	846,420	—	4,763	10,489	861,672
Construction and land development:					
Residential construction loans	128,624	—	28	—	128,652
Commercial construction loans and land development	653,808	—	923	3,467	658,198
Consumer	40,789	6	263	294	41,352
Broker-dealer	502,077	—	—	—	502,077
	$ 5,689,490	$ 3,771	$ 98,806	$ 51,432	$ 5,843,499

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:

- 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. The magnitude of the impact of these factors on the qualitative assessment of the allowance for loan loss changes from quarter to quarter.

The loan review program is designed to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes be made to reviewed loans and coordinating the delivery of the information necessary to assess the appropriateness of the allowance for loan losses. Loans are evaluated for impaired status when: (i) payments on the loan are delayed, typically by 90 days or more (unless the loan is both well secured and in the process of collection), (ii) the loan becomes classified, (iii) the loan is being reviewed in the normal course of the loan review scope, or (iv) the loan is identified by the servicing officer as a problem.

In connection with the Bank Transactions, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. PCI loans acquired in the PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in each of the FNB Transaction and SWS Merger 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 non-covered and covered portfolios at December 31, 2017, additional provisions for losses on existing loans may be necessary in the future.

During 2016, the Bank discovered irregularities in connection with a single loan that was in default. As a result, the Bank increased its provision for loan losses and recorded a $24.5 million charge-off during the second quarter of 2016, representing the entire outstanding principal balance of the loan. During the second quarter of 2017, the Bank recorded other noninterest income of $15.0 million from coverage provided by an insurance policy for forgery of a document delivered in connection with this loan.

Changes in the allowance for non-covered loan losses, distributed by portfolio segment, are shown below (in thousands).

Year Ended December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Balance, beginning of year	$ 21,369	$ 25,236	$ 7,002	$ 424	$ 155	$ 54,186
Provision charged to operations	6,725	3,619	848	16	198	11,406
Loans charged off	(6,253)	(305)	(13)	(208)	—	(6,779)
Recoveries on charged off loans	1,833	225	7	79	—	2,144
Balance, end of year	$ 23,674	$ 28,775	$ 7,844	$ 311	$ 353	$ 60,957

Year Ended December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Balance, beginning of year	$ 19,845	$ 18,983	$ 6,064	$ 314	$ 209	$ 45,415
Provision charged to (recapture from) operations	33,369	7,297	938	190	(53)	41,741
Loans charged off	(33,776)	(1,439)	—	(203)	(1)	(35,419)
Recoveries on charged off loans	1,931	395	—	123	—	2,449
Balance, end of year	$ 21,369	$ 25,236	$ 7,002	$ 424	$ 155	$ 54,186

Year Ended December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Balance, beginning of year	$ 18,833	$ 11,131	$ 6,450	$ 461	$ 166	$ 37,041
Provision charged to (recapture from) operations	4,598	7,937	(386)	104	(80)	12,173
Loans charged off	(7,144)	(605)	—	(378)	—	(8,127)
Recoveries on charged off loans	3,558	520	—	127	123	4,328
Balance, end of year	$ 19,845	$ 18,983	$ 6,064	$ 314	$ 209	$ 45,415

The non-covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Loans individually evaluated for impairment	$ 16,819	$ 13,782	$ 611	$ —	$ —	$ 31,212
Loans collectively evaluated for impairment	1,658,287	2,968,202	960,556	40,319	577,889	6,205,253
PCI Loans	6,099	29,540	1,438	127	—	37,204
	$ 1,681,205	$ 3,011,524	$ 962,605	$ 40,446	$ 577,889	$ 6,273,669

December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Loans individually evaluated for impairment	$ 4,508	$ 9,704	$ 727	$ 205	$ —	$ 15,144
Loans collectively evaluated for impairment	1,683,273	2,768,064	782,656	40,853	502,077	5,776,923
PCI Loans	8,672	38,999	3,467	294	—	51,432
	$ 1,696,453	$ 2,816,767	$ 786,850	$ 41,352	$ 502,077	$ 5,843,499

The allowance for non-covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Loans individually evaluated for impairment	$ 365	$ 932	$ 93	$ —	$ —	$ 1,390
Loans collectively evaluated for impairment	23,220	26,127	7,536	293	353	57,529
PCI Loans	89	1,716	215	18	—	2,038
	$ 23,674	$ 28,775	$ 7,844	$ 311	$ 353	$ 60,957

December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Broker-Dealer	Total
Loans individually evaluated for impairment	$ 115	$ —	$ 167	$ —	$ —	$ 282
Loans collectively evaluated for impairment	20,697	23,129	6,458	368	155	50,807
PCI Loans	557	2,107	377	56	—	3,097
	$ 21,369	$ 25,236	$ 7,002	$ 424	$ 155	$ 54,186

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 by and among the FDIC (as receiver of FNB), the Bank and the FDIC (the “P&A Agreement”), the Bank and the FDIC entered into loss-share agreements covering future losses incurred on certain acquired loans and OREO. The Company refers to acquired commercial and single family residential loan portfolios and OREO that are subject to the loss-share agreements as “covered loans” and “covered OREO”, respectively, and these assets are presented as separate line items in the Company’s consolidated balance sheets. Collectively, covered loans and covered OREO are referred to as “covered assets”. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of 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 are 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 are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is 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 are in effect for five years and ten years, respectively, from the Bank Closing Date, and the loss recovery provisions to the FDIC are 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,” is measured separately from the covered loan portfolio because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

In accordance with the loss-share agreements, the Bank may be required to make a “true-up” payment to the FDIC approximately ten years following the Bank Closing Date if its actual net realized losses over the life of the loss-share

agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. At December 31, 2017, the Bank has recorded a related "true-up" payment accrual of $16.3 million based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements.

Covered Loans and Allowance for Covered Loan Losses

Loans acquired in the FNB Transaction that are subject to a loss-share agreement are referred to as "covered loans" and reported separately in the consolidated balance sheets. Covered loans are reported exclusive of the cash flow reimbursements that may be received from the FDIC.

The Bank's portfolio of acquired covered loans had a fair value of $1.1 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses. Acquired covered loans were preliminarily segregated between those considered to be PCI loans and those without credit impairment at acquisition.

In connection with the FNB Transaction, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. The Company's accounting policies for acquired covered loans, including covered PCI loans, are consistent with the accounting policies for acquired non-covered loans, as described in Note 5 to the consolidated financial statements. The Company has established under its PCI accounting policy a framework to aggregate certain acquired covered loans into various loan pools based on a minimum of two layers of 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 following table presents the carrying value of the covered loans summarized by portfolio segment (in thousands).

	December 31,	
	2017	2016
Commercial and industrial	$ 1,055	$ 2,697
Real estate	179,359	244,469
Construction and land development	1,715	8,961
	182,129	256,127
Allowance for covered loans	(2,729)	(413)
Total covered loans, net of allowance	$ 179,400	$ 255,714

The following table presents the carrying value and the outstanding contractual balance of the covered PCI loans (in thousands).

	December 31,	
	2017	2016
Carrying amount	$ 87,113	$ 133,754
Outstanding balance	179,019	266,098

Changes in the accretable yield for the covered PCI loans were as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of period	$ 143,731	$ 176,719	$ 193,493
Reclassifications from nonaccretable difference, net[1]	9,110	41,239	70,884
Transfer of loans to covered OREO[2]	(999)	(487)	(1,309)
Accretion	(60,009)	(73,740)	(86,349)
Balance, end of period	$ 91,833	$ 143,731	$ 176,719

(1) Reclassifications from nonaccretable difference are primarily due to net increases in expected cash flows in the quarterly recasts, but may also include the reclassification and immediate income recognition of nonaccretable difference due to the favorable resolution of loans accounted for individually. 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 covered OREO is the difference between the value removed from the pool and the expected cash flows for the loan.

The remaining nonaccretable difference for covered PCI loans was $72.7 million and $94.5 million at December 31, 2017 and 2016, respectively. During 2017, 2016 and 2015, 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 covered PCI loan portfolio as a result of the Bank's strategic decision to dedicate resources to the liquidation of covered loans during the noted periods.

Covered impaired loans include non-accrual loans, TDRs, PCI loans and partially charged-off loans. The amounts shown in the following tables include Pooled Loans, as well as loans accounted for on an individual basis. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level.

Covered impaired loans, segregated between those considered to be PCI loans and those without credit impairment at acquisition, are summarized by class in the following tables (in thousands).

December 31, 2017	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
PCI					
Commercial and industrial:					
Secured	$ 3,783	$ —	$ 194	$ 194	$ 19
Unsecured	5,732	—	—	—	—
Real estate:					
Secured by commercial properties	80,223	2,388	21,171	23,559	1,817
Secured by residential properties	125,361	249	63,107	63,356	861
Construction and land development:					
Residential construction loans	672	—	—	—	—
Commercial construction loans and land development	11,118	4	—	4	—
	226,889	2,641	84,472	87,113	2,697
Non-PCI					
Commercial and industrial:					
Secured	44	—	—	—	—
Unsecured	—	—	—	—	—
Real estate:					
Secured by commercial properties	—	—	—	—	—
Secured by residential properties	6,279	5,370	—	5,370	—
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	18	12	—	12	—
	6,341	5,382	—	5,382	—
	$ 233,230	$ 8,023	$ 84,472	$ 92,495	$ 2,697

December 31, 2016	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
PCI					
Commercial and industrial:					
Secured	$ 10,579	$ 1,024	$ 189	$ 1,213	$ 13
Unsecured	3,259	299	—	299	—
Real estate:					
Secured by commercial properties	143,934	26,415	26,222	52,637	271
Secured by residential properties	148,384	73,240	1,161	74,401	60
Construction and land development:					
Residential construction loans	766	—	—	—	—
Commercial construction loans and land development	23,522	5,204	—	5,204	—
	330,444	106,182	27,572	133,754	344
Non-PCI					
Commercial and industrial:					
Secured	52	52	—	52	—
Unsecured	—	—	—	—	—
Real estate:					
Secured by commercial properties	396	310	—	310	—
Secured by residential properties	4,175	3,537	—	3,537	—
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	24	20	—	20	—
	4,647	3,919	—	3,919	—
	$ 335,091	$ 110,101	$ 27,572	$ 137,673	$ 344

Average investment in covered impaired loans is summarized by class in the following table (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Commercial and industrial:			
Secured	$ 730	$ 3,530	$ 9,934
Unsecured	150	1,040	4,293
Real estate:			
Secured by commercial properties	38,253	75,159	162,812
Secured by residential properties	73,332	88,794	121,069
Construction and land development:			
Residential construction loans	—	331	1,017
Commercial construction loans and land development	2,620	13,067	33,278
	$ 115,085	$ 181,921	$ 332,403

Covered non-accrual loans are summarized by class in the following table (in thousands).

	December 31,	
	2017	2016
Commercial and industrial:		
Secured	$ —	$ 52
Unsecured	—	—
Real estate:		
Secured by commercial properties	—	730
Secured by residential properties	5,087	3,035
Construction and land development:		
Residential construction loans	—	—
Commercial construction loans and land development	17	19
	$ 5,104	$ 3,836

At December 31, 2016, covered non-accrual loans included covered PCI loans of $0.4 million for which discount accretion has been suspended because the extent and timing of cash flows from these covered PCI loans can no longer be reasonably estimated. The amount of such loans included in covered non-accrual loans at December 31, 2017 was nominal.

