

Hilltop Holdings Inc.
Form 10-Q
October 27, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

Commission File Number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or
organization)

84-1477939
(I.R.S. Employer Identification No.)

200 Crescent Court, Suite 1330

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Dallas, TX
(Address of principal executive offices)

75201
(Zip Code)

(214) 855-2177

(Registrant's telephone number, including area code)

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 Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or 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

Smaller reporting company

(Do not check if a 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

The number of shares of the registrant's common stock outstanding at October 27, 2016 was 98,539,056.

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HILLTOP HOLDINGS INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

| | September 30, 2016 | December 31, 2015 |
|---|--------------------------|-------------------------|
| Assets | | |
| Cash and due from banks | \$ 528,519 | \$ 652,036 |
| Federal funds sold | 40,419 | 17,409 |
| Securities purchased under agreements to resell | 138,284 | 105,660 |
| Assets segregated for regulatory purposes | 173,840 | 158,613 |
| Securities: | | |
| Trading, at fair value | 402,104 | 214,146 |
| Available for sale, at fair value (amortized cost of \$551,827 and \$670,003, respectively) | 563,720 | 673,706 |
| Held to maturity, at amortized cost (fair value of \$369,746 and \$331,468, respectively) | 365,934 | 332,022 |
| | 1,331,758 | 1,219,874 |
| Loans held for sale | 1,673,069 | 1,533,678 |
| Non-covered loans, net of unearned income | 5,674,655 | 5,220,040 |
| Allowance for non-covered loan losses | (52,625) | (45,415) |
| Non-covered loans, net | 5,622,030 | 5,174,625 |
| Covered loans, net of allowance of \$729 and \$1,532, respectively | 292,031 | 378,762 |
| Broker-dealer and clearing organization receivables | 1,340,617 | 1,362,499 |
| Premises and equipment, net | 190,645 | 200,618 |
| FDIC indemnification asset | 73,351 | 91,648 |
| Covered other real estate owned | 61,988 | 99,090 |
| Other assets | 657,805 | 565,813 |
| Goodwill | 251,808 | 251,808 |
| Other intangible assets, net | 47,112 | 54,868 |
| Total assets | \$ 12,423,276 | \$ 11,867,001 |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Noninterest-bearing | \$ 2,232,813 | \$ 2,235,436 |
| Interest-bearing | 4,797,772 | 4,717,247 |
| Total deposits | 7,030,585 | 6,952,683 |

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| | | |
|--|---------------|---------------|
| Broker-dealer and clearing organization payables | 1,251,839 | 1,338,305 |
| Short-term borrowings | 1,265,022 | 947,373 |
| Securities sold, not yet purchased, at fair value | 164,633 | 130,044 |
| Notes payable | 313,313 | 238,716 |
| Junior subordinated debentures | 67,012 | 67,012 |
| Other liabilities | 481,504 | 454,743 |
| Total liabilities | 10,573,908 | 10,128,876 |
| Commitments and contingencies (see Notes 12 and 13) | | |
| Stockholders' equity: | | |
| Hilltop stockholders' equity: | | |
| Common stock, \$0.01 par value, 125,000,000 shares authorized; 98,540,676 and 98,896,184 shares issued and outstanding, respectively | 985 | 989 |
| Additional paid-in capital | 1,570,025 | 1,577,270 |
| Accumulated other comprehensive income | 8,039 | 2,629 |
| Retained earnings | 266,048 | 155,475 |
| Deferred compensation employee stock trust, net | 900 | 1,034 |
| Employee stock trust (15,496 and 22,196 shares, at cost, respectively) | (309) | (443) |
| Total Hilltop stockholders' equity | 1,845,688 | 1,736,954 |
| Noncontrolling interests | 3,680 | 1,171 |
| Total stockholders' equity | 1,849,368 | 1,738,125 |
| Total liabilities and stockholders' equity | \$ 12,423,276 | \$ 11,867,001 |

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income: | | | | |
| Loans, including fees | \$ 97,590 | \$ 111,315 | \$ 287,591 | \$ 295,670 |
| Securities borrowed | 9,037 | 10,116 | 22,952 | 29,809 |
| Securities: | | | | |
| Taxable | 5,935 | 6,262 | 19,136 | 19,538 |
| Tax-exempt | 1,518 | 1,683 | 4,692 | 4,981 |
| Other | 1,183 | 1,169 | 3,248 | 3,878 |
| Total interest income | 115,263 | 130,545 | 337,619 | 353,876 |
| Interest expense: | | | | |
| Deposits | 3,996 | 3,719 | 11,872 | 11,934 |
| Securities loaned | 6,954 | 7,110 | 17,857 | 21,505 |
| Short-term borrowings | 1,497 | 1,189 | 3,974 | 3,356 |
| Notes payable | 2,793 | 2,524 | 7,993 | 5,482 |
| Junior subordinated debentures | 673 | 605 | 1,973 | 1,785 |
| Other | 180 | 187 | 543 | 544 |
| Total interest expense | 16,093 | 15,334 | 44,212 | 44,606 |
| Net interest income | 99,170 | 115,211 | 293,407 | 309,270 |
| Provision for loan losses | 3,990 | 5,593 | 36,273 | 8,438 |
| Net interest income after provision for loan losses | 95,180 | 109,618 | 257,134 | 300,832 |
| Noninterest income: | | | | |
| Net realized gains on securities | — | — | — | 4,403 |
| Net gains from sale of loans and other mortgage production income | 175,412 | 137,303 | 469,721 | 405,023 |
| Mortgage loan origination fees | 26,807 | 22,647 | 71,417 | 58,194 |
| Net insurance premiums earned | 38,747 | 41,196 | 117,201 | 121,081 |
| Securities commissions and fees | 39,722 | 39,070 | 118,481 | 123,201 |
| Investment and securities advisory fees and commissions | 31,129 | 27,667 | 84,302 | 82,254 |
| Bargain purchase gain | — | — | — | 81,289 |
| Other | 42,641 | 28,586 | 116,716 | 75,270 |
| Total noninterest income | 354,458 | 296,469 | 977,838 | 950,715 |

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| | | | | |
|--|-----------|-----------|------------|------------|
| Noninterest expense: | | | | |
| Employees' compensation and benefits | 225,194 | 200,620 | 625,353 | 583,415 |
| Loss and loss adjustment expenses | 16,055 | 17,335 | 75,225 | 77,436 |
| Policy acquisition and other underwriting expenses | 11,064 | 11,784 | 33,632 | 35,198 |
| Occupancy and equipment, net | 27,460 | 29,341 | 82,264 | 89,368 |
| Other | 84,360 | 74,422 | 240,213 | 215,878 |
| Total noninterest expense | 364,133 | 333,502 | 1,056,687 | 1,001,295 |
| | | | | |
| Income before income taxes | 85,505 | 72,585 | 178,285 | 250,252 |
| Income tax expense | 33,017 | 25,338 | 65,879 | 58,895 |
| | | | | |
| Net income | 52,488 | 47,247 | 112,406 | 191,357 |
| Less: Net income attributable to noncontrolling interest | 556 | 353 | 1,833 | 1,111 |
| | | | | |
| Income attributable to Hilltop | 51,932 | 46,894 | 110,573 | 190,246 |
| Dividends on preferred stock | — | — | — | 1,854 |
| Income applicable to Hilltop common stockholders | \$ 51,932 | \$ 46,894 | \$ 110,573 | \$ 188,392 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | \$ 0.53 | \$ 0.47 | \$ 1.12 | \$ 1.89 |
| Diluted | \$ 0.53 | \$ 0.47 | \$ 1.12 | \$ 1.88 |
| | | | | |
| Weighted average share information: | | | | |
| Basic | 98,490 | 98,676 | 98,367 | 99,297 |
| Diluted | 98,625 | 99,556 | 98,573 | 100,191 |

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 52,488 | \$ 47,247 | \$ 112,406 | \$ 191,357 |
| Other comprehensive income: | | | | |
| Net unrealized gains (losses) on securities available for sale, net of tax of \$(420), \$3,222, \$3,004 and \$3,847, respectively | (743) | 5,697 | 5,410 | 6,755 |
| Reclassification adjustment for gains included in net income, net of tax of \$(1,589) | — | — | — | (2,814) |
| Comprehensive income | 51,745 | 52,944 | 117,816 | 195,298 |
| Less: comprehensive income attributable to noncontrolling interest | 556 | 353 | 1,833 | 1,111 |
| Comprehensive income applicable to Hilltop | \$ 51,189 | \$ 52,591 | \$ 115,983 | \$ 194,187 |

