Hilltop Holdings Inc.
Form S-4/A
September 15, 2014

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**As filed with the Securities and Exchange Commission on September 15, 2014**

**Registration No. 333-196367**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Amendment No. 3**
**to**

# Form S-4

**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

# Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

| **Maryland** | **6331** | **84-1477939** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**200 Crescent Court, Suite 1330**
**Dallas, Texas 75201**
**(214) 855-2177**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Corey G. Prestidge**
**General Counsel and Secretary**
**200 Crescent Court, Suite 1330**
**Dallas, Texas 75201**
**(214) 855-2177**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

| | | |
|---|---|---|
| **David E. Shapiro**<br>**Gordon S. Moodie**<br>**Wachtell, Lipton, Rosen & Katz**<br>**51 West 52nd Street**<br>**New York, NY 10019**<br>**(212) 403-1000** | **With copies to:**<br>**Allen R. Tubb**<br>**Executive Vice President,**<br>**General Counsel and Secretary**<br>**SWS Group, Inc.**<br>**1201 Elm Street, Suite 3500**<br>**Dallas, TX 75270**<br>**(214) 859-1800** | **George R. Bason, Jr.**<br>**H. Oliver Smith**<br>**William L. Taylor**<br>**Davis Polk & Wardwell LLP**<br>**450 Lexington Avenue**<br>**New York, NY 10017**<br>**(212) 450-4000** |

**Approximate date of commencement of the proposed sale of the securities to the public:**
**As soon as practicable after this Registration Statement becomes effective and upon consummation of the transactions described herein.**

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.**

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**Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the SEC. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Stockholder,

On March 31, 2014, SWS Group, Inc. ("SWS") agreed to merge with and into Peruna LLC, a wholly owned subsidiary of Hilltop Holdings Inc. ("Hilltop") with Peruna LLC surviving the merger as a wholly owned subsidiary of Hilltop. We are sending you this proxy statement/prospectus to invite you to attend a special meeting of SWS stockholders being held to vote on the merger agreement and to ask you to vote at the special meeting in favor of the merger agreement.

In the merger, each share of SWS common stock will be converted into the right to receive (i) 0.2496 shares of Hilltop common stock, par value $0.01 per share, and (ii) $1.94 in cash. **The value of the merger consideration will fluctuate with the market price of Hilltop common stock, and will not be known at the time you vote on the merger.** Hilltop common stock is currently quoted on the New York Stock Exchange under the symbol "HTH." On September 12, 2014, the last practicable trading day before the date of this proxy statement/prospectus, the merger consideration of $1.94 in cash and 0.2496 Hilltop shares represented approximately $7.08 in value for each share of SWS common stock. **We urge you to obtain current market quotations for Hilltop common stock.**

Based on the current number of shares of SWS common stock outstanding and reserved for issuance under employee benefit plans, Hilltop expects to issue approximately 10.3 million shares of common stock, par value $0.01 per share, to SWS stockholders in the aggregate upon completion of the merger. Based on these numbers, upon completion of the merger, current SWS stockholders would own approximately 10% of the common stock of Hilltop immediately following the merger. However, any increase or decrease in the number of shares of SWS common stock outstanding that occurs for any reason prior to the completion of the merger would cause the actual number of shares issued upon completion of the merger to change.

SWS will hold a special meeting of its stockholders in connection with the merger. SWS stockholders will be asked to vote to approve the merger agreement and related matters as described in this proxy statement/prospectus. We cannot complete the merger unless the stockholders of SWS approve the proposal. An affirmative vote of a majority of the outstanding shares of SWS common stock entitled to vote as of the record date is required to adopt the merger agreement.

The special meeting of the stockholders of SWS will be held at Renaissance Tower, 1201 Elm Street, Suite 4200, Dallas, Texas 75270, at 9:00 a.m., local time, on , 2014.