Interest income, including recoveries and cash payments, recorded on covered impaired loans was $1.3 million, $1.1 million, and $17.2 million during 2017, 2016 and 2015, respectively. Except as noted above, covered PCI loans are considered to be performing due to the application of the accretion method.

The Bank classifies loan modifications of covered loans as TDRs in a manner consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. Information regarding TDRs granted in 2015 is shown in the following table (in thousands). There were no TDRs granted during 2017 or 2016. Pooled Loans are not in the scope of the disclosure requirements for TDRs. At December 31, 2017 and 2016, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

	Year Ended December 31, 2015		
	Number of Loans	Balance at Extension	Balance at End of Period
Commercial and industrial:			
Secured	—	$ —	$ —
Unsecured	—	—	—
Real estate:			
Secured by commercial properties	1	573	—
Secured by residential properties	7	860	824
Construction and land development:			
Residential construction loans	—	—	—
Commercial construction loans and land development	—	—	—
	8	$ 1,433	$ 824

During 2015, the covered loan modifications included in the table above included two loans involving payment term extensions, six loans that involved an A/B Note restructure, and six loans that included interest rate adjustments. The Bank did not grant principal reductions on any restructured covered loans.

There were no TDRs granted during the twelve months preceding December 31, 2017 or 2016 for which a payment was at least 30 days past due.

An analysis of the aging of the Bank's covered loan portfolio is shown in the following tables (in thousands).

December 31, 2017	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ —	$ —	$ —	$ —	$ 861	$ 194	$ 1,055	$ —
Unsecured	—	—	—	—	—	—	—	—
Real estate:								
Secured by commercial properties	209	113	—	322	11,472	23,559	35,353	—
Secured by residential properties	5,624	1,211	3,226	10,061	70,589	63,356	144,006	283
Construction and land development:								
Residential construction loans	—	—	—	—	—	—	—	—
Commercial construction loans and land development	38	—	—	38	1,673	4	1,715	—
	$ 5,871	$ 1,324	$ 3,226	$ 10,421	$ 84,595	$ 87,113	$ 182,129	$ 283

December 31, 2016	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or More
Commercial and industrial:								
Secured	$ —	$ 6	$ 96	$ 102	$ 1,083	$ 1,213	$ 2,398	$ 44
Unsecured	—	—	—	—	—	299	299	—
Real estate:								
Secured by commercial properties	96	229	—	325	19,132	52,637	72,094	—
Secured by residential properties	3,511	1,345	1,479	6,335	91,639	74,401	172,375	129
Construction and land development:								
Residential construction loans	—	—	—	—	—	—	—	—
Commercial construction loans and land development	15	—	—	15	3,742	5,204	8,961	—
	$ 3,622	$ 1,580	$ 1,575	$ 6,777	$ 115,596	$ 133,754	$ 256,127	$ 173

The Bank assigns a risk grade to each of its covered loans in a manner consistent with the existing loan review program and risk grading matrix used for non-covered loans, as described in Note 5 to the consolidated financial statements. The following tables present the internal risk grades of covered loans in the portfolio by class (in thousands).

December 31, 2017	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 429	$ —	$ 432	$ 194	$ 1,055
Unsecured	—	—	—	—	—
Real estate:					
Secured by commercial properties	10,961	—	833	23,559	35,353
Secured by residential properties	68,544	356	11,750	63,356	144,006
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	1,649	—	62	4	1,715
	$ 81,583	$ 356	$ 13,077	$ 87,113	$ 182,129

December 31, 2016	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 592	$ —	$ 593	$ 1,213	$ 2,398
Unsecured	—	—	—	299	299
Real estate:					
Secured by commercial properties	17,996	—	1,461	52,637	72,094
Secured by residential properties	90,563	461	6,950	74,401	172,375
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	2,281	—	1,476	5,204	8,961
	$ 111,432	$ 461	$ 10,480	$ 133,754	$ 256,127

The Bank's impairment methodology for the covered loans is consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. To the extent there is experienced or projected credit deterioration on the acquired covered loan pools subsequent to amounts estimated at the previous quarterly recast date and expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan or pool increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield. This increase in accretable yield is taken into income over the remaining life of the loan. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to the acquisition date in a manner consistent with the allowance for non-covered loan losses.

Changes in the allowance for covered loan losses, distributed by portfolio segment, are shown below (in thousands).

Year Ended December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Balance, beginning of year	$ 35	$ 378	$ —	$ 413
Provision charged to (recaptured from) operations	32	2,840	(7)	2,865
Loans charged off	(49)	(522)	—	(571)
Recoveries on charged off loans	6	6	10	22
Balance, end of year	$ 24	$ 2,702	$ 3	$ 2,729

Year Ended December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Balance, beginning of year	$ 758	$ 774	$ —	$ 1,532
Provision recaptured from operations	(717)	(351)	(53)	(1,121)
Loans charged off	(6)	(62)	(51)	(119)
Recoveries on charged off loans	—	17	104	121
Balance, end of year	$ 35	$ 378	$ —	$ 413

Year Ended December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Balance, beginning of year	$ 1,193	$ 3,334	$ 84	$ 4,611
Provision charged to operations	258	189	95	542
Loans charged off	(915)	(2,869)	(179)	(3,963)
Recoveries on charged off loans	222	120	—	342
Balance, end of year	$ 758	$ 774	$ —	$ 1,532

The covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	861	92,444	1,711	95,016
PCI Loans	194	86,915	4	87,113
	$ 1,055	$ 179,359	$ 1,715	$ 182,129

December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	1,185	117,431	3,757	122,373
PCI Loans	1,512	127,038	5,204	133,754
	$ 2,697	$ 244,469	$ 8,961	$ 256,127

The allowance for covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2017	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	5	24	3	32
PCI Loans	19	2,678	—	2,697
	$ 24	$ 2,702	$ 3	$ 2,729

December 31, 2016	Commercial and Industrial	Real Estate	Construction and Land Development	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	22	47	—	69
PCI Loans	13	331	—	344
	$ 35	$ 378	$ —	$ 413

Covered Other Real Estate Owned

A summary of the activity in covered OREO is as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	$ 51,642	$ 99,090	$ 136,945
Additions to covered OREO	6,700	13,876	50,465
Dispositions of covered OREO	(17,866)	(42,843)	(71,765)
Valuation adjustments in the period	(3,732)	(18,481)	(16,555)
Balance, end of year	$ 36,744	$ 51,642	$ 99,090

During 2017, 2016 and 2015, 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, while increases to fair value are recorded when the asset is subsequently sold.

FDIC Indemnification Asset

A summary of the activity in the FDIC Indemnification Asset is as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	$ 71,313	$ 91,648	$ 130,437
FDIC Indemnification Asset accretion (amortization)	(17,083)	242	1,147
Transfers to due from FDIC and other	(24,890)	(20,577)	(39,936)
Balance, end of year	$ 29,340	$ 71,313	$ 91,648

As of December 31, 2017, the Bank had billed $147.8 million to and collected $145.8 million from the FDIC, which represented reimbursable covered losses and expenses through September 30, 2017. During 2017, the Bank recorded $17.1 million of amortization related to the FDIC Indemnification Asset due to lower than projected collections from the FDIC than originally estimated at the Bank Closing Date.

7. Cash and Due from Banks

Cash and due from banks consisted of the following (in thousands).

	December 31,	
	2017	2016
Cash on hand	$ 44,765	$ 49,152
Clearings and collection items	92,271	78,328
Deposits at Federal Reserve Bank	248,442	354,948
Deposits at Federal Home Loan Bank	1,501	4,237
Deposits in FDIC-insured institutions	99,998	182,692
	$ 486,977	$ 669,357

The amounts above include interest-bearing deposits of $302.2 million and $479.3 million at December 31, 2017 and 2016, respectively. Cash on hand and deposits at the Federal Reserve Bank satisfy regulatory reserve requirements at December 31, 2017.

8. Premises and Equipment

The components of premises and equipment are summarized as follows (in thousands).

	December 31,	
	2017	2016
Land and premises	$ 111,203	$ 111,295
Furniture and equipment	207,552	190,914
	318,755	302,209
Less accumulated depreciation and amortization	(141,178)	(111,848)
	$ 177,577	$ 190,361

The amounts shown above include gross assets recorded under capital leases of $8.4 million and $8.4 million, with accumulated amortization of $3.3 million and $2.5 million at December 31, 2017 and 2016, respectively.

Occupancy expense was reduced by rental income of $1.8 million, $2.0 million and $2.2 million during 2017, 2016 and 2015, respectively. Depreciation and amortization expense on premises and equipment, which includes amortization of capital leases, amounted to $34.6 million, $35.4 million and $37.2 million during 2017, 2016 and 2015, respectively.

9. Goodwill and Other Intangible Assets

At both December 31, 2017 and 2016, the carrying amount of goodwill of $251.8 million was comprised of $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 $36.4 million and $44.7 million at December 31, 2017 and 2016, 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, 2017, 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, 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.

Based on the results of the previously noted annual quantitative analysis as of October 1, 2017, the fair values of each of the Company's reporting units indicated no impairment of goodwill. This analysis and the resulting estimated fair value of the insurance reporting unit exceeded the carrying value by approximately 12%, which represented a decline in the estimated excess fair value over carrying value from recent annual goodwill assessments. This decrease in the excess fair value over carrying value from the 2016 assessment to the 2017 assessment was primarily a result of a reduction in projected discounted cash flows driven by the insurance reporting unit's current operating performance being below expectations, which was primarily attributable to catastrophic and sub-catastrophic weather-related events which occurred in 2017. In the event future operating performance is below management's forecasted projections, there are negative changes to long-term growth rates or discount rates increase, the fair value of the insurance reporting unit may decline and the Company may be required to record a goodwill impairment charge.

The carrying value of intangible assets subject to amortization was as follows (in thousands).

December 31, 2017	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	4 - 12	$ 38,930	$ (26,381)	$ 12,549
Trademarks and trade names	15 - 20	20,000	(7,860)	12,140
Noncompete agreements	4 - 6	11,650	(10,529)	1,121
Customer contracts and relationships	12 - 14	21,400	(13,906)	7,494
Agent relationships	13	3,600	(3,472)	128
		$ 95,580	$ (62,148)	$ 33,432

December 31, 2016	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	4 - 12	$ 38,930	$ (22,255)	$ 16,675
Trademarks and trade names	15 - 20	20,000	(6,877)	13,123
Noncompete agreements	4 - 6	11,650	(9,306)	2,344
Customer contracts and relationships	12 - 14	21,400	(12,097)	9,303
Agent relationships	13	3,600	(3,350)	250
		$ 95,580	$ (53,885)	$ 41,695

Amortization expense related to intangible assets during 2017, 2016 and 2015 was $8.3 million, $10.2 million and $12.4 million, respectively.

The estimated aggregate future amortization expense for intangible assets at December 31, 2017 is as follows (in thousands).