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(Unaudited)

| Preferred Stock | Common Stock | | Additional | Accumulated | Retained | Deferred | Employee | Total | |
|-----------------|--------------|--------|--------------|---------------|--------------|--------------|-------------|---------------|--------------|
| Amount | Shares | Amount | Paid-in | Other | Earnings | Compensation | Stock Trust | Hilltop | |
| | | | Capital | Comprehensive | (Accumulated | Employee | Shares | Stockholders' | |
| | | | | Income | Deficit) | Trust, | Amount | Equity | |
| | | | | | | Net | | | |
| \$ 114,068 | 90,182 | \$ 902 | \$ 1,390,788 | \$ 651 | \$ (45,957) | \$ — | — | \$ — | \$ 1,460,452 |
| — | — | — | — | — | 190,246 | — | — | — | 190,246 |
| — | — | — | — | 3,941 | — | — | — | — | 3,941 |
| — | 10,113 | 101 | 199,932 | — | — | — | — | — | 200,033 |
| — | — | — | 6,278 | — | — | — | — | — | 6,278 |
| — | 8 | — | 173 | — | — | — | — | — | 173 |
| — | (19) | — | (75) | — | — | — | — | — | (75) |
| — | — | — | — | — | (1,854) | — | — | — | (1,854) |
| (114,068) | — | — | — | — | — | — | — | — | (114,068) |
| — | (1,391) | (14) | (22,327) | — | (7,687) | — | — | — | (30,028) |
| — | — | — | — | — | — | 1,182 | 30 | (590) | 592 |
| — | — | — | — | — | — | — | — | — | — |

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| | | | | | | | | | |
|------|--------|--------|--------------|----------|------------|----------|-----|----------|--------------|
| \$ — | 98,893 | \$ 989 | \$ 1,574,769 | \$ 4,592 | \$ 134,748 | \$ 1,182 | 30 | \$ (590) | \$ 1,715,690 |
| \$ — | 98,896 | \$ 989 | \$ 1,577,270 | \$ 2,629 | \$ 155,475 | \$ 1,034 | 22 | \$ (443) | \$ 1,736,954 |
| — | — | — | — | — | 110,573 | — | — | — | 110,573 |
| — | — | — | — | 5,410 | — | — | — | — | 5,410 |
| — | 538 | 5 | 4,134 | — | — | — | — | — | 4,139 |
| — | — | — | 7,274 | — | — | — | — | — | 7,274 |
| — | 17 | — | 325 | — | — | — | — | — | 325 |
| — | (94) | (1) | (2,710) | — | — | — | — | — | (2,711) |
| — | (816) | (8) | (16,268) | — | — | — | — | — | (16,276) |
| — | — | — | — | — | — | (134) | (7) | 134 | — |
| — | — | — | — | — | — | — | — | — | — |
| \$ — | 98,541 | \$ 985 | \$ 1,570,025 | \$ 8,039 | \$ 266,048 | \$ 900 | 15 | \$ (309) | \$ 1,845,688 |

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2016 | 2015 |
| Operating Activities | | |
| Net income | \$ 112,406 | \$ 191,357 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | 36,273 | 8,438 |
| Depreciation, amortization and accretion, net | (37,616) | (67,557) |
| Net realized gains on securities | — | (4,403) |
| Bargain purchase gain | — | (81,289) |
| Deferred income taxes | 4,878 | 11,459 |
| Other, net | 11,661 | (91) |
| Net change in securities purchased under agreements to resell | (32,624) | (39,148) |
| Net change in assets segregated for regulatory purposes | (15,227) | 29,372 |
| Net change in trading securities | (187,958) | 39,367 |
| Net change in broker-dealer and clearing organization receivables | 149,674 | (680,699) |
| Net change in FDIC Indemnification Asset | 18,486 | 38,561 |
| Net change in other assets | (50,760) | (90,417) |
| Net change in broker-dealer and clearing organization payables | (117,398) | 708,838 |
| Net change in other liabilities | 32,977 | 3,138 |
| Proceeds from sale of mortgage servicing rights asset | 7,586 | — |
| Net gains from sales of loans | (469,721) | (405,023) |
| Loans originated for sale | (11,995,553) | (10,628,783) |
| Proceeds from loans sold | 12,292,342 | 10,965,234 |
| Net cash used in operating activities | (240,574) | (1,646) |
| Investing Activities | | |
| Proceeds from maturities and principal reductions of securities held to maturity | 141,485 | 51,838 |
| Proceeds from sales, maturities and principal reductions of securities available for sale | 367,307 | 599,737 |
| Purchases of securities held to maturity | (175,781) | (167,284) |
| Purchases of securities available for sale | (250,896) | (22,769) |
| Net change in loans | (465,542) | 16,205 |
| Purchases of premises and equipment and other assets | (31,119) | (23,410) |
| Proceeds from sales of premises and equipment and other real estate owned | 58,490 | 94,680 |

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| | | |
|---|------------|------------|
| Proceeds from redemption of bank owned life insurance | — | 822 |
| Net cash paid for Federal Home Loan Bank and Federal Reserve Bank stock | (6,807) | (9,292) |
| Net cash from acquisition | — | 41,097 |
| Net cash provided by (used in) investing activities | (362,863) | 581,624 |
| Financing Activities | | |
| Net change in deposits | 108,834 | (788,907) |
| Net change in short-term borrowings | 317,649 | (16,446) |
| Proceeds from notes payable | 208,794 | 150,078 |
| Payments on notes payable | (134,052) | (37,787) |
| Redemption of preferred stock | — | (114,068) |
| Proceeds from issuance of common stock | 4,139 | — |
| Payments to repurchase common stock | — | (30,028) |
| Dividends paid on preferred stock | — | (3,280) |
| Net cash distributed from (to) noncontrolling interest | 676 | (760) |
| Taxes paid on employee stock awards netting activity | (2,406) | (75) |
| Other, net | (704) | (227) |
| Net cash provided by (used in) financing activities | 502,930 | (841,500) |
| Net change in cash and cash equivalents | (100,507) | (261,522) |
| Cash and cash equivalents, beginning of period | 669,445 | 813,075 |
| Cash and cash equivalents, end of period | \$ 568,938 | \$ 551,553 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid for interest | \$ 42,399 | \$ 41,368 |
| Cash paid for income taxes, net of refunds | \$ 53,899 | \$ 112,282 |
| Supplemental Schedule of Non-Cash Activities | | |
| Conversion of loans to other real estate owned | \$ 14,894 | \$ 45,996 |
| Common stock issued in acquisition | \$ — | \$ 200,626 |
| Additions to mortgage servicing rights | \$ 20,309 | \$ 23,121 |

See accompanying notes.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting and Reporting Policies

Nature of Operations

Hilltop Holdings Inc. (“Hilltop” and, collectively with its subsidiaries, the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956. The Company’s primary line of business is to provide business and consumer banking services from offices located throughout Texas through PlainsCapital Bank (the “Bank”). In addition, the Company provides an array of financial products and services through its broker-dealer, mortgage origination and insurance subsidiaries.

The Company provides its products and services through three primary subsidiaries, PlainsCapital Corporation (“PlainsCapital”), Hilltop Securities Holdings LLC (“Securities Holdings”) and National Lloyds Corporation (“NLC”). PlainsCapital is a financial holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, traditional banking, wealth and investment management and treasury management services primarily in Texas and residential mortgage lending throughout the United States. Securities Holdings is a holding company, 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 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.

On January 1, 2015, Hilltop completed its acquisition of SWS Group, Inc. (“SWS”) in a stock and cash transaction (the “SWS Merger”), whereby SWS’s broker-dealer subsidiaries, Southwest Securities, Inc. and SWS Financial Services, Inc., became subsidiaries of Securities Holdings, and SWS’s banking subsidiary, Southwest Securities, FSB (“SWS FSB”), was merged into the Bank. On October 5, 2015, Southwest Securities, Inc. and SWS Financial Services, Inc. were renamed “Hilltop Securities Inc.” (“Hilltop Securities”) and “Hilltop Securities Independent Network Inc.” (“HTS Independent Network”), respectively.

On October 22, 2015, the Financial Industry Regulatory Authority (“FINRA”) granted approval to combine First Southwest Company, LLC (“FSC”) and Hilltop Securities, subject to customary conditions. FSC, Hilltop Securities and

HTS Independent Network operated as separate broker-dealers, under coordinated leadership from the date of the SWS Merger until January 22, 2016, when FSC was merged into Hilltop Securities to form a combined firm operating under the “Hilltop Securities” name. 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”), and in conformity with the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, these financial statements contain all adjustments necessary for a fair statement of the results of the interim periods presented. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”). Results for interim periods are not necessarily indicative of results to be expected for a full year or any future period.

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

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

mortgage loan indemnification liability, and the potential impairment of assets are particularly subject to change. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements.

Hilltop owns 100% of the outstanding stock of PlainsCapital. PlainsCapital owns 100% of the outstanding stock of the Bank and 100% of the membership interest in PlainsCapital Equity, LLC. The Bank owns 100% of the outstanding stock of PrimeLending, a PlainsCapital Company (“PrimeLending”).

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC (“Ventures Management”). Ventures Management is the managing member and owns 51% of the membership interest in both PrimeLending Ventures, LLC (“Ventures”) and Mutual of Omaha Mortgage, LLC.

PlainsCapital also owns 100% of the outstanding common securities of PCC Statutory Trusts I, II, III and IV (the “Trusts”), which are not included in the consolidated financial statements under the requirements of the Variable Interest Entities Subsections of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), because the primary beneficiaries of the Trusts are not within the consolidated group.

Hilltop has a 100% membership interest in Securities Holdings, which operates through its wholly-owned subsidiaries, Hilltop Securities, HTS Independent Network and First Southwest Holdings, LLC (“First Southwest”). Hilltop Securities is a broker-dealer registered with the SEC and FINRA and a member of the New York Stock Exchange (“NYSE”), HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA, and First Southwest Asset Management, LLC, a wholly-owned subsidiary of First Southwest, is a registered investment advisor under the Investment Advisors Act of 1940. As discussed above, prior to January 22, 2016, Securities Holdings’ subsidiaries also included FSC, First Southwest’s principal subsidiary and formerly a broker-dealer registered with the SEC and FINRA and a member of the NYSE.

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

The consolidated financial statements include the accounts of the above-named entities. Intercompany transactions and balances have been eliminated. Noncontrolling interests have been recorded for minority ownership in entities

that are not wholly owned and are presented in compliance with the provisions of Noncontrolling Interest in Subsidiary Subsections of the ASC.

Certain reclassifications have been made to the prior period consolidated financial statements to conform with the current period presentation. In preparing these consolidated financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all stockholders and other financial statement users, or filed with the SEC.

2. Acquisition

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

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

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

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

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

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

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

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

In connection with the SWS Merger, Hilltop acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

allowance for loan losses. Acquired loans were segregated between those considered to be purchased credit impaired (“PCI”) loans and those without credit impairment at acquisition.

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

| | Loans, excluding PCI Loans | PCI Loans | Total Loans |
|-----------------------------------|-------------------------------|--------------|----------------|
| Commercial and industrial | \$ 178,603 | \$ 9,850 | \$ 188,453 |
| Real estate | 324,477 | 62,218 | 386,695 |
| Construction and land development | 14,708 | 1,391 | 16,099 |
| Consumer | 3,216 | — | 3,216 |
| Broker-dealer (1) | 269,356 | — | 269,356 |
| Total | \$ 790,360 | \$ 73,459 | \$ 863,819 |

(1) Represents acquired margin loans to customers and correspondents associated with acquired broker-dealer segment operations.

The following table presents information about the PCI loans at acquisition (in thousands).

| | |
|---|------------|
| Contractually required principal and interest payments | \$ 120,078 |
| Nonaccretable difference | 32,040 |
| Cash flows expected to be collected | 88,038 |
| Accretable difference | 14,579 |
| Fair value of loans acquired with a deterioration of credit quality | \$ 73,459 |

The following table presents information about the acquired loans without credit impairment at acquisition (in thousands).

| | |
|--|------------|
| Contractually required principal and interest payments | \$ 901,672 |
|--|------------|

| | |
|---|---------|
| Contractual cash flows not expected to be collected | 39,721 |
| Fair value at acquisition | 790,360 |

3. Fair Value Measurements

Fair Value Measurements and Disclosures

The Company determines fair values in compliance with The Fair Value Measurements and Disclosures Topic of the ASC (the “Fair Value Topic”). The Fair Value Topic defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Fair Value Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Fair Value Topic assumes that transactions upon which fair value measurements are based occur in the principal market for the asset or liability being measured. Further, fair value measurements made under the Fair Value Topic exclude transaction costs and are not the result of forced transactions.

The Fair Value Topic creates a fair value hierarchy that classifies fair value measurements based upon the inputs used in valuing the assets or liabilities that are the subject of fair value measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs, as indicated below.

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 Inputs: Observable inputs other than Level 1 prices. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, yield curves, prepayment speeds, default rates, credit risks and loss severities), and inputs that are derived from or corroborated by market data, among others.

- Level 3 Inputs: Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. Level 3 inputs include pricing models and discounted cash flow techniques, among others.

Fair Value Option

The Company has elected to measure substantially all of PrimeLending's mortgage loans held for sale and retained mortgage servicing rights ("MSR") asset at fair value, under the provisions of the Fair Value Option. The Company elected to apply the provisions of the Fair Value Option to these items so that it would have the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. At September 30, 2016 and December 31, 2015, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was \$1.63 billion and \$1.46 billion, respectively, and the unpaid principal balance of those loans was \$1.56 billion and \$1.41 billion, respectively. The interest component of fair value is reported as interest income on loans in the accompanying consolidated statements of operations.

The Company holds a number of financial instruments that are measured at fair value on a recurring basis, either by the application of the Fair Value Option or other authoritative pronouncements. The fair values of those instruments are determined primarily using Level 2 inputs. Those inputs include quotes from mortgage loan investors and derivatives dealers and data from independent pricing services.

The following tables present information regarding financial assets and liabilities measured at fair value on a recurring basis (in thousands).

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|-------------------------------|-------------------|-------------------|-------------------|---------------------|
| September 30, 2016 | | | | |
| Trading securities | \$ 7,387 | \$ 394,717 | \$ — | \$ 402,104 |
| Available for sale securities | 19,480 | 544,240 | — | 563,720 |

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| | | | | |
|------------------------------------|--------|-----------|--------|-----------|
| Loans held for sale | — | 1,585,942 | 42,577 | 1,628,519 |
| Derivative assets | — | 85,451 | — | 85,451 |
| MSR asset | — | — | 43,751 | 43,751 |
| Securities sold, not yet purchased | 87,693 | 76,940 | — | 164,633 |
| Derivative liabilities | — | 39,001 | — | 39,001 |

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|------------------------------------|-------------------|-------------------|-------------------|---------------------|
| December 31, 2015 | | | | |
| Trading securities | \$ 21,807 | \$ 192,338 | \$ 1 | \$ 214,146 |
| Available for sale securities | 17,409 | 656,297 | — | 673,706 |
| Loans held for sale | — | 1,434,955 | 25,880 | 1,460,835 |
| Derivative assets | — | 35,676 | — | 35,676 |
| MSR asset | — | — | 52,285 | 52,285 |
| Securities sold, not yet purchased | 27,648 | 102,396 | — | 130,044 |
| Derivative liabilities | — | 5,426 | — | 5,426 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following tables include a rollforward for those financial instruments measured at fair value using Level 3 inputs (in thousands).

| | Balance at Beginning of Period | Purchases/ Additions | Sales/ Reductions | Total Gains or Losses (Realized or Unrealized) Included in Net Income | Included in Other Comprehensive Income (Loss) | Balance at End of Period |
|---------------------------------------|--------------------------------------|-------------------------|----------------------|--|---|-----------------------------|
| Three months ended September 30, 2016 | | | | | | |
| Trading securities | \$ 1 | \$ — | \$ — | \$ (1) | \$ — | \$ — |
| Loans held for sale | 45,645 | 8,066 | (8,686) | (2,448) | — | 42,577 |
| MSR asset | 33,491 | 10,416 | — | (156) | — | 43,751 |
| Total | \$ 79,137 | \$ 18,482 | \$ (8,686) | \$ (2,605) | \$ — | \$ 86,328 |
| Nine months ended September 30, 2016 | | | | | | |
| Trading securities | \$ 1 | \$ — | \$ — | \$ (1) | \$ — | \$ — |
| Loans held for sale | 25,880 | 51,105 | (23,817) | (10,591) | — | 42,577 |
| MSR asset | 52,285 | 20,309 | (7,586) | (21,257) | — | 43,751 |
| Total | \$ 78,166 | \$ 71,414 | \$ (31,403) | \$ (31,849) | \$ — | \$ 86,328 |
| Three months ended September 30, 2015 | | | | | | |
| Available for sale securities | \$ 16 | \$ — | \$ — | \$ (15) | \$ — | \$ 1 |
| Loans held for sale | 19,123 | 11,466 | (2,769) | (1,116) | — | 26,704 |
| MSR asset | 44,985 | 11,025 | — | (8,483) | — | 47,527 |
| Total | \$ 64,124 | \$ 22,491 | \$ (2,769) | \$ (9,614) | \$ — | \$ 74,232 |
| Nine months ended September 30, 2015 | | | | | | |
| Available for sale securities | \$ — | \$ 7,301 | \$ (3,397) | \$ (3,903) | \$ — | \$ 1 |
| Loans held for sale | 9,017 | 40,075 | (12,493) | (9,895) | — | 26,704 |
| MSR asset | 36,155 | 23,121 | — | (11,749) | — | 47,527 |
| Total | \$ 45,172 | \$ 70,497 | \$ (15,890) | \$ (25,547) | \$ — | \$ 74,232 |

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. Excluding the trading securities sold during the three months ended September 30, 2016, the unrealized gains (losses) relate to financial instruments still held at September 30, 2016.

For Level 3 financial instruments measured at fair value on a recurring basis at September 30, 2016, the significant unobservable inputs used in the fair value measurements were as follows.

| Financial instrument | Valuation Technique | Unobservable Input | Range (Weighted-Average) |
|----------------------|--|--------------------------|-----------------------------|
| Loans held for sale | Discounted cash flow / Market comparable | Projected price | 89 - 96 % (96 %) |
| MSR asset | Discounted cash flow | Constant prepayment rate | 18.12 % |
| | | Discount rate | 10.93 % |

The fair value of certain loans held for sale that cannot be sold through normal sale channels or are non-performing is measured using Level 3, or unobservable, inputs. The fair value of such loans is generally based upon estimates of expected cash flows using unobservable inputs, including listing prices of comparable assets, uncorroborated expert opinions, and/or management's knowledge of underlying collateral.

The MSR asset, which is included in other assets within the Company's consolidated balance sheets, is valued by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the MSR asset is impacted by a variety of factors. Prepayment rates and discount rates, the most significant unobservable inputs, are discussed further in Note 7 to the consolidated financial statements.

The Company had no transfers between Levels 1 and 2 during the periods presented.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following tables present those changes in fair value of instruments recognized in the consolidated statements of operations that are accounted for under the Fair Value Option (in thousands).

| | Three Months Ended September 30, 2016 | | | Three Months Ended September 30, 2015 | | |
|---------------------|---------------------------------------|--------------------------|-----------------------------|---------------------------------------|--------------------------|-----------------------------|
| | Net Gains (Losses) | Other Noninterest Income | Total Changes in Fair Value | Net Gains (Losses) | Other Noninterest Income | Total Changes in Fair Value |
| Loans held for sale | \$ 73 | \$ — | \$ 73 | \$ 18,531 | \$ — | \$ 18,531 |
| MSR asset | (156) | — | (156) | (8,483) | — | (8,483) |

| | Nine Months Ended September 30, 2016 | | | Nine Months Ended September 30, 2015 | | |
|---------------------|--------------------------------------|--------------------------|-----------------------------|--------------------------------------|--------------------------|-----------------------------|
| | Net Gains (Losses) | Other Noninterest Income | Total Changes in Fair Value | Net Gains (Losses) | Other Noninterest Income | Total Changes in Fair Value |
| Loans held for sale | \$ 16,003 | \$ — | \$ 16,003 | \$ 2,773 | \$ — | \$ 2,773 |
| MSR asset | (21,257) | — | (21,257) | (11,749) | — | (11,749) |

The Company also determines the fair value of certain assets and liabilities on a non-recurring basis. In particular, the fair value of all of the assets acquired and liabilities assumed in the SWS Merger was determined at the acquisition date. In addition, facts and circumstances may dictate a fair value measurement when there is evidence of impairment. Assets and liabilities measured on a non-recurring basis include the items discussed below.

Impaired Loans — The Company reports impaired loans based on the underlying fair value of the collateral through specific allowances within the allowance for loan losses. PCI loans with a fair value of \$172.9 million, \$822.8 million and \$73.5 million were acquired by the Company upon completion of the merger with PlainsCapital (the “PlainsCapital Merger”), the FDIC-assisted transaction whereby the Bank acquired certain assets and assumed certain liabilities of Edinburg, Texas-based First National Bank (“FNB”) on September 13, 2013 (the “FNB Transaction”) and the SWS Merger, respectively (collectively, the “Bank Transactions”). Substantially all PCI loans acquired in the FNB Transaction are covered by FDIC loss-share agreements. The fair value of PCI loans was determined using Level 3 inputs, including estimates of expected cash flows that incorporated significant unobservable inputs regarding default

rates, loss severity rates assuming default, prepayment speeds on acquired loans accounted for in pools (“Pooled Loans”), and estimated collateral values.

At September 30, 2016, estimates for these significant unobservable inputs were as follows.

| | PCI Loans | | | | | |
|-------------------------------------|-------------------------|---|--------------------|---|---------------|---|
| | PlainsCapital Merger | | FNB Transaction | | SWS Merger | |
| Weighted average default rate | 54 | % | 53 | % | 50 | % |
| Weighted average loss severity rate | 56 | % | 32 | % | 29 | % |
| Weighted average prepayment speed | 0 | % | 7 | % | 0 | % |

At September 30, 2016, the resulting weighted average expected loss on PCI loans associated with the PlainsCapital Merger, FNB Transaction and SWS Merger was 30%, 17% and 15%, respectively.

The Company obtains updated appraisals of the fair value of collateral securing impaired collateral dependent loans at least annually, in accordance with regulatory guidelines. The Company also reviews the fair value of such collateral on a quarterly basis. If the quarterly review indicates that the fair value of the collateral may have deteriorated, the Company orders an updated appraisal of the fair value of the collateral. Because the Company obtains updated appraisals when evidence of a decline in the fair value of collateral exists, it typically does not adjust appraised values.

Other Real Estate Owned — The Company determines fair value primarily using independent appraisals of other real estate owned (“OREO”) properties. The resulting fair value measurements are classified as Level 2 or Level 3 inputs, depending upon the extent to which unobservable inputs determine the fair value measurement. The Company considers a number of factors in determining the extent to which specific fair value measurements utilize unobservable inputs, including, but not limited to, the inherent subjectivity in appraisals, the length of time elapsed since the receipt of

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

independent market price or appraised value, and current market conditions. At September 30, 2016, the most significant unobservable input used in the determination of fair value of OREO was a discount to independent appraisals for estimated holding periods of OREO properties. Level 3 inputs were used to determine the initial fair value at acquisition of a large group of smaller balance properties that were acquired in the FNB Transaction. In the FNB Transaction, the Bank acquired OREO of \$135.2 million, all of which is covered by FDIC loss-share agreements. At September 30, 2016 and December 31, 2015, the estimated fair value of covered OREO was \$62.0 million and \$99.1 million, respectively, and the underlying fair value measurements utilized Level 2 and Level 3 inputs. The fair value of non-covered OREO at September 30, 2016 and December 31, 2015 was \$3.1 million and \$0.4 million, respectively, and is included in other assets within the consolidated balance sheets. During the reported periods, all fair value measurements for non-covered OREO subsequent to initial recognition utilized Level 2 inputs.

The following table presents information regarding certain assets and liabilities measured at fair value on a non-recurring basis for which a change in fair value has been recorded during reporting periods subsequent to initial recognition (in thousands).

| September 30, 2016 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value | Total Gains (Losses) for the Three Months Ended September 30, | | Total Gains (Losses) for the Nine Months Ended September 30, | |
|---|-------------------|-------------------|-------------------|---------------------|---|---------|--|---------|
| | | | | | 2016 | 2015 | 2016 | 2015 |
| Non-covered impaired loans | \$ — | \$ — | \$ 64,842 | \$ 64,842 | \$ 1,149 | \$ 453 | \$ 1,284 | \$ 224 |
| Covered impaired loans | — | — | 58,600 | 58,600 | 725 | (937) | 815 | 2,712 |
| Non-covered other real estate owned | — | 2,229 | — | 2,229 | (427) | — | (439) | (28) |
| Covered other real estate owned | — | 28,854 | — | 28,854 | (2,552) | (5,370) | (14,284) | (9,428) |

The Fair Value of Financial Instruments Subsection of the ASC requires disclosure of the fair value of financial assets and liabilities, including the financial assets and liabilities previously discussed. The methods for determining estimated fair value for financial assets and liabilities is described in detail in Note 3 to the consolidated financial statements included in the Company's 2015 Form 10-K.

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The following tables present the carrying values and estimated fair values of financial instruments not measured at fair value on either a recurring or non-recurring basis (in thousands).

| September 30, 2016 | Carrying Amount | Estimated Fair Value | | | Total |
|--|--------------------|----------------------|-------------------|-------------------|------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$ 568,938 | \$ 568,938 | \$ — | \$ — | \$ 568,938 |
| Securities purchased under agreements to resell | 138,284 | — | 138,284 | — | 138,284 |
| Assets segregated for regulatory purposes | 173,840 | 173,840 | — | — | 173,840 |
| Held to maturity securities | 365,934 | — | 369,746 | — | 369,746 |
| Loans held for sale | 44,550 | — | 44,550 | — | 44,550 |
| Non-covered loans, net | 5,622,030 | — | 475,176 | 5,320,330 | 5,795,506 |
| Covered loans, net | 292,031 | — | — | 409,056 | 409,056 |
| Broker-dealer and clearing organization receivables | 1,340,617 | — | 1,340,617 | — | 1,340,617 |
| FDIC indemnification asset | 73,351 | — | — | 70,130 | 70,130 |
| Other assets | 60,383 | — | 56,176 | 4,207 | 60,383 |
| Financial liabilities: | | | | | |
| Deposits | 7,030,585 | — | 7,029,654 | — | 7,029,654 |
| Broker-dealer and clearing organization payables | 1,251,839 | — | 1,251,839 | — | 1,251,839 |
| Short-term borrowings | 1,265,022 | — | 1,265,022 | — | 1,265,022 |
| Debt | 380,325 | — | 374,112 | — | 374,112 |
| Other liabilities | 5,515 | — | 5,515 | — | 5,515 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

| December 31, 2015 | Carrying Amount | Estimated Fair Value | | | Total |
|--|--------------------|----------------------|-------------------|-------------------|------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$ 669,445 | \$ 669,445 | \$ — | \$ — | \$ 669,445 |
| Securities purchased under agreements to resell | 105,660 | — | 105,660 | — | 105,660 |
| Assets segregated for regulatory purposes | 158,613 | 158,613 | — | — | 158,613 |
| Held to maturity securities | 332,022 | — | 331,468 | — | 331,468 |
| Loans held for sale | 72,843 | — | 72,843 | — | 72,843 |
| Non-covered loans, net | 5,174,625 | — | 602,968 | 4,600,406 | 5,203,374 |
| Covered loans, net | 378,762 | — | — | 527,201 | 527,201 |
| Broker-dealer and clearing organization receivables | 1,362,499 | — | 1,362,499 | — | 1,362,499 |
| FDIC indemnification asset | 91,648 | — | — | 91,648 | 91,648 |
| Other assets | 68,786 | — | 53,214 | 15,572 | 68,786 |
| Financial liabilities: | | | | | |
| Deposits | 6,952,683 | — | 6,955,919 | — | 6,955,919 |
| Broker-dealer and clearing organization payables | 1,338,305 | — | 1,338,305 | — | 1,338,305 |
| Short-term borrowings | 947,373 | — | 947,373 | — | 947,373 |
| Debt | 305,728 | — | 299,257 | — | 299,257 |
| Other liabilities | 3,699 | — | 3,699 | — | 3,699 |

4. Securities

The fair value of trading securities is summarized as follows (in thousands).

| | September 30, 2016 | December 31, 2015 |
|--|--------------------------|-------------------------|
| U.S. Treasury securities | \$ 6,105 | \$ 20,481 |
| U.S. government agencies: | | |
| Bonds | 37,125 | 36,244 |
| Residential mortgage-backed securities | 98,681 | 12,505 |
| Commercial mortgage-backed securities | 15,817 | 19,280 |
| Collateralized mortgage obligations | 8,984 | 264 |
| Other | 120 | — |
| Corporate debt securities | 71,987 | 34,735 |
| States and political subdivisions | 87,659 | 58,588 |
| Unit investment trusts | 66,649 | 18,400 |
| Private-label securitized product | 7,234 | 12,324 |
| Other | 1,743 | 1,325 |
| Totals | \$ 402,104 | \$ 214,146 |

The Hilltop Broker-Dealers enter into transactions that represent commitments to purchase and deliver securities at prevailing future market prices to facilitate customer transactions and satisfy such commitments. Accordingly, the Hilltop Broker-Dealers' ultimate obligation may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of \$164.6 million and \$130.0 million at September 30, 2016 and December 31, 2015, respectively.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The amortized cost and fair value of available for sale and held to maturity securities are summarized as follows (in thousands).

| September 30, 2016 | Available for Sale | | | Fair Value |
|--|--------------------|------------------|-------------------|------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| U.S. Treasury securities | \$ 33,294 | \$ 459 | \$ (2) | \$ 33,751 |
| U.S. government agencies: | | | | |
| Bonds | 106,765 | 1,629 | — | 108,394 |
| Residential mortgage-backed securities | 94,777 | 1,216 | (49) | 95,944 |
| Commercial mortgage-backed securities | 8,824 | 356 | — | 9,180 |
| Collateralized mortgage obligations | 113,618 | 202 | (739) | 113,081 |
| Corporate debt securities | 84,201 | 5,370 | — | 89,571 |
| States and political subdivisions | 91,148 | 2,658 | (7) | 93,799 |
| Commercial mortgage-backed securities | 499 | 21 | — | 520 |
| Equity securities | 18,701 | 1,131 | (352) | 19,480 |
| Totals | \$ 551,827 | \$ 13,042 | \$ (1,149) | \$ 563,720 |

| December 31, 2015 | Available for Sale | | | Fair Value |
|--|--------------------|------------------|-------------------|------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| U.S. Treasury securities | \$ 44,430 | \$ 206 | \$ (33) | \$ 44,603 |
| U.S. government agencies: | | | | |
| Bonds | 297,448 | 1,135 | (1,947) | 296,636 |
| Residential mortgage-backed securities | 34,864 | 1,008 | (19) | 35,853 |
| Commercial mortgage-backed securities | 9,174 | 35 | (2) | 9,207 |
| Collateralized mortgage obligations | 54,297 | 48 | (1,644) | 52,701 |
| Corporate debt securities | 94,877 | 3,399 | (326) | 97,950 |
| States and political subdivisions | 116,246 | 2,581 | (102) | 118,725 |
| Commercial mortgage-backed securities | 498 | 33 | — | 531 |
| Equity securities | 18,169 | 574 | (1,243) | 17,500 |
| Totals | \$ 670,003 | \$ 9,019 | \$ (5,316) | \$ 673,706 |

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| September 30, 2016 | Held to Maturity | | | Fair Value |
|--|------------------|------------------|-------------------|------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| U.S. Treasury securities | \$ — | \$ — | \$ — | \$ — |
| U.S. government agencies: | | | | |
| Bonds | 46,211 | 40 | (58) | 46,193 |
| Residential mortgage-backed securities | 21,016 | 729 | — | 21,745 |
| Commercial mortgage-backed securities | 24,850 | 1,033 | (6) | 25,877 |
| Collateralized mortgage obligations | 235,336 | 1,951 | (113) | 237,174 |
| States and political subdivisions | 38,521 | 342 | (106) | 38,757 |
| Totals | \$ 365,934 | \$ 4,095 | \$ (283) | \$ 369,746 |

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Notes to Consolidated Financial Statements (continued)

(Unaudited)

| December 31, 2015 | Held to Maturity | | | Fair Value |
|--|------------------|------------------|-------------------|------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| U.S. Treasury securities | \$ 25,146 | \$ — | \$ (30) | \$ 25,116 |
| U.S. government agencies: | | | | |
| Bonds | 69,379 | 145 | (372) | 69,152 |
| Residential mortgage-backed securities | 23,735 | 311 | — | 24,046 |
| Commercial mortgage-backed securities | 18,658 | 27 | (92) | 18,593 |
| Collateralized mortgage obligations | 167,541 | 302 | (970) | 166,873 |
| States and political subdivisions | 27,563 | 168 | (43) | 27,688 |
| Totals | \$ 332,022 | \$ 953 | \$ (1,507) | \$ 331,468 |

Information regarding available for sale and held to maturity securities that were in an unrealized loss position is shown in the following tables (dollars in thousands).

| | September 30, 2016 | | | December 31, 2015 | | |
|---|----------------------|------------|-------------------|----------------------|------------|-------------------|
| | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| Available for sale | | | | | | |
| U.S. treasury securities: | | | | | | |
| Unrealized loss for less than twelve months | 3 | \$ 3,000 | \$ 2 | 8 | \$ 33,791 | \$ 33 |
| Unrealized loss for twelve months or longer | — | — | — | — | — | — |
| | 3 | 3,000 | 2 | 8 | 33,791 | 33 |
| U.S. government agencies: | | | | | | |
| Bonds: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 7 | 148,327 | 896 |
| Unrealized loss for twelve months or longer | — | — | — | 3 | 44,321 | 1,051 |
| | — | — | — | 10 | 192,648 | 1,947 |
| Residential mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | 2 | 12,425 | 48 | 3 | 3,407 | 5 |

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| | | | | | | |
|---|----|------------|----------|----|------------|----------|
| Unrealized loss for twelve months or longer | 1 | 359 | 1 | 1 | 982 | 14 |
| | 3 | 12,784 | 49 | 4 | 4,389 | 19 |
| Commercial mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 1 | 1,611 | 2 |
| Unrealized loss for twelve months or longer | — | — | — | — | — | — |
| | — | — | — | 1 | 1,611 | 2 |
| Collateralized mortgage obligations: | | | | | | |
| Unrealized loss for less than twelve months | 6 | 49,458 | 426 | 2 | 1,590 | 4 |
| Unrealized loss for twelve months or longer | 8 | 20,444 | 313 | 8 | 42,399 | 1,640 |
| | 14 | 69,902 | 739 | 10 | 43,989 | 1,644 |
| Corporate debt securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 16 | 16,635 | 277 |
| Unrealized loss for twelve months or longer | — | — | — | 1 | 1,949 | 49 |
| | — | — | — | 17 | 18,584 | 326 |
| States and political subdivisions: | | | | | | |
| Unrealized loss for less than twelve months | 11 | 5,984 | 4 | 2 | 3,018 | 9 |
| Unrealized loss for twelve months or longer | 1 | 459 | 3 | 35 | 24,423 | 93 |
| | 12 | 6,443 | 7 | 37 | 27,441 | 102 |
| Equity securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 2 | 8,949 | 909 |
| Unrealized loss for twelve months or longer | 2 | 11,100 | 352 | 1 | 1,927 | 334 |
| | 2 | 11,100 | 352 | 3 | 10,876 | 1,243 |
| Total available for sale: | | | | | | |
| Unrealized loss for less than twelve months | 22 | 70,867 | 480 | 41 | 217,328 | 2,135 |
| Unrealized loss for twelve months or longer | 12 | 32,362 | 669 | 49 | 116,001 | 3,181 |
| | 34 | \$ 103,229 | \$ 1,149 | 90 | \$ 333,329 | \$ 5,316 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

| | September 30, 2016 | | | December 31, 2015 | | |
|---|----------------------|------------|-------------------|----------------------|------------|-------------------|
| | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| Held to maturity | | | | | | |
| U.S. treasury securities: | | | | | | |
| Unrealized loss for less than twelve months | — | \$ — | \$ — | 1 | \$ 25,115 | \$ 30 |
| Unrealized loss for twelve months or longer | — | — | — | — | — | — |
| | — | — | — | 1 | 25,115 | 30 |
| U.S. government agencies: | | | | | | |
| Bonds: | | | | | | |
| Unrealized loss for less than twelve months | 1 | 14,942 | 58 | 6 | 46,607 | 372 |
| Unrealized loss for twelve months or longer | — | — | — | — | — | — |
| | 1 | 14,942 | 58 | 6 | 46,607 | 372 |
| Commercial | | | | | | |
| mortgage-backed securities: | | | | | | |
| Unrealized loss for less than twelve months | — | — | — | 7 | 16,098 | 92 |
| Unrealized loss for twelve months or longer | 1 | 1,407 | 6 | — | — | — |
| | 1 | 1,407 | 6 | 7 | 16,098 | 92 |
| Collateralized mortgage obligations: | | | | | | |
| Unrealized loss for less than twelve months | 3 | 38,093 | 113 | 10 | 127,393 | 970 |
| Unrealized loss for twelve months or longer | — | — | — | — | — | — |
| | 3 | 38,093 | 113 | 10 | 127,393 | 970 |
| States and political subdivisions: | | | | | | |
| Unrealized loss for less than twelve months | 30 | 14,080 | 106 | 18 | 7,900 | 35 |
| Unrealized loss for twelve months or longer | — | — | — | 1 | 2,664 | 8 |
| | 30 | 14,080 | 106 | 19 | 10,564 | 43 |
| Total held to maturity: | | | | | | |
| Unrealized loss for less than twelve months | 34 | 67,115 | 277 | 42 | 223,113 | 1,499 |

| | | | | | | |
|---|----|-----------|--------|----|------------|----------|
| Unrealized loss for twelve months or longer | 1 | 1,407 | 6 | 1 | 2,664 | 8 |
| | 35 | \$ 68,522 | \$ 283 | 43 | \$ 225,777 | \$ 1,507 |

During the three and nine months ended September 30, 2016 and 2015, the Company did not record any other-than-temporary impairments (“OTTI”). Factors considered in the Company’s analysis include the reasons for the unrealized loss position, the severity and duration of the unrealized loss position, credit worthiness, and forecasted performance of the investee. While some of the securities held in the investment portfolio have decreased in value since the date of acquisition, the severity of loss and the duration of the loss position are not believed to be significant enough to warrant recording any OTTI of the securities. The Company does not intend, nor does the Company believe that it is likely that the Company will be required, to sell these securities before the recovery of the cost basis.

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and fair value of securities, excluding trading and available for sale equity securities, at September 30, 2016 are shown by contractual maturity below (in thousands).

| | Available for Sale | | Held to Maturity | |
|--|--------------------|------------|------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ 138,235 | \$ 138,673 | \$ 1,847 | \$ 1,853 |
| Due after one year through five years | 78,708 | 81,902 | 5,652 | 5,709 |
| Due after five years through ten years | 59,728 | 64,507 | 32,232 | 32,294 |
| Due after ten years | 38,737 | 40,433 | 45,001 | 45,094 |
| | 315,408 | 325,515 | 84,732 | 84,950 |
| Residential mortgage-backed securities | 94,777 | 95,944 | 21,016 | 21,745 |
| Collateralized mortgage obligations | 113,618 | 113,081 | 235,336 | 237,174 |
| Commercial mortgage-backed securities | 9,323 | 9,700 | 24,850 | 25,877 |
| | \$ 533,126 | \$ 544,240 | \$ 365,934 | \$ 369,746 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The Company realized net gains of \$39.7 million and \$4.8 million from its trading securities portfolio during the three months ended September 30, 2016 and 2015, respectively, and net gains from its trading securities portfolio of \$80.5 million and \$7.6 million during the nine months ended September 30, 2016 and 2015, respectively, which are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of \$613.8 million and \$789.9 million (with a fair value of \$622.0 million and \$790.2 million, respectively) at September 30, 2016 and December 31, 2015, respectively, were pledged to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law. Substantially all of these pledged securities were included in our available for sale and held to maturity securities portfolios at September 30, 2016 and December 31, 2015.

Mortgage-backed securities and collateralized mortgage obligations consist principally of Government National Mortgage Association (“GNMA”), Federal National Mortgage Association (“FNMA”) and Federal Home Loan Mortgage Corporation (“FHLMC”) pass-through and participation certificates. GNMA securities are guaranteed by the full faith and credit of the United States, while FNMA and FHLMC securities are fully guaranteed by those respective United States government-sponsored agencies, and conditionally guaranteed by the full faith and credit of the United States.

At September 30, 2016 and December 31, 2015, NLC had investments on deposit in custody for various state insurance departments with carrying values of \$7.9 million and \$9.2 million, respectively.

5. Non-Covered Loans and Allowance for Non-Covered Loan Losses

Non-covered loans refer to loans not covered by the FDIC loss-share agreements. Covered loans are discussed in Note 6 to the consolidated financial statements. Non-covered loans summarized by portfolio segment are as follows (in thousands).

| | September 30, 2016 | December 31, 2015 |
|---------------------------|--------------------------|-------------------------|
| Commercial and industrial | \$ 1,707,893 | \$ 1,552,805 |

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| | | |
|---|--------------|--------------|
| Real estate | 2,652,779 | 2,313,239 |
| Construction and land development | 795,665 | 705,356 |
| Consumer | 43,142 | 45,672 |
| Broker-dealer (1) | 475,176 | 602,968 |
| | 5,674,655 | 5,220,040 |
| Allowance for non-covered loan losses | (52,625) | (45,415) |
| Total non-covered loans, net of allowance | \$ 5,622,030 | \$ 5,174,625 |

(1) Represents margin loans to customers and correspondents associated with our broker-dealer segment operations.

In connection with the Bank Transactions, the Company acquired non-covered loans both with and without evidence of credit quality deterioration since origination. The following table presents the carrying values and the outstanding balances of the non-covered PCI loans (in thousands).

| | September 30, 2016 | December 31, 2015 |
|---------------------|--------------------------|-------------------------|
| Carrying amount | \$ 55,902 | \$ 72,054 |
| Outstanding balance | 73,372 | 92,682 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Changes in the accretable yield for the non-covered PCI loans were as follows (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Balance, beginning of period | \$ 15,229 | \$ 22,168 | \$ 17,744 | \$ 12,814 |
| Additions | — | — | — | 14,579 |
| Reclassifications from (to) nonaccretable difference, net(1) | 708 | 6,234 | 4,655 | 11,173 |
| Disposals of loans | — | — | — | (2,778) |
| Accretion | (1,884) | (9,206) | (8,346) | (16,592) |
| Balance, end of period | \$ 14,053 | \$ 19,196 | \$ 14,053 | \$ 19,196 |

(1) Reclassifications from nonaccretable difference are primarily due to net increases in expected cash flows in the quarterly recasts. Reclassifications to nonaccretable difference occur when accruing loans are moved to nonaccrual and expected cash flows are no longer predictable and the accretable yield is eliminated.

The remaining nonaccretable difference for non-covered PCI loans was \$22.0 million and \$28.5 million at September 30, 2016 and December 31, 2015, respectively.

Impaired loans exhibit a clear indication that the borrower's cash flow may not be sufficient to meet principal and interest payments, which generally occurs when a loan is 90 days past due unless the asset is both well secured and in the process of collection. Non-covered impaired loans include non-accrual loans, troubled debt restructurings ("TDRs"), PCI loans and partially charged-off loans.

The amounts shown in the following tables include loans accounted for on an individual basis, as well as acquired Pooled Loans. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level. Non-covered impaired loans, segregated between those considered to be PCI loans and those without credit impairment at acquisition, are summarized by class in the following tables (in thousands).

| Unpaid Contractual | Recorded Investment with | Recorded Investment with | Total Recorded | Related |
|-----------------------|-----------------------------|-----------------------------|-------------------|---------|
|-----------------------|-----------------------------|-----------------------------|-------------------|---------|

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| September 30, 2016 | Principal Balance | No Allowance | Allowance | Investment | Allowance |
|--|-------------------|--------------|-----------|------------|-----------|
| PCI | | | | | |
| Commercial and industrial: | | | | | |
| Secured | \$ 24,766 | \$ 1,433 | \$ 8,570 | \$ 10,003 | \$ 578 |
| Unsecured | 2,500 | — | — | — | — |
| Real estate: | | | | | |
| Secured by commercial properties | 41,028 | 13,125 | 18,153 | 31,278 | 1,722 |
| Secured by residential properties | 13,834 | 8,414 | 2,233 | 10,647 | 143 |
| Construction and land development: | | | | | |
| Residential construction loans | — | — | — | — | — |
| Commercial construction loans and land development | 6,264 | 2,790 | 848 | 3,638 | 76 |
| Consumer | 1,401 | 286 | 50 | 336 | 46 |
| Broker-dealer | — | — | — | — | — |
| | 89,793 | 26,048 | 29,854 | 55,902 | 2,565 |
| Non-PCI | | | | | |
| Commercial and industrial: | | | | | |
| Secured | 50,852 | 7,728 | 7,972 | 15,700 | 1,850 |
| Unsecured | 167 | 29 | — | 29 | — |
| Real estate: | | | | | |
| Secured by commercial properties | 2,029 | 1,861 | — | 1,861 | — |
| Secured by residential properties | 1,520 | 1,145 | — | 1,145 | — |
| Construction and land development: | | | | | |
| Residential construction loans | — | — | — | — | — |
| Commercial construction loans and land development | 704 | — | 703 | 703 | 167 |
| Consumer | 53 | 50 | — | 50 | — |
| Broker-dealer | — | — | — | — | — |
| | 55,325 | 10,813 | 8,675 | 19,488 | 2,017 |
| | \$ 145,118 | \$ 36,861 | \$ 38,529 | \$ 75,390 | \$ 4,582 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

| December 31, 2015 | Unpaid Contractual Principal Balance | Recorded Investment with No Allowance | Recorded Investment with Allowance | Total Recorded Investment | Related Allowance |
|---|--|---|--|---------------------------------|----------------------|
| PCI | | | | | |
| Commercial and industrial: | | | | | |
| Secured | \$ 32,597 | \$ 5,520 | \$ 7,830 | \$ 13,350 | \$ 1,341 |
| Unsecured | 2,572 | — | — | — | — |
| Real estate: | | | | | |
| Secured by commercial properties | 57,607 | 15,914 | 25,214 | 41,128 | 2,756 |
| Secured by residential properties | 15,278 | 8,957 | 2,690 | 11,647 | 175 |
| Construction and land development: | | | | | |
| Residential construction loans | 395 | — | 221 | 221 | 8 |
| Commercial construction loans and land development | 7,929 | 3,283 | 1,646 | 4,929 | 174 |
| Consumer | 4,162 | 734 | 45 | 779 | 32 |
| Broker-dealer | — | — | — | — | — |
| | 120,540 | 34,408 | 37,646 | 72,054 | 4,486 |
| Non-PCI | | | | | |
| Commercial and industrial: | | | | | |
| Secured | 21,222 | 6,736 | 6,017 | 12,753 | 1,380 |
| Unsecured | 224 | 47 | — | 47 | — |
| Real estate: | | | | | |
| Secured by commercial properties | 436 | 390 | — | 390 | — |
| Secured by residential properties | 1,229 | 918 | — | 918 | — |
| Construction and land development: | | | | | |
| Residential construction loans | — | — | — | — | — |
| Commercial construction loans and land development | 131 | 114 | — | 114 | — |
| Consumer | — | 1 | — | 1 | — |
| Broker-dealer | — | — | — | — | — |
| | 23,242 | 8,206 | 6,017 | 14,223 | 1,380 |
| | \$ 143,782 | \$ 42,614 | \$ 43,663 | \$ 86,277 | \$ 5,866 |

Average recorded investment in non-covered impaired loans is summarized by class in the following table (in thousands).

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| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Commercial and industrial: | | | | |
| Secured | \$ 25,338 | \$ 33,137 | \$ 25,903 | \$ 29,296 |
| Unsecured | 38 | 73 | 38 | 118 |
| Real estate: | | | | |
| Secured by commercial properties | 34,491 | 55,050 | 37,329 | 35,625 |
| Secured by residential properties | 11,746 | 14,853 | 12,179 | 8,505 |
| Construction and land development: | | | | |
| Residential construction loans | — | 289 | 111 | 113 |
| Commercial construction loans and land development | 4,161 | 5,455 | 4,692 | 7,581 |
| Consumer | 412 | 1,061 | 583 | 1,548 |
| Broker-dealer | — | — | — | — |
| | \$ 76,186 | \$ 109,918 | \$ 80,835 | \$ 82,786 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Non-covered non-accrual loans, excluding those classified as held for sale, are summarized by class in the following table (in thousands).

| | September 30, 2016 | December 31, 2015 |
|--|--------------------------|-------------------------|
| Commercial and industrial: | | |
| Secured | \$ 19,622 | \$ 17,717 |
| Unsecured | 29 | 47 |
| Real estate: | | |
| Secured by commercial properties | 1,861 | 4,597 |
| Secured by residential properties | 1,226 | 999 |
| Construction and land development: | | |
| Residential construction loans | — | — |
| Commercial construction loans and land development | 703 | 114 |
| Consumer | 50 | 7 |
| Broker-dealer | — | — |
| | \$ 23,491 | \$ 23,481 |

At September 30, 2016 and December 31, 2015, non-covered non-accrual loans included non-covered PCI loans of \$4.0 million and \$9.3 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these non-covered PCI loans can no longer be reasonably estimated. In addition to the non-covered non-accrual loans in the table above, \$1.7 million and \$1.6 million of real estate loans secured by residential properties and classified as held for sale were in non-accrual status at September 30, 2016 and December 31, 2015, respectively.

Interest income, including recoveries and cash payments, recorded on non-covered impaired loans was \$0.1 million and \$4.9 million during the three months ended September 30, 2016 and 2015, respectively, and \$0.3 million and \$7.4 million during the nine months ended September 30, 2016 and 2015, respectively. Except as noted above, non-covered PCI loans are considered to be performing due to the application of the accretion method.

The Bank classifies loan modifications as TDRs when it concludes that it has both granted a concession to a debtor and that the debtor is experiencing financial difficulties. Loan modifications are typically structured to create affordable payments for the debtor and can be achieved in a variety of ways. The Bank modifies loans by reducing interest rates and/or lengthening loan amortization schedules. The Bank may also reconfigure a single loan into two or

more loans (“A/B Note”). The typical A/B Note restructure results in a “bad” loan which is charged off and a “good” loan or loans the terms of which comply with the Bank’s customary underwriting policies. The debt charged off on the “bad” loan is not forgiven to the debtor.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The outstanding balance of TDRs granted during the nine months ended September 30, 2016 and 2015 and the three months ended September 30, 2015 are shown in the following tables (in thousands). There were no TDRs granted during the three months ended September 30, 2016. At September 30, 2016 and December 31, 2015, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

| | Recorded Investment in Loans Modified by | | | Total Modification |
|---|--|-----------------------------|---------------------------|-----------------------|
| | A/B Note | Interest Rate Adjustment | Payment Term Extension | |
| Nine months ended September 30, 2016 | | | | |
| Commercial and industrial: | | | | |
| Secured | \$ — | \$ — | \$ 944 | \$ 944 |
| Unsecured | — | — | — | — |
| Real estate: | | | | |
| Secured by commercial properties | — | — | — | — |
| Secured by residential properties | — | — | — | — |
| Construction and land development: | | | | |
| Residential construction loans | — | — | — | — |
| Commercial construction loans and land development | — | — | — | — |
| Consumer | — | — | — | — |
| Broker-dealer | — | — | — | — |
| | \$ — | \$ — | \$ 944 | \$ 944 |

| | Recorded Investment in Loans Modified by | | | Total Modification |
|---|--|-----------------------------|---------------------------|-----------------------|
| | A/B Note | Interest Rate Adjustment | Payment Term Extension | |
| Three months ended September 30, 2015 | | | | |
| Commercial and industrial: | | | | |
| Secured | \$ — | \$ — | \$ 88 | \$ 88 |
| Unsecured | — | — | — | — |
| Real estate: | | | | |
| Secured by commercial properties | — | — | 1,083 | 1,083 |
| Secured by residential properties | — | — | — | — |
| Construction and land development: | | | | |
| Residential construction loans | — | — | — | — |
| Commercial construction loans and land development | — | — | — | — |
| Consumer | — | — | — | — |
| Broker-dealer | — | — | — | — |
| | \$ — | \$ — | \$ 1,171 | \$ 1,171 |

| Nine months ended September 30, 2015 | Recorded Investment in Loans Modified by | | | Total Modification |
|---|--|-----------------------------|---------------------------|-----------------------|
| | A/B Note | Interest Rate Adjustment | Payment Term Extension | |
| Commercial and industrial: | | | | |
| Secured | \$ — | \$ — | \$ 88 | \$ 88 |
| Unsecured | — | — | — | — |
| Real estate: | | | | |
| Secured by commercial properties | — | — | 1,083 | 1,083 |
| Secured by residential properties | — | — | — | — |
| Construction and land development: | | | | |
| Residential construction loans | — | — | — | — |
| Commercial construction loans and land development | — | — | — | — |
| Consumer | — | — | — | — |
| Broker-dealer | — | — | — | — |
| | \$ — | \$ — | \$ 1,171 | \$ 1,171 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following tables present information regarding TDRs granted during the twelve months preceding September 30, 2016 and 2015, respectively, for which a payment was at least 30 days past due (dollars in thousands).

| Twelve Months Preceding September 30, 2016 | Number of Loans | Recorded Investment |
|--|--------------------|------------------------|
| Commercial and industrial: | | |
| Secured | 1 | \$ 944 |
| Unsecured | — | — |
| Real estate: | | |
| Secured by commercial properties | — | — |
| Secured by residential properties | — | — |
| Construction and land development: | | |
| Residential construction loans | — | — |
| Commercial construction loans and land development | — | — |
| Consumer | — | — |
| Broker-dealer | — | — |
| | 1 | \$ 944 |

| Twelve Months Preceding September 30, 2015 | Number of Loans | Recorded Investment |
|--|--------------------|------------------------|
| Commercial and industrial: | | |
| Secured | — | \$ — |
| Unsecured | — | — |
| Real estate: | | |
| Secured by commercial properties | 1 | 1,083 |
| Secured by residential properties | — | — |
| Construction and land development: | | |
| Residential construction loans | — | — |
| Commercial construction loans and land development | — | — |
| Consumer | — | — |
| Broker-dealer | — | — |
| | 1 | \$ 1,083 |

An analysis of the aging of the Bank's non-covered loan portfolio is shown in the following tables (in thousands).

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| September 30, 2016 | Loans Past Due 30-59 Days | Loans Past Due 60-89 Days | Loans Past Due 90 Days or More | Total Past Due Loans | Current Loans | PCI Loans | Total Loans | Accruing Loans (Non-PCI) Past Due 90 Days or More |
|--|------------------------------|------------------------------|-----------------------------------|-------------------------|------------------|--------------|----------------|--|
| Commercial and industrial: | | | | | | | | |
| Secured | \$ 10,806 | \$ 6,062 | \$ 7,605 | \$ 24,473 | \$ 1,574,790 | \$ 10,003 | \$ 1,609,266 | \$ 739 |
| Unsecured | 42 | 46 | 2 | 90 | 98,537 | — | 98,627 | 2 |
| Real estate: | | | | | | | | |
| Secured by commercial properties | 13,901 | 2,496 | — | 16,397 | 1,798,800 | 31,278 | 1,846,475 | — |
| Secured by residential properties | 484 | 484 | 336 | 1,304 | 794,353 | 10,647 | 806,304 | — |
| Construction and land development: | | | | | | | | |
| Residential construction loans | 417 | — | — | 417 | 114,340 | — | 114,757 | — |
| Commercial construction loans and land development | 1,973 | — | — | 1,973 | 675,297 | 3,638 | 680,908 | — |
| Consumer | 805 | 23 | 10 | 838 | 41,968 | 336 | 43,142 | — |
| Broker-dealer | — | — | — | — | 475,176 | — | 475,176 | — |
| | \$ 28,428 | \$ 9,111 | \$ 7,953 | \$ 45,492 | \$ 5,573,261 | \$ 55,902 | \$ 5,674,655 | \$ 741 |

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

| | Loans Past Due 30-59 Days | Loans Past Due 60-89 Days | Loans Past Due 90 Days or More | Total Past Due Loans | Current Loans | PCI Loans | Total Loans | Accruing Loans (Non-PCI) Past Due 90 Days or More |
|----------------------------|------------------------------|------------------------------|-----------------------------------|-------------------------|------------------|--------------|----------------|--|
| December 31, 2015 | | | | | | | | |
| Commercial and industrial: | | | | | | | | |
| Secured | \$ 14,869 | \$ 3,960 | \$ 8,414 | \$ 27,243 | \$ 1,406,537 | \$ 13,350 | \$ 1,447,130 | \$ 12 |
| Unsecured | 18 | 1 | — | 19 | 105,656 | — | 105,675 | — |
| Real estate: | | | | | | | | |