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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2015

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

For the transition period from to

Commission file number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland	84-1477939
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Crescent Court, Suite 1330
Dallas, TX 75201
(Address of principal executive offices) (Zip Code)

(214) 855-2177

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common stock was last sold on the New York Stock Exchange on June 30, 2015, was approximately $1.86 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 24, 2016 was 98,085,931.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement pertaining to the 2016 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.

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Unless the context otherwise indicates, all references in this Annual Report to the “Company,” “we,” “us,” “our” or “ours” or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to “Hilltop” refer solely to Hilltop Holdings Inc., references to “PlainsCapital” refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to “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 that was formerly known as Southwest Securities, Inc.), references to “HTS Independent Network” refer to Hilltop Securities Independent Network Inc. (a wholly owned subsidiary of Securities Holdings that was formerly known as SWS Financial Services, Inc.), 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 “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,” “might,” “plan,” “probable,” “projects,” “seeks,” “should,” “target,” “view” or “would” or the negative of these words and phra similar words or phrases, including such things as our business strategy, our financial condition, our efforts to make strategic acquisitions, the integration of the operations acquired in the SWS Merger (as defined below), our revenue, our liquidity and sources of funding, market trends, operations and business, expectations concerning mortgage loan origination volume, expected losses on covered loans and related reimbursements from the Federal Deposit Insurance Corporation (“FDIC”), expected levels of refinancing as a percentage of total loan origination volume, projected losses on mortgage loans originated, anticipated changes in our revenues or earnings, the effects of government regulation applicable to our operations, the appropriateness of our allowance for loan losses and provision for loan losses, and the collectability of loans and 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:

risks associated with merger and acquisition integration, including our ability to promptly and effectively integrate our businesses with those acquired in the SWS Merger and achieve the anticipated synergies and cost savings in connection therewith, as well as the diversion of management time on acquisition- and integration-related issues;

our ability to estimate loan losses;

changes in the default rate of our loans;

changes in general economic, market and business conditions in areas or markets where we compete, including changes in the price of crude oil;

risks associated with concentration in real estate related loans;

severe catastrophic events in Texas and other areas of the southern United States;

changes in the interest rate environment;

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cost and availability of capital;

effectiveness of our data security controls in the face of cyber attacks;

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”);

approval of new, or changes in, accounting policies and practices;

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;

our ability to obtain reimbursements for losses on acquired loans under loss-share agreements with the FDIC to the extent the FDIC determines that we did not adequately manage the debt loan portfolio;

failure of our insurance segment reinsurers to pay obligations under reinsurance contracts; and

our ability to use excess cash in an effective manner, including the execution of successful acquisitions.

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

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PART I

Item 1. Business.

General

Hilltop Holdings Inc. is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”), headquartered in Dallas, Texas that endeavors to build and maintain a strong, diversified Texas-based financial services holding company through both acquisitions and organic growth. Following our acquisition of PlainsCapital Corporation in November 2012 (the “PlainsCapital Merger”), our primary line of business has been to provide business and consumer banking services from offices located throughout Texas through the Bank. We also provide an array of financial products and services through our broker-dealer, mortgage origination and insurance segments. We intend to make acquisitions with available cash, excess liquidity and, if necessary or appropriate, from additional equity or debt financing sources.

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”). Through the SWS Merger, SWS’s broker-dealer subsidiaries, Southwest Securities, Inc. and SWS Financial Services, Inc., became subsidiaries of Securities Holdings, a wholly owned subsidiary of Hilltop, 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.” and “Hilltop Securities Independent Network Inc.”, respectively.

Effective January 1, 2015, in connection with the SWS Merger, we modified our organizational structure into three primary operating business units, PlainsCapital (banking and mortgage origination), Securities Holdings (broker-dealer) and NLC (insurance). The PlainsCapital unit continues to include the Bank and PrimeLending, while the new Securities Holdings unit includes our broker-dealer operations transferred from the PlainsCapital unit effective January 1, 2015, and two entities acquired in the SWS Merger, Hilltop Securities and HTS Independent Network.

On October 22, 2015, the Financial Industry Regulatory Authority (“FINRA”) granted approval to combine FSC and Hilltop Securities, subject to customary conditions. Following this approval, we integrated the back-office systems of FSC and Hilltop Securities and, on January 22, 2016, 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 operating business units.

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

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

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

At December 31, 2015, on a consolidated basis, we had total assets of $11.9 billion, total deposits of $7.0 billion, total loans, including loans held for sale, of $7.1 billion and stockholders' equity of $1.7 billion.

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

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

Organizational Structure

Our organizational structure is comprised of three primary operating business units: PlainsCapital (banking and mortgage origination); Securities Holdings (broker-dealer); and NLC (insurance). Within the PlainsCapital unit are two primary wholly owned operating subsidiaries: the Bank and PrimeLending. Effective as of the close of business on January 22, 2016, the Securities Holdings unit includes two primary wholly owned operating subsidiaries: Hilltop Securities and HTS Independent Network. 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 revenues represented 27% of total segment revenues during 2015, and 74% of such public finance financial advisory revenues were from entities located in Texas. Additionally, the retail brokerage service operations acquired in the SWS Merger represented 28% of total broker-dealer services revenues during 2015, and 91% of such retail brokerage revenues were generated through its locations in Texas, California and Oklahoma.

PrimeLending provides residential mortgage origination products and services from over 280 locations in 41 states. During 2015, an aggregate of 62.8% of PrimeLending's origination volume was concentrated in nine states. None of the other states in which PrimeLending operated during 2015 had origination volume of 3% or more.

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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,					
	2015	% of Total	2014	% of Total	2013	% of Total
Texas	$ 2,967,740	22.2 %	$ 2,453,705	23.7 %	$ 2,660,810	22.6 %
California	1,965,039	14.7 %	1,552,372	15.0 %	2,082,184	17.7 %
Florida	644,090	4.8 %	505,507	4.9 %	456,643	3.9 %
Ohio	555,106	4.2 %	401,379	3.9 %	383,518	3.3 %
North Carolina	492,879	3.7 %	423,164	4.1 %	618,802	5.3 %
Maryland	452,280	3.4 %	298,577	2.9 %	385,215	3.3 %
Washington	451,277	3.4 %	298,845	2.9 %	360,100	3.1 %
Virginia	442,924	3.3 %	322,134	3.1 %	466,531	4.0 %
Arizona	415,215	3.1 %	339,830	3.3 %	392,006	3.3 %
All other states	4,965,569	37.2 %	3,768,335	36.2 %	3,986,753	33.8 %
	$ 13,352,119	100.0 %	$ 10,363,848	100.0 %	$ 11,792,562	100.0 %

Our insurance products are distributed through a broad network of independent agents and a select number of managing general agents, referred to as MGAs. During 2015, total gross written premiums were concentrated in five states, with Texas insureds representing 70.5% of the aggregate. None of the other states in which we operated during 2015 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,					
	2015	% of Total	2014	% of Total	2013	% of Total
Texas	$ 125,264	70.5 %	$ 126,273	69.3 %	$ 125,696	69.1 %
Arizona	17,117	9.6 %	16,775	9.2 %	15,904	8.7 %
Oklahoma	11,660	6.6 %	14,122	7.7 %	16,494	9.1 %
Tennessee	10,575	5.9 %	10,903	6.0 %	10,589	5.8 %
Georgia	6,050	3.4 %	7,031	3.9 %	6,393	3.5 %
All other states	7,072	4.0 %	7,105	3.9 %	6,892	3.8 %
Total	$ 177,738	100.0 %	$ 182,209	100.0 %	$ 181,968	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 the President and Chief Executive Officer of Hilltop and the Chief Executive Officer of PlainsCapital.

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

Banking

The banking segment includes the operations of the Bank and, since September 14, 2013 and January 1, 2015, the banking operations acquired in the FNB Transaction and SWS Merger, respectively. At December 31, 2015, our banking segment had $8.7 billion in assets and total deposits of $6.5 billion. The primary sources of our deposits are residents and businesses located in Texas.

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-

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on services as determined on a customer-by-customer basis. Our treasury management services, which are designed to reduce the time, burden and expense of collecting, transferring, disbursing and reporting cash, are also available to our business customers. We offer these business customers lines of credit, equipment loans and leases, letters of credit, agricultural loans, commercial real estate loans and other loan products.

The 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, 2015 (dollars in thousands). PCI loans showed evidence of credit deterioration that makes it probable that all contractually required principal and interest payments will not be collected. The commercial and industrial non-covered loans category includes a $1.5 billion warehouse line of credit extended to PrimeLending, of which $1.4 billion was drawn at December 31, 2015. 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	$ 2,804,596	$ 13,350	$ 2,817,946	47.0 %
Unsecured	105,675	—	105,675	1.8 %
Real estate:				
Secured by commercial properties	1,532,385	41,128	1,573,513	26.3 %
Secured by residential properties	730,115	11,647	741,762	12.4 %
Construction and land development:				
Residential construction loans	104,162	221	104,383	1.7 %
Commercial construction loans and land development	596,044	4,929	600,973	10.0 %
Consumer	44,893	779	45,672	0.8 %
Total non-covered loans	$ 5,917,870	$ 72,054	$ 5,989,924	100.0 %

Covered loans	Loans, excluding PCI Loans	PCI Loans	Total Loans	% of Total Covered Loans
Commercial and industrial:				
Secured	$ 1,294	$ 5,727	$ 7,021	1.8 %
Unsecured	—	1,780	1,780	0.5 %
Real estate:				
Secured by commercial properties	29,057	96,928	125,985	33.1 %
Secured by residential properties	118,445	96,618	215,063	56.6 %

Construction and land development:									
Residential construction loans		804		121		925	0.2	%
Commercial construction loans and land development		8,720		20,800		29,520	7.8	%
Consumer		—		—		—	—	%
Total covered loans	$	158,320	$	221,974	$	380,294	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.

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

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

The Bank 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, 2015, the Bank had $655.9 million in one-to-four family residential loans, which represented 13.1% 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, gift cards and access to automated teller machine (ATM) facilities throughout the United States. The Bank offers a variety of deposit accounts to

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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, 2015, the Bank had $45.7 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

Our broker-dealer segment's operations are conducted 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, 2015, the Hilltop Broker-Dealers employed approximately 980 people and maintained over 50 locations in 18 states.

Through December 31, 2014, the operations of First Southwest comprised our broker-dealer segment. FSC, a wholly owned subsidiary of First Southwest, was a diversified investment banking firm and a registered broker-dealer with the SEC and FINRA with a primary focus on providing public finance services. Since the SWS Merger, our broker-dealer segment operations have also included Hilltop Securities, a clearing broker-dealer subsidiary registered with the SEC and FINRA and a member of the NYSE, and HTS Independent Network, an introducing broker-dealer subsidiary that is also registered with the SEC and FINRA. 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, 2015, First Southwest had consolidated assets of $602.2 million and net capital of $68.6 million, which was $65.2 million in excess of its minimum net capital requirement of $3.4 million. At December 31, 2015, Hilltop Securities had consolidated assets of $2.1 billion and net capital of $154.8 million, which was $147.0 million in excess of its minimum net capital requirement of $7.8 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 and Hilltop Securities are investment advisors 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.

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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 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. Some registered representatives also sell certain third party insurance products. Hilltop Securities is also a fully disclosed client of two of the largest futures commission merchants in the United States. At December 31, 2015, we employed 115 registered representatives in 16 retail brokerage offices and had contracts with 234 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, 2015, we provided services to over 200 financial organizations, including correspondent firms, correspondent broker-dealers, registered investment advisors, 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. Founded in 1986, PrimeLending is a residential mortgage banker licensed to originate and close loans in all 50 states and the District of Columbia. At December 31, 2015, our mortgage origination segment operated from over 280 locations in 41 states, originating 22.2% of its mortgages from its Texas locations and 14.7% of its mortgages from locations in California. The mortgage lending business is subject to variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Historically, the mortgage origination segment has typically experienced increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes. An increase in mortgage interest rates tends to result in decreased loan origination volume from refinancings, while a decrease in mortgage interest rates tends to result in increased refinancings. Changes in interest rates have historically had a lesser impact on home purchases volume than on refinancing volume.

PrimeLending handles loan processing, underwriting and closings in-house. Mortgage loans originated by PrimeLending are funded through a warehouse line of credit maintained with the Bank. PrimeLending sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. PrimeLending's determination of whether to retain or release servicing on mortgage loans it sells is impacted by changes in mortgage interest rates, and refinancing and market activity. PrimeLending may, from time to time, manage its mortgage servicing

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rights ("MSR") asset through different strategies, including varying the percentage of mortgage loans sold servicing released and opportunistically selling MSR assets. As mortgage loans are sold in the secondary market, PrimeLending pays down its warehouse line of credit with the Bank. Loans sold are subject to certain standard indemnification provisions with investors, including the repurchase of loans sold and the repayment of sales proceeds to investors under certain conditions.

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

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

PrimeLending had a staff of approximately 2,800 as of December 31, 2015 that produced $13.4 billion in closed mortgage loan volume in 2015, 74% 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") and Veteran Affairs ("VA") loans. Mortgage loans originated by PrimeLending are secured by a first lien on the underlying property. PrimeLending does not currently originate subprime loans (which it defines to be loans to borrowers having a Fair Isaac Corporation (FICO) score lower than 620 for conventional mortgages and VA loans or lower than 600 for FHA loans or loans that do not comply with applicable agency or investor-specific underwriting guidelines).

Insurance

The operations of NLC comprise our insurance segment. NLC specializes in providing fire and limited homeowners insurance for low value dwellings and manufactured homes primarily in Texas and other areas of the south, southeastern and southwestern United States 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 currently operating in 23 states and a select number of MGAs, which require underwriting expertise that many larger carriers have been unwilling to develop given the relatively small volume of premiums produced by local agents.

Ratings. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other rating agencies to assist them in assessing the financial strength and overall quality of the companies from which they purchase insurance. The financial strength ratings for NLIC and ASIC of "A" (Excellent) were affirmed by A.M. Best in March 2015. 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.

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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.

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

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segment competes on a number of factors including customer service, quality and range of products and services offered, price, reputation, interest rates and loan origination fees. The ability to attract and retain skilled mortgage origination professionals is critical to our mortgage origination business. We seek to distinguish ourselves from our competitors through our commitment to personalized customer service and responsiveness to customer needs while providing a range of competitive mortgage loan products and services.

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

Employees

At December 31, 2015, we employed approximately 5,300 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. Certain of these recent proposals and changes are described below.

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

The Dodd-Frank Act, among other things:

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

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- Changed the base for FDIC insurance assessments.
- Increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% (the FDIC subsequently increased it by regulation to 2.00%).
- Permanently increased the deposit insurance coverage amount from $100,000 to $250,000.
- Directed the Federal Reserve to establish interchange fees for debit cards pursuant to a restrictive “reasonable and proportional cost” per transaction standard.
- Limits the ability of banking organizations to sponsor or invest in private equity and hedge funds and to engage in proprietary trading in a provision known as the “Volcker Rule”.
- Grants the U.S. government authority to liquidate or take emergency measures with respect to troubled nonbank financial companies that fall outside the existing resolution authority of the FDIC, including the establishment of an orderly liquidation fund.
- Increases regulation of asset-backed securities, including a requirement that issuers of asset-backed securities retain at least 5% of the risk of the asset-backed securities.
- Increases regulation of consumer protections regarding mortgage originations, including banker compensation, minimum repayment standards, and prepayment consideration.
- Establishes new disclosure and other requirements relating to executive compensation and corporate governance.

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

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

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

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

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Corporate

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

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

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

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

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

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

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engaged in activities that were financial in nature or incidental to activities that were financial in nature, as determined by the Federal Reserve Board.

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

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

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

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

Capital Adequacy Requirements and BASEL III. Hilltop and the Bank 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.

The Dodd-Frank Act directed federal banking agencies to establish minimum leverage capital requirements and minimum risk-based capital requirements for insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Federal Reserve Board. The Dodd-Frank Act required that these minimum capital requirements be not less than the "generally applicable leverage and risk-based capital requirements" applicable to insured depository institutions, in effect applying the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. However, it was left to the discretion of the agencies to set the leverage ratio requirement through the rulemaking process. Final rules published by the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency implemented the Basel III regulatory capital

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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.

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 the Bank 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 the Bank began transitioning to the Basel III final rules on January 1, 2015 when the minimum capital requirements, as set forth in the table below, became effective. However, the capital conservation buffer and certain deductions from common equity Tier 1 capital will be phased-in through 2019.

The following table summarizes the Basel III phase-in schedule beginning January 1, 2015.

Year (as of January 1)	2015	2016	2017	2018	2019
Minimum common equity Tier 1 capital ratio	4.5 %	4.5 %	4.5 %	4.5 %	4.5 %

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

*N/A means not applicable.

At December 31, 2015, Hilltop exceeded all applicable regulatory capital requirements in accordance with Basel III with a total capital to risk-weighted assets ratio of 18.89%, Tier 1 capital to risk-weighted assets ratio of 18.48%, common equity Tier 1 capital to risk-weighted assets ratio of 17.87% and a Tier 1 capital to average assets, or leverage, ratio of 12.65%.

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The Bank's consolidated actual capital amounts and ratios at December 31, 2015 resulted in it being considered "well-capitalized" under applicable regulatory requirements in accordance with Basel III, and included a total capital to risk-weighted assets ratio of 16.99%, Tier 1 capital to risk-weighted assets ratio of 16.25%, common equity Tier 1 capital to risk-weighted assets ratio of 16.23%, and a Tier 1 capital to average assets, or leverage, ratio of 13.22%.

The final Basel III rules take important steps toward improving the quality and increasing the quantity of capital for all banking organizations as well as setting higher standards for large, internationally active banking organizations. The regulatory agencies believe that the new rules will result in capital requirements that better reflect banking organizations' risk profiles, thereby improving the overall resilience of the banking system. The regulatory agencies carefully considered the potential impacts on all banking organizations, including community and regional banking organizations such as Hilltop and the Bank, and sought to minimize the potential burden of these changes where consistent with applicable law and the agencies' goals of establishing a robust and comprehensive capital framework. Under the guidelines in effect as of December 31, 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.

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 composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk-weighted assets. As shown in the table above, phase-in of the capital conservation buffer requirements began on January 1, 2016.

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

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

The new rules also prohibit a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income. When the new rules are fully phased-in in 2019, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds. We anticipate that our eligible retained income will be positive and our capital conservation buffer will be greater than 2.5 percent, and therefore, we will not be subject to limits on capital distributions or discretionary bonus payments during 2016.

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

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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.

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

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

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

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

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

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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, 2015, the Bank's total assets were $8.7 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 PlainsCapital, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties that are collateralized by the securities or obligations of Hilltop or its subsidiaries. Among other changes, the Dodd-Frank Act expands the definition of "covered transactions" and clarifies the amount of time that the collateral requirements must be satisfied for covered transactions, and amends the definition of "affiliate" in Section 23A to include "any investment fund with respect to which a member bank or an affiliate thereof is an investment advisor."

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

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

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

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

Branching. The establishment of a 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.

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

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“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. The Bank was classified as “well capitalized” at December 31, 2015.

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.

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

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

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 $4.0 million during 2015.

In October 2015, the FDIC published a proposal 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 this proposal is finalized and the Bank reaches an asset size of more than $10 billion, the Bank would be subject to this proposed surcharge. Management is monitoring this proposed rule.

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

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

During the 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

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a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank and all of its subsidiaries have established policies and procedures to comply with the privacy provisions of the Gramm-Leach-Bliley Act.

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

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

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

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

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with 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 the Bank by using a combination of risk-based guidelines and leverage ratios. The agencies consider the Bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system.

Under the regulatory capital guidelines within the Basel III capital rules, the Bank must maintain a total risk-based capital to risk-weighted assets ratio of at least 8.0%, a Tier 1 capital to risk-weighted assets ratio of at least 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

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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, 2015, the Bank's ratio of total risk-based capital to risk-weighted assets was 16.99%, the Bank's ratio of Tier 1 capital to risk-weighted assets was 16.25%, the Bank's common equity Tier 1 capital to risk-weighted assets ratio was 16.23%, and the Bank's ratio of Tier 1 capital to average total assets was 13.22%.

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

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

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

The FDIC Improvement Act. 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, 2015, the Bank was "well capitalized" and therefore not subject to any limitations with respect to its brokered deposits.

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

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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.

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 the laws and rules of the states in which a broker-dealer conducts business. The Hilltop Broker-Dealers are members of, and are primarily subject to regulation, supervision and regular examination by, FINRA.

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

Limitation on Businesses. The businesses that the Hilltop Broker-Dealers may conduct are limited by its agreements with, and its oversight by, FINRA, other regulatory authorities and federal and state law. Participation in new business lines, including trading of new products or participation on new exchanges or in new countries often requires

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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, 2015, 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 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. FSC is registered with the CFTC as a commodity trading advisor. Violation of the rules of the CFTC, the NFA or the commodity exchanges could result in remedial actions including fines, registration restrictions or terminations, trading prohibitions or revocations of commodity exchange memberships.

Investment Advisory Activity. First Southwest Asset Management, LLC, 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

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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 regulatory authorities. The business, financial condition and operating results of the Hilltop Broker-Dealers also may be adversely affected by changes in the interpretation and enforcement of existing laws and rules by these governmental and regulatory authorities. In the current era of heightened regulation of financial institutions, the Hilltop Broker-Dealers can expect to incur increasing compliance costs, along with the industry as a whole.

Mortgage Origination

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

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

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

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

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

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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.

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

Insurance

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

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

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

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

Texas also has adopted laws substantially similar to the NAIC's risk based capital ("RBC") laws, which require insurers to maintain minimum levels of capital based on their investments and operations. Domestic property and casualty insurers are required to report their RBC based on a formula that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow the Texas Department of Insurance to identify potential inadequately capitalized companies. Under the formula, a company determines its RBC by taking into account certain risks related to its assets (including risks related to its investment portfolio and ceded reinsurance) and its liabilities (including underwriting risks related to the nature and experience of its insurance business). Among other requirements, an insurance company must maintain capital and surplus of at least 200% of the RBC computed by the NAIC's RBC model (known as the "Authorized Control Level" of RBC). At December 31, 2015, NLIC and ASIC capital and surplus levels exceeded the minimum RBC requirements that would trigger regulatory attention. In their 2015 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 2015, 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 1.6% and ASIC at 1.4%, due to the concentration in cash at each company. We expect improvement in the yields at both companies as appropriate investment opportunities are identified.

The NAIC adopted an amendment to its "Model Audit Rule" in response to the passage of the Sarbanes-Oxley Act of 2002 ("SOX"). The amendment is effective for financial statements for accounting periods after January 1, 2010. This amendment addresses auditor independence, corporate governance and, most notably, the application of certain

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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 $0.8 million for 2015 and is estimated to be $0.7 million in 2016. 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 2015.

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

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

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

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

State dividend limitations. The Texas Department of Insurance must approve any dividend declared or paid by an insurance company domiciled in the state if the dividend, together with all dividends declared or distributed by that insurance company during the preceding twelve months, exceeds the greater of (1) 10% of its policyholders’ surplus as of December 31 of the preceding year or (2) 100% of its net income for the preceding calendar year. The greater number is known as the insurer’s extraordinary dividend limit. At December 31, 2015, the extraordinary dividend limit for NLIC and ASIC was $12.2 million and $3.0 million, respectively. In addition, NLC’s insurance companies may only pay dividends out of their earned surplus.

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

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

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

NLC did not incur any levies in 2015, 2014 or 2013. Property and casualty insurance company insolvencies or failures may, however, result in additional guaranty fund assessments at some future date. At this time NLC is unable to determine the impact, if any, that these assessments may have on its financial condition or results of operations. NLC has established liabilities for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

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

NLIC and ASIC cede 100% of the policies written by NLIC and ASIC on the Standard Flood Insurance Policy to FEMA; however, if FEMA were unable to perform, NLIC and ASIC would have a legal obligation to the policyholders.

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The terms of the reinsurance agreement are standard terms, which require NLIC and ASIC to maintain its rating criteria, determine policyholder eligibility, issue policies on NLIC and ASIC's paper, endorse and cancel policies, collect from insureds and process claims. NLIC and ASIC receive ceding commissions from NFIP for underwriting administration, claims management, commission and adjuster fees.

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

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

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

Item 1A. Risk Factors.

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

Risks Related to our Business

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

Achieving the anticipated cost savings and financial benefits of the SWS Merger and any other acquisitions we may complete will depend, in part, on our ability to successfully integrate the operations of the acquired companies with our own in an efficient and effective manner. It is possible that the integration process could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees. In addition, the integration of certain operations will require the dedication of significant management resources, which may temporarily distract management's attention from our day-to-day business. Any inability to realize the full extent, or any, of the anticipated cost savings and financial benefits of the SWS Merger 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.

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, respectively (collectively, the "Bank Transactions"), as of the applicable acquisition date and write down the recorded value of such acquired portfolio to that estimate. For most loans, this process was accomplished by computing the net present value of estimated cash flows to be received from borrowers of these loans. The allowance for loan losses that had been maintained by PlainsCapital, 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 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.

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

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

At December 31, 2015, 42% of the loan portfolio of our banking segment was comprised of loans with real estate as the primary component of collateral. The real estate collateral in each case provides a source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values generally, and in Texas specifically, could impair the value of our collateral and our ability to sell the collateral upon any foreclosure. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. As a result, our results of operations and financial condition may be materially adversely affected by a decrease in real estate market values.

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

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

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

The deterioration of any of these conditions, as we have experienced with past economic downturns, could adversely affect our consumer and commercial businesses and securities portfolios, our level of charge-offs and provision for

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credit losses, the carrying value of our deferred tax assets, the investment portfolio of our insurance segment, our capital levels and liquidity, and our results of operations.

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

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

We conduct our banking operations primarily in Texas. At December 31, 2015, substantially all of the real estate loans in our loan portfolio were secured by properties located in our four largest markets within Texas, with 35.6%, 27.6%, 13.4% and 11.2% secured by properties located in the Dallas/Fort Worth, Austin/San Antonio, Rio Grande Valley/South Texas and Houston/Coastal Bend markets, respectively. Significantly 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, recent declines in crude oil prices may have a more profound effect on the economy of energy-dominant states such as Texas. At December 31, 2015, energy loans, including those within the exploration and production, oilfield services, pipeline construction, distribution and transportation sectors, comprised 3.6% of the Bank's loan portfolio. The Bank also has loans extended to businesses that depend on the energy industry. If crude oil prices remain at low levels for an extended period, the Bank could experience weaker energy loan demand and increased losses within its energy and Texas-related loan portfolios.

In addition, mortgage origination fee income and insurance premium volume are both dependent to a significant degree on economic conditions in Texas and California. During 2015, 22.2% and 14.7% by dollar volume of our mortgage loans originated were collateralized by properties located in Texas and California, respectively. Further, Texas insureds accounted for 70.5% and 69.3% of our insurance segment's gross premiums written in 2015 and 2014, respectively. Any regional or local economic downturn that affects Texas or, to a lesser extent, California, whether caused by recession, inflation, unemployment, changing oil prices or other factors, may affect us and our profitability more significantly and more adversely than our competitors that are less geographically concentrated and could have a material adverse effect on our results of operations and financial condition.

We may suffer losses or be forced to make a "true-up" or reimbursement payment to the FDIC if our losses realized on the assets acquired in the FNB transaction are not covered by the loss-share agreements, the FDIC audits us and determines that we have not adequately managed these loans or 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. 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 5 years and 10 years, respectively, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. Our obligations under the loss-share agreements are extensive, and failure to comply with any obligations could result in a specific asset, or group of assets, losing loss-share coverage. Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if we do not manage covered loans in accordance with the loss-share agreements and may audit our past practices and require us to return amounts reimbursed to us if we are found to

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have not managed the portfolio properly. In addition, reimbursable losses are based on the book value of the relevant assets as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our consolidated financial statements, based upon the timing and amount of collections on the covered assets in future periods. In addition, certain losses projected to be incurred during the loss-share period may not be realized until after the expiration date of the applicable agreement and, consequently, would not be covered by the loss-share agreements. Any losses we experience in the assets acquired in the FNB Transaction that are not covered under the loss-share agreements could have an adverse effect on our results of operations and financial condition.

In addition, in accordance with the loss-share agreements, the Bank may be required to make a “true-up” payment to the FDIC approximately ten years following the Bank Closing Date if 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. 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 $5.5 million at December 31, 2015 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. If the Bank continues to experience favorable resolutions within its covered assets portfolio and covered losses are lower than currently estimated, the Bank may be required to increase its “true-up” payment accrual and recognize negative accretion (amortization) on the FDIC Indemnification Asset. These changes will be partially offset by increased discount accretion on the covered loan portfolio. If such changes occur, our financial position and results of operations may be adversely affected.

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

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

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

Our insurance segment writes insurance primarily in the states of Texas, Oklahoma, Arizona, Tennessee, Georgia and Louisiana. In 2015, Texas accounted for 70.5%, Arizona accounted for 9.6%, Oklahoma accounted for 6.6%, Tennessee 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 $125.0 million, our insurance segment's losses would exceed the limits of its reinsurance coverage.

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

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

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

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

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

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

Our insurance segment invested over 83% of its invested assets in fixed maturity assets such as bonds and mortgage-backed securities at December 31, 2015. Because bond trading prices decrease as interest rates rise, a significant increase in interest rates could have a material adverse effect on our insurance segment's financial condition and results of operations. On the other hand, decreases in interest rates could have an adverse effect on our insurance segment's investment income and results of operations. For example, if interest rates decline, investment of new premiums received and funds reinvested will earn less. Additionally, mortgage-backed securities typically are prepaid more quickly when interest rates fall and the holder must reinvest the proceeds at lower interest rates. In periods of increasing interest rates, mortgage-backed securities typically are prepaid more slowly, which may require our insurance segment to receive interest payments that are below the then prevailing interest rates for longer time periods than expected. The volatility of our insurance segment's claims may force it to liquidate securities, which may cause it to incur capital losses. If our insurance segment's investment portfolio is not appropriately matched with its insurance liabilities, it may be forced to liquidate investments prior to maturity at a significant loss to cover these liabilities. In addition, if we experience market disruption and volatility, such as that experienced in 2009 and 2010, we may experience additional losses on our investments and reductions in our earnings. Investment losses could significantly decrease the asset base and statutory surplus of our insurance segment, thereby adversely affecting its ability to conduct business and potentially its A.M. Best financial strength rating.

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

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

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

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

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

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

We are heavily dependent on dividends from our subsidiaries.

We are a financial holding company engaged in the business of managing, controlling and operating our subsidiaries, including the Bank and its subsidiary, PrimeLending, NLC and its two insurance company subsidiaries, NLIC and ASIC, and our Securities Holdings subsidiaries. We conduct no material business or other activity other than activities incidental to holding stock in the Bank, NLC and the Securities Holdings subsidiaries. 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 the Securities Holdings subsidiaries is subject to significant regulatory restrictions limiting their ability to declare and pay dividends to us. Accordingly, if the Bank, NLC or the Securities Holdings subsidiaries 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 indenture governing NLC's London Interbank Offered Rate ("LIBOR") plus 3.40% notes due 2035 and the surplus indentures governing NLIC's two LIBOR plus 4.10% and 4.05% notes due 2033 and ASIC's LIBOR plus 4.05% notes due 2034.

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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, 2015, on a consolidated basis, we had total deposits of $7.0 billion and other indebtedness of $1.3 billion, including $150.0 million in aggregate principal amount of 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 exploiting 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 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 complying 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,

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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.

The indenture governing the Senior Notes contains, and any instruments governing future indebtedness of ours would likely contain, restrictions that will limit our flexibility in operating our business.

The indenture governing the Senior Notes contains, and any instruments governing future indebtedness of ours would likely contain, a number of covenants that will 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 offered hereby. Upon a default, holders of the Senior Notes offered hereby would have the ability ultimately to force us into bankruptcy or liquidation, subject to the indenture governing the Senior Notes. In addition, a default under the indenture governing the Senior Notes could trigger a cross default under the agreements governing our existing and future indebtedness. Our operating results may not be sufficient to service our indebtedness or to fund our other expenditures and we may not be able to obtain financing to meet these requirements.

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

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

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

The U.S. Congress and federal regulatory agencies frequently revise banking and securities laws, regulations and policies. On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which significantly alters the regulation of financial institutions and the financial services industry. The Dodd-Frank Act established the CFPB and requires the CFPB and other federal agencies to implement many provisions of the Dodd-Frank Act. We expect that several aspects of the Dodd-Frank Act may affect our business, including, without limitation, increased capital requirements, increased mortgage regulation, restrictions on proprietary trading in securities, restrictions on investments in hedge funds and private equity funds, executive compensation restrictions, 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-

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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. Such changes could subject our business to additional costs, limit the types of financial services and products we may offer and increase the ability of non-banks to offer competing financial services and products, among other things.

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

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

In addition, the Federal Reserve Board adopted a final rule in February 2014 that clarifies how companies should incorporate the Basel III regulatory capital reforms into their capital and business projections during the 2014 and subsequent cycles of capital plan submissions and stress tests required under the Dodd-Frank Act. For companies and their subsidiary banks with between $10.0 billion and $50.0 billion in total consolidated assets, the initial stress testing cycle began on October 1, 2013 and the initial nine-quarter planning horizon for stress capital projections continued through the fourth quarter of 2015, which overlaps with the implementation of the Basel III capital reforms that began on January 1, 2015. At December 31, 2015, Hilltop and the Bank had $11.9 billion and $8.7 billion, respectively, in total consolidated assets and their average of total consolidated assets for the four most recent consecutive quarters was $12.3 billion and $8.5 billion, respectively. As a result of the SWS Merger, Hilltop has more than $10.0 billion in assets. Accordingly, Hilltop is currently subject to these capital planning and stress testing requirements, which will increase our cost of regulatory compliance. Compliance with these requirements may also necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. 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. In addition, the Dodd-Frank Act Stress Testing program will require Hilltop to submit its initial annual company-run stress test to the Federal Reserve Board using our capital planning tools to regulators by July 31, 2017. Hilltop will be 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. The stress testing and capital planning processes 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

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decrease our exposure to various asset classes, any of which could have a material adverse effect on our financial condition or results of operations. Management continues to study the implementation of Basel III regulatory capital reforms and stress testing requirements.

In July 2013 the SEC also adopted various amendments to Rules 15c3-1 and 15c3-3 under the Exchange Act related to, among other things, securities lending, certain new deductions from net capital, proprietary accounts of broker-dealer customers, certain broker-dealer insolvency events and corresponding related amendments to books and records rules. The implementation of such requirements has increased and will likely continue to 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 will be presumed to have complied with the ability-to-repay rule if they issue “qualified mortgages,” which are generally defined as mortgage loans prohibiting or limiting certain risky features. Loans that do not meet the ability-to-repay standard can be challenged in court by borrowers who default and the absence of ability-to-repay status can be used against a lender in foreclosure proceedings. Any loans that we make outside of the “qualified mortgage” criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose on the underlying property. The CFPB’s “qualified mortgage” rule could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive or time consuming to make these loans. Any decreases in loan origination volume or increases in compliance and foreclosure costs caused by the rule could negatively affect our business, operating results and financial condition.

Our broker-dealer business is subject to various risks associated with the securities industry.

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

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value of debt securities we hold in our inventory would decrease. Rapid or significant market fluctuations could adversely affect our business, financial condition, results of operations and cash flow.

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

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

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

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

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

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

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

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

We offer a variety of services and products, such as individual retirement accounts and municipal bonds, 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.

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

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

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

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

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

At December 31, 2015, the mortgage origination segment's MSR asset had a fair value of $53.5 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 $96.1 million on loans purchased at a discount in the Bank Transactions were recorded as interest income during 2015. As of December 31, 2015, the balance of our discount on loans in the aggregate was $242.7 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, 2015, contained goodwill of $251.8 million and other intangible assets, net of accumulated amortization, of $54.9 million. On an ongoing basis, we evaluate whether facts and circumstances indicate any impairment of value of intangible assets. As circumstances change, the value of these intangible assets may not be realized by us. If we determine that a material impairment has occurred, we will be required to write-off the impaired portion of intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

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

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

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

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

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

Our broker-dealer segment has historically earned a significant portion of its revenues from advisory fees paid to it by its clients, in large part upon the successful completion of the client's transaction. 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 by factors such as changes in interest rates, property tax bases, budget pressures on certain issuers caused by uncertain economic times and other factors. We expect that the reliance of our broker-dealer segment on advisory fees will continue for the foreseeable future, and a decline in public finance advisory engagements or the market for advisory services generally would have an adverse effect on our business and results of operations.

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

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

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

Our ability to attract and retain customers and conduct our business could be adversely affected to the extent our reputation is damaged. Reputational risk, or the risk to our business, earnings and capital from negative public opinion regarding our company, or financial institutions in general, is inherent in our business. Adverse perceptions concerning our reputation could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative perceptions concerning our reputation could lead to decreases in the level of deposits that consumer

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and commercial customers and potential customers choose to maintain with us. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending or foreclosure practices; sales practices; corporate governance and potential conflicts of interest; ethical failures or fraud, including alleged deceptive or unfair lending or pricing practices; regulatory compliance; protection of customer information; cyber-attacks, whether actual, threatened, or perceived; negative news about us or the financial institutions industry generally; general company performance; or from actions taken by government regulators and community organizations in response to such activities or circumstances. Furthermore, our failure to address, or the perception that we have failed to address, these issues appropriately could impact our ability to keep and attract customers and/or employees and could expose us to litigation and/or regulatory action, which could have an adverse effect on our business and results of operations.

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

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

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

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 to third parties. 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 with measures such as intrusion detection and prevention systems and monitoring firewalls to safeguard critical business applications, there is no guarantee that these measures or any other measures can provide absolute security. Our computer systems, software and networks may be adversely affected by cyber incidents such as unauthorized access; loss or destruction of

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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.

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

In February 2014, FINRA released a report identifying principles and effective practices it expects firms to consider as they develop or enhance their cybersecurity programs, and in February 2015 and September 2015, the SEC’s Office of Compliance Inspections and Examinations issued Risk Alerts to provide information on summary findings and areas of focus on cybersecurity examinations. In light of the guidance in these recent reports, Securities Holdings evaluated its cybersecurity program by participating in an Information Security vulnerability assessment based on the Critical Security Controls (CSCs) standard established by the Center for Internet Security. In addition to its standard external penetration testing, Securities Holdings expanded the scope of the external provider to include application, and authenticated internal testing.

We will continue to evaluate our cybersecurity program and will consider incorporating new practices as necessary to meet the expectations of such regulatory agencies. 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 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 banks and 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 become increasingly 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

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may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

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

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 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.

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,

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an increase in the general level of interest rates may, among other things, adversely affect the demand for mortgage loans and our ability to originate mortgage loans. In particular, if mortgage interest rates increase, the demand for residential mortgage loans and the refinancing of residential mortgage loans will likely decrease, which will have an adverse effect on our mortgage origination activities. Conversely, a decrease in the general level of interest rates, among other things, may lead to increased competition for mortgage loan origination business. As a result of these variables, our results of operations for any single quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

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

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

The financial condition and results of operations of our insurance segment depend upon its ability to assess accurately the potential losses associated with the risks that it insures. Our insurance segment establishes reserve liabilities to cover the payment of all losses and loss adjustment expenses ("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. As NLC observed in 2008, the severity of some catastrophic weather events, including the scope and extent of damage and the inability to gain access to damaged properties, and the ensuing shortages of labor and materials and resulting demand surge, provide additional challenges to estimating ultimate losses. Our insurance segment’s liabilities for losses and 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.

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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 2015 and 2014, our insurance segment's personal lines ceded 6.7% and 10.0%, respectively, of its direct insurance premiums written (primarily through excess of loss, quota share and catastrophe reinsurance treaties) and its commercial lines ceded 4.2% and 5.6%, respectively, of its direct insurance premiums written (primarily through excess of loss and catastrophe reinsurance treaties). The total cost of reinsurance, inclusive of per risk excess and catastrophe, decreased 3.2% during 2015, which is partially attributable to reduced limits, lower premium rates and slightly higher reinstatement premiums in 2015 of $37 thousand. 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, 2015, our insurance segment had $16.9 million in reinsurance recoverables, 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.

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

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

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

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

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

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

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

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

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

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

The success of any acquisition or business combination will depend upon, among other things, the ability of management and our employees to integrate personnel, operations, products and technologies effectively, to attract, retain and motivate key personnel and to retain customers and clients of targets. In addition, any acquisition or business

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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.

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

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

Risks Related to Our Common Stock

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

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

- may significantly dilute the equity interest of our stockholders;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded our common stock;
-

could cause a change in control if a substantial number of shares of common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards; and

- may adversely affect prevailing market prices for our common stock.

Our authorized capital stock includes ten million shares of preferred stock, all of which is unissued. 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.

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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, 2015, 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 Texas Department of Insurance. Acquisition of control would be presumed on the acquisition, directly or indirectly, of ten percent or more of our outstanding voting stock, unless the regulators determine otherwise. Prior to granting approval of an application to acquire control of a domestic insurer, the Texas Department of Insurance will consider several factors, such as:

- the financial strength of the acquirer;
- the integrity and management experience of the acquirer’s board of directors and executive officers;
- the acquirer’s plans for the management of the insurer;
- the acquirer’s plans to declare dividends, sell assets or incur debt;
- the acquirer’s plans for the future operations of the domestic insurer;
- the impact of the acquisition on continued licensure of the domestic insurer;

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease office space for our principal executive offices in Dallas, Texas. In addition to our principal office, our various business segments conduct business at various locations. We have options to renew leases at most locations that we do not own.

Banking. At December 31, 2015, our banking segment conducted business at 74 locations throughout Texas, including seven support facilities. Our banking segment's principal executive offices are located in Dallas, Texas, in space leased by PlainsCapital. We lease 33 banking locations including our principal offices and we own the remaining 41 banking locations.

Broker-dealer. Our broker-dealer segment is headquartered in Dallas, Texas and at December 31, 2015 conducted business from over 50 locations in 18 states. Each of these locations is leased by First Southwest or Hilltop Securities.

Mortgage Origination. Our mortgage origination segment is headquartered in Dallas, Texas and at December 31, 2015 conducted business from over 280 locations in 41 states. Each of these locations is leased by PrimeLending.

Insurance. At December 31, 2015, our insurance segment leases office space in Waco, Texas for its corporate, claims and customer service operations.

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, Commitments and Contingencies, in the notes to our consolidated financial statements, which is incorporated by reference herein.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Securities, Stockholder and Dividend Information

Our common stock is listed on the New York Stock Exchange under the symbol “HTH”. Our common stock has no public trading history prior to February 12, 2004. Our common stock closed at $15.93 on February 23, 2016. At February 24, 2016, there were 98,085,931 shares of our common stock outstanding with 522 stockholders of record.

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

As a holding company, we are ultimately dependent upon our subsidiaries to provide funding for our operating expenses, debt service and dividends. Various laws limit the payment of dividends and other distributions by our subsidiaries to us, and may therefore limit our ability to pay dividends on our common stock.

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

The following table discloses the high and low sales prices per quarter for our common stock during 2015 and 2014. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	Price Range	
	High	Low
Year Ended December 31, 2015		
First Quarter	$ 20.10	$ 17.34
Second Quarter	$ 24.70	$ 19.09
Third Quarter	$ 24.50	$ 18.11
Fourth Quarter	$ 23.12	$ 18.97
Year Ended December 31, 2014		
First Quarter	$ 25.61	$ 22.42
Second Quarter	$ 25.08	$ 19.72
Third Quarter	$ 22.39	$ 19.32
Fourth Quarter	$ 22.20	$ 19.27

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Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information at December 31, 2015 with respect to compensation plans under which shares of our common stock may be issued. Additional information concerning our stock-based compensation plans is presented in Note 20, Stock-Based Compensation, in the notes to our consolidated financial statements.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders*	600,000	$ 7.70	2,570,555
Total	600,000	$ 7.70	2,570,555

*In September 2012, our stockholders approved the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the “2012 Plan”), which allows for the granting of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights and other awards to employees of Hilltop, its subsidiaries and outside directors of Hilltop. Upon the effectiveness of the 2012 Plan, no additional awards are permissible under the 2003 equity incentive plan (the “2003 Plan”). In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2015, 1,501,829 awards had been granted pursuant to the 2012 Plan, while 72,384 awards were forfeited and are eligible for reissuance. All shares outstanding under the 2003 Plan and the 2012 Plan, whether vested or unvested, are entitled to receive dividends and to vote, unless forfeited. No participant in our 2012 Plan may be granted awards in any fiscal year covering more than 1,250,000 shares of our common stock.

Issuer Repurchases of Equity Securities

There were no repurchases of shares of common stock during the three months ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that

		Share		May Yet Be Purchased Under the Plans or Programs (1)
October 1 – October 31, 2015	—	$ —	—	$ 3,921
November 1 – November 30, 2015	—	—	—	3,921
December 1 – December 31, 2015	—	—	—	—
Total	—	$ —	—	

(1) On May 18, 2015, we announced a stock repurchase program under which it authorized us to repurchase, in the aggregate, up to $30.0 million of our outstanding common stock. Under the stock repurchase program authorized, we could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. We repurchased an aggregate of $30.0 million of our outstanding common stock under this program prior to its termination effective December 31, 2015.

Recent Sales of Unregistered Securities

On October 20, 2015, we issued an aggregate of 5,412 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 2015. The shares were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act.

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Item 6. Selected Financial Data.

Our historical consolidated balance sheet data at December 31, 2015 and 2014 and our consolidated statements of operations data for the years ended December 31, 2015, 2014 and 2013 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. Our operating results for 2012 include the results from the operations acquired in the PlainsCapital Merger for the month of December 2012, and the operations acquired in the FNB Transaction 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).

	2015	2014	2013	2012	2011
Statement of Operations Data:					
Total interest income	$ 469,838	$ 388,769	$ 329,075	$ 39,038	$ 11,049
Total interest expense	61,255	27,628	32,874	10,196	8,985
Net interest income	408,583	361,141	296,201	28,842	2,064
Provision for loan losses	12,715	16,933	37,158	3,800	—
Net interest income after provision for loan losses	395,868	344,208	259,043	25,042	2,064
Total noninterest income	1,227,642	799,311	850,085	224,232	141,650
Total noninterest expense	1,340,016	965,353	911,735	255,517	155,254
Income (loss) before income taxes	283,494	178,166	197,393	(6,243)	(11,540)
Income tax expense (benefit)	70,915	65,608	70,684	(1,145)	(5,009)
Net income (loss)	212,579	112,558	126,709	(5,098)	(6,531)
Less: Net income attributable to noncontrolling interest	1,606	908	1,367	494	—
Income (loss) attributable to Hilltop	210,973	111,650	125,342	(5,592)	(6,531)
Dividends on preferred stock (1)	1,854	5,703	4,327	259	—
Income (loss) applicable to Hilltop common stockholders	$ 209,119	$ 105,947	$ 121,015	$ (5,851)	$ (6,531)
Per Share Data:					
Net income (loss) - basic	$ 2.10	$ 1.18	$ 1.43	$ (0.10)	$ (0.12)
Weighted average shares outstanding - basic	99,074	89,710	84,382	58,754	56,499
Net income (loss) - diluted	$ 2.09	$ 1.17	$ 1.40	$ (0.10)	$ (0.12)
Weighted average shares outstanding - diluted	99,962	90,573	90,331	58,754	56,499
Book value per common share	$ 17.56	$ 14.93	$ 13.27	$ 12.34	$ 11.60

Tangible book value per common share	$ 14.46	$ 11.47	$ 9.70	$ 8.37	$ 11.01
Balance Sheet Data:					
Total assets	$ 11,867,001	$ 9,242,416	$ 8,904,122	$ 7,286,865	$ 925,425
Cash and due from banks	652,036	782,473	713,099	722,039	578,520
Securities	1,219,874	1,109,461	1,261,989	1,081,066	224,200
Investment in SWS common stock (2)	—	70,282	—	—	—
Loans held for sale	1,533,678	1,309,693	1,089,039	1,401,507	—
Non-covered loans, net of unearned income	5,220,040	3,920,476	3,514,646	3,152,396	—
Covered loans	380,294	642,640	1,006,369	—	—
Allowance for loan losses	(46,947)	(41,652)	(34,302)	(3,409)	—
Goodwill and other intangible assets, net	306,676	311,591	322,729	331,508	33,062
Total deposits	6,952,683	6,369,892	6,722,918	4,700,461	—
Notes payable	238,716	56,684	56,327	141,539	131,450
Junior subordinated debentures	67,012	67,012	67,012	67,012	—
Total stockholders' equity	1,738,125	1,461,239	1,311,922	1,146,550	655,383
Performance Ratios (3):					
Return on average stockholders' equity	12.32 %	8.01 %	10.48 %	(0.62) %	
Return on average assets	1.70 %	1.26 %	1.66 %	(0.08) %	
Net interest margin (taxable equivalent) (4)	3.81 %	4.74 %	4.47 %	4.64 %	
Efficiency ratio (5)(6)(7)	56.45 %	61.17 %	42.58 %	NM	
Asset Quality Ratios (3):					
Total nonperforming assets to total loans and other real estate (6)	2.34 %	4.14 %	3.70 %	NM	
Allowance for loan losses to nonperforming loans (6)	137.99 %	74.01 %	136.39 %	NM	
Allowance for loan losses to total loans (6)	0.84 %	0.91 %	0.76 %	NM	
Net charge-offs to average loans outstanding (6)	0.14 %	0.21 %	0.18 %	NM	
Capital Ratios:					
Equity to assets ratio	14.64 %	15.80 %	14.73 %	15.71 %	70.82 %
Tangible common equity to tangible assets	12.37 %	11.59 %	10.19 %	10.05 %	69.74 %
Regulatory Capital Ratios (3):					
Hilltop - Leverage ratio (8)	12.65 %	14.17 %	12.81 %	13.08 %	
Hilltop - Common equity Tier 1 risk-based capital ratio (9)	17.87 %				
	18.48 %	19.02 %	18.53 %	17.72 %	

Hilltop - Tier 1 risk-based capital ratio								
Hilltop - Total risk-based capital ratio	18.89	%	19.69	%	19.13	%	17.81	%
Bank - Leverage ratio (8)	13.22	%	10.31	%	9.29	%	8.84	%
Bank - Common equity Tier 1 risk-based capital ratio (9)	16.23	%						
Bank - Tier 1 risk-based capital ratio	16.25	%	13.74	%	13.38	%	11.83	%
Bank - Total risk-based capital ratio	16.99	%	14.45	%	14.00	%	11.93	%

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	2015	2014	2013	2012	2011
Other Data (10):					
Net loss and LAE ratio	61.1 %	57.4 %	70.3 %	74.4 %	72.2 %
Expense ratio	33.8 %	31.9 %	32.3 %	34.4 %	34.0 %
GAAP combined ratio	94.9 %	89.3 %	102.6 %	108.8 %	106.2 %
Statutory surplus (11)	$ 152,342	$ 141,987	$ 125,054	$ 120,319	$ 118,708
Statutory premiums to surplus ratio	105.4 %	115.8 %	130.7 %	125.0 %	119.4 %

(1) Series B preferred stock was redeemed in April 2015.
(2) For periods prior to 2014, Hilltop's investment in SWS common stock was accounted for and included within its available for sale securities portfolio.
(3) Noted measures are typically used for measuring the performance of banking and financial institutions. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Therefore, noted measures for periods prior to 2012 are not a useful measure and have been excluded.
(4) Taxable equivalent adjustments are based on a 35% tax rate. The adjustment to interest income was $3.0 million, $2.3 million, $2.4 million and $0.2 million during 2015, 2014, 2013 and 2012, respectively. Net interest margin (taxable equivalent) is defined as taxable equivalent net interest income divided by average interest-earning assets. Our operations prior to the PlainsCapital Merger were limited to our insurance operations. Therefore, noted measure for 2012 reflects the ratio for the month ended December 31, 2012.
(5) Noninterest expenses divided by the sum of total noninterest income and net interest income for the year.
(6) Noted measures are typically used for measuring the performance of banking and financial institutions. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Additionally, noted measure is not meaningful ("NM") in 2012.
(7) Only considers operations of banking segment.
(8) Ratio for 2012 was calculated using the average assets for the month of December.
(9) Common equity Tier 1 risk-based capital ratio applicable for reporting periods beginning after January 1, 2015.
(10) Only considers operations of insurance segment.
(11) 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, 2015	2014	2013	2012	2011
Book value per common share	$ 17.56	$ 14.93	$ 13.27	$ 12.34	$ 11.60
Effect of goodwill and intangible assets per share	$ (3.10)	$ (3.46)	$ (3.57)	$ (3.97)	$ (0.59)
Tangible book value per common share	$ 14.46	$ 11.47	$ 9.70	$ 8.37	$ 11.01
Hilltop stockholders' equity	$ 1,736,954	$ 1,460,452	$ 1,311,141	$ 1,144,496	$ 655,383
Less: preferred stock	—	114,068	114,068	114,068	—
Less: goodwill and intangible assets, net	306,676	311,591	322,729	331,508	33,062
Tangible common equity	1,430,278	1,034,793	874,344	698,920	622,321
Total assets	11,867,001	9,242,416	8,904,122	7,286,865	925,425
Less: goodwill and intangible assets, net	306,676	311,591	322,729	331,508	33,062
Tangible assets	11,560,325	8,930,825	8,581,393	6,955,357	892,363
Equity to assets	14.64 %	15.80 %	14.73 %	15.71 %	70.82 %
Tangible common equity to tangible assets	12.37 %	11.59 %	10.19 %	10.05 %	69.74 %

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to help the reader understand our results of operations and financial condition and is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes thereto commencing on page F-1. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Item 1A. Risk Factors" and elsewhere in this Annual Report. See "Forward-Looking Statements." All dollar amounts in the following discussion are in thousands, except per share amounts.

Unless the context otherwise indicates, all references in this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, to the "Company," "we," "us," "our" or "ours" or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries, references to "Hilltop" refer solely to Hilltop Holdings Inc., references to "PlainsCapital" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to "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 that was formerly known as Southwest Securities, Inc.), references to "HTS Independent Network" refer to Hilltop Securities Independent Network Inc. (a wholly owned subsidiary of Securities Holdings that was formerly known as SWS Financial Services, Inc.), 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 "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.

Effective January 1, 2015, in connection with our acquisition of SWS, we modified our organizational structure into three primary operating business units, PlainsCapital (banking and mortgage origination), Securities Holdings (broker-dealer) and NLC (insurance). The PlainsCapital unit continues to include the Bank and PrimeLending, while the new Securities Holdings unit includes First Southwest (transferred from the PlainsCapital unit effective January 1, 2015), and two entities acquired on January 1, 2015, Hilltop Securities and HTS Independent Network.

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 we merged FSC into Hilltop Securities to form 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 January 22, 2016 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 operating business units.

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

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

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

During 2015, our net income to common stockholders was $209.1 million, or $2.09 per diluted share. The consolidated operating results during 2015 include the recognition of a bargain purchase gain of $81.3 million related to our acquisition of SWS.

We reported $283.5 million of consolidated income before income taxes during 2015, including the following contributions from our four reportable operating segments.

- The banking segment contributed $175.4 million of income before income taxes during 2015;
- The broker-dealer segment incurred losses before income taxes of $0.3 million during 2015;
- The mortgage origination segment contributed $47.5 million of income before income taxes during 2015; and
- The insurance segment contributed $15.7 million of income before income taxes during 2015.

At December 31, 2015, on a consolidated basis, we had total assets of $11.9 billion, total deposits of $7.0 billion, total loans, including loans held for sale, of $7.1 billion and stockholders' equity of $1.7 billion.

On January 1, 2015, we completed our acquisition of 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. 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. On October 5, 2015, Southwest Securities, Inc. and SWS Financial Services, Inc. were renamed "Hilltop Securities Inc." and "Hilltop Securities Independent Network Inc.", respectively. The operations acquired in the SWS Merger were included in our operating results beginning January 1, 2015 and such operations included a preliminary bargain purchase gain of $82.8 million as disclosed in our Quarterly Report on Form 10-Q filed with the SEC on May 6, 2015. During 2015, certain adjustments were recorded that resulted in an aggregate decrease in the preliminary bargain purchase gain associated with the SWS Merger to $81.3 million, which also decreased net income for the three months ended March 31, 2015 by $1.5 million as compared with amounts previously reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015. Accordingly, our results for the quarter ended March 31, 2015 and related disclosures will be revised to reflect these adjustments in future filings.

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. On April 28, 2015, we used the net proceeds of the offering to redeem all of our 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, and 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 and 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.”

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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. The fair value of the assets acquired was $2.2 billion, including $1.1 billion in covered loans, $286.2 million in securities, $135.2 million in covered OREO and $42.9 million in non-covered loans. The Bank also assumed $2.2 billion in liabilities, consisting primarily of deposits.

On January 1, 2015, we acquired SWS through the SWS Merger. 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.

Segment Information

We have three primary operating business units, PlainsCapital (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. The SWS Merger did not result in changes to our four reportable business segments. Consistent with our historical segment operating results since 2013, 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, the operations acquired in the FNB Transaction since September 14, 2013, and, since January 1, 2015, the operations of the former SWS FSB. The banking segment 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 First Southwest, 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. The principal subsidiaries of First Southwest as of December 31, 2015 were FSC, formerly a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and the Financial Industry Regulatory Authority ("FINRA"), and First Southwest Asset Management, LLC, a registered investment advisor under the Investment Advisors Act of 1940. Hilltop Securities is a broker-dealer registered with the SEC and FINRA and a member of the NYSE, and HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA.

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.

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The insurance segment includes the operations of NLC, which operates through its wholly owned subsidiaries, NLIC and ASIC. Insurance segment income is primarily generated from revenue earned on net insurance premiums less loss and loss adjustment expenses ("LAE") and policy acquisition and other underwriting expenses in Texas and other areas of the southern United States.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, and management and administrative services to support the overall operations of the Company including, but not limited to, certain executive management, corporate relations, legal, finance, and acquisition costs.

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, 2015	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hillt Cons
Net interest income (expense)	$ 369,493	$ 32,971	$ (10,423)	$ 3,187	$ (5,109)	$ 18,464	$ 40
Provision for loan losses	12,795	(80)	—	—	—	—	12
Noninterest income	62,639	334,495	597,163	171,185	81,289	(19,129)	1,2
Noninterest expense	243,926	367,812	539,257	158,720	31,926	(1,625)	1,3
Income (loss) before income taxes	$ 175,411	$ (266)	$ 47,483	$ 15,652	$ 44,254	$ 960	$ 28

Year Ended December 31, 2014	Banking	Broker Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hillt Cons
Net interest income (expense)	$ 334,377	$ 12,144	$ (12,591)	$ 3,672	$ 5,219	$ 18,320	$ 36
Provision for loan losses	16,916	17	—	—	—	—	16
Noninterest income	67,438	119,451	456,776	173,577	5,985	(23,916)	79
Noninterest expense	245,790	124,715	431,820	151,541	13,878	(2,391)	96
Income (loss) before income taxes	$ 139,109	$ 6,863	$ 12,365	$ 25,708	$ (2,674)	$ (3,205)	$ 17

Year Ended December 31, 2013	Banking	Broker Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hil Co
Net interest income (expense)	$ 293,254	$ 12,064	$ (37,840)	$ 7,442	$ (1,597)	$ 22,878	$ 2
Provision for loan losses	37,140	18	—	—	—	—	3
Noninterest income	71,045	102,714	537,497	166,163	—	(27,334)	8
Noninterest expense	155,102	112,360	472,284	166,006	10,439	(4,456)	9
Income (loss) before income taxes	$ 172,057	$ 2,400	$ 27,373	$ 7,599	$ (12,036)	$ —	$ 1

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 $408.6 million in net interest income during 2015, compared with net interest income of $361.1 million during 2014 and net interest income of $296.2 million during 2013. The increase in net interest income during 2015, compared with 2014, was primarily due to the inclusion of the operations acquired in the SWS Merger within our broker-dealer and banking segments, while the increase in net interest income during 2014, compared with 2013, was primarily due to the inclusion of the operations acquired in the FNB Transaction within our banking segment.

The other component of our revenue is noninterest income, which is primarily comprised of the following:

(i) Income from broker-dealer operations. Through the Hilltop Broker-Dealers, we provide investment banking and other related financial services. We generated $276.6 million, $101.9 million and $93.1 million in investment advisory fees and commissions and securities brokerage fees and commissions during 2015, 2014 and 2013, respectively.

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(ii) Income from mortgage operations. Through PrimeLending, we generate noninterest income by originating and selling mortgage loans. During 2015, 2014 and 2013, we generated $596.8 million, $453.4 million and $537.3 million, respectively, in net gains from the sale of loans, other mortgage production income (including income associated with retained mortgage servicing rights), and mortgage loan origination fees.
(iii) Income from insurance operations. Through NLC, we provide fire and limited homeowners insurance for low value dwellings and manufactured homes. We generated $162.1 million, $164.5 million and $157.5 million in net insurance premiums earned during 2015, 2014 and 2013, respectively.

In the aggregate, we generated $1.2 billion, $799.3 million and $850.1 million in noninterest income during 2015, 2014 and 2013, respectively. Excluding the bargain purchase gain of $81.3 million related to the SWS Merger in 2015 and $12.6 million related to the FNB Transaction in 2013, our noninterest income during 2015 and 2013 was $1.1 billion and $837.5 million, respectively. We are presenting these financial measures because certain investors may find them useful in evaluating our business and financial results. In addition to the bargain purchase gains, the increase in noninterest income during 2015, compared with 2014, was predominantly attributable to increases in noninterest income in our broker-dealer segment due to the inclusion of the operations acquired in the SWS Merger and our mortgage origination segment due to increases in mortgage loan sales and origination volumes. The decrease in noninterest income during 2014, compared with 2013, other than bargain purchase gain, was primarily due to the decrease in loan origination volume within our mortgage origination segment, partially offset by increases in noninterest income in our banking, insurance 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 2015 was $209.1 million, or $2.09 per diluted share, compared with net income applicable to common stockholders of $105.9 million, or $1.17 per diluted share, during 2014, and net income applicable to common stockholders of $121.0 million, or $1.40 per diluted share, during 2013. The consolidated operating results during 2015 include the recognition of a bargain purchase gain related to the SWS Merger of $81.3 million. 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. The consolidated operating results during 2013 include the recognition of a bargain purchase gain related to the FNB Transaction of $12.6 million, before income taxes of $4.5 million.

The operations acquired in the FNB Transaction are included in our operating results beginning September 14, 2013, and are therefore not fully reflected in our consolidated statement of operations during 2013. We expect the operations acquired in the FNB Transaction to continue to have a significant effect on the Bank's operating results in future periods. As a result of the SWS Merger, the operations, assets and liabilities acquired in the SWS Merger have been included in our balance sheet and operating results since January 1, 2015. We expect the operations acquired in the SWS Merger to continue to have a significant effect on our broker-dealer segment. In addition, transaction costs primarily related to the execution and closing of the SWS Merger, 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), have been incurred as a result of the plan to integrate the operations and systems acquired in the SWS Merger. During 2015, we incurred $13.7 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 2015 were $8.7 million, $6.5 million, and $2.7 million, respectively. During 2014, we incurred $1.4 million in pre-tax transaction costs related to the SWS Merger. On October 22, 2015, FINRA granted approval to combine FSC and Hilltop Securities, subject to customary conditions. Since this approval, we have integrated the back-office systems of FSC and Hilltop Securities and, effective as of the close of business on January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. As a result, we expect to begin realizing cost savings in 2016, although we expect these cost savings to be partially offset by additional integration costs that we anticipate incurring during the first six months of 2016.

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Certain items included in net income for 2015, 2014 and 2013 resulted from purchase accounting associated with the PlainsCapital Merger, the FNB Transaction and the SWS Merger (collectively, the "Bank Transactions"). Income before 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. Income before taxes during 2014 includes net accretion of $33.9 million and $49.2 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $9.2 million and $1.0 million, respectively. Income before taxes during 2013 includes net accretion of $58.5 million and $10.2 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $9.8 million and $0.3 million, respectively.

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

	Year Ended December 31,		
	2015	2014	2013
Performance Ratios:			
Return on average stockholder's equity	12.32 %	8.01 %	10.48 %
Return on average assets	1.70 %	1.26 %	1.66 %
Net interest margin (taxable equivalent) (1) (2)	3.81 %	4.74 %	4.47 %

(1) Taxable equivalent net interest income divided by average interest-earning assets.
(2) During 2015, taxable equivalent net interest margin was 81 basis points lower due to the impact related to the securities financing operations within our Broker-Dealer segment. The effect on taxable equivalent net interest margin was nominal during 2014 and 2013.

During 2015, the consolidated taxable equivalent net interest margin of 3.81% was 94 basis points greater due to the impact of purchase accounting and 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. During 2014, the consolidated taxable equivalent net interest margin of 4.74% was 125 basis points greater due to the impact of purchase accounting and primarily related to accretion of discount on loans of $37.4 million and $43.6 million associated with the PlainsCapital Merger and FNB Transaction, respectively, PlainsCapital Merger-related amortization of premium on acquired securities of $4.1 million, and FNB Transaction-related amortization of premium on acquired time deposits of $5.5 million. During 2013, the consolidated taxable equivalent net interest margin of 4.47% was 103 basis points greater due to the impact of purchase accounting and primarily related to accretion of discount on loans of $61.8 million and $7.5 million associated with the PlainsCapital Merger and FNB Transaction, respectively, PlainsCapital Merger-related amortization of premium on acquired securities of $5.7 million, and amortization of premium on acquired time deposits of $2.4 million and $2.7 million associated with the PlainsCapital Merger and FNB Transaction, respectively.

The FNB Transaction-related accretion of discount on loans of $60.4 million and $43.6 million during 2015 and 2014, respectively, included accretion of approximately $35 million and $30 million, respectively, due to better-than-expected resolution of covered purchased credit impaired (“PCI”) loans during the respective periods. This better-than-expected performance and resulting increases in yields calculated as a part of the Bank’s quarterly recast process led to the reclassification of $70.9 million and $105.5 million, respectively, from nonaccretable difference to accretable yield.

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The table below provides additional details regarding our consolidated net interest income (dollars in thousands).

	Year Ended December 31, 2015 Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		2014 Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		2013 Averag Outstan Balance
Assets									
Interest-earning assets									
Loans, gross (1)	$ 6,550,164	$ 390,359	5.96	%	$ 5,461,611	$ 341,458	6.21	%	$ 4,584
Investment securities - taxable	1,112,524	26,511	2.38	%	1,072,564	29,206	2.72	%	947,8
Investment securities - non-taxable (2)	250,870	9,629	3.84	%	182,881	7,028	3.84	%	192,9
Federal funds sold and securities purchased under agreements to resell	99,037	120	0.12	%	18,120	52	0.29	%	27,99
Interest-bearing deposits in other financial institutions	587,742	1,491	0.25	%	698,638	1,602	0.23	%	727,2
Other	2,189,579	44,729	2.04	%	229,461	11,770	5.16	%	160,3
Interest-earning assets, gross	10,789,916	472,839	4.38	%	7,663,275	391,116	5.08	%	6,640
Allowance for loan losses	(42,924)				(40,516)				(22,9
Interest-earning assets, net	10,746,992				7,622,759				6,617
Noninterest-earning assets	1,734,266				1,343,070				996,3
Total assets	$ 12,481,258				$ 8,965,829				$ 7,613
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 4,804,077	$ 15,523	0.32	%	$ 4,490,748	$ 15,742	0.35	%	$ 3,923
Notes payable and other borrowings	3,128,152	45,732	1.46	%	934,031	11,886	1.27	%	823,4
Total interest-bearing	7,932,229	61,255	0.77	%	5,424,779	27,628	0.51	%	4,747

liabilities							
Noninterest-bearing liabilities							
Noninterest-bearing deposits	2,187,336			1,862,277			1,370
Other liabilities	647,985			283,922			299,8
Total liabilities	10,767,550			7,570,978			6,417
Stockholders' equity	1,713,030			1,394,351			1,195
Noncontrolling interest	678			500			644
Total liabilities and stockholders' equity	$ 12,481,258			$ 8,965,829			$ 7,613
Net interest income (2)		$ 411,584			$ 363,488		
Net interest spread (2)		3.61	%		4.57	%	
Net interest margin (2)		3.81	%		4.74	%	

(1) Average balance includes non-accrual loans.
(2) Taxable equivalent adjustments are based on a 35% tax rate. The adjustment to interest income was $3.0 million, $2.3 million and $2.4 million during 2015, 2014 and 2013, 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 $47.4 million during 2015, compared with 2014, while net interest income increased $64.9 million during 2014, compared with 2013. The increase during 2015, compared with 2014, was primarily due to the inclusion of the operations acquired in the SWS Merger within our broker-dealer and banking segments, partially offset by a reduction in recurring quarterly investment and interest income, as well as interest expense on the Senior Notes beginning May 2015, at corporate. The increase during 2014, compared with 2013, was primarily due to the inclusion of the operations acquired in the FNB Transaction within our banking segment.

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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 $12.7 million, $16.9 million and $37.2 million during 2015, 2014 and 2013, respectively. The provision for loan losses during 2015 was comprised of charges relating to newly originated loans and acquired loans without credit impairment at acquisition of $13.8 million, partially offset by the recapture of PCI loans of $1.1 million, compared with charges relating to newly originated loans and acquired loans without credit impairment at acquisition of $6.1 million and $33.1 million, respectively, and PCI loans of $10.8 million and $4.1 million, respectively, during 2014 and 2013.

Consolidated noninterest income increased $428.3 million during 2015, compared with 2014, while consolidated noninterest income decreased $50.8 million during 2014, compared with 2013. These year-over-year changes included the recognition of a bargain purchase gain related to the SWS Merger of $81.3 million during 2015 and the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during 2013. Other changes in noninterest income during 2015, compared with 2014, included increases in securities commissions and fees (net of intercompany eliminations) and investment banking and advisory fees within our broker-dealer segment of $174.7 million and an increase within our mortgage origination segment of $140.4 million. The remaining changes in noninterest income during 2014, compared with 2013, included the reduction in net gains from sale of loans, other mortgage production income and mortgage loan origination fees within our mortgage origination segment of $83.9 million, slightly offset by increases in noninterest income in our broker-dealer and insurance segments of $16.7 million and $7.4 million, respectively.

Consolidated noninterest expense during 2015 increased $374.7 million, compared with 2014, while consolidated noninterest expense during 2014 increased $53.6 million, compared with 2013. The year-over-year increase during 2015, compared with 2014, included significant increases in noninterest expenses within our broker-dealer segment of $243.0 million primarily due to the inclusion of the operations acquired as part of the SWS Merger. In addition, during 2015 we incurred pre-tax transaction and integration costs related to the SWS Merger of $31.6 million. Changes between 2015 and 2014 within the major components of noninterest expense included increases of $275.2 million in employees' compensation and benefits and $76.7 million in other expenses primarily attributable to increases in our broker-dealer segment due to the inclusion of the operations acquired in the SWS Merger and mortgage origination segment due to the increase in mortgage origination loan volume. The year-over-year changes between 2014 and 2013 included significant increases in noninterest expenses within our banking segment of $90.7 million, primarily due to the inclusion of those operations acquired as part of the FNB Transaction and within our broker-dealer segment of $12.4 million due to increases in professional fees and compensation costs that vary with noninterest income. These increases were partially offset by significant decreases in noninterest expenses within our mortgage origination segment of $40.5 million, primarily due to reductions in variable compensation tied to mortgage loan originations and initiatives to decrease segment operating costs, and within our insurance segment of $14.5 million due to improved claims loss experience associated with the significant decline in the severity of severe weather-related events during 2014. Changes between 2014 and 2013 within the major components of noninterest expense included increases of $10.2 million in employees' compensation and benefits, $15.4 million in occupancy and equipment and $43.6 million in other expenses, partially offset by decreases of $16.3 million in losses and LAE.

Consolidated income tax expense during 2015, 2014 and 2013 were $70.9 million, $65.6 million and $70.7 million, respectively, reflecting effective rates of 25.0%, 36.8% and 35.8%, respectively. The decrease in our effective tax rate during 2015 was primarily because no income taxes were recorded 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. Therefore, the effective income tax rate during 2015 is not necessarily indicative of anticipated future effective tax rates.

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Segment Results

Banking Segment

Income before income taxes in our banking segment during 2015, 2014 and 2013 was $175.4 million, $139.1 million, $172.1 million, respectively. The increase in income before income taxes during 2015, compared with 2014, was primarily due to an increase in net interest income, partially offset by pre-tax costs of $3.0 million directly attributable to the integration of the former SWS FSB. The change in income before income taxes during 2014, compared with 2013, was primarily because of an increase in noninterest expense, partially offset by an increase in net interest income and a decrease in the provision for loan losses. This year-over-year increase in noninterest income included the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during 2013. The operations acquired as a part of the SWS Merger had a significant effect on net interest income during 2015, compared with 2014, while the FNB Transaction had a significant effect on each of the components of income before income taxes during 2014, compared with 2013.

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

	Year Ended December 31,		
	2015	2014	2013
Performance Ratios:			
Efficiency ratio (1)	56.45 %	61.17 %	42.58 %
Return on average assets	1.36 %	1.20 %	1.78 %
Net interest margin (taxable equivalent) (2)	5.08 %	5.00 %	5.17 %

(1) Noninterest expenses divided by the sum of total noninterest income and net interest income for the period.
(2) Taxable equivalent net interest income divided by average interest-earning assets.

During 2015, the banking segment’s taxable equivalent net interest margin of 5.08% was 142 basis points greater due to the impact of purchase accounting and 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. During 2014, the banking segment’s taxable equivalent net interest margin of 5.00% was 143 basis points greater due to the impact of purchase accounting and primarily related to accretion of discount on loans of $37.4 million and $43.6 million associated with the PlainsCapital Merger and FNB Transaction, respectively, PlainsCapital Merger-related amortization of premium on acquired securities of $4.1 million, and FNB Transaction-related amortization of premium on acquired time deposits of $5.5 million. During 2013, the banking segment’s taxable equivalent net interest margin of 5.17% was 120 basis points greater due to the impact of purchase accounting and primarily related to accretion of discount on loans of $61.8 million and $7.5 million associated with the PlainsCapital Merger and FNB Transaction, respectively, PlainsCapital Merger-related amortization of premium on acquired securities of $5.7

million, and amortization of premium on acquired time deposits of $2.4 million and $2.7 million associated with the PlainsCapital Merger and FNB Transaction, respectively.

The FNB Transaction-related accretion of discount on loans of $60.4 million and $43.6 million during 2015 and 2014, respectively, included accretion of approximately $35 million and $30 million, respectively, due to better-than-expected resolution of covered PCI loans during the respective periods. This better-than-expected performance and resulting increases in yields calculated as a part of the Bank's quarterly recast process led to the reclassification of $70.9 million and $105.5 million, respectively, from nonaccretable difference to accretable yield.

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

	Year Ended December 31, 2015 Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		2014 Average Outstanding Balance	Interest Earned or Paid	Annualized Yield or Rate		2013 Average Outstand Balance
Assets									
Interest-earning assets									
Loans, gross (1)	$ 4,789,972	$ 328,384	6.86	%	$ 4,189,895	$ 292,859	6.99	%	$ 3,279,
Subsidiary warehouse lines of credit	1,055,525	37,772	3.58	%	912,652	34,598	3.79	%	947,06
Investment securities - taxable	791,994	17,241	2.18	%	886,168	17,956	2.03	%	792,86
Investment securities - non-taxable (2)	141,186	5,295	3.75	%	149,656	5,800	3.88	%	158,73
Federal funds sold and securities purchased under agreements to resell	21,821	65	0.30	%	18,120	52	0.29	%	26,373
Interest-bearing deposits in other financial institutions	484,553	1,366	0.28	%	527,678	1,362	0.26	%	494,22
Other	49,988	1,745	3.49	%	45,225	1,717	3.80	%	31,794
Interest-earning assets, gross	7,335,039	391,868	5.34	%	6,729,394	354,344	5.27	%	5,730,
Allowance for loan losses	(42,579)				(40,352)				(22,75
Interest-earning assets, net	7,292,460				6,689,042				5,707,
Noninterest-earning assets	1,125,974				1,245,722				940,88
Total assets	$ 8,418,434				$ 7,934,764				$ 6,648,
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Interest-bearing deposits	$ 4,413,352	$ 16,992	0.39	%	$ 4,451,191	$ 15,801	0.35	%	$ 3,900,
	585,732	2,118	0.36	%	587,921	1,780	0.30	%	391,11

Notes payable and other borrowings									
Total interest-bearing liabilities (3)	4,999,084	19,110	0.38	%	5,039,112	17,581	0.35	%	4,291,
Noninterest-bearing liabilities									
Noninterest-bearing deposits	2,144,282				1,808,225				1,419,
Other liabilities	49,388				35,755				39,028
Total liabilities	7,192,754				6,883,092				5,750,
Stockholders' equity	1,225,680				1,051,672				897,80
Total liabilities and stockholders' equity	$ 8,418,434				$ 7,934,764				$ 6,648,
Net interest income (2)		$ 372,758				$ 336,763			
Net interest spread (2)			4.96	%			4.92	%	
Net interest margin (2)			5.08	%			5.00	%	

(1) Average balance includes non-accrual loans.

(2) Taxable equivalent adjustments are based on a 35% tax rate. The adjustment to interest income was $1.8 million, $2.0 million and $2.0 million during 2015, 2014 and 2013, respectively.

(3) Excludes the allocation of interest expense on PlainsCapital debt of $1.4 million, $1.1 million and $1.0 million during 2015, 2014 and 2013, respectively.

The banking segment's net interest margin exceeds our consolidated net interest margin. Our consolidated net interest margin includes certain items that are not reflected in the calculation of our net interest margin within our banking segment and reduce our consolidated net interest margin, such as the borrowing costs of Hilltop and the yields and costs associated with certain items within interest-earning assets and interest-bearing liabilities in the broker-dealer segment, including items related to securities financing operations that particularly decrease net interest margin. In addition, the banking segment's interest-earning assets include warehouse lines of credit extended to other subsidiaries, which are eliminated from the consolidated financial statements.

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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,					
	2015 vs. 2014			2014 vs. 2013		
	Change Due To (1)			Change Due To (1)		
	Volume	Yield/Rate	Change	Volume	Yield/Rate	Change
Interest income						
Loans, gross	$ 41,943	$ (6,418)	$ 35,525	$ 66,182	$ (11,637)	$ 54,545
Subsidiary warehouse lines of credit	5,416	(2,242)	3,174	(1,857)	(14,659)	(16,516)
Investment securities - taxable	(1,908)	1,193	(715)	1,721	1,610	3,331
Investment securities - non-taxable (2)	(328)	(177)	(505)	(328)	394	66
Federal funds sold and securities purchased under agreements to resell	11	2	13	(23)	—	(23)
Interest-bearing deposits in other financial institutions	(111)	115	4	89	(46)	43
Other	181	(153)	28	554	(148)	406
Total interest income (2)	45,204	(7,680)	37,524	66,338	(24,486)	41,852
Interest expense						
Deposits	$ (134)	$ 1,325	$ 1,191	$ 2,101	$ (1,189)	$ 912
Notes payable and other borrowings	(7)	345	338	674	(234)	440
Total interest expense	(141)	1,670	1,529	2,775	(1,423)	1,352
Net interest income (2)	$ 45,345	$ (9,350)	$ 35,995	$ 63,563	$ (23,063)	$ 40,500

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

Taxable equivalent net interest income increased $36.0 million during 2015, compared with 2014. Increases in the volume of interest-earning assets, primarily loans acquired in the SWS Merger and additional amounts drawn on the subsidiary warehouse lines of credit, increased taxable equivalent net interest income by $45.2 million during 2015, compared with 2014. Changes in the yields earned on interest-earning assets decreased taxable equivalent net interest income by $7.7 million during 2015, compared with 2014, primarily due to the net effects of lower yields on the loan portfolio and subsidiary warehouse lines of credit, partially offset by increased yields on the investment portfolio. Changes in rates paid on interest-bearing liabilities decreased taxable equivalent net interest income by $1.7 million during 2015, compared with 2014, primarily due to lower amortization of premiums on time deposits acquired in the FNB Transaction. Taxable equivalent net interest income increased $40.5 million during 2014, compared with 2013. Increases in the volume of interest-earning assets, primarily loans acquired in the FNB Transaction, increased taxable equivalent net interest income by $66.3 million during 2014, compared with 2013, while increases in the volume of interest-bearing liabilities, primarily deposits assumed in the FNB Transaction, reduced taxable equivalent interest income by $2.8 million during this same period. Changes in the yields earned on interest-earning assets decreased taxable equivalent net interest income by $24.5 million during 2014, compared with 2013, primarily due to the net effects of lower yields on the loan portfolio and subsidiary warehouse lines of credit, partially offset by increased yields on the investment portfolio. Changes in rates paid on interest-bearing liabilities increased taxable equivalent interest income by $1.4 million during 2014, compared with 2013, primarily due to the amortization of premiums on time deposits acquired in the FNB Transaction.

The banking segment's noninterest income was $62.6 million, $67.4 million and $71.0 million during 2015, 2014 and 2013, respectively. The decrease during 2015, compared with 2014, was primarily due to year-over-year decreases in accretion on the receivable under the loss-share agreements with the FDIC ("FDIC Indemnification Asset"), OREO income and service fees, partially offset by $4.4 million of realized gains on securities acquired in the SWS Merger and subsequently sold during 2015. The changes in noninterest income between 2014 and 2013 included the recognition of a pre-tax bargain purchase gain related to the FNB Transaction of $12.6 million during 2013. The remaining changes in noninterest income during 2014, compared with 2013, were due to increases in service charges and fees on deposits assumed in the FNB Transaction, partially offset by a reduction in intercompany financing fees charged to the mortgage origination segment which are eliminated from the consolidated financial statements.

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The banking segment's noninterest expenses were $243.9 million, $245.8 million and $155.1 million during 2015, 2014 and 2013, respectively. Noninterest expenses were primarily comprised of employees' compensation and benefits, and occupancy expenses. Noninterest expenses during 2015, compared with 2014, were relatively flat, but included reduced write downs on certain OREO assets acquired in the FNB Transaction and increased gains on the sale of certain OREO assets also acquired in the FNB Transaction. These changes were offset by increases in compensation and benefits associated with the addition of employees of the former SWS FSB and pre-tax integration-related costs directly attributable to the integration of the former SWS FSB of $3.0 million related to employee, professional fees and contractual expenses. The significant increase in noninterest expenses during 2014, compared with 2013, was primarily due to the inclusion of the operations acquired in the FNB Transaction and write downs of $19.7 million associated with covered OREO assets during 2014. The write downs to fair value of the covered OREO reflect new appraisals on certain OREO acquired in the FNB Transaction and OREO acquired from the foreclosure on certain loans acquired in the FNB Transaction. Although the Bank recorded a fair value discount on the acquired assets upon acquisition, in some cases additional downward valuations were required.

These additional downward valuation adjustments reflect changes to the assumptions regarding the fair value of the OREO, including in some cases the intended use of the OREO due to the availability of more information as well as the passage of time. The process of determining fair value is subjective in nature and requires the use of significant estimates and assumptions. Although the Bank makes market-based assumptions when valuing acquired assets, new information may come to light that causes estimates to increase or decrease. When the Bank determines, based on subsequent information, that its estimates require adjustment, the Bank records the adjustment. The accounting for such adjustments requires that the decreases to fair value be recorded at the time such new information is received, while increases to fair value are recorded when the asset is subsequently sold.

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Broker-Dealer Segment

Loss before income taxes in our broker-dealer segment during 2015 was $0.3 million, while income before income taxes during 2014 and 2013 was $6.9 million and $2.4 million, respectively. The change in income (loss) before income taxes during 2015, compared with 2014, was primarily the result of pre-tax transaction and integration-related costs of $15.2 million directly attributable to the SWS Merger, while most of the improvement in income before income taxes during 2014, compared with 2013, was in fees earned from advising public finance clients on an increased volume of debt offerings due to lower interest rates and an improving economy. As shown in the table below, the operations acquired in the SWS Merger had a significant impact on each of the components of income (loss) before income taxes during 2015, compared with 2014 and 2013.

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

	Year Ended December 31,			Variance	
	2015	2014	2013	2015 vs 2014	2014 vs 2013
Net interest income:					
Securities lending	$ 11,158	$ 3,276	$ 3,400	$ 7,882	$ (124)
Other	21,813	8,868	8,664	12,945	204
Total net interest income	32,971	12,144	12,064	20,827	80
Noninterest income:					
Securities commissions and fees by business line (1):					
Capital markets	56,135	15,413	18,935	40,722	(3,522)
Retail	78,470	777	828	77,693	(51)
Clearing	23,919	10,805	8,981	13,114	1,824
Other	3,506	316	571	3,190	(255)
	162,030	27,311	29,315	134,719	(2,004)
Investment banking and advisory fees by business line:					
Public finance	90,337	69,304	59,871	21,033	9,433
Capital markets	2,384	(252)	(1,376)	2,636	1,124
Retail	15,258	(2)	(2)	15,260	—
Structured finance	5,678	2,768	3,213	2,910	(445)
Clearing	48	45	44	3	1
Other	2,227	2,690	1,973	(463)	717
	115,932	74,553	63,723	41,379	10,830
Other	56,533	17,587	9,676	38,946	7,911
Total noninterest income	334,495	119,451	102,714	215,044	16,737
Noninterest expense:					
Compensation and benefits expenses	255,629	78,598	68,276	177,031	10,322
Other	112,103	46,134	44,102	65,969	2,032

Total noninterest expense	367,732	124,732	112,378	243,000	12,354
Income (loss) before income taxes	$ (266)	$ 6,863	$ 2,400	$ (7,129)	$ 4,463

(1) Securities commissions and fees includes income of $1.4 million during 2015 that is eliminated in consolidation.

The broker-dealer segment had net interest income of $33.0 million, $12.1 million and $12.1 million during 2015, 2014 and 2013, 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 2015, compared with 2014 was primarily due to the inclusion of the operations acquired in the SWS Merger.

Noninterest income was $334.5 million, $119.5 million and $102.7 million during 2015, 2014 and 2013, respectively. The increase in noninterest income of $215.0 million during 2015, compared with 2014, was primarily due to an increase of $174.4 million associated with the inclusion of the former SWS's operations, increased fees earned by FSC from increased volumes in its non-profit housing program and increased advisory fees earned by FSC from public finance clients. The increase in noninterest income of $16.7 million during 2014, compared with 2013, was primarily from fees earned on advising public finance clients on an increased volume of debt offerings.

The broker-dealer segment participates in programs in which it issues forward purchase commitments of mortgage-backed securities to certain non-profit housing clients and sells U.S. Agency TBA securities. Additionally, TBA purchase and sales agreements are entered into to assist small to mid-size mortgage loan originators in hedging the interest rate risk associated with their client-owned mortgages. The fair values of these derivative instruments increased $43.7 million, $16.2 million and $11.4 million during 2015, 2014 and 2013, respectively. The Hilltop Broker-Dealers also hold trading securities to support sales, underwriting and other customer activities. The fair values of securities within this trading portfolio increased $13.0 million and $1.3 million during 2015 and 2014, respectively, and decreased

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$1.8 million during 2013. These changes in the fair value of derivative instruments and trading portfolio are included within other noninterest income.

Noninterest expenses were $367.7 million, $124.7 million and $112.4 million during 2015, 2014 and 2013, respectively.

The increase in noninterest expenses, including provision for loan losses, of $243.0 million during 2015, compared with 2014, reflects an increase of $177.0 million in employees' compensation and benefits costs, of which $154.0 million was associated with the operations acquired in the SWS Merger and an increase in compensation that varies with noninterest income of $20.6 million in First Southwest's compensation and benefits expenses. In addition, during 2015, the broker-dealer segment incurred pre-tax transaction costs of $0.8 million, while pre-tax integration-related costs resulting from employee expenses, professional fees and contractual expenses directly attributable to the integration of the operations acquired in the SWS Merger were $6.9 million, $5.6 million and $1.9 million, respectively, during 2015. The increase in noninterest expenses of $12.4 million during 2014, compared with 2013, was primarily due to increases of $6.8 million in employees' compensation costs that varies with noninterest income, benefits costs and $2.3 million in litigation defense costs associated with a lawsuit pending in the state of Rhode Island. Increases in occupancy and equipment expenses accounted for the majority of the noninterest expenses incurred during each respective period.

On October 22, 2015, FINRA granted approval to combine FSC and Hilltop Securities, subject to customary conditions. Since this approval, we have integrated the back-office systems of FSC and Hilltop Securities and, effective as of January 22, 2016, we merged FSC and Hilltop Securities into a combined firm operating under the "Hilltop Securities" name. As a result, we expect to begin realizing cost savings to commence in 2016, however, we expect these costs savings to be potentially offset by integration costs that we anticipate incurring during the first six months of 2016.

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

	Year Ended December 31, 2015	2014	2013
Compensation as a % of net revenue	69.6%	59.7%	59.5%
FDIC insured program balances at PlainsCapital Bank (end of period)	$ 845,569	$ 280,812	$ 220,549
Other FDIC insured program balances (end of period)	$ 1,380,030	$ 193,788	$ 110,068
Customer margin balances (end of period)	$ 414,013	$ 207,299	$ 148,388
Customer funds on deposit, including short credits (end of period)	$ 474,773	$ 136,886	$ 104,578
Public finance:			
Number of issues	1,655	1,170	1,522
Aggregate amount of offerings	$ 70,021,094	$ 40,741,221	$ 33,672,254

Capital markets:			
Total volumes	$ 76,737,890	$ 32,463,513	$ 30,502,416
Net inventory (end of period)	$ 62,879	$ 44,894	$ 37,838
Retail:			
Retail employee representatives (end of period)	118	4	4
Independent registered representatives (end of period)	234	—	—
Structured finance:			
Lock production/TBA volume	$ 3,848,214	$ 1,658,217	$ 1,072,391
Clearing:			
Total tickets	$ 2,396,478	$ 1,500,192	$ 829,615
Correspondents (end of period)	205	74	77
Securities lending:			
Interest-earning assets - stock borrowed (end of period)	$ 1,307,741	$ 152,899	$ 107,365
Interest-bearing liabilities - stock loaned (end of period)	$ 1,235,466	$ 117,822	$ 74,913

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Mortgage Origination Segment

Income before income taxes in our mortgage origination segment during 2015, 2014 and 2013 was $47.5 million, $12.4 million and $27.4 million, respectively. The increase in income before income taxes during 2015, compared with 2014, was primarily due to increases in noninterest income partially offset by increases in compensation that varies with the volume of mortgage loan originations ("variable compensation"), and to a lesser extent, increases in other noninterest expenses. The decrease in income before income taxes during 2014, compared with 2013, was primarily due to a decrease in noninterest income, partially offset by decreases in noninterest expense and net interest expense. Net interest expense of $10.4 million, $12.6 million and $37.8 million during 2015, 2014 and 2013, respectively, resulted from interest incurred on a warehouse line of credit held with the Bank as well as related intercompany financing costs, partially offset by interest income earned on loans held for sale.

The mortgage origination segment originates all of its mortgage loans through a retail channel. The following table provides certain details regarding our mortgage loan originations and selected information for the periods indicated below (dollars in thousands).

	Year Ended December 31,												
	2015		% of Total		2014		% of Total		2013		% of Total	
Mortgage Loan Originations - units		59,621				48,655				55,781		
Mortgage Loan Originations - volume	$	13,352,119			$	10,363,848			$	11,792,562		
Mortgage Loan Originations:												
Conventional	$	8,394,709	62.87	%	$	6,487,825	62.60	%	$	7,505,437	63.65	%
Government		3,395,587	25.43	%		2,737,415	26.41	%		3,465,078	29.38	%
Jumbo		961,598	7.20	%		863,770	8.34	%		780,604	6.62	%
Other		600,225	4.50	%		274,838	2.65	%		41,443	0.35	%
	$	13,352,119	100.00	%	$	10,363,848	100.00	%	$	11,792,562	100.00	%
Home purchases	$	9,891,792	74.08	%	$	8,295,994	80.05	%	$	8,178,970	69.36	%
Refinancings		3,460,327	25.92	%		2,067,854	19.95	%		3,613,592	30.64	%
	$	13,352,119	100.00	%	$	10,363,848	100.00	%	$	11,792,562	100.00	%
Texas	$	2,967,740	22.23	%	$	2,453,705	23.68	%	$	2,660,810	22.56	%
California		1,965,039	14.72	%		1,552,372	14.98	%		2,082,184	17.66	%
Florida		644,090	4.82	%		505,507	4.88	%		456,643	3.87	%
Ohio		555,106	4.16	%		401,379	3.87	%		383,518	3.25	%
North Carolina		492,879	3.69	%		423,164	4.08	%		618,802	5.25	%

Maryland	452,280	3.39 %	298,577	2.88 %	385,215	3.27 %
Washington	451,277	3.38 %	298,845	2.88 %	360,100	3.05 %
Virginia	442,924	3.32 %	322,134	3.11 %	466,531	3.96 %
Arizona	415,215	3.11 %	339,830	3.28 %	392,006	3.32 %
South Carolina	385,347	2.89 %	307,832	2.97 %	318,109	2.70 %
All other states	4,580,222	34.30 %	3,460,503	33.39 %	3,668,644	31.11 %
	$ 13,352,119	100.00 %	$ 10,363,848	100.00 %	$ 11,792,562	100.00 %
Mortgage Loan Sales - volume	$ 13,129,069		$ 10,164,350		$ 12,045,842	

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. On October 3, 2015, lender compliance changes associated with TILA-RESPA Integrated Disclosures (“TRID”) became effective and significantly modified required disclosure documents and settlement procedures associated with home mortgage loans. Lender compliance with TRID could result in delays in loan closings or delays in mortgage processing, particularly in the early stages of implementation. While the implementation of TRID by PrimeLending has not yet significantly impacted its loan origination volumes, the long-term impact of TRID on the mortgage loan origination process, volumes and associated costs are yet unknown.

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Refinancing volume increased to $3.5 billion during 2015 (representing 25.9% of total loan origination volume) from $2.1 billion during 2014 (representing 20.0% of total loan origination volume). The increase in refinancing volume as a percent of total loan origination volume during 2015, compared to 2014, was primarily the result of a decline in mortgage interest rates during the first six months of 2015. Refinancing volume during the first six months of 2015 and 2014 represented 30.8% and 17.9% of total loan origination volume, respectively, compared with 21.1% and 21.7% during the second six months of 2015 and 2014, respectively. Home purchases volume during 2015 increased to $9.9 billion from $8.3 billion during 2014. Refinancing volumes decreased to $2.1 billion from $3.6 billion during 2014 compared with 2013 (representing 20.0% and 30.6%, respectively, of total loan origination volume), while home purchases volume of $8.3 billion during 2014 was virtually unchanged from 2013. The decrease in refinancing volume during 2014, compared with 2013, was primarily due to an increase in mortgage interest rates beginning in May 2013 and continuing through the fourth quarter of 2013. Refinancing volumes as a percentage of total loan origination volume were 40.0% and 19.0% during the first and second six months of 2013, respectively. During the first three quarters of 2014, refinancing volumes as a percentage of total loan origination volume were consistent with the last six months of 2013, ranging between 16% and 21%. During the fourth quarter 2014, refinancing volume increased to 25% of total origination volume, as interest rates decreased during that time. While the Federal Reserve Board increased the target federal funds rate in December 2015 for the first time in seven years and indicated that it may further increase such target rate in 2016, mortgage interest rates have declined during January and February 2016. This recent decrease in mortgage rates may affect total loan origination volume in the near-term, increasing refinancing volume above normal seasonal levels.

The mortgage origination segment's total loan origination volume during 2015 increased 28.8%, compared with 2014, while income before income taxes during 2015 increased 284.0%, compared with 2014. Income before income taxes during 2015 increased at a greater rate than loan origination volume compared with 2014, primarily due to noninterest income increasing by 30.7%, compared with an increase in noninterest expense of 24.9%. While the mortgage origination segment's total loan origination volume decreased 12.1% between 2014 and 2013, income before income taxes decreased 54.8%, primarily due to a 15.0% reduction in noninterest income, partially offset by a combined 12.9% decrease in noninterest expense and net interest expense. To address negative trends in loan origination volume resulting from changes in interest rates that began in May 2013, the mortgage origination segment reduced its non-origination employee headcount approximately 22% during the third and fourth quarters of 2013. Salaries and benefits expenses during 2014 decreased 11.0%, compared with 2013, as the benefits of the headcount reductions made in the third and fourth quarters of 2013 were realized in 2014. The mortgage origination segment also engaged in other initiatives to reduce segment operating costs during the third and fourth quarters of 2013 that were primarily responsible for the decrease of 6.0% in non-employee related expenses, including occupancy and administrative costs, during 2014, as compared with 2013. As loan origination volumes in 2015 approached volumes experienced during the second quarter of 2013, employee headcount as of December 31, 2015 increased to a level similar to that prior to the headcount reduction actions during the third and fourth quarters of 2013. As a result, salaries and benefit expenses during 2015 increased 15.8% compared with 2014.

Noninterest income was $597.2 million, $456.8 million and $537.5 million during 2015, 2014 and 2013, respectively, and was comprised of the following (in thousands).

	Year Ended December 31,	Variance

	2015	2014	2013	2015 vs 2014	2014 vs 2013
Net gains from sale of loans	$ 491,532	$ 370,384	$ 465,656	$ 121,148	$ (95,272)
Mortgage loan origination fees	77,708	63,011	79,736	14,697	(16,725)
Other mortgage production income:					
Change in net fair value and related derivative activity:					
Interest rate lock commitments and loans held for sale	13,796	14,349	(11,132)	(553)	25,481
Mortgage servicing rights asset	(5,424)	(4,304)	—	(1,120)	(4,304)
Servicing fees	19,551	13,336	3,237	6,215	10,099
	$ 597,163	$ 456,776	$ 537,497	$ 140,387	$ (80,721)

Net gains on sale of loans and mortgage origination fees increased 32.7% and 23.3% during 2015, respectively, compared with 2014. These increases were primarily a result of increases of 29.2% and 28.8% in total loan sales and origination volumes, respectively, during 2015, in addition to an approximate 3% increase in average loan sales margins and an approximate 4% decrease in average loan origination fees, compared with 2014. Net gains on sale of loans and mortgage origination fees decreased 20.5% and 21.0% during 2014, respectively, compared with 2013. The decrease in

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net gains on sale of loans during 2014 was primarily a result of a 15.6% decrease in total loan sales volume, in addition to an approximate 6% decrease in average loan sales margins, compared with 2013. The decrease in mortgage loan origination fees during 2014 was primarily a result of a 12.1% decrease in total loan origination volume, in addition to an approximate 10% decrease in average loan origination fees, compared with 2013. Average combined loan sales margins and origination fees began to decrease during the fourth quarter of 2013 and continued to decrease through the second quarter of 2014. While these average margins increased during the last six months of 2014, surpassing average margins recognized during the fourth quarter of 2013, these average margins did not return to levels recognized during the first three quarters of 2013.

Noninterest income included increases of $13.8 million and $14.3 million during 2015 and 2014, respectively, compared with a decrease of $11.1 million during 2013, in the net fair value of the mortgage origination segment's interest rate lock commitments ("IRLCs") and loans held for sale and the related activity associated with forward commitments used by the mortgage origination segment to mitigate interest rate risk associated with its IRLCs and mortgage loans held for sale. The increases during 2015 and 2014 were primarily a result of increases in the volume of IRLCs and mortgage loans held during these periods, in addition to increases in the average value of individual IRLCs and mortgage loans. The decrease during 2013 in net fair value was primarily the result of a decrease in the volume of IRLCs and mortgage loans held during this period, partially offset by an increase in the average value of individual IRLCs and mortgage loans.

The mortgage origination segment sells substantially all mortgage loans it originates to various investors in the secondary market, the majority servicing released. During the six months ended June 30, 2013, the mortgage origination segment retained servicing on approximately 8% of loans sold. This rate increased to approximately 22% during the third and fourth quarters of 2013, and approximately 31% during 2014 before decreasing to approximately 20% during the nine months ended September 30, 2015 and approximately 7% during the fourth quarter of 2015. 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 $53.5 million on $5.2 billion of serviced loan volume at December 31, 2015, compared with a value of $37.4 million on $3.8 billion of serviced loan volume at December 31, 2014. 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. During the third quarter of 2014, the mortgage origination segment began using derivative financial instruments, including interest rate swaps, swaptions and forward commitments to sell mortgage-backed securities, as a means to mitigate market risk associated with its MSR asset. Changes in the net fair value of the MSR asset and the related derivatives resulted in net losses of $5.4 million and $4.3 million during 2015 and 2014, respectively. These net losses were offset by net servicing income of $8.9 million and $6.6 million during 2015 and 2014, respectively. In July 2014, the mortgage origination segment sold MSR assets of $11.4 million, which represented $1.0 billion of its serviced loan volume at that time.

Noninterest expenses were $539.3 million, $431.8 million and $472.3 million during 2015, 2014 and 2013, respectively, and were comprised of the following (in thousands).

	Year Ended December 31,			Variance	
				2015 vs	2014 vs
	2015	2014	2013	2014	2013
Variable compensation	$ 228,590	$ 164,394	$ 186,150	$ 64,196	$ (21,756)
Segment operating costs	263,049	226,721	254,320	36,328	(27,599)
Unreimbursed closing costs	37,010	33,947	30,095	3,063	3,852
Servicing expense	10,608	6,758	1,719	3,850	5,039
	$ 539,257	$ 431,820	$ 472,284	$ 107,437	$ (40,464)

Employees' compensation and benefits accounted for the majority of the noninterest expenses incurred during all periods presented. Variable compensation increased $64.2 million during 2015, compared with 2014, and comprised 62.2% and 57.8% of the total employees' compensation and benefits expenses during 2015 and 2014, respectively. Variable compensation decreased $21.8 million during 2014, compared with 2013, and comprised 58.2% of the total employees' compensation and benefits expenses during 2013. Variable compensation tends to fluctuate to a greater degree than loan origination volumes because mortgage loan originator and fulfillment staff incentive compensation plans are structured to pay at increasing rates as higher monthly volume tiers are achieved.

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While total loan origination volumes increased 28.8% during 2015, compared with 2014, the mortgage origination segment's operating costs increased 16.0%. The largest increases in segment operating costs during 2015, compared with 2014, were increases in employee compensation and benefits totaling $18.9 million. The remaining increases in segment operating costs during 2015, compared with 2014, were primarily increases in costs associated with loan servicing, loan production, advertising and business development, and technology initiatives. During 2014, compared with 2013, segment operating costs decreased 10.9%, while total loan origination volumes decreased 12.1%. Employee compensation and benefits decreased $14.5 million during 2014, compared with 2013, primarily as a result of headcount reductions in the third and fourth quarters of 2013. The remaining decreases in segment operating costs during 2014, compared with 2013, were primarily decreases in costs associated with general administration. 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.

The mortgage origination segment records unreimbursed closing costs as noninterest expense when it pays a customer's closing costs. Unreimbursed closing costs are generally paid in return for the customer choosing to accept a higher interest rate on the customer's mortgage loan, and as a result, unreimbursed closing costs typically increase as mortgage interest rates decrease and decrease as mortgage interest rates increase, subject to other market forces that may cause this relationship to differ in the short-term.

Between January 1, 2006 and December 31, 2015, the mortgage origination segment sold mortgage loans totaling $76.1 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 2006, it does not anticipate experiencing significant losses in the future on loans originated prior to 2006 as a result of investor claims under these provisions of its sales contracts.

When an investor claim for indemnification of a loan sold is made, the mortgage origination segment evaluates the claim and determines if the claim can be satisfied through additional documentation or other deliverables. If the claim cannot be satisfied in that manner, the mortgage origination segment negotiates with the investor to reach a settlement of the claim. Settlements typically result in either the repurchase of a loan or reimbursement to the investor for losses incurred on the loan. Following is a summary of the mortgage origination segment's claims resolution activity relating to loans sold between January 1, 2006 and December 31, 2015 (dollars in thousands).

	Original Loan Balance		Loss Recognized	
		% of Loans		% of Loans