2018	$ 7,289
2019	5,142
2020	4,352
2021	3,607
2022	3,222
Thereafter	9,820
	$ 33,432

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,		
	2017	2016	2015
Balance, beginning of year	$ 61,968	$ 52,285	$ 36,155
Additions	16,401	23,381	24,974
Sales	(17,499)	(7,586)	—
Changes in fair value:			
Due to changes in model inputs or assumptions [1]	(1,722)	(153)	(2,150)
Due to customer payoffs	(4,434)	(5,959)	(6,694)
Balance, end of year	$ 54,714	$ 61,968	$ 52,285

	December 31,	
	2017	2016
Mortgage loans serviced for others	$ 4,762,042	$ 5,480,943
MSR asset as a percentage of serviced mortgage loans	1.15 %	1.13 %

(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,	
	2017	2016
Weighted average constant prepayment rate	10.93 %	10.47 %
Weighted average discount rate	11.03 %	10.95 %
Weighted average life (in years)	6.9	6.9

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,	
	2017	2016
Constant prepayment rate:		
Impact of 10% adverse change	$ (1,948)	$ (2,297)
Impact of 20% adverse change	(3,839)	(4,471)
Discount rate:		
Impact of 10% adverse change	(2,135)	(2,539)
Impact of 20% adverse change	(4,103)	(4,882)

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 $20.7 million, $23.8 million and $19.6 million during 2017, 2016 and 2015, respectively, were included in other noninterest income within the consolidated statements of operations.

11. Deposits

Deposits are summarized as follows (in thousands).

	December 31,	
	2017	2016
Noninterest-bearing demand	$ 2,411,849	$ 2,199,483
Interest-bearing:		
NOW accounts	1,202,752	1,252,832
Money market	2,222,555	1,626,218
Brokered - money market	101,624	125,272
Demand	411,771	384,847
Savings	218,812	279,911
Time	1,313,482	1,145,859
Brokered - time	95,274	49,389
	$ 7,978,119	$ 7,063,811

At December 31, 2017, deposits include $778.8 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, 2017 are as follows (in thousands).

2018	$ 791,721
2019	509,244
2020	82,839
2021	15,155
2022 and thereafter	9,797
	$ 1,408,756

12. Short-term Borrowings

Short-term borrowings are summarized as follows (in thousands).

	December 31,	
	2017	2016
Federal funds purchased	$ 101,775	$ 87,125
Securities sold under agreements to repurchase	539,149	195,164
Federal Home Loan Bank	250,000	1,000,000
Short-term bank loans	315,500	135,000
	$ 1,206,424	$ 1,417,289

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,		
	2017	2016	2015
Average balance during the year	$ 588,847	$ 368,102	$ 315,904
Average interest rate during the year	1.06 %	0.58 %	0.33 %
Maximum month-end balance during the year	904,704	520,715	514,776

	December 31,	
	2017	2016
Average interest rate at end of year	1.21 %	0.42 %
Securities underlying the agreements at end of year:		
Carrying value	$ 581,636	$ 209,877
Estimated fair value	$ 598,300	$ 206,641

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, 2017, the Bank had available collateral of $3.3 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,		
	2017	2016	2015
Average balance during the year	$ 390,616	$ 361,475	$ 294,959
Average interest rate during the year	1.08 %	0.46 %	0.27 %
Maximum month-end balance during the year	$ 850,000	$ 1,000,000	$ 600,000

	December 31,	
	2017	2016
Average interest rate at end of year	1.30 %	0.55 %

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, 2017 and 2016 was 2.27% and 1.59%, respectively.

13. Notes Payable

Notes payable consisted of the following (in thousands).

	December 31,	
	2017	2016
Senior Notes due April 2025, net of discount of $1,545 and $1,689, respectively	$ 148,455	$ 148,311
FHLB notes, net of premium of $436 and $948, respectively, with maturities ranging from February 2018 to June 2030 and interest payable monthly	19,402	102,596
Insurance company note payable due March 2035, paid off in June 2017	—	20,000
NLIC note payable due May 2033, three-month LIBOR plus 4.10% (5.71% at December 31, 2017) with interest payable quarterly	10,000	10,000
NLIC note payable due September 2033, three-month LIBOR plus 4.05% (5.66% at December 31, 2017) with interest payable quarterly	10,000	10,000
ASIC note payable due April 2034, three-month LIBOR plus 4.05% (5.66% at December 31, 2017) with interest payable quarterly	7,500	7,500
Insurance company line of credit due December 30, 2018, 3.25% plus a calculated index rate (4.00% at December 31, 2017) with interest payable quarterly	1,000	3,000
Ventures Management lines of credit, with interest payable monthly	12,452	16,505
	$ 208,809	$ 317,912

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, assumed by the Bank in the SWS Merger, have interest rates ranging from 1.19% to 5.70%, with a weighted average interest rate of 2.10% at December 31, 2017. 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 $3.3 billion at December 31, 2017.

NLIC, ASIC and Insurance Company Notes Payable

On June 14, 2017, NLC paid off the $20.0 million insurance company note payable due March 2035.

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, 2017.

NLC has entered into an indenture relating to the NLIC and ASIC notes payable which provides that (i) if a person or group becomes the beneficial owner directly or indirectly of 50% or more of its equity securities and (ii) if NLC's ratings are downgraded by a nationally recognized statistical rating organization (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), then each holder of the notes governed by such indenture has the right to require that NLC purchase such holder's notes in whole or in part at a price equal to 100% of the outstanding principal amount.

Insurance Company Line of Credit

The Company's insurance subsidiary has a line of credit with a financial institution which allows for borrowings by NLC of up to $7.5 million and is collateralized by substantially all of NLC's assets. The loan agreements relating to the line of credit contain various financial and other covenants which must be maintained until all indebtedness to the financial institution is repaid. The Company was in compliance with the covenants at December 31, 2017.

Ventures Management Lines of Credit

At December 31, 2017, Ventures Management's ABAs had combined available lines of credit totaling $70.0 million, $30.0 million of which was with a single unaffiliated bank, while $40.0 million was with the Bank. At December 31, 2017, the outstanding balance of $12.5 million was related to a single line of credit with an unaffiliated bank with a stated interest rate of the greater of a calculated index rate on mortgage notes or 2.75%. The calculated index rate on mortgage notes held at December 31, 2017 was 3.09%. 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. The Company was in compliance with the covenants at December 31, 2017.

Scheduled Maturities

Scheduled maturities for notes payable outstanding at December 31, 2017 are as follows (in thousands).

2018	$ 25,791
2019	—
2020	3,425
2021	508
2022	203
Thereafter	179,991
	$ 209,918

14. 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, 2017 was 4.72%. 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.

15. Income Taxes

The significant components of the income tax provision are as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ 63,769	$ 82,970	$ 49,570
State	5,440	10,181	3,969
	69,209	93,151	53,539
Deferred:			
Federal	40,176	(6,732)	17,295
State	757	(2,958)	81
	40,933	(9,690)	17,376
	$ 110,142	$ 83,461	$ 70,915

The income tax provision differs from the amount that would be computed by applying the statutory Federal income tax rate of 35% to income before income taxes as a result of the following (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Computed tax at federal statutory rate	$ 85,150	$ 80,992	$ 99,223
Tax effect of:			
Tax Legislation	28,363	—	—
Non-taxable acquisition gain	(6,682)	—	(33,426)
Nondeductible transaction costs	774	2,608	3,969
Nondeductible expenses	3,089	3,301	3,215
State income taxes	4,028	4,708	2,632
Tax-exempt income, net	(2,758)	(2,850)	(2,563)
Valuation allowance	—	(2,094)	(1,889)
Share-based compensation benefit	(412)	(2,391)	—
Other	(1,410)	(813)	(246)
	$ 110,142	$ 83,461	$ 70,915

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,	
	2017	2016
Deferred tax assets:		
Net operating and built-in loss carryforward	$ 11,697	$ 21,381
Covered loans	20,024	43,512
Purchase accounting adjustment - loans	4,859	10,682
Allowance for loan losses	15,105	20,703
Compensation and benefits	15,860	44,368
Legal and other reserves	4,359	15,985
Foreclosed property	6,400	16,486
Other	11,961	19,297
	90,265	192,414
Deferred tax liabilities:		
Premises and equipment	10,288	21,013
FDIC Indemnification Asset	3,502	21,600
Intangible assets	8,994	17,392
Derivatives	4,527	8,581
Loan servicing	13,184	23,187
Other	8,156	18,868
	48,651	110,641
Net deferred tax asset	$ 41,614	$ 81,773

The Tax Legislation enacted on December 22, 2017 significantly revises the U.S. corporate income tax by lowering corporate income tax rates. The Company's results during the fourth quarter and full year of 2017 include the estimated impact of a non-recurring, non-cash charge of $28.4 million as a result of the enactment of the Tax Legislation. The charge was primarily due to the revaluation of deferred tax assets as a result of the reduction in the corporate tax rate from 35% to 21%, and other anticipated impacts associated with the Tax Legislation. Certain Tax Legislation amounts are considered reasonable estimates as of December 31, 2017 and could be adjusted during the measurement period, which will end in December 2018, as a result of further refinement of calculations, changes in interpretations and assumptions made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation.

The Company's effective tax rate was 45.3%, 36.1% and 25.0% during 2017, 2016 and 2015, respectively. 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. The effective tax rate during 2016 was relatively consistent with the

statutory rate, but did include effects related to non-deductible transaction costs associated with the SWS Merger, offset by the reversal of a valuation allowance of $2.2 million previously established on a deferred tax asset associated with the SWS Merger and the recognition of excess tax benefits on share-based payment awards as a result of the Company's adoption of the provisions of Accounting Standards Update ("ASU") 2016-09 as of January 1, 2016 as discussed in Note 33 to the consolidated financial statements. The lower effective tax rate during 2015 was primarily due to no income taxes being recorded during 2015 in connection with the bargain purchase gain of $81.3 million associated with the SWS Merger. In addition, during 2015, the Company recorded an income tax benefit of $2.1 million as a result of the SWS Merger to reverse the deferred tax liability for the difference between book and tax basis on Hilltop's investment in SWS common stock and also reversed a valuation allowance of $1.9 million previously established on a deferred tax asset for a capital loss carryforward.

At December 31, 2017 and 2016, the Company had net operating loss carryforwards for Federal income tax purposes of $29.9 million and $37.8 million, respectively (or $6.3 million and $13.2 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 2032. 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, 2017, 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, if 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 RBIL's are expected to be fully realized prior to any expiration. The Company's remaining net unrealized built-in loss of $9.8 million, if recognized during a five year recognition period before January 1, 2020, would also be subject to the Section 382 limitation.

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, 2017 or 2016.

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, 2017 and 2016, the total amount of gross unrecognized tax benefits was $1.6 million and $1.7 million, respectively, of which $1.2 million and $1.1 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,		
	2017	**2016**	**2015**
Balance, beginning of year	$ 1,704	$ 644	$ 644
Increases related to tax positions taken during a prior year	476	844	—
Decreases related to tax positions taken during a prior year	(1,273)	—	—
Increases related to tax positions taken during the current year	667	216	—
Balance, end of year	$ 1,574	$ 1,704	$ 644

The Company believes that it is reasonably possible that certain state matters may be concluded in the next twelve months. Specific positions that may be resolved include issues involving apportionment and various other matters. At December 31, 2017, 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 2014. The Company is open for various state tax audits for tax years 2013 and later. The Company is currently under income tax examination by a state authority for tax years 2013 through 2015. As of December 31, 2017, the state authority has not proposed any significant adjustments to the Company's tax positions for which the Company does not have adequate reserves.