**The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves), upon the unanimous recommendation of the special committee of the SWS board of directors, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and fair to and in the best interests of the SWS stockholders (other than Hilltop), and recommends that the SWS stockholders adopt the merger agreement.**

**The obligations of Hilltop and SWS to complete the merger are subject to the satisfaction or waiver of several conditions set forth in the merger agreement. More information about Hilltop, SWS, the special meeting, the merger agreement and the merger is contained in this proxy statement/prospectus. SWS encourages you to read the entire proxy statement/prospectus carefully, including the section entitled "Risk Factors" beginning on page 32. You can also obtain information about SWS and Hilltop from documents that each has filed with the Securities and Exchange Commission (see the section entitled "Where You Can Find More Information").**

James H. Ross
*President and Chief Executive Officer*
SWS Group, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission or bank regulatory agency has approved or disapproved of the merger or the Hilltop common stock to be issued under this proxy statement/prospectus or the other transactions described in this proxy statement/prospectus or passed upon the accuracy or adequacy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger are not savings and deposit accounts and are not insured by the Federal Deposit Insurance Corporation, or any other governmental agency.**

The date of this proxy statement/prospectus is , 2014, and it is first being mailed or otherwise delivered to SWS stockholders on or about , 2014.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**
**TO BE HELD ON , 2014**

To the stockholders of SWS Group, Inc.:

On , 2014, SWS Group, Inc. ("SWS") will hold a special meeting of stockholders in Dallas, Texas at 9:00 a.m., local time, at Renaissance Tower, 1201 Elm Street, Suite 4200, Dallas, Texas 75270, to consider and vote upon the following matters:

- a proposal to adopt and approve the Agreement and Plan of Merger, dated as of March 31, 2014, by and among Hilltop Holdings Inc., Peruna LLC, a wholly owned subsidiary of Hilltop, and SWS (the "merger proposal");

- a proposal to approve, on a non-binding, advisory basis, compensation that may be paid or would be payable to SWS's named executive officers in connection with the merger (the "compensation proposal"); and

- a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the merger proposal (the "adjournment proposal").

The approval by SWS stockholders of the merger proposal is required for the completion of the merger described in this proxy statement/prospectus.

SWS will transact no other business at the SWS special meeting except such business as may properly be brought before the SWS special meeting or any adjournment or postponement thereof. Please refer to elsewhere in this proxy statement/prospectus for further information with respect to the business to be transacted at the SWS special meeting.

The SWS board of directors has fixed the close of business on October 3, 2014, as the record date for the SWS special meeting. Only SWS stockholders of record at that time are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement of the special meeting.

Approval of the merger proposal requires the affirmative vote of a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting. Approval of the compensation proposal and the adjournment proposal require, in each case, the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the SWS special meeting and entitled to vote on such proposal.

**Your vote is important. Whether or not you plan to attend the SWS special meeting, we urge you to vote your shares as promptly as possible by (1) accessing the internet site listed on your proxy card, (2) calling the toll-free number listed on your proxy card, or (3) signing and returning the enclosed proxy card in the postage-paid envelope provided, so that your shares may be represented and voted at the SWS special meeting. You may revoke your proxy at any time before the vote at the special meeting by following the procedures outlined in this proxy statement/prospectus.** If your shares are held in the name of a bank, broker or other nominee, please follow the voting instructions furnished by the record holder.

**The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves), upon the unanimous recommendation of the special committee of the SWS board of directors, has approved and adopted the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and fair to and in the best interests of the SWS stockholders, and recommends that SWS stockholders vote "FOR" the merger proposal, "FOR" the compensation proposal and "FOR" the adjournment proposal.**

This proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read this proxy statement/prospectus and its annexes carefully and in their entirety.

By Order of the Board of Directors

Allen R. Tubb
*Executive Vice President, General Counsel and Secretary*

Dallas, Texas
, 2014

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## REFERENCES TO ADDITIONAL INFORMATION

**This proxy statement/prospectus incorporates by reference important business and financial information about SWS from documents that are not included in or delivered with this proxy statement/prospectus. You can obtain documents incorporated by reference in this proxy statement/prospectus, other than certain exhibits to those documents, free of charge through the Securities and Exchange Commission website (http://www.sec.gov) or by requesting them in writing or by telephone from SWS at the following address:**

SWS Group, Inc.
1201 Elm Street, Suite 3500
Dallas, Texas 75270
Attention: Investor Relations
Telephone: (214) 859-1800

**You will not be charged for any of these documents that you request. SWS stockholders requesting documents should do so by , 2014, in order to receive them before the special meeting.**

Hilltop is not currently eligible under the SEC's rules to incorporate by reference documents into this proxy statement/prospectus. Accordingly, much of the information that SWS has incorporated by reference, such as the description of its business, management's discussion and analysis of financial condition and results of operations, and its consolidated financial statements, is, with respect to Hilltop, fully set forth in this proxy statement/prospectus, principally in the section entitled "Information About the Companies Hilltop" beginning on page 69 and the Hilltop consolidated financial statements beginning on page F-1.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated , 2014, and you should assume that the information in this proxy statement/prospectus is accurate only as of such date. Neither the mailing of this proxy statement/prospectus to SWS stockholders nor the issuance by Hilltop of shares of Hilltop common stock in connection with the merger will create any implication to the contrary.

**This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this proxy statement/prospectus regarding SWS has been provided by SWS and information contained in this proxy statement/prospectus regarding Hilltop has been provided by Hilltop.**

See "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.

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## QUESTIONS AND ANSWERS

*The following are answers to certain questions that you may have regarding the SWS special meeting. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section may not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the annexes to, and the documents incorporated by reference into, this proxy statement/prospectus. See "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.*

**Q:** **What is the merger?**

A: Hilltop and SWS have entered into an Agreement and Plan of Merger, dated as of March 31, 2014 (which we refer to as the "merger agreement"). Under the merger agreement, SWS will be merged with and into Hilltop's wholly owned subsidiary, Peruna LLC (which we refer to as the "merger"). Peruna LLC will be the surviving entity in the merger. Immediately following the completion of the merger, SWS's wholly owned bank subsidiary, Southwest Securities, FSB, will merge with and into Hilltop's wholly owned bank subsidiary, PlainsCapital Bank (which we refer to as the "bank merger"). PlainsCapital Bank will be the surviving bank in the bank merger. A copy of the merger agreement is included as Annex A to this proxy statement/prospectus. The merger cannot be completed unless, among other things, SWS stockholders approve the merger proposal to approve the merger agreement.

**Q:** **Why am I receiving this document?**

A: This document is a proxy statement of SWS to solicit proxies from its stockholders in connection with their vote to approve and adopt the merger agreement, and certain related matters. In addition, this document constitutes a prospectus for SWS stockholders because Hilltop is offering shares of its common stock to be issued in partial exchange for shares of SWS common stock in the merger.

**Q:** **What are holders of SWS common stock being asked to vote on?**

A: SWS stockholders are being asked to vote on a proposal to approve and adopt the merger agreement (the "merger proposal"), a proposal to approve, on a non-binding, advisory basis, compensation that may be paid or would be payable to SWS's named executive officers in connection with the merger (the "compensation proposal"), and a proposal to approve the adjournment of the SWS special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the merger proposal (the "adjournment proposal").

**Q:** **What will holders of SWS common stock receive in the merger?**

A: If the merger is completed, holders of SWS common stock will receive (i) 0.2496 shares of Hilltop common stock and (ii) $1.94 in cash for each share of SWS common stock that they hold immediately prior to the merger. No fractional shares of Hilltop common stock will be issued in connection with the merger. A holder of SWS common stock who otherwise would have received a fraction of a share of Hilltop common stock will instead receive an amount in cash reflecting the market value of the fractional share of Hilltop common stock based upon the average of the high and low sales prices of Hilltop common stock on the New York Stock Exchange on each of the five consecutive trading days ending on the trading day that is two trading days prior to the closing date of the merger.

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**Q:**

**Will the value of the merger consideration change between the date of this proxy statement/prospectus and the time the merger is completed?**

A:

Because the number of shares of Hilltop common stock that SWS stockholders will receive for each share of SWS common stock as the stock component of the merger consideration is fixed, the value of the merger consideration may fluctuate between the date of this proxy statement/prospectus and the SWS special meeting, and between the special meeting and the completion of the merger, based upon the market value for Hilltop common stock. In the merger, SWS stockholders will receive cash and a fraction of a share of Hilltop common stock for each share of SWS common stock they hold. Any fluctuation in the market price of Hilltop stock will change the value of the shares of Hilltop common stock that SWS stockholders will receive.

**Q:**

**How will the merger affect outstanding SWS restricted shares and deferred shares?**

A:

*Restricted Shares*. Each restricted share of SWS common stock granted prior to the date of the merger agreement will vest in full at the effective time of the merger, and the holders of such restricted shares will be entitled to receive the merger consideration for each such share on the same basis as SWS stockholders generally, less applicable withholding taxes, which will be withheld first from the cash portion of the merger consideration payable in respect of each such share. As of August 31, 2014, 370,388 unvested restricted shares of SWS common stock that were granted prior to the date of the merger agreement were outstanding.

As permitted under the terms of the merger agreement, on August 20, 2014, SWS granted an aggregate of 181,814 restricted shares of SWS common stock to the following executive officers and key employees of SWS in satisfaction of their fiscal 2014 annual bonuses: James H. Ross; Daniel R. Leland; Richard H. Litton; W. Norman Thompson; Allen R. Tubb; J. Michael Edge; Larry G. Tate; Anton Berends; and Lana Calton. Such restricted shares will be converted into restricted shares of Hilltop as of the effective time of the merger (with the number of Hilltop shares determined based on the value of the merger consideration), and will be subject to accelerated vesting (i) as to all of such restricted shares on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger, (ii) as to all of such restricted shares upon a change of control event (other than the merger) and (iii) as to a prorated portion of such restricted shares on termination of employment due to an employee's death or disability.

The merger agreement also permits SWS to grant, prior to the effective time of the merger, restricted shares of SWS common stock to its non-employee directors in the ordinary course of business consistent with past practice, with a grant date value not to exceed $35,000 per non-employee director. The SWS non-employee directors are Robert A. Buchholz; Brodie L. Cobb; J. Taylor Crandall; Christie S. Flanagan; Gerald J. Ford; Larry A. Jobe; Tyree B. Miller; Dr. Mike Moses; and Joel T. Williams III.

*Deferred Shares.* As of the effective time of the merger, each deferred share of SWS common stock reflected in participant accounts under SWS deferred compensation plans will be converted into 0.3328 of a deferred share of Hilltop common stock (i.e., the sum of the portion of the merger consideration paid in Hilltop common stock and a number of shares of Hilltop common stock with a value as of immediately prior to the date of the merger agreement that is equal to the portion of the merger consideration paid in cash). Following the effective time of the merger, any such deferred shares that are not vested will continue to vest in accordance with the original terms of the SWS deferred shares and will vest in full on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger. Hilltop deferred shares will be distributed in accordance with the terms of the applicable plan and

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the participants' individual elections. As of August 31, 2014, 307,668 deferred shares of SWS common stock were outstanding.

For more information about these restricted and deferred shares, see "The Merger  Interests of SWS Directors and Executive Officers in the Merger".

**Q:**

**What interests do SWS's directors and executive officers have in the merger that are different from, or in addition to, those of SWS stockholders generally?**

A:

SWS stockholders should be aware that SWS's directors and executive officers have interests in the merger that are different from, or in addition to, those of SWS stockholders generally. These interests may create potential conflicts of interest. SWS's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that SWS stockholders vote in favor of approving the merger proposal and the compensation proposal. For purposes of the SWS agreements and plans described below, the completion of the transactions contemplated by the merger agreement will constitute a change of control. These interests include the following:

All outstanding restricted shares of SWS common stock granted prior to the date of the merger agreement will vest in full in connection with the merger and each holder will receive the merger consideration in exchange for each such restricted share. In addition, the vesting of outstanding deferred shares of SWS common stock will accelerate in full on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger. The estimated value of such accelerated vesting of the restricted and deferred shares currently held by the executive officers in aggregate is $2,488,371. For the estimated value of such accelerated vesting for each individual executive officer and the methodology used to calculate such value, see footnote 2 to the table under "*The Merger  Interests of SWS Directors and Executive Officers in the Merger  Golden Parachute Compensation*";

As permitted under the terms of the merger agreement, on August 20, 2014, SWS granted an aggregate of 181,814 restricted shares of SWS common stock, with an aggregate grant date value of $1,325,434, to certain executive officers and key employees of SWS in satisfaction of their fiscal 2014 annual bonuses in the ordinary course of business and consistent with past practice, which will be converted into restricted shares of Hilltop as of the effective time of the merger, and will be subject to accelerated vesting (i) as to all of such restricted shares on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger, (ii) as to all of such restricted shares upon a change of control event (other than the merger) and (iii) as to a prorated portion of such restricted shares on termination of employment due to an employee's death or disability. For the estimated value of such accelerated vesting for each individual executive officer, see footnote 2 to the table under "*The Merger  Interests of SWS Directors and Executive Officers in the Merger  Golden Parachute Compensation*";

Between the date of the merger agreement and the effective time of the merger, SWS may grant non-employee directors of SWS restricted shares of SWS common stock in the ordinary course of business consistent with past practice, with a grant date value not to exceed $35,000 per non-employee director;

Executive officers and other employees of SWS are entitled to cash severance in accordance with SWS's severance practice on termination of employment by the employer without "cause" (as defined in the merger agreement) at any time on or prior to December 31, 2015, contingent on the executive's or other employee's execution and non-revocation of a release of claims. The estimated value of such cash severance for the executive officers in

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aggregate is $816,154. For the formula used to calculate this estimated value, see "*The Merger  Interests of SWS Directors and Executive Officers in the Merger  Severance and Retention Payments  Severance practice*". For the estimated value of such cash severance for each individual executive officer, see footnote 1 to the table under "*The Merger  Interests of SWS Directors and Executive Officers in the Merger  Golden Parachute Compensation*";

As permitted under the terms of the merger agreement, SWS is permitted to enter into retention agreements with employees in an aggregate amount up to $5,000,000. As of the date of this proxy statement/prospectus, SWS has entered into retention agreements with certain executive officers (and other employees) that provide for cash retention payments in the aggregate amount of $4,418,800, of which $975,000 in the aggregate is payable under the agreements with the following executive officers: James H. Ross; J. Michael Edge; Allen R. Tubb; W. Norman Thompson; and Robert A. Chereck. These retention amounts will be paid in a lump sum within 30 days of the six-month anniversary of the effective time of the merger, subject to the applicable executive officer's or other employee's continued employment with SWS through such six-month anniversary (except that, on a termination of employment by the employer without "cause" (as defined in the retention agreement) after the effective time, the retention payment will be paid within 30 days of such termination date, contingent on the executive's (or other employee's) execution and non-revocation of a release of claims). Each retention agreement also includes restrictive covenants relating to confidentiality and the non-solicitation of customers and employees of SWS. For the retention amount payable to each executive officer who is eligible for such amount, see footnote 1 to the table under "*The Merger  Interests of SWS Directors and Executive Officers in the Merger  Golden Parachute Compensation*"; and

Each of Hilltop and Peruna LLC has agreed to indemnify and advance expenses to each present and former director, officer and employee of SWS and its subsidiaries (when acting in such capacity) to the fullest extent permitted by law for any acts arising out of or pertaining to matters occurring at or existing prior to the closing of the merger. Hilltop will also provide director and officer liability insurance with respect to claims arising from facts or events occurring before the completion of the merger or, at SWS's option, SWS may purchase a "tail" policy for directors' and officers' liability insurance.

Messrs. Gerald J. Ford and J. Taylor Crandall are members of the SWS board of directors appointed by Hilltop and Oak Hill, respectively. Messrs. Ford and Crandall recused themselves from the vote of the SWS board of directors with respect to the approval and adoption of the merger agreement and the transactions contemplated thereby, including the merger. The decisions by the SWS Board that are described in this proxy statement/prospectus were all taken by unanimous vote of those directors who voted.

For more information about the interests that SWS's directors and executive officers have in the merger, see "The Merger  Interests of SWS Directors and Executive Officers in the Merger".

**Q:**

**When do you expect to complete the merger?**

A:

We expect to complete the merger prior to the end of 2014. However, we cannot assure you when or if the merger will occur. We must, among other things, first obtain the required approval of SWS stockholders at the SWS special meeting and the required regulatory approvals described below in "The Merger  Regulatory Approvals Required for the Merger" and satisfy certain other closing conditions.

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**Q:** **What happens if the merger is not completed?**

A: If the merger is not completed, shares of Hilltop common stock will not be issued, and holders of SWS common stock will not receive any consideration for their shares, in connection with the merger. Instead, SWS will remain an independent company and its common stock will continue to be listed and traded on the New York Stock Exchange. Under specified circumstances in connection with the termination of the merger agreement, including circumstances involving a change in recommendation by the SWS board of directors, SWS may be required to pay Hilltop a termination fee of $8 million. See "The Merger Agreement  Termination Fee".

**Q:** **When and where is the SWS special meeting?**

A: The SWS special meeting will be held at Renaissance Tower, 1201 Elm Street, Suite 4200, Dallas, Texas 75270, on , 2014 at 9:00 a.m. local time.

**Q:** **How do I vote?**

A: If you are a stockholder of record of SWS as of the record date for the SWS special meeting you may vote by:

accessing the Internet website specified on your proxy card;

calling the toll-free number specified on your proxy card; or

signing the enclosed proxy card and returning it in the postage-paid envelope provided.

After you have carefully read this proxy statement/prospectus in its entirety and have decided how you wish to vote your shares, please vote your shares promptly. You may also cast your vote in person at the SWS special meeting. If you hold SWS common stock in "street name" through a bank, broker or other nominee, please follow the voting instructions provided by your bank, broker or other nominee to ensure that your shares are represented at the special meeting. Stockholders that hold shares through a bank, broker, or other nominee who wish to vote at the SWS special meeting will need to obtain a "legal proxy" from the record holder.

**Q:** **How do I vote if I own shares through the SWS Group, Inc. 401(k) Profit Sharing Plan (the "SWS 401(k) Plan")?**

A: You will be given the opportunity to instruct the trustee of the SWS 401(k) Plan how to vote the shares that you hold in your account. In accordance with the terms of the plan, if you fail to instruct the plan trustee how to vote your plan shares, the trustee will generally vote your plan shares in the same proportion as the shares voted pursuant to the instructions of participants who timely give such instructions.

**Q:** **Why is my vote important?**

A: If you do not vote, it will be more difficult to obtain the necessary quorum to hold the SWS special meeting. In addition, we cannot complete the merger without obtaining the necessary vote of SWS stockholders in favor of the merger proposal.

**Q:** **How does the SWS board of directors recommend that I vote?**

A:

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves), upon the unanimous recommendation of the special committee of the SWS board of directors (the "Special Committee"), recommends that you vote "FOR" the merger proposal, "FOR" the compensation proposal and "FOR" the adjournment proposal.

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**Q:** **What constitutes a quorum for the SWS special meeting?**

A: The presence at the special meeting, in person or by proxy, of holders of a majority of the outstanding shares of SWS common stock entitled to vote at the SWS special meeting will constitute a quorum for the transaction of business. Abstentions and broker non-votes will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum. A broker non-vote occurs under stock exchange rules when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instructions are given.

**Q:** **What is the vote required to approve each proposal at the SWS special meeting?**

A: Approval of the merger proposal requires the affirmative vote of a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting. Approval of the compensation proposal and the adjournment proposal require, in each case, the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the SWS special meeting and entitled to vote on such proposal. As of the date of this proxy statement/prospectus, Hilltop owns 1,475,387 shares of SWS common stock, or approximately 4.5% of the currently outstanding SWS common shares, and an additional 8,695,652 shares of SWS are issuable to Hilltop upon exercise of its warrant, equivalent to total beneficial ownership of approximately 24.4% on an as-converted basis.

**Q:** **What impact will my vote on the compensation proposal have on the compensation payable to SWS's named executive officers in connection with the merger?**

A: The vote on the compensation proposal is a vote separate and apart from the vote to approve the merger agreement. You may vote for the compensation proposal and against the merger proposal, and vice versa. Because the vote on the compensation proposal is advisory only, it will not be binding on SWS or Hilltop. Accordingly, because SWS is contractually obligated to pay the compensation, if the merger is completed, the compensation is payable to the named executive officers of SWS, subject only to the conditions applicable thereto, regardless of the outcome of the advisory (non-binding) vote. SWS is seeking your approval of the compensation, on an advisory (non-binding) basis, in order to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related SEC rules.

**Q:** **If my shares are held in "street name" by my broker, will my broker automatically vote my shares for me?**

A: No. Your broker cannot vote your shares without instructions from you. You should instruct your broker as to how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker. Without instructions, your shares will not be voted, which will have the effect described below.

**Q:** **What should I do if I hold my shares of SWS common stock in book-entry form?**

A: You are not required to take any special additional action to receive the merger consideration if your shares of SWS common stock are held in book-entry form. Book-entry shares will be treated the same way as stock certificates.

**Q:** **What if I abstain from voting or fail to instruct my broker?**

A: If you are a holder of SWS common stock and you abstain from voting or fail to instruct your broker to vote your shares, it will have the same effect as a vote against the merger proposal. An

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abstention or broker non-vote will have no effect on the compensation proposal or the adjournment proposal.

**Q:** **Can I attend the SWS special meeting and vote my shares in person?**

A: Yes. All SWS stockholders, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the SWS special meeting. Holders of record of SWS common stock can vote in person at the SWS special meeting. If you are not a stockholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the SWS special meeting, you must hold your shares in your own name or have a statement from your bank, broker or other record holder confirming your ownership of shares as of the record date for the SWS special meeting. In addition, you must bring a form of personal photo identification with you in order to be admitted. SWS reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the SWS special meeting is prohibited without SWS's express written consent.

Regardless of whether you plan to attend the SWS special meeting, we recommend that you vote your shares early by Internet, telephone or mail to ensure that a quorum exists at the SWS special meeting and to ensure that your vote will be counted if you later choose not to attend the SWS special meeting. You may revoke any previously submitted proxy and vote your shares in person at the SWS special meeting.

**Q:** **What do I do if I want to change or revoke my vote?**

A: You may revoke your proxy and change your vote at any time before the SWS special meeting, or earlier deadline specified in the proxy card, by voting again via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the special meeting will be counted), by signing and returning a new proxy card or voting instruction form with a later date, or by attending the special meeting and voting in person. Your attendance at the special meeting, however, will not automatically revoke your proxy unless you vote again at the special meeting. We provide additional information on changing your vote under the headings "The SWS Special Meeting  Proxies" included elsewhere in this proxy statement/prospectus.

**Q:** **Am I entitled to exercise appraisal / dissenters' rights as an SWS stockholder?**

A: Yes. Section 262 of the Delaware General Corporation Law ("DGCL") provides holders of shares of SWS common stock with the right to dissent from the merger and seek appraisal of their shares of SWS common stock in accordance with Delaware law. A holder of shares of SWS common stock who properly seeks appraisal and complies with the applicable requirements under Delaware law, referred to as a dissenting stockholder, will forego the merger consideration and instead receive a cash payment equal to the fair value of such stockholder's shares of SWS common stock in connection with the merger. Fair value will be determined by the Delaware Court of Chancery following an appraisal proceeding. Dissenting stockholders will not know the appraised fair value at the time such holders must elect whether to seek appraisal. The ultimate amount dissenting stockholders receive in an appraisal proceeding may be more or less than, or the same as, the amount such holders would have received under the merger agreement.

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To seek appraisal, a stockholder of SWS must strictly comply with all of the procedures required under Delaware law, including:

- delivering a written demand for appraisal to SWS before the vote is taken on the merger agreement at the SWS special meeting;
- not voting in favor of the merger proposal; and
- continuing to hold its shares of common stock through the effective time of the merger.

In connection with the foregoing, SWS stockholders who wish to seek appraisal should note that:

- if you return a signed proxy without voting instructions, your proxy will be voted as recommended by the SWS board of directors and you may lose dissenters' rights;
- if you return a signed proxy with instructions to vote "FOR" the merger agreement, your shares will be voted in favor of the merger agreement and you will lose dissenters' rights; and
- if you wish to dissent and you execute and return a proxy, you must specify that your shares are to be either voted "AGAINST" or "ABSTAIN" with respect to approval of the merger.

Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights.

For a further description of the appraisal rights available to SWS stockholders and procedures required to exercise appraisal rights, see the section entitled "The Merger  Appraisal/Dissenters' Rights" included elsewhere in this joint proxy statement/prospectus and the provisions of the DGCL that grant appraisal rights and govern such procedures which are attached as Annex C to this document. If a stockholder of SWS holds shares of SWS common stock through a bank, brokerage firm or other nominee and the SWS stockholder wishes to exercise appraisal rights, such stockholder should consult with such stockholder's bank, brokerage firm or nominee. In view of the complexity of Delaware law, SWS stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.

**Q:**

**Should I send in my SWS stock certificates now?**

A:

No. SWS stockholders with shares represented by stock certificates should not send SWS stock certificates with their proxy cards. After the merger is completed, holders of SