

Hilltop Holdings Inc. Announces Financial Results for Third Quarter 2018

10/25/2018

DALLAS--(BUSINESS WIRE)-- Hilltop Holdings Inc. (NYSE: HTH) (“Hilltop”) today announced financial results for the third quarter of 2018. Hilltop produced income of \$35.8 million, or \$0.38 per diluted share, for the third quarter of 2018, compared to \$30.2 million, or \$0.31 per diluted share, for the third quarter of 2017.

Hilltop also announced that its Board of Directors declared a quarterly cash dividend of \$0.07 per common share, payable on November 30, 2018, to all common stockholders of record as of the close of business on November 15, 2018. Additionally, pursuant to the stock repurchase program authorized by the Hilltop Board of Directors, Hilltop has paid \$38.8 million to repurchase 1,702,696 shares at an average price of \$22.81 during the first nine months of 2018. These shares were returned to the pool of authorized but unissued shares of common stock. Aggregate repurchases of \$61.2 million remain available under this program which expires in January 2019. Amounts repurchased are inclusive of repurchases to offset dilution related to grants of stock-based compensation.

On August 1, 2018, Hilltop completed its \$85 million, all-cash acquisition of The Bank of River Oaks (“BORO”). Based on preliminary purchase date valuations, the fair value of the assets acquired was \$434.8 million (excluding goodwill), including \$326.6 million in loans (net of a \$17.3 million fair value adjustment), while the fair value of liabilities assumed was \$389.4 million, consisting primarily of \$376.4 million in deposits. The operations of BORO were included in Hilltop operating results beginning August 1, 2018. The estimated fair value of the core deposit intangible asset acquired as of August 1, 2018 was \$10.0 million (approximately 3.1% of core deposits) and resulting preliminary goodwill was \$39.6 million. In connection with the acquisition, BORO was merged into PlainsCapital Bank, and all customer accounts were converted to the PlainsCapital Bank platform in October 2018. Transaction expenses related to the BORO acquisition were \$6.6 million during the third quarter of 2018.

Jeremy Ford, Co-CEO of Hilltop, said, "Hilltop's results this quarter reflect our focus on execution, as we closed and successfully integrated The Bank of River Oaks and delivered profitability in all of our operating segments. We continue to make progress with our strategic objectives to enhance our financial services platform through investments in technology solutions and to streamline our operations through the adoption of shared services. During 2018, Hilltop has deployed \$85 million of capital through the acquisition of The Bank of River Oaks and returned \$59 million of capital through dividends and share repurchases."

Alan White, Co-CEO of Hilltop, added, "Serving our clients and expanding relationships across all of our businesses remains the primary focus. PlainsCapital Bank has continued to demonstrate strong credit quality and prudent loan growth. The mortgage business remains challenging given competitive pressures on both pricing and volume. PrimeLending, through our purchase mortgage-focused strategy, remained profitable in the quarter and took steps to optimize its cost structure. HilltopSecurities delivered improved profitability from its Structured Finance and Clearing businesses. National Lloyds' performance for the quarter was substantially improved versus 2017 from lower storm activity within our footprint."

Third Quarter 2018 Highlights for Hilltop:

- Hilltop invested a total of \$24.6 million in land and a mixed-use real estate project that is currently under construction, which is expected to serve as the headquarters for both Hilltop and PlainsCapital Bank starting in the fourth quarter of 2019;
- Hilltop's annualized return on average assets and return on average equity for the third quarter of 2018 were 1.07% and 7.41%, respectively, compared to 0.90% and 6.32%, respectively, for the third quarter of 2017;
- Hilltop's book value per common share increased to \$20.51 at September 30, 2018, compared to \$20.21 at June 30, 2018;
- Hilltop's total assets were \$13.8 billion at September 30, 2018, compared to \$13.7 billion at June 30, 2018;
- Non-covered loans¹ held for investment, net of allowance for loan losses, increased by 7.3% to \$6.1 billion and covered loans², net of allowance for loan losses, decreased by 10.2% to \$142.7 million at September 30, 2018 compared to June 30, 2018;
- Non-covered non-performing loans decreased to \$36.8 million, or 0.44% of total non-covered loans, at September 30, 2018, compared to \$42.0 million, or 0.50% of total non-covered loans, at June 30, 2018;
- Loans held for sale decreased by 21.9% from June 30, 2018 to \$1.5 billion at September 30, 2018;
- Total deposits were \$8.3 billion at September 30, 2018, compared to \$7.8 billion at June 30, 2018;
- Hilltop maintained strong capital levels with a Tier 1 Leverage Ratio³ of 12.40% and a Common Equity Tier 1

Capital Ratio of 16.95% at September 30, 2018;

- Hilltop's net interest margin⁴ increased to 3.48% for the third quarter of 2018, compared to 3.46% in the second quarter of 2018;
- The provision (recovery) for loan losses was (\$0.4) million during the third quarter of 2018, compared to \$0.3 million in the second quarter of 2018;
- For the third quarter of 2018, noninterest income was \$269.7 million, compared to \$298.5 million in the third quarter of 2017, a 9.6% decrease;
- For the third quarter of 2018, noninterest expense was \$335.7 million, compared to \$353.8 million in the third quarter of 2017, a 5.1% decrease; and
- Hilltop's effective tax rate decreased to 17.0% during the third quarter of 2018, compared to 37.2% during the third quarter of 2017, and included significant items related to the following:
 - Reduction of the corporate tax rate in 2018 from 35% to 21% pursuant to the enactment of the Tax Cuts and Jobs Act of 2017 ("Tax Legislation"); and
 - Reduction in the third quarter of 2018 due to tax planning strategies and a tax benefit recognized on the deductible portion of settlement of litigation.

¹
² "Non-covered loans" exclude broker-dealer margin loans.
³ "Covered loans" refer to loans acquired in the FNB Transaction that were subject to loss-share agreements with the FDIC as of September 30, 2018.
⁴ Based on the end of period Tier 1 capital divided by total average assets during the quarter, excluding goodwill and intangible assets.
 Net interest margin is defined as net interest income divided by average interest-earning assets.

Consolidated Financial and Other Information

| Consolidated Balance Sheets (in 000's) | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Cash and due from banks | \$ 405,682 | \$ 353,432 | \$ 470,127 | \$ 486,977 | \$ 354,569 |
| Federal funds sold | 468 | 403 | 400 | 405 | 400 |
| Assets segregated for regulatory purposes | 220,115 | 128,417 | 198,170 | 186,578 | 207,336 |
| Securities purchased under agreements to resell | 164,656 | 229,172 | 244,978 | 186,537 | 134,654 |
| Securities: | | | | | |
| Trading, at fair value | 660,314 | 634,197 | 756,151 | 730,685 | 676,411 |
| Available for sale, at fair value | 874,496 | 811,218 | 806,583 | 744,319 | 744,559 |
| Held to maturity, at amortized cost | 348,163 | 353,192 | 356,452 | 355,849 | 368,031 |
| Equity, at fair value | 21,555 | 21,218 | 20,876 | 21,241 | 20,983 |
| | 1,904,528 | 1,819,825 | 1,940,062 | 1,852,094 | 1,809,984 |
| Loans held for sale | 1,524,980 | 1,953,562 | 1,409,634 | 1,715,357 | 1,939,321 |
| Non-covered loans, net of unearned income | 6,796,278 | 6,384,660 | 6,216,809 | 6,273,669 | 6,148,813 |
| Allowance for non-covered loan losses | (58,861) | (59,996) | (60,371) | (60,957) | (58,779) |
| Non-covered loans, net | 6,737,417 | 6,324,664 | 6,156,438 | 6,212,712 | 6,090,034 |

| | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Covered loans, net of allowance for covered loan losses | 142,737 | 158,996 | 167,781 | 179,400 | 188,269 |
| Broker-dealer and clearing organization receivables | 1,491,507 | 1,614,951 | 1,660,720 | 1,464,378 | 1,672,123 |
| Premises and equipment, net | 236,172 | 172,911 | 173,637 | 177,577 | 176,281 |
| FDIC indemnification asset | 22,831 | 23,525 | 25,458 | 29,340 | 33,143 |
| Covered other real estate owned | 29,856 | 34,895 | 35,777 | 36,744 | 40,343 |
| Other assets | 551,758 | 589,897 | 576,567 | 549,447 | 596,095 |
| Goodwill | 291,435 | 251,808 | 251,808 | 251,808 | 251,808 |
| Other intangible assets, net | 40,394 | 32,716 | 34,569 | 36,432 | 38,440 |
| Total assets | <u>\$ 13,764,536</u> | <u>\$ 13,689,174</u> | <u>\$ 13,346,126</u> | <u>\$ 13,365,786</u> | <u>\$ 13,532,800</u> |
| Deposits: | | | | | |
| Non interest-bearing | \$ 2,525,677 | \$ 2,468,332 | \$ 2,565,825 | \$ 2,411,849 | \$ 2,279,633 |
| Interest-bearing | 5,764,556 | 5,345,290 | 5,393,897 | 5,566,270 | 5,383,814 |
| Total deposits | 8,290,233 | 7,813,622 | 7,959,722 | 7,978,119 | 7,663,447 |
| Broker-dealer and clearing organization payables | 1,396,401 | 1,409,904 | 1,504,172 | 1,287,563 | 1,517,698 |
| Short-term borrowings | 1,216,649 | 1,610,735 | 1,064,325 | 1,206,424 | 1,477,201 |
| Securities sold, not yet purchased, at fair value | 179,582 | 251,581 | 255,551 | 232,821 | 173,509 |
| Notes payable | 220,192 | 227,736 | 202,700 | 208,809 | 300,196 |
| Junior subordinated debentures | 67,012 | 67,012 | 67,012 | 67,012 | 67,012 |
| Other liabilities | 430,309 | 392,171 | 367,188 | 470,231 | 424,381 |
| Total liabilities | 11,800,378 | 11,772,761 | 11,420,670 | 11,450,979 | 11,623,444 |
| Common stock | 946 | 946 | 960 | 960 | 959 |
| Additional paid-in capital | 1,504,467 | 1,502,105 | 1,526,867 | 1,526,369 | 1,525,169 |
| Accumulated other comprehensive income (loss) | (14,722) | (11,846) | (9,698) | (394) | 2,585 |
| Retained earnings | 448,923 | 419,683 | 404,260 | 384,545 | 376,873 |
| Deferred compensation employee stock trust, net | 860 | 857 | 857 | 848 | 840 |
| Employee stock trust | (252) | (252) | (254) | (247) | (241) |
| Total Hilltop stockholders' equity | 1,940,222 | 1,911,493 | 1,922,992 | 1,912,081 | 1,906,185 |
| Noncontrolling interests | 23,936 | 4,920 | 2,464 | 2,726 | 3,171 |
| Total stockholders' equity | 1,964,158 | 1,916,413 | 1,925,456 | 1,914,807 | 1,909,356 |
| Total liabilities & stockholders' equity | <u>\$ 13,764,536</u> | <u>\$ 13,689,174</u> | <u>\$ 13,346,126</u> | <u>\$ 13,365,786</u> | <u>\$ 13,532,800</u> |

| Consolidated Income Statements (in 000's, except per share data) | Three Months Ended | | | | |
|---|--------------------------|---------------------|----------------------|-------------------------|--------------------------|
| | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
| Interest income: | | | | | |
| Loans, including fees | \$ 113,535 | \$ 103,924 | \$ 99,944 | \$ 105,658 | \$ 102,546 |
| Securities borrowed | 16,346 | 17,486 | 16,300 | 11,994 | 11,404 |
| Securities: | | | | | |
| Taxable | 11,994 | 12,516 | 10,953 | 10,824 | 10,214 |
| Tax-exempt | 1,717 | 1,697 | 1,772 | 1,717 | 1,471 |
| Other | 4,734 | 4,417 | 4,391 | 3,472 | 3,309 |
| Total interest income | 148,326 | 140,040 | 133,360 | 133,665 | 128,944 |
| Interest expense: | | | | | |
| Deposits | 12,353 | 10,136 | 8,675 | 7,700 | 6,841 |
| Securities loaned | 13,984 | 15,075 | 13,739 | 9,581 | 8,935 |
| Short-term borrowings | 7,831 | 6,466 | 4,043 | 4,118 | 4,567 |
| Notes payable | 2,702 | 2,437 | 2,497 | 2,611 | 2,680 |
| Junior subordinated debentures | 955 | 918 | 822 | 787 | 774 |
| Other | 160 | 160 | 164 | 176 | 167 |
| Total interest expense | 37,985 | 35,192 | 29,940 | 24,973 | 23,964 |
| Net interest income | 110,341 | 104,848 | 103,420 | 108,692 | 104,980 |
| Provision (recovery) for loan losses | (371) | 340 | (1,807) | 5,453 | 1,260 |
| Net interest income after provision (recovery) for loan losses | 110,712 | 104,508 | 105,227 | 103,239 | 103,720 |
| Noninterest income: | | | | | |
| Net gains from sale of loans and other mortgage production income | 116,243 | 132,478 | 105,767 | 122,132 | 138,498 |
| Mortgage loan origination fees | 27,004 | 29,318 | 20,626 | 23,156 | 25,256 |
| Securities commissions and fees | 36,968 | 38,320 | 38,717 | 40,868 | 38,735 |
| Investment and securities advisory fees and commissions | 23,487 | 21,965 | 18,354 | 36,561 | 25,620 |
| Net insurance premiums earned | 34,185 | 34,105 | 34,315 | 35,645 | 34,493 |
| Other | 31,810 | 23,248 | 17,364 | 32,094 | 35,875 |
| Total noninterest income | 269,697 | 279,434 | 235,143 | 290,456 | 298,477 |
| Noninterest expense: | | | | | |
| Employees' compensation and benefits | 205,575 | 200,632 | 182,600 | 205,642 | 209,747 |
| Occupancy and equipment, net | 29,015 | 27,893 | 27,830 | 29,658 | 29,073 |

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Professional services | 27,984 | 26,020 | 24,704 | 24,220 | 25,560 |
| Loss and loss adjustment expenses | 18,712 | 24,409 | 15,532 | 8,583 | 31,234 |
| Other | 54,425 | 59,563 | 57,536 | 60,567 | 58,228 |
| Total noninterest expense | 335,711 | 338,517 | 308,202 | 328,670 | 353,842 |
| Income before income taxes | 44,698 | 45,425 | 32,168 | 65,025 | 48,355 |
| Income tax expense | 7,600 | 11,034 | 7,488 | 51,350 | 18,003 |
| Net income | 37,098 | 34,391 | 24,680 | 13,675 | 30,352 |
| Less: Net income attributable to noncontrolling interest | 1,293 | 1,311 | 239 | 247 | 146 |
| Income attributable to Hilltop | \$ 35,805 | \$ 33,080 | \$ 24,441 | \$ 13,428 | \$ 30,206 |
| Earnings per common share: | | | | | |
| Basic | \$ 0.38 | \$ 0.35 | \$ 0.25 | \$ 0.14 | \$ 0.31 |
| Diluted | \$ 0.38 | \$ 0.35 | \$ 0.25 | \$ 0.14 | \$ 0.31 |
| Cash dividends declared per common share | \$ 0.07 | \$ 0.07 | \$ 0.07 | \$ 0.06 | \$ 0.06 |
| Weighted average shares outstanding: | | | | | |
| Basic | 94,554 | 95,270 | 95,985 | 95,903 | 96,096 |
| Diluted | 94,610 | 95,358 | 96,146 | 96,080 | 96,306 |

| Segment Results (in 000's) | Three Months Ended September 30, 2018 | | | | | | |
|-----------------------------------|---------------------------------------|---------------|----------------------|-----------|-------------|----------------------------|----------------------|
| | Banking | Broker-Dealer | Mortgage Origination | Insurance | Corporate | All Other and Eliminations | Hilltop Consolidated |
| Net interest income (expense) | \$ 94,921 | \$ 12,432 | \$ 363 | \$ 733 | \$ (3,275) | \$ 5,167 | \$ 110,341 |
| Provision for loan losses | — | (371) | — | — | — | — | (371) |
| Noninterest income | 11,365 | 82,834 | 144,400 | 36,724 | 523 | (6,149) | 269,697 |
| Noninterest expense | 67,714 | 85,713 | 140,006 | 33,807 | 8,656 | (185) | 335,711 |
| Income (loss) before income taxes | \$ 38,572 | \$ 9,924 | \$ 4,757 | \$ 3,650 | \$ (11,408) | \$ (797) | \$ 44,698 |

| Selected Financial Data | Three Months Ended | | | | |
|--|--------------------|---------------|----------------|-------------------|--------------------|
| | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
| Hilltop Consolidated: | | | | | |
| Return on average stockholders' equity (1) | 7.41% | 6.95% | 5.19% | 2.78% | 6.32% |
| Return on average assets (1) | 1.07% | 1.03% | 0.77% | 0.41% | 0.90% |
| Net interest margin (2) (3) | 3.48% | 3.46% | 3.52% | 3.57% | 3.44% |
| Net interest margin (taxable equivalent) (3) (4): | | | | | |
| As reported | 3.49% | 3.47% | 3.53% | 3.59% | 3.46% |
| Impact of purchase accounting | 28 bps | 29 bps | 36 bps | 43 bps | 37 bps |
| Book value per common share (\$) | 20.51 | 20.21 | 20.02 | 19.92 | 19.88 |
| Shares outstanding, end of period (000's) | 94,594 | 94,571 | 96,048 | 95,982 | 95,904 |
| Dividend payout ratio (1) (5) | 18.48% | 20.16% | 27.49% | 42.86% | 19.09% |
| Banking Segment: | | | | | |
| Net interest margin (2) | 4.13% | 4.11% | 4.15% | 4.23% | 4.03% |
| Net interest margin (taxable equivalent) (4): | | | | | |
| As reported | 4.14% | 4.12% | 4.16% | 4.24% | 4.05% |
| Impact of purchase accounting | 39 bps | 42 bps | 51 bps | 60 bps | 51 bps |
| Accretion of discount on loans (\$000's) | 8,147 | 8,343 | 9,867 | 12,642 | 10,541 |
| Non-covered net charge-offs (recoveries) (\$000's) | 1,442 | 1,510 | (1,312) | 2,646 | 908 |
| Return on average assets (1) | 1.19% | 1.09% | 1.31% | -0.08% | 0.94% |
| Fee income ratio | 10.69% | 10.79% | 10.51% | 10.22% | 11.33% |
| Efficiency ratio | 63.71% | 66.47% | 61.32% | 60.18% | 62.29% |
| Employees' compensation and benefits (\$000's) | 36,878 | 32,442 | 30,811 | 31,159 | 30,810 |
| Broker-Dealer Segment: | | | | | |
| Net revenue (6) | 95,266 | 86,479 | 81,097 | 114,326 | 103,633 |
| Employees' compensation and benefits (\$000's) | 59,535 | 52,418 | 52,265 | 70,169 | 60,365 |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Variable compensation expense (\$000's) | 33,574 | 26,036 | 24,594 | 41,239 | 35,085 |
| Compensation as a % of net revenue | 62.5% | 60.6% | 64.4% | 61.4% | 58.2% |
| Pre-tax margin | 10.42% | 9.45% | 4.44% | 16.73% | 19.49% |

Mortgage Origination Segment:

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Mortgage loan originations - volume (\$000's): | | | | | |
| Home purchases | 3,237,444 | 3,615,991 | 2,358,692 | 2,870,864 | 3,332,441 |
| Refinancings | 416,201 | 491,384 | 601,105 | 732,129 | 640,064 |
| Total mortgage loan originations - volume | 3,653,645 | 4,107,375 | 2,959,797 | 3,602,993 | 3,972,505 |
| Mortgage loan sales - volume (\$000's) | 4,015,051 | 3,526,603 | 3,185,438 | 3,791,638 | 4,002,195 |
| Net gains from mortgage loan sales (basis points) | 330 | 317 | 333 | 380 | 375 |
| Mortgage servicing rights asset (\$000's) (7) | 68,804 | 57,373 | 63,957 | 54,714 | 47,766 |
| Employees' compensation and benefits (\$000's) | 102,025 | 111,713 | 91,059 | 96,257 | 111,133 |
| Variable compensation expense (\$000's) (8) | 58,686 | 66,531 | 46,292 | 57,434 | 64,956 |

Insurance Segment:

| | | | | | |
|--|-------|--------|-------|-------|--------|
| Loss and LAE ratio | 54.7% | 71.6% | 45.3% | 24.1% | 90.6% |
| Expense ratio | 38.8% | 39.5% | 39.9% | 41.0% | 40.4% |
| Combined ratio | 93.5% | 111.1% | 85.2% | 65.1% | 131.0% |
| Employees' compensation and benefits (\$000's) | 2,595 | 2,954 | 3,255 | 3,418 | 2,578 |

- (1) Noted measures during the three months ended December 31, 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. Deferred tax asset amounts recorded in December 2017 are final as of September 30, 2018.
- (2) Net interest margin is defined as net interest income divided by average interest-earning assets.
- (3) Noted measures during the 2017 periods presented reflect certain 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 the applicable 21% federal income tax rate for the 2018 periods and 35% federal income tax rate for the 2017 periods. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. For the periods presented, the taxable equivalent adjustments to interest income for Hilltop Consolidated were \$0.2 million, \$0.2 million, \$0.3 million, \$0.6 million, and \$0.6 million, respectively, and for the Banking Segment were \$0.2 million, \$0.2 million, \$0.2 million, \$0.4 million, and \$0.4 million, respectively.
- (5) Dividend payout ratio is defined as cash dividends declared per common share divided by basic earnings per common share.
- (6) Net revenue is defined as the sum of total broker-dealer net interest income plus total broker-dealer noninterest income.
- (7) Reported on a consolidated basis and therefore does not include mortgage servicing rights assets related to loans serviced for the banking segment, which are eliminated in consolidation.
- (8) Noted measure during the 2017 periods presented reflects certain category reclassifications that affect variable compensation expense to conform with the current period presentation.

| Capital Ratios | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Tier 1 capital (to average assets): | | | | | |
| PlainsCapital | 11.86% | 12.80% | 13.01% | 12.32% | 12.18% |
| Hilltop | 12.40% | 12.90% | 13.26% | 12.94% | 12.87% |
| Common equity Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 13.88% | 14.59% | 15.39% | 14.47% | 14.44% |
| Hilltop | 16.95% | 17.61% | 18.60% | 17.71% | 17.66% |
| Tier 1 capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 13.88% | 14.59% | 15.39% | 14.47% | 14.44% |
| Hilltop | 17.42% | 18.10% | 19.11% | 18.24% | 18.20% |
| Total capital (to risk-weighted assets): | | | | | |
| PlainsCapital | 14.63% | 15.38% | 16.25% | 15.29% | 15.23% |
| Hilltop | 17.87% | 18.58% | 19.63% | 18.78% | 18.71% |

| Non-Covered Non-Performing Loans Portfolio Data | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|--------------------------|---------------------|----------------------|-------------------------|--------------------------|
| Non-covered loans accounted for on a non-accrual basis (\$000's): | | | | | |
| Commercial and industrial | 21,323 | 22,815 | 20,768 | 20,878 | 21,434 |
| Real estate | 11,982 | 18,529 | 17,971 | 18,978 | 17,996 |
| Construction and land development | 3,402 | 569 | 595 | 611 | 626 |
| Consumer | 45 | 49 | 52 | 56 | 63 |
| Broker-dealer | — | — | — | — | — |
| | <u>36,752</u> | <u>41,962</u> | <u>39,386</u> | <u>40,523</u> | <u>40,119</u> |
| Non-covered non-performing loans as a % of total non-covered loans | 0.44% | 0.50% | 0.52% | 0.51% | 0.50% |
| Non-covered other real estate owned (\$000's) | 2,662 | 2,929 | 2,577 | 3,883 | 4,827 |
| Other repossessed assets (\$000's) | 99 | 168 | 246 | 323 | 437 |
| Non-covered non-performing assets (\$000's) | 39,513 | 45,059 | 42,209 | 44,729 | 45,383 |
| Non-covered non-performing assets as a % of total assets | 0.29% | 0.33% | 0.32% | 0.33% | 0.34% |
| Non-covered non-PCI loans past due 90 days or more and still accruing (\$000's) | 80,664 | 74,060 | 77,590 | 85,113 | 45,134 |
| Troubled debt restructurings included in accruing non-covered loans (\$000's) | 1,086 | 1,111 | 1,123 | 1,150 | 1,163 |

| Net Interest Margin (Taxable Equivalent) Details | Three Months Ended September 30, | | | | | |
|--|----------------------------------|-------------------------|--------------------------|-----------------------------|-------------------------|--------------------------|
| | 2018 | | | 2017 | | |
| | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate |
| Assets | | | | | | |
| Interest-earning assets | | | | | | |
| Loans held for sale | \$ 1,718,410 | \$ 20,409 | 4.75% | \$ 1,787,119 | \$ 18,469 | 4.13% |
| Loans held for investment, gross ⁽¹⁾ | 6,767,004 | 93,126 | 5.41% | 6,290,685 | 84,077 | 5.26% |
| Investment securities - taxable | 1,625,368 | 11,964 | 2.94% | 1,538,890 | 10,191 | 2.65% |
| Investment securities - non-taxable ⁽²⁾ | 250,042 | 1,950 | 3.12% | 229,089 | 2,032 | 3.54% |
| Federal funds sold and securities purchased under agreements to resell | 202,274 | 956 | 1.87% | 139,398 | 284 | 0.81% |
| Interest-bearing deposits in other financial institutions | 379,160 | 1,915 | 2.00% | 477,904 | 1,514 | 1.26% |
| Securities borrowed | 1,550,902 | 16,346 | 4.12% | 1,548,039 | 11,404 | 2.88% |
| Other | 89,718 | 1,879 | 8.33% | 87,281 | 1,536 | 7.00% |
| Interest-earning assets, gross ⁽²⁾ | <u>12,582,878</u> | <u>148,545</u> | <u>4.66%</u> | <u>12,098,405</u> | <u>129,507</u> | <u>4.23%</u> |
| Allowance for loan losses | (61,736) | | | (61,243) | | |
| Interest-earning assets, net | 12,521,142 | | | 12,037,162 | | |
| Noninterest-earning assets | <u>1,299,974</u> | | | <u>1,311,454</u> | | |
| Total assets | <u>\$ 13,821,116</u> | | | <u>\$ 13,348,616</u> | | |
| Liabilities and Stockholders' Equity | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | \$ 5,608,748 | \$ 12,353 | 0.87% | \$ 5,350,959 | \$ 6,841 | 0.51% |
| Securities loaned | 1,415,231 | 13,984 | 3.92% | 1,398,922 | 8,935 | 2.53% |
| Notes payable and other borrowings | <u>1,720,823</u> | <u>11,648</u> | <u>2.68%</u> | <u>1,781,498</u> | <u>8,188</u> | <u>1.81%</u> |
| Total interest-bearing liabilities | 8,744,802 | 37,985 | 1.72% | 8,531,379 | 23,964 | 1.11% |
| Noninterest-bearing liabilities | | | | | | |
| Noninterest-bearing deposits | 2,538,833 | | | 2,290,151 | | |
| Other liabilities | <u>602,983</u> | | | <u>627,907</u> | | |
| Total liabilities | 11,886,618 | | | 11,449,437 | | |
| Stockholders' equity | 1,918,977 | | | 1,896,838 | | |
| Noncontrolling interest | <u>15,521</u> | | | <u>2,341</u> | | |
| Total liabilities and stockholders' equity | <u>\$ 13,821,116</u> | | | <u>\$ 13,348,616</u> | | |
| Net interest income ⁽²⁾ | | <u>\$ 110,560</u> | | | <u>\$ 105,543</u> | |
| Net interest spread ⁽²⁾ | | | 2.94% | | | 3.12% |

Net interest margin ⁽¹⁾

3.49%

3.46%

(1) Average balance includes non-accrual loans.

(2) Presented on a taxable equivalent basis with annualized taxable equivalent adjustments based on the applicable 21% federal income tax rate for the three months ended September 30, 2018 and 35% federal income tax rate for the three months ended September 30, 2017. The adjustment to interest income was \$0.2 million and \$0.6 million for the three months ended September 30, 2018 and 2017, respectively.

Conference Call Information

Hilltop will host a live webcast and conference call at 8:00 AM Central (9:00 AM Eastern) on Friday, October 26, 2018. Hilltop Co-CEOs Jeremy B. Ford and Alan B. White and other key management members will review third quarter 2018 financial results. Interested parties can access the conference call by dialing 1-877-508-9457 (domestic) or 1-412-317-0789 (international). The conference call also will be webcast simultaneously on Hilltop's Investor Relations website (<http://ir.hilltop-holdings.com>).

About Hilltop

Hilltop Holdings is a Dallas-based financial holding company. Its primary line of business is to provide business and consumer banking services from offices located throughout Texas through PlainsCapital Bank. PlainsCapital Bank's wholly owned subsidiary, PrimeLending, provides residential mortgage lending throughout the United States. Hilltop Holdings' broker-dealer subsidiaries, Hilltop Securities Inc. and Hilltop Securities Independent Network Inc., provide a full complement of securities brokerage, institutional and investment banking services in addition to clearing services and retail financial advisory. Through Hilltop Holdings' other wholly owned subsidiary, National Lloyds Corporation, it provides property and casualty insurance through two insurance companies, National Lloyds Insurance Company and American Summit Insurance Company. At September 30, 2018, Hilltop employed approximately 5,300 people and operated approximately 450 locations in 44 states. Hilltop Holdings' common stock is listed on the New York Stock Exchange under the symbol "HTH." Find more information at Hilltop-Holdings.com, PlainsCapital.com, PrimeLending.com, Nationallloydsinsurance.com and Hilltopsecurities.com.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements anticipated in such statements. Forward-looking statements speak only as of the date they are made and, except as required by law, we do not assume any duty to update forward-looking

statements. Such forward-looking statements include, but are not limited to, statements concerning such things as our plans, objectives, strategies, expectations, intentions, expected tax impacts, strategic acquisitions and other statements that are not statements of historical fact, and may be identified by 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. For a discussion of certain factors that could cause our actual results to differ materially from those described in the forward-looking statements, please see the risk factors discussed in our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q and other reports that are filed with the Securities and Exchange Commission. All forward-looking statements are qualified in their entirety by this cautionary statement.

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Investor Relations

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