16. Employee Benefits

Hilltop and its subsidiaries have benefit plans that provide for elective deferrals by employees under Section 401(k) of the Internal Revenue Code. Employee contributions are determined by the level of employee participation and related salary levels per Internal Revenue Service regulations. Hilltop and its subsidiaries match a portion of employee contributions based on the amount of eligible employees' contributions and salaries. In addition, Hilltop, PCC and the Bank made additional contributions to employees' 401(k) accounts based on achievement of certain corporate objectives through December 31, 2015. The amount charged to operating expense for these matching contributions totaled $13.9 million, $15.1 million and $12.6 million during 2017, 2016 and 2015, 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, 2017 and 2016, the recorded liability, including interest, was $9.1 million and $9.0 million, respectively.

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, 2017 and 2016, the carrying value of the policies included in other assets was $25.8 million and $24.8 million, respectively. During 2017, 2016 and 2015, the Bank recorded income of $0.6 million, $0.6 million and $0.8 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, 2017 and 2016, 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, 2017 and 2016, respectively.

17. Related Party Transactions

Pursuant to a Sublease Agreement, Diamond A Administration Company LLC ("Diamond A Admin"), an affiliate of Gerald J. Ford, the current Chairman of the Board of Hilltop and the beneficial owner of 16.2% of Hilltop common stock at December 31, 2017, currently provides office space to Hilltop at a cost of $24 thousand per month. This Sublease Agreement continues in effect until July 31, 2018 or such earlier date that the base lease expires.

Jeremy B. Ford, a director and the President and Co-Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. Diamond A Financial, L.P. owned 16.2% of the outstanding Hilltop common stock at December 31, 2017. He also is a director and the Secretary of Diamond A Admin, which provides office space to Hilltop as described in the preceding paragraph. Diamond A Admin is owned by Hunter's Glen/Ford, Ltd., a limited partnership in which a trust for the benefit of Jeremy B. Ford is a 46% limited partner.

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

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers and their affiliates (collectively referred to as related parties) totaling $34.6 million and $27.3 million at December 31, 2017 and 2016, 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 2017, total principal additions were $12.0 million and total principal payments were $4.7 million.

At December 31, 2017 and 2016, the Bank held deposits of related parties of $151.0 million and $154.8 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 $5.5 million at December 31, 2017.

The Bank purchases loans from a company for which a related party serves as a director, president and chief executive officer. At December 31, 2017 and 2016, the outstanding balance of the purchased loans was $2.1 million and $3.0 million, respectively. The loans were purchased with recourse to the Company in the ordinary course of business and the related party had no direct financial interest in the transaction.

18. Commitments and Contingencies

The Bank acts as agent on behalf of certain correspondent banks in the purchase and sale of federal funds that aggregated $3.0 million and $19.0 million at December 31, 2017 and 2016, respectively.

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 possible losses, and when it estimates that it is reasonably possible it could incur losses, in excess of amounts accrued, the Company is required to make a disclosure of the aggregate estimation. 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.

Following completion of Hilltop's acquisition of SWS, several purported holders of shares of SWS common stock (the "Petitioners") filed petitions in the Court of Chancery of the State of Delaware (the "Court") seeking appraisal for their shares pursuant to Section 262 of the Delaware General Corporation Law. These petitions were consolidated as *In re SWS Group, Inc.*, C.A. No. 10554-VCG. On May 30, 2017, the Court issued its Memorandum Opinion in the matter. The Court found the "fair value" of the shares of SWS common stock as of the date of the transaction was $6.38 per share. Accordingly, Hilltop paid cash of $6.38 per share, plus statutory interest from the effective date of the merger until the date of payment, to the Petitioners and the other stockholders of SWS who properly demanded appraisal rights under Delaware law, collectively representing 7,438,453 shares. Each outstanding share of SWS common stock, other than shares held by Hilltop, in treasury by SWS or by stockholders who properly demanded appraisal rights under Delaware law, was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, the aggregate value of which was $6.92 per share of SWS common stock as of the effective date of the merger. The

resolution of this matter resulted in 1,856,638 shares of HTH common stock, which had been held in escrow during the pendency of the proceeding, being returned to the Company's pool of authorized but unissued shares of common stock and a pre-tax net increase to other noninterest income of $11.6 million during the second quarter of 2017. This change in common stock is reflected in repurchases of common stock within the consolidated statements of stockholders' equity. Petitioners filed an appeal to the Court's Memorandum Opinion. The Company also filed a cross-appeal in the matter and intends to vigorously defend the Petitioners' appeal.

The Company is involved in information-gathering requests and investigations (both formal and informal), as well as reviews, examinations and proceedings (collectively, "Inquiries") by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding certain of its businesses, business practices and policies, as well as the conduct of persons with whom it does business. Additional Inquiries will arise from time to time. In connection with those Inquiries, the Company receives document requests, subpoenas and other requests for information. The Inquiries, including the Inquiry described below, could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on the Company's consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in the Company's business practices, and could result in additional expenses and collateral costs, including reputational damage.

As a part of an industry-wide Inquiry, PrimeLending received a subpoena from the Office of Inspector General of the U.S. Department of Housing and Urban Development ("HUD") regarding mortgage-related practices, including those relating to origination practices for loans insured by the Federal Housing Administration (the "FHA"). On August 20, 2014, PrimeLending received a Civil Investigative Demand from the United States Department of Justice (the "DOJ") related to this Inquiry. According to the Civil Investigative Demand, the DOJ is conducting an investigation to determine whether PrimeLending has violated the False Claims Act in connection with originating and underwriting single-family residential mortgage loans insured by the FHA. The DOJ has advised PrimeLending that, based upon its review of a sample of loans for which an FHA insurance claim was paid by HUD, some of the loans do not meet FHA underwriting guidelines. PrimeLending, based upon its own review of the loan sample, does not agree with the sampling methodology and loan analysis employed by the DOJ. Remedies in these proceedings or settlements may include statutory damages, indemnification, fines and/or penalties. Many institutions have settled these matters on terms that included large monetary penalties. PrimeLending has fully cooperated with this Inquiry, continues to discuss this matter with the DOJ and adjusts its indemnification reserve based upon such discussions.

While the final outcome of litigation and claims exposures or of any Inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and Inquiries will not have a material effect on the Company's business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be material to the Company's business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

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, 2017 and 2016, the mortgage origination segment's indemnification liability reserve totaled $23.5 million and $18.2 million, respectively. The provision for indemnification losses was $4.0 million, $4.6 million and $4.0 million during 2017, 2016 and 2015, respectively.

The following tables provide for a roll-forward of claims activity for loans put-back to the mortgage origination segment based upon an alleged breach of a representation or warranty with respect to a loan sold and related indemnification liability reserve activity (in thousands).

	Representation and Warranty Specific Claims Activity - Origination Loan Balance		
	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	$ 40,669	$ 57,298	$ 53,906
Claims made	42,330	21,410	71,783
Claims resolved with no payment	(37,439)	(19,696)	(38,862)
Repurchases	(6,490)	(4,164)	(14,884)
Indemnification payments	(5,368)	(14,179)	(14,645)
Balance, end of year	$ 33,702	$ 40,669	$ 57,298

	Indemnification Liability Reserve Activity		
	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	$ 18,239	$ 16,640	$ 17,619
Additions for new sales	3,962	4,638	4,006
Repurchases	(466)	(392)	(1,420)
Early payment defaults	(228)	(241)	(64)
Indemnification payments	(713)	(2,482)	(3,027)
Change in reserves for loans sold in prior years	2,678	76	(474)
Balance, end of year	$ 23,472	$ 18,239	$ 16,640

	December 31,	
	2017	2016
Reserve for Indemnification Liability:		
Specific claims	$ 646	$ 1,661
Incurred but not reported claims	22,826	16,578
Total	$ 23,472	$ 18,239

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

In connection with the FNB Transaction, the Bank entered into two loss-share agreements with the FDIC that collectively cover $1.2 billion of loans and OREO acquired in the FNB Transaction. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of 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 are 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 are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is 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 are in effect for five years and ten years, respectively, from the Bank Closing Date and the loss recovery provisions to the FDIC are in effect for eight years and ten years, respectively, from the Bank Closing Date. As part of the loss-share agreements, the Bank is subject to annual FDIC compliance audits. As discussed in Note 6 to the consolidated financial statements, and in accordance with the loss-share agreements, the Bank may be required to make a "true-up" payment to the FDIC approximately ten years following the Bank Closing Date if its actual net realized losses over the life of the loss-share agreements are less than the FDIC's initial estimate of losses on covered assets. The "true-up" payment is calculated using a defined formula set forth in the P&A Agreement. While the ultimate amount of any "true-up" payment is unknown at this time and will vary based upon the amount of future losses or recoveries within the covered loan portfolio, the Bank has recorded a related "true-up" payment accrual of $16.3 million at December 31, 2017 based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements. The initial estimate of the FDIC Indemnification Asset at the Bank Closing Date was recorded at the present value of 80% of $240.4 million. As of December 31, 2017, the Bank projects that the sum of actual plus projected covered losses and reimbursable expenses subject to the loss-share agreements will be less than $240.4 million. As of December 31, 2017, the Bank had billed $184.7 million of covered net losses to the FDIC, of which 80%, or $147.8 million, were reimbursable under the loss-share agreements. As of December 31, 2017, the Bank had received aggregate reimbursements of $145.8 million from the FDIC, which represented reimbursable covered losses and expenses through September 30, 2017.

As discussed in Note 16 to the consolidated financial statements, effective upon completion of the PlainsCapital Merger, Hilltop entered into separate retention agreements with two executive officers, one having an initial term of three years (with automatic one-year renewals at the end of two years and each anniversary thereof) and the other having an initial term of two years (with automatic one-year renewals at the end of the first year and each anniversary thereof). Each of these retention agreements provides for severance pay benefits if the executive officer's employment is terminated without "cause".

In addition to these retention agreements, Hilltop and its subsidiaries maintain employment contracts with certain officers that provide for benefits in the event of a "change in control" as defined in these agreements.

Hilltop and its subsidiaries lease space, primarily for branch facilities and automated teller machines, under noncancelable operating leases with remaining terms, including renewal options, of 1 to 11 years and under capital leases with remaining terms of 4 to 11 years. Rental expense under the operating leases was $43.5 million, $41.9 million and $40.3 million in 2017, 2016 and 2015, respectively.

Future minimum lease payments under these agreements follow (in thousands).

	Operating Leases	Capital Leases
2018	$ 36,602	$ 1,444
2019	30,127	1,491
2020	24,461	1,528
2021	16,429	1,451
2022	14,306	1,127
Thereafter	31,422	4,125
Total minimum lease payments	$ 153,347	11,166
Amount representing interest		(3,497)
Present value of minimum lease payments		$ 7,669

19. Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit that involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. The contract amounts of those instruments reflect the extent of involvement (and therefore the exposure to credit loss) the Bank has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Because some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.9 billion at December 31, 2017 and outstanding financial and performance standby letters of credit of $24.4 million at December 31, 2017.

The Bank uses the same credit policies in making commitments and standby letters of credit as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, in these transactions is based on management's credit evaluation of the borrower. Collateral held varies but may include real estate, accounts receivable, marketable securities, interest-bearing deposit accounts, inventory, and property, plant and equipment.

In the normal course of business, 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, 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.

20. 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, 2017, 1,634,804 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 $10.8 million, $10.5 million and $8.6 million during 2017, 2016 and 2015, respectively.

During 2017, 2016 and 2015, Hilltop granted 16,859, 21,224 and 13,631 shares of common stock, respectively, to certain non-employee members of the Company's board of directors for services rendered to the Company pursuant to the 2012 Plan.

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. 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 Restricted Stock Award and RSU activity for the noted periods (shares in thousands).

	Restricted Stock Awards		RSUs	
	Outstanding	Weighted Average Grant Date Fair Value	Outstanding	Weighted Average Grant Date Fair Value
Balance, December 31, 2014	466	$ 13.32	435	$ 23.14
Granted	63	$ 19.95	491	$ 19.61
Vested/Released	(54)	$ 19.58	(12)	$ 22.45
Forfeited	(22)	$ 13.25	(39)	$ 21.93
Balance, December 31, 2015	453	$ 13.50	875	$ 21.22
Granted	-	$ -	598	$ 17.78
Vested/Released	(447)	$ 13.41	(7)	$ 22.22
Forfeited	(2)	$ 19.72	(10)	$ 20.70
Balance, December 31, 2016	4	$ 19.95	1,456	$ 19.83
Granted	-	$ -	450	$ 26.37
Vested/Released	(4)	$ 19.95	(451)	$ 22.48
Forfeited	-	$ -	(137)	$ 22.41
Balance, December 31, 2017	-	$ -	1,318	$ 20.89

Vested/Released Restricted Stock Awards and RSUs include an aggregate of 252,133 shares withheld to satisfy employee statutory tax obligations during 2017, 2016 and 2015. Pursuant to certain RSU award agreements, an aggregate of 35,685 vested RSUs at December 31, 2017 require deferral of the settlement in shares and statutory tax obligations to a future date.

During 2017, the Compensation Committee of the board of directors of the Company awarded certain executives and key employees an aggregate of 392,877 RSUs pursuant to the 2012 Plan. At December 31, 2017, 313,301 of these outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the

grant date, and 79,576 of these outstanding RSUs will cliff vest based upon the achievement of certain performance goals over a three-year period.

At December 31, 2017, in the aggregate, 1,035,199 of the outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 282,329 outstanding RSUs cliff vest based upon the achievement of certain performance goals over a three-year period. At December 31, 2017, unrecognized compensation expense related to outstanding RSUs of $12.6 million is expected to be recognized over a weighted average period of 1.24 years.

21. Regulatory Matters

Banking and Hilltop

PlainsCapital 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.

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 Hilltop and the Bank. 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, 2017, as well as the fully phased-in requirements through 2019.

In addition, under the final rules, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed to continue to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, if an institution grows to above $15 billion in assets as a result of an acquisition, or organically grows to above $15 billion in assets and then makes an acquisition, the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2017, 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 as if such requirements were currently in effect as measured at December 31, 2017 and 2016, respectively (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		To Be Well Capitalized
	Amount	Ratio	In Effect at End of Period Ratio	Fully Phased In Ratio	Ratio
December 31, 2017					
Tier 1 capital (to average assets):					
PlainsCapital	$ 1,147,527	12.32 %	4.0 %	4.0 %	5.0 %
Hilltop	1,688,358	12.94 %	4.0 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):					
PlainsCapital	1,147,527	14.47 %	5.75 %	7.0 %	6.5 %
Hilltop	1,639,009	17.71 %	5.75 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):					
PlainsCapital	1,147,527	14.47 %	7.25 %	8.5 %	8.0 %
Hilltop	1,688,358	18.24 %	7.25 %	8.5 %	N/A
Total capital (to risk-weighted assets):					
PlainsCapital	1,212,793	15.29 %	9.25 %	10.5 %	10.0 %
Hilltop	1,738,325	18.78 %	9.25 %	10.5 %	N/A

	Actual		Minimum Capital Requirements Including Conservation Buffer		To Be Well Capitalized
	Amount	Ratio	In Effect at End of Period Ratio	Fully Phased In Ratio	Ratio
December 31, 2016					
Tier 1 capital (to average assets):					
PlainsCapital	$ 1,108,484	12.35 %	4.0 %	4.0 %	5.0 %
Hilltop	1,652,101	13.51 %	4.0 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):					
PlainsCapital	1,108,484	14.64 %	5.125 %	7.0 %	6.5 %
Hilltop	1,602,400	18.30 %	5.125 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):					
PlainsCapital	1,108,484	14.64 %	6.625 %	8.5 %	8.0 %
Hilltop	1,652,101	18.87 %	6.625 %	8.5 %	N/A
Total capital (to risk-weighted assets):					
PlainsCapital	1,164,767	15.38 %	8.625 %	10.5 %	10.0 %
Hilltop	1,693,240	19.34 %	8.625 %	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, 2017		December 31, 2016	
	PlainsCapital	Hilltop	PlainsCapital	Hilltop
Total equity capital	$ 1,379,402	$ 1,912,081	$ 1,337,746	$ 1,870,509
Add:				
Net unrealized holding losses (gains) on securities available for sale and held in trust	3,520	394	2,303	(485)
Deduct:				
Goodwill and other disallowed intangible assets	(235,395)	(273,466)	(231,565)	(267,624)
Common equity Tier 1 capital (as defined)	1,147,527	1,639,009	1,108,484	1,602,400
Add: Tier 1 capital				
Trust preferred securities	—	65,000	—	65,000
Deduct:				
Additional Tier 1 capital deductions	—	(15,651)	—	(15,299)
Tier 1 capital (as defined)	1,147,527	1,688,358	1,108,484	1,652,101
Add: Allowable Tier 2 capital				
Allowance for loan losses	65,266	65,618	56,283	56,438
Deduct:				
Additional Tier 2 capital deductions	—	(15,651)	—	(15,299)
Total capital (as defined)	$ 1,212,793	$ 1,738,325	$ 1,164,767	$ 1,693,240

Broker-Dealer

Pursuant to the net capital requirements of 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, 2017, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

	Hilltop Securities	HTS Independent Network
Net capital	$ 186,770	$ 3,278
Less: required net capital	10,513	250
Excess net capital	$ 176,257	$ 3,028
Net capital as a percentage of aggregate debit items	35.5 %	
Net capital in excess of 5% aggregate debit items	$ 160,487	

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 under the provisions of the Exchange Act are not available for general corporate purposes. At December 31, 2017 and 2016, the Hilltop Broker-Dealers held cash of $186.6 million and $181.0 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, 2017 and 2016.

Mortgage Origination

As a mortgage originator, PrimeLending and its subsidiaries are subject to minimum net worth and liquidity requirements established by HUD and GNMA, as applicable. On an annual basis, PrimeLending and its subsidiaries 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, 2017, PrimeLending and its subsidiaries' net worth and liquidity exceeded the amounts required by both HUD and GNMA, as applicable.

Insurance

The statutory financial statements of the Company's insurance subsidiaries, which are domiciled in the State of Texas, are presented on the basis of accounting practices prescribed or permitted by the Texas Department of Insurance. Texas has adopted the 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 of each insurance subsidiary is as follows (in thousands).

	December 31,	
	2017	2016
Capital and surplus:		
National Lloyds Insurance Company	$ 93,812	$ 131,328
American Summit Insurance Company	22,778	30,462

	Year Ended December 31,		
	2017	2016	2015
Statutory net income (loss):			
National Lloyds Insurance Company	$ (1,785)	$ 13,043	$ 9,000
American Summit Insurance Company	742	2,124	1,611

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, 2017, 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, 2017, the Company's insurance subsidiaries' RBC ratio exceeded the level at which regulatory action would be required.

22. Stockholders' Equity

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2017, $181.7 million of its earnings was available for dividend declaration without prior regulatory approval.

At December 31, 2017, the maximum aggregate dividend that may be paid to NLC from its insurance company subsidiaries without regulatory approval was $16.2 million.

Dividends

During 2017, the Company declared and paid cash dividends of $0.24 per common share, or $23.1 million. During 2016, the Company declared and paid cash dividends of $0.06 per common share, or $5.8 million.

On January 25, 2018, the Company announced that its board of directors declared a quarterly cash dividend of $0.07 per common share, payable on February 28, 2018, to all common stockholders of record as of the close of business on February 15, 2018.

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.

During 2015, the Company paid $30.0 million to repurchase and retire an aggregate of 1,390,977 shares of common stock at an average price of $21.56 per share. This stock repurchase program terminated effective December 2015. In January 2017, the Company's 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 an average price of $25.87 per share. This stock repurchase program expired in January 2018. All purchases were funded from available cash balances.

In January 2018, the Company's board of directors authorized a stock repurchase program through January 2019, under which the Company may repurchase, in the aggregate, up to $50.0 million of its outstanding common stock.

Series B Preferred Stock

As a result of the PlainsCapital Merger, the outstanding shares of PCC's Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the U.S. Treasury, were converted on a one-for-one basis into 114,068 shares of Hilltop Non-Cumulative Perpetual Preferred Stock, Series B ("Hilltop Series B Preferred Stock"). The terms of the Hilltop Series B Preferred Stock provided for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, fluctuated until December 31, 2013 based upon changes in the level of "qualified small business lending" ("QSBL") by the Bank. The shares of Hilltop Series B Preferred Stock were senior to shares of Hilltop common stock with respect to dividends and liquidation preference, and qualified as Tier 1 Capital for regulatory purposes.

The dividend rate on the Hilltop Series B Preferred Stock had been fixed at 5.0% since January 1, 2014, based upon the level of QSBL at September 30, 2013. On April 28, 2015, as discussed in Note 13 to the consolidated financial statements, Hilltop used the net proceeds of the offering of Senior Notes to redeem all shares of Hilltop Series B Preferred Stock at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million.

23. Other Noninterest Income and Expense

The following table shows the components of other noninterest income and expense (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Other noninterest income:			
Net gains from Hilltop Broker-Dealer trading activities	$ 70,922	$ 86,383	$ 44,042
Net gains from trading securities portfolio	20,210	15,926	12,796
Service charges on depositor accounts	14,429	14,162	15,169
SWS Merger appraisal proceeding	11,757	—	—
Trust fees	7,485	6,782	7,113
Insurance commissions	4,819	4,206	3,819
Insurance direct billing and other policy fees	4,353	4,818	5,329
Revenue from check and stored value cards	3,169	5,036	7,099
Rent and other income from other real estate owned	1,280	1,461	3,559
FDIC Indemnification Asset accretion	—	242	1,147
Other	25,546	15,248	10,795
	$ 163,970	$ 154,264	$ 110,868
Other noninterest expense:			
Software and information technology	$ 45,891	$ 38,421	$ 39,250
Brokerage commissions and fees	22,884	24,654	16,637
Mortgage origination and servicing	22,353	25,736	19,375
Unreimbursed loan closing costs	20,428	31,234	35,253
Business development	18,619	19,738	18,291
FDIC Indemnification Asset amortization	17,083	—	—
Travel, meals and entertainment	12,839	13,683	12,748
Funding fees	8,464	7,451	5,865
Amortization of intangible assets	8,263	10,174	12,375
Office supplies	7,806	8,719	8,247
OREO and repossessed assets	4,004	13,438	12,570
FDIC "true-up"	2,100	8,750	5,475
Other	51,362	49,523	62,217
	$ 242,096	$ 251,521	$ 248,303

24. Derivative Financial Instruments

The Company uses various derivative financial instruments to mitigate interest rate risk. The Bank's interest rate risk management strategy involves effectively managing the re-pricing characteristics of certain assets and liabilities to mitigate potential adverse impacts from changes in interest rates on the net interest margin. PrimeLending has interest rate risk relative to IRLCs and its inventory of mortgage loans held for sale. PrimeLending is exposed to such 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"). Additionally, PrimeLending has interest rate risk relative to its MSR asset and uses derivative instruments, including interest rate swaps, swaptions, 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.

Non-Hedging Derivative Instruments and the Fair Value Option

As discussed in Note 3 to the consolidated financial statements, the Company has elected to measure substantially all mortgage loans held for sale at fair value under the provisions of the Fair Value Option. The election provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying complex hedge accounting provisions. The fair values of PrimeLending's IRLCs, forward commitments, and interest rate swaps and swaptions, and U.S. Treasury bond futures and options are recorded in other assets or other liabilities, as appropriate, and changes in the fair values of these derivative instruments are recorded as a component of net gains from sale of loans and other mortgage production income. The fair value of PrimeLending's derivative instruments decreased $13.1 million during 2017 and increased $8.0 million and $17.3 million during 2016 and 2015, respectively. 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 fair values of the Hilltop Broker-Dealers' derivatives increased $8.1 million during 2017, compared with a decrease of $23.4 million during 2016 and an increase of $43.7 million during 2015. The fair values of the Bank's derivatives increased $0.3 million during 2017 and $0.4 million during 2016, compared with a decrease of $0.2 million during 2015. The changes in fair value were recorded as a component of other noninterest income.

Derivative positions are presented in the following table (in thousands).

	December 31, 2017		December 31, 2016	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments:				
IRLCs	$ 850,850	$ 18,851	$ 944,550	$ 23,269
Customer-based written options	21,637	38	—	—
Customer-based purchased options	21,637	(38)	—	—
Commitments to purchase MBSs	2,831,635	(921)	3,616,922	(1,155)
Commitments to sell MBSs	4,963,498	2,972	5,609,250	(532)
Interest rate swaps and swaptions	25,971	51	32,452	(283)
U.S. Treasury bond futures and options [1]	214,500	—	297,000	—

(1) Changes in the fair value of these contracts are settled daily with PrimeLending's counterparty.

PrimeLending has cash collateral advances totaling $0.8 million to offset net liability derivative positions on its commitments to sell MBSs at December 31, 2017, compared to a payable totaling $19.1 million on its net liability derivative position on its commitments to sell MBSs at December 31, 2016. In addition, PrimeLending advanced cash collateral totaling $3.2 million and $3.2 million on its U.S. Treasury bond futures and options at December 31, 2017 and 2016, respectively. These amounts are included in other assets within the consolidated balance sheets.

25. Balance Sheet Offsetting

Certain financial instruments, including resale and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheets and/or subject to master netting arrangements or similar agreements. The following tables present the assets and liabilities subject to enforceable master netting arrangements, repurchase agreements, or similar agreements with offsetting rights (in thousands).

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets 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, 2017						
Securities borrowed:						
Institutional counterparties	$ 1,386,821	$ —	$ 1,386,821	$ (1,327,536)	$ —	$ 59,285
Interest rate options:						
Customer counterparties	38	—	38	—	—	38
Reverse repurchase agreements:						
Institutional counterparties	186,537	—	186,537	(186,026)	—	511
Forward MBS derivatives:						
Institutional counterparties	3,576	—	3,576	(3,576)	—	—
	$ 1,576,972	$ —	$ 1,576,972	$ (1,517,138)	$ —	$ 59,834
December 31, 2016						
Securities borrowed:						
Institutional counterparties	$ 1,436,069	$ —	$ 1,436,069	$ (1,385,664)	$ —	$ 50,405
Reverse repurchase agreements:						
Institutional counterparties	89,430	—	89,430	(89,369)	—	61
Forward MBS derivatives:						
Institutional counterparties	21,366	(3,893)	17,473	(9,012)	—	8,461
	$ 1,546,865	$ (3,893)	$ 1,542,972	$ (1,484,045)	$ —	$ 58,927

	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, 2017						
Securities loaned:						
Institutional counterparties	$ 1,215,093	$ —	$ 1,215,093	$ (1,157,198)	$ —	$ 57,895
Interest rate options:						
Institutional counterparties	38	—	38	—	—	38
Interest rate swaps and swaptions:						
Institutional counterparties	35	(86)	(51)	(1,059)	—	(1,110)
Repurchase agreements:						
Institutional counterparties	409,058	—	409,058	(409,058)	—	—
Customer counterparties	130,091	—	130,091	(130,091)	—	—
Forward MBS derivatives:						
Institutional counterparties	2,696	(1,171)	1,525	(1,295)	—	230
	$ 1,757,011	$ (1,257)	$ 1,755,754	$ (1,698,701)	$ —	$ 57,053
December 31, 2016						
Securities loaned:						
Institutional counterparties	$ 1,283,676	$ —	$ 1,283,676	$ (1,237,868)	$ —	$ 45,808
Interest rate swaps and swaptions:						
Institutional counterparties	297	(14)	283	(3,000)	—	(2,717)
Repurchase agreements:						
Institutional counterparties	39,970	—	39,970	(39,970)	—	—
Customer counterparties	155,194	—	155,194	(155,194)	—	—
Forward MBS derivatives:						
Institutional counterparties	19,159	—	19,159	(19,159)	—	—
	$ 1,498,296	$ (14)	$ 1,498,282	$ (1,455,191)	$ —	$ 43,091

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 day 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, 2017 and 2016.

	Remaining Contractual Maturities				
December 31, 2017	**Overnight and Continuous**	**Up to 30 Days**	**30-90 Days**	**Greater Than 90 Days**	**Total**
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 181,915	$ —	$ —	$ —	$ 181,915
Asset-backed securities	357,234	—	—	—	357,234
Securities lending transactions:					
Corporate securities	11,499	—	—	—	11,499
Equity securities	1,203,594	—	—	—	1,203,594
Total	$ 1,754,242	$ —	$ —	$ —	$ 1,754,242
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 1,754,242
Amount related to agreements not included in offsetting disclosure above					$ —

	Remaining Contractual Maturities				
December 31, 2016	**Overnight and Continuous**	**Up to 30 Days**	**30-90 Days**	**Greater Than 90 Days**	**Total**
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 195,164	$ —	$ —	$ —	$ 195,164
Securities lending transactions:					
Corporate securities	14,816	—	—	—	14,816
Equity securities	1,268,860	—	—	—	1,268,860
Total	$ 1,478,840	$ —	$ —	$ —	$ 1,478,840
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 1,478,840
Amount related to agreements not included in offsetting disclosure above					$ —

26. Broker-Dealer and Clearing Organization Receivables and Payables

Broker-dealer and clearing organization receivables and payables consisted of the following (in thousands).

	December 31,	
	2017	2016
Receivables:		
Securities borrowed	$ 1,386,821	$ 1,436,069
Securities failed to deliver	25,491	33,834
Trades in process of settlement	29,412	10,223
Other	22,654	17,615
	$ 1,464,378	$ 1,497,741
Payables:		
Securities loaned	$ 1,215,093	$ 1,283,676
Correspondents	30,160	31,040
Securities failed to receive	37,864	31,724
Other	4,446	688
	$ 1,287,563	$ 1,347,128

27. Deferred Policy Acquisition Costs

Policy acquisition expenses, primarily commissions, premium taxes and underwriting expenses related to the successful issuance of a new or renewal policy incurred by NLC are deferred and charged against income ratably over the terms of the related policies. A summary of the activity in deferred policy acquisition costs is as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	$ 18,603	$ 19,874	$ 20,416
Acquisition expenses capitalized	34,934	37,231	39,716
Amortization charged to income	(36,549)	(38,502)	(40,258)
Balance, end of year	$ 16,988	$ 18,603	$ 19,874

Amortization is included in policy acquisition and other underwriting expenses in the accompanying consolidated statements of operations.

28. Reserve for Losses and Loss Adjustment Expenses

A summary 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,	
	2017	2016
Reserve for unpaid losses and allocated LAE balance, net	$ 17,470	$ 25,203
Reinsurance recoverables on unpaid losses	11,495	9,434
Unallocated LAE	1,248	1,189
Reserve for unpaid losses and LAE balance, gross	$ 30,213	$ 35,826

A summary of claims loss reserve development activity is presented in the following table (in thousands).

Accident Year	Year Ended December 31, 2017		December 31, 2017	
	Paid	Incurred	Total of IBNR Reserves Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2013	110,813	111,121	8	15,687
2014	83,346	84,074	119	13,099
2015	85,507	87,262	591	15,016
2016	81,682	85,189	2,622	21,277
2017	77,855	88,079	4,282	20,927
Total	439,203	$ 455,725		
	948	All outstanding reserves prior to 2013, net of reinsurance		
	$ 17,470	Reserve for unpaid losses and allocated LAE, net of reinsurance		

29. Reinsurance Activity

NLC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk. Substantial amounts of business are ceded, and these reinsurance contracts do not relieve NLC from its obligations to policyholders. Such reinsurance includes quota share, excess of loss, catastrophe, and other forms of reinsurance on essentially all property and casualty lines of insurance. Net insurance premiums earned, losses and LAE and policy acquisition and other underwriting expenses are reported net of the amounts related to reinsurance ceded to other companies. Amounts recoverable from reinsurers related to the portions of the liability for losses and LAE and unearned insurance premiums ceded to them are reported as assets. Failure of reinsurers to honor their obligations could result in losses to NLC; consequently, allowances are established for amounts deemed uncollectible as NLC evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 2017, total reinsurance recoverables and receivables had a carrying value of $13.1 million, which is included in other assets within the consolidated balance sheet. There was no allowance for uncollectible accounts at December 31, 2017, based on NLC's quality requirements.

Reinsurers with a balance in excess of 5% of the Company's outstanding reinsurance receivables at December 31, 2017 are listed below (in thousands).

	Balances Due From Reinsurers	A.M. Best Rating
Arch Reinsurance Co.	$ 1,115	N/A
Partner Reinsurance Co.	1,947	A
Aspen Bermuda	865	A
R&V Versicherung AG	1,927	N/A
Everest Re	767	A+
Lloyd's Syndicate #2001	729	A+
	$ 7,350	

The effects of reinsurance on premiums written and earned are summarized as follows (in thousands).

	Year Ended December 31,					
	2017		2016		2015	
	Written	Earned	Written	Earned	Written	Earned
Premiums from direct business	$ 137,091	$ 144,990	$ 152,970	$ 159,884	$ 167,025	$ 169,334
Reinsurance assumed	12,150	11,767	11,338	11,024	10,714	10,283
Reinsurance ceded	(12,280)	(14,459)	(14,962)	(15,363)	(17,170)	(17,535)
Net premiums	$ 136,961	$ 142,298	$ 149,346	$ 155,545	$ 160,569	$ 162,082

The effects of reinsurance on incurred losses are as follows (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Losses and LAE incurred	$ 138,358	$ 113,494	$ 123,017
Reinsurance recoverables	(43,657)	(24,251)	(23,951)
Net loss and LAE incurred	$ 94,701	$ 89,243	$ 99,066

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, 2017, NLC renewed its catastrophic excess of loss reinsurance coverage for a two year period. At December 31, 2017, NLC had catastrophic excess of loss reinsurance coverage of losses per event in excess of $8 million retention by NLIC and $1.5 million retention by ASIC. ASIC maintained an underlying layer of coverage, providing $6.5 million in excess of its $1.5 million retention to bridge to the primary program. The reinsurance in excess of $8 million is comprised of three layers of protection: $17 million in excess of $8 million retention and/or loss; $30 million in excess of $25 million loss; and $50 million in excess of $55 million loss. NLIC and ASIC retain no participation in any of the layers, beyond the first $8 million and $1.5 million, respectively. At December 31, 2017, total retention for any one catastrophe that affects both NLIC and ASIC was limited to $8 million in the aggregate.

Effective January 1, 2018, NLC renewed 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 $17.5 million for sub-catastrophic events. As of January 1, 2018, NLC retains 17.5% participation in this coverage, up from no participation during 2017.

During August and September 2017, NLC experienced losses related to Hurricane Harvey in excess of retention. As of December 31, 2017, the total gross losses and LAE incurred associated with Hurricane Harvey was $18.2 million. However, because the losses exceeded retention, net exposure to NLC was $3.4 million retention and $1.4 million in reinstatement premiums. During 2016 and 2015, NLC experienced no significant catastrophes that resulted in losses in excess of retention at NLIC or ASIC.

There were 16 tornado, hail and wind storms during 2017 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 $38.1 million, which developed a reinsured recoverable of $4.6 million at the 100% subscription level. During 2016, the 15 tornado, hail and wind storms that exceeded retention had incurred losses of $44.0 million, which developed a reinsured recoverable of $10.0 million at the 100% subscription level. During 2015, the 12 tornado, hail and wind storms

that exceeded retention had incurred losses of $35.3 million, which developed a reinsured recoverable of $9.1 million at the 91% 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 2016 and $9.1 million for 2015 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 premium payable to the affected reinsurers. In addition to the $1.4 million in reinstatement premiums noted above related to Hurricane Harvey in 2017, reinstatement premiums during 2017, 2016 and 2015 of $1.4 million, $0.6 million and $0.2 million, respectively, were recorded as ceded premiums.

30. Segment and Related Information

The Company currently has four reportable business segments that are organized primarily by the core products offered to the segments' respective customers. These segments reflect the manner in which operations are managed and the criteria used by the Company's chief operating decision maker function to evaluate segment performance, develop strategy and allocate resources. The chief operating decision maker function consists of the Company's President and Co-Chief Executive Officer and the Company's Vice Chairman and Co-Chief Executive Officer.

The banking segment includes the operations of the Bank, 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 including, but not limited to, certain executive management, corporate relations, legal, finance and acquisition costs.

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, 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 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

Year Ended December 31, 2016	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 363,083	$ 31,172	$ (11,589)	$ 3,164	$ (7,257)	$ 18,958	$ 397,531
Provision for loan losses	40,673	(53)	—	—	—	—	40,620
Noninterest income	52,579	385,766	704,126	164,841	2	(20,349)	1,286,965
Noninterest expense	244,715	377,524	614,741	146,601	29,938	(1,048)	1,412,471
Income (loss) before income taxes	$ 130,274	$ 39,467	$ 77,796	$ 21,404	$ (37,193)	$ (343)	$ 231,405

Year Ended December 31, 2015	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 369,493	$ 32,971	$ (10,423)	$ 3,187	$ (5,109)	$ 18,464	$ 408,583
Provision for loan losses	12,795	(80)	—	—	—	—	12,715
Noninterest income	62,639	334,495	597,163	171,185	81,289	(19,129)	1,227,642
Noninterest expense	243,926	367,812	539,257	158,720	31,926	(1,625)	1,340,016
Income (loss) before income taxes	$ 175,411	$ (266)	$ 47,483	$ 15,652	$ 44,254	$ 960	$ 283,494

	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
December 31, 2017							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 9,558,718	$ 3,394,911	$ 1,937,327	$ 291,639	$ 2,106,978	$ (3,923,787)	$ 13,365,786
December 31, 2016							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 9,527,518	$ 2,777,849	$ 2,042,458	$ 347,252	$ 2,032,749	$ (3,989,764)	$ 12,738,062

31. 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,		
	2017	2016	2015
Basic earnings per share:			
Income attributable to Hilltop	$ 132,544	$ 145,894	$ 209,119
Less: income applicable to participating shares	—	(6)	(952)
Net earnings available to Hilltop common stockholders	$ 132,544	$ 145,888	$ 208,167
Weighted average shares outstanding - basic	97,137	98,404	99,074
Basic earnings per common share	$ 1.36	$ 1.48	$ 2.10
Diluted earnings per share:			
Income attributable to Hilltop	$ 132,544	$ 145,894	$ 209,119
Weighted average shares outstanding - basic	97,137	98,404	99,074
Effect of potentially dilutive securities	216	225	888
Weighted average shares outstanding - diluted	97,353	98,629	99,962
Diluted earnings per common share	$ 1.36	$ 1.48	$ 2.09

32. Condensed Financial Statements of Parent

Condensed financial statements of Hilltop (parent only) follow (in thousands). Investments in subsidiaries are determined using the equity method of accounting.

Condensed Statements of Operations and Comprehensive Income

	Year Ended December 31,		
	2017	2016	2015
Dividends from bank and bank holding company subsidiaries	$ 53,000	$ 87,826	$ —
Dividends from nonbank subsidiaries	41,500	—	—
Investment income	312	382	445
Interest expense	10,381	7,639	5,554
Bargain purchase gain	—	—	81,289
Other income	12,798	2	—
General and administrative expense	33,983	29,938	31,926
Income before income taxes, equity in undistributed earnings of subsidiaries and preferred stock activity	63,246	50,633	44,254
Income tax benefit	(15,577)	(10,077)	(9,562)
Equity in undistributed earnings of subsidiaries	54,321	87,234	158,763
Net income	$ 133,144	$ 147,944	$ 212,579
Other comprehensive income (loss), net	(879)	(2,144)	1,978
Comprehensive income	$ 132,265	$ 145,800	$ 214,557

Condensed Balance Sheets

	December 31, 2017	2016	2015
Assets:			
Cash and cash equivalents	$ 96,764	$ 118,290	$ 55,542
Investment in subsidiaries:			
Bank and bank holding company subsidiaries	1,340,093	1,304,917	1,271,581
Nonbank subsidiaries	603,631	609,539	545,502
Other assets	66,490	3	32,922
Total assets	$ 2,106,978	$ 2,032,749	$ 1,905,547
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	$ 46,442	$ 13,929	$ 20,419
Notes payable	148,455	148,311	148,174
Stockholders' equity	1,912,081	1,870,509	1,736,954
Total liabilities and stockholders' equity	$ 2,106,978	$ 2,032,749	$ 1,905,547

Condensed Statements of Cash Flows

	Year Ended December 31, 2017	2016	2015
Operating Activities:			
Net income	$ 133,144	$ 147,944	$ 212,579
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(54,321)	(87,234)	(158,763)
Bargain purchase gain	—	—	(81,289)
Deferred income taxes	2,511	(2,063)	12,429
Other, net	(57,380)	20,812	2,443
Net cash provided by (used in) operating activities	23,954	79,459	(12,601)
Investing Activities:			
Reimbursement from nonbank subsidiaries	—	6,000	—
Capital contribution to bank and bank holding company subsidiaries	(10,000)	—	—
Capital contribution to nonbank subsidiaries	—	(20,000)	—
Cash paid for acquisition	—	—	(78,217)
Other, net	(4,241)	(98)	(31)
Net cash used in investing activities	(14,241)	(14,098)	(78,248)
Financing Activities:			
Proceeds from issuance of common stock	—	4,139	—
Payments to repurchase common stock	(27,388)	—	(30,028)
Proceeds from issuance of notes payable	—	—	148,078
Dividends paid on common stock	(23,140)	(5,801)	—
Dividends paid on preferred stock	—	—	(3,539)
Redemption of preferred stock	—	—	(114,068)
Other, net	19,289	(951)	—
Net cash provided by (used in) financing activities	(31,239)	(2,613)	443
Net change in cash and cash equivalents	(21,526)	62,748	(90,406)
Cash and cash equivalents, beginning of year	118,290	55,542	145,948
Cash and cash equivalents, end of year	$ 96,764	$ 118,290	$ 55,542
Supplemental Schedule of Non-Cash Activities:			
Common stock issued in acquisition	$ —	$ —	$ 200,626

During 2017, Hilltop used $47.1 million in cash to repurchase common stock associated with the resolution of the contingency on appraisal proceedings from the SWS Merger. This activity is reflected in the other line item within operating activities in the above condensed statement of cash flows of Hilltop. Additionally, certain assets and liabilities, including $20.6 million of cash, were transferred from PCC to Hilltop in 2017 due to organizational changes. This activity is reflected in the other line item within financing activities in the above condensed statement of cash flows of Hilltop.

During 2015, as further discussed in Note 13 to the consolidated financial statements, Hilltop completed an offering of $150.0 million aggregate principal amount of its 5% Senior Notes due 2025 and used the net proceeds of the offering to redeem all Hilltop's outstanding Series B Preferred Stock at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million, and utilized the remainder for general corporate purposes.

33. Recently Issued Accounting Standards

In February 2018, FASB issued Accounting Standards Update ("ASU") 2018-02 to help organizations address certain stranded income tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Legislation. The amendment provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the changes in the U.S. federal corporate income tax rate in the Tax Legislation (or portion thereof) is recorded. The amendment also includes disclosure requirements regarding the issuer's accounting policy for releasing income tax effects from AOCI. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, and organizations should apply the provisions of the amendment either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Legislation is recognized. The Company is currently evaluating the provisions of the amendment and the impact on its future consolidated financial statements.

In May 2017, FASB issued ASU 2017-09 which provides clarity and reduces both diversity in practice and cost and complexity associated with changes to the terms or conditions of a share-based payment award and, specifically, which changes require an entity to apply modification accounting. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has adopted the amendments as of January 1, 2018, which are expected to have a significant effect on the Company's consolidated financial statements.

In April 2017, FASB issued ASU 2017-08 which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The amendment is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2018, using the modified retrospective transition method. As permitted within the amendment, the Company elected to early adopt and apply the provisions of this amendment as of January 1, 2017. This adoption had no effect on the Company's consolidated financial statements.

In January 2017, FASB issued ASU 2017-01 which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendment is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017, using the prospective method. The Company has adopted the amendments as of January 1, 2018, and will prospectively apply its provisions.

In October 2016, FASB issued ASU No. 2016-16 which addresses improvement in accounting for income tax consequences of intra-equity transfers of assets other than inventory. The amendment requires that an entity recognize the income tax consequences of the intra-equity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017, using the modified retrospective transition method. The Company has adopted the amendments as of January 1, 2018, which are not expected to have a significant effect on the Company's consolidated financial statements.

In August 2016, FASB issued ASU 2016-15 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after

December 15, 2017 using a retrospective transition method. The Company has adopted the amendments as of January 1, 2018, which are not expected to have a significant effect on the Company's consolidated financial statements.

In June 2016, FASB issued ASU 2016-13 which sets forth a "current expected credit loss" (CECL) model which 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. This 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. The amendment 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 amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2019 with a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. The Company does not intend to adopt the provisions of the amendment early. The Company has formed a cross-functional implementation team to evaluate the provisions of the amendment and the impact on its future consolidated financial statements through the identification of data requirements and determination of necessary modifications to its existing credit loss estimation methodologies, systems and processes. The magnitude of the change in allowance for loan losses will depend on, among other things, the portfolio composition and quality at the adoption date, as well as economic conditions and forecasts at that time.

In February 2016, FASB issued ASU 2016-02 related to leases. The new standard is intended to increase transparency and comparability among organizations and require lessees to record a right-to-use asset and liability representing the obligation to make lease payments for long-term leases. Accounting by lessors will remain largely unchanged. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. Early adoption is permitted, however, the Company does not intend to adopt the provisions of the amendment early. The Company's implementation efforts are on-going, including the installation of a software solution, which will aid in determining the magnitude of the increases in assets and liabilities and their impact on the consolidated financial statements. The Company expects to recognize lease liabilities and corresponding right-of-use assets (at their present value) related to predominantly all of the future minimum lease payments required under operating leases as disclosed in Note 18 to the consolidated financial statements. However, the population of contracts subject to balance sheet recognition and their initial measurement remains under evaluation.

In January 2016, FASB issued ASU 2016-01 related to financial instruments. This amendment requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The amendment also impacts financial liabilities under the Fair Value Option and the presentation and disclosure requirements for financial instruments and modifies the required process used to evaluate deferred tax assets on available for sale securities. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has adopted the amendment as of January 1, 2018, which resulted in $21.2 million of available for sale equity securities being reclassified within the consolidated balance sheet consistent with the provisions of the new amendment, while certain other equity investments of approximately $40 million will continue to be included in other assets within the consolidated balance sheet. The adoption of the amendment resulted in approximately $3 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018. All subsequent changes in fair value related to these equity investments will be recognized in net income. Additionally, the enhanced disclosures required by the new standard will be included in subsequent filings, including the disclosure of the fair value of the loan portfolio using and exit price method instead of the current discounted cash flow method. These disclosure changes are not expected to have a significant effect on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year, to clarify the principles for recognizing revenue from contracts with customers. The FASB has subsequently issued several amendments to the standard, including clarification of principal versus agent considerations, narrow scope improvements and other technical corrections. The amendments outline a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. The amendments also require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and

changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017 and may be adopted using either a full retrospective transition method or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application and to new contracts entered into thereafter. The Company has adopted the amendments as of January 1, 2018 using the cumulative-effect approach. The Company gathered an inventory of contracts with customers and performed an in-depth assessment of these contracts for evaluation under the amendments. A majority of the Company's revenues are not subject to the new guidance. The revenue recognition policies within the Company's broker-dealer segment were the most affected upon adoption. Specifically, the new guidance required changes to the principal versus agent conclusion for certain advisory and underwriting revenues and expenses which, as of January 1, 2018, are recorded on a gross basis while legacy guidance required recognizing these revenues net of the related expenses. Conversely, certain contract costs related to clearing and retail operations are now netted against the revenues while the legacy guidance required recognizing these revenues and expenses on a gross basis. As the measurement and timing of revenue recognition was not affected for any of the Company's revenue streams, the implementation of the new guidance had no impact on opening retained earnings as of January 1, 2018. The enhanced disclosures required by the new standard are being developed and will be included in subsequent filings in accordance with the new standard, but are not expected to have a significant effect on the Company's consolidated financial statements.

34. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information is summarized as follows (in thousands, except per share data).

	Year Ended December 31, 2017				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 133,665	$ 128,944	$ 136,306	$ 108,241	$ 507,156
Interest expense	24,973	23,964	20,330	16,141	85,408
Net interest income	108,692	104,980	115,976	92,100	421,748
Provision for loan losses	5,453	1,260	5,853	1,705	14,271
Noninterest income	290,456	298,477	344,692	271,439	1,205,064
Noninterest expense	328,670	353,842	366,251	320,492	1,369,255
Income before income taxes	65,025	48,355	88,564	41,342	243,286
Income tax expense	51,350	18,003	25,754	15,035	110,142
Net income	13,675	30,352	62,810	26,307	133,144
Less: Net income attributable to noncontrolling interest	247	146	334	(127)	600
Income attributable to Hilltop	$ 13,428	$ 30,206	$ 62,476	$ 26,434	$ 132,544
Earnings per common share:					
Basic	$ 0.14	$ 0.31	$ 0.64	$ 0.27	$ 1.36
Diluted	$ 0.14	$ 0.31	$ 0.63	$ 0.27	$ 1.36
Cash dividends declared per common share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24

	Year Ended December 31, 2016				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 118,335	$ 115,263	$ 114,202	$ 108,154	$ 455,954
Interest expense	14,211	16,093	13,805	14,314	58,423
Net interest income	104,124	99,170	100,397	93,840	397,531
Provision for loan losses	4,347	3,990	28,876	3,407	40,620
Noninterest income	309,127	354,458	346,005	277,375	1,286,965
Noninterest expense	355,784	364,133	367,365	325,189	1,412,471
Income before income taxes	53,120	85,505	50,161	42,619	231,405
Income tax expense	17,582	33,017	18,439	14,423	83,461
Net income	35,538	52,488	31,722	28,196	147,944
Less: Net income attributable to noncontrolling interest	217	556	648	629	2,050
Income attributable to Hilltop	$ 35,321	$ 51,932	$ 31,074	$ 27,567	$ 145,894
Earnings per common share:					
Basic	$ 0.36	$ 0.53	$ 0.32	$ 0.28	$ 1.48
Diluted	$ 0.36	$ 0.53	$ 0.32	$ 0.28	$ 1.48
Cash dividends declared per common share	$ 0.06	$ —	$ —	$ —	$ 0.06

35. Subsequent Event

On February 13, 2018, the Company entered into a definitive agreement to acquire privately-held, Houston-based The Bank of River Oaks (“BORO”) in an all-cash transaction. Under the terms of the definitive agreement, the Company has agreed to pay cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. As of December 31, 2017, BORO had unaudited total assets, gross loans and deposits of approximately $454 million, $344 million and $406 million, respectively. The transaction is subject to customary closing conditions, including regulatory approvals and approval by shareholders of BORO, and is expected to close during the third quarter of 2018.

Schedule I – Insurance Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance (in thousands)

	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance					December 31, 2017	
	December 31, 2017						
Accident Year	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	2017 Unaudited	Total of Incurred But Not Reported Reserves Plus Development On Reported Claims	Cumulative Number of Reported Claims
2013	$ 107,793	$ 108,951	$ 111,006	$ 111,011	$ 111,121	$ 8	15,687
2014		83,784	85,037	84,221	84,074	119	13,099
2015			89,646	88,477	87,262	591	15,016
2016				84,771	85,189	2,622	21,277
2017					88,079	4,282	20,927
					$ 455,725		

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance				
	December 31, 2017				
Accident Year	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	2017 Unaudited
2013	$ 94,238	$ 104,938	$ 108,099	$ 109,662	$ 110,813
2014		70,831	79,713	81,684	83,346
2015			71,820	82,940	85,507
2016				71,543	81,682
2017					77,855
Total					$ 439,203
All outstanding reserves prior to 2013, net of reinsurance					948
Reserve for unpaid losses and allocated loss adjustment expenses, net of reinsurance					$ 17,470

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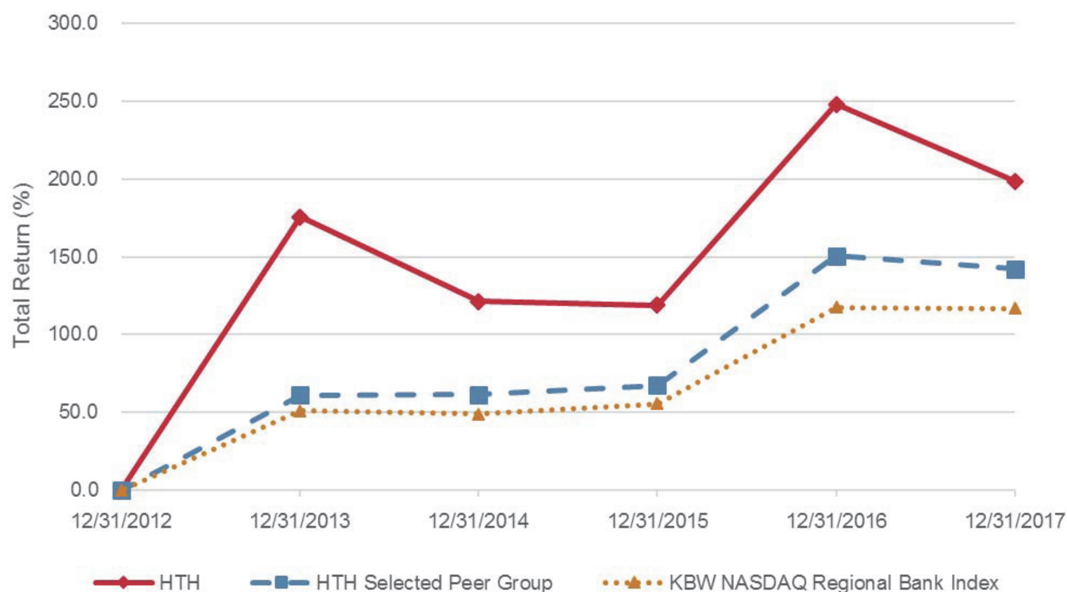
STOCK PERFORMANCE GRAPH

Our common stock is listed on the New York Stock Exchange under the symbol "HTH." The following graph assumes $100 invested on December 31, 2012, 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, 2017, 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: BancFirst Corporation; Banner Corporation; Cadence Bancorp; Community Trust Bancorp, Inc.; First Midwest Bancorp, Inc.; IBERIABANK Corporation; International Banchares Corp.; MB Financial, Inc.; Park National Corporation; Pinnacle Financial Partners, Inc.; Texas Capital Bancshares, Inc.; Southside Bancshares, Inc.; Westamerica Bancorporation; Trustmark Corporation; and Umpqua Holdings Corporation.



Date	HTH	HTH Selected Peer Group	KBW NASDAQ Regional Bank Index
12/31/2017	198.7	142.1	116.8
12/31/2016	248.1	150.5	117.5
12/31/2015	119.0	67.5	55.7
12/31/2014	121.4	61.5	49.1
12/31/2013	175.6	61.1	51.1

CORPORATE INFORMATION

Corporate Headquarters

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Dallas, Texas 75219
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.
2323 Victory Avenue, Suite 1400
Dallas, Texas 75219
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

Gerald J. Ford – Chairman
Alan B. White – Vice Chairman
Charlotte Jones Anderson
Rhodes Bobbitt
Tracy A. Bolt
W. Joris Brinkerhoff
J. Taylor Crandall
Charles R. Cummings
Hill A. Feinberg
Jeremy B. Ford
J. Markham Green
William T. Hill, Jr.
Lee Lewis
Andrew J. Littlefair
W. Robert Nichols, III
C. Clifton Robinson
Kenneth D. Russell
A. Haag Sherman
Robert C. Taylor, Jr.
Carl B. Webb

Executive Officers

Jeremy B. Ford
President and Co-Chief Executive Officer

Alan B. White
Vice Chairman and Co-Chief Executive Officer

William B. Furr
Executive Vice President, Chief Financial Officer

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

Darren E. Parmenter
Executive Vice President, Chief Administrative Officer

Keith E. Bornemann
Executive Vice President, Corporate Controller and Principal Accounting Officer

Jerry L. Schaffner
Chief Executive Officer of PlainsCapital Bank

Todd L. Salmans
Chief Executive Officer of PrimeLending

Hill A. Feinberg
Chief Executive Officer of Hilltop Securities Inc.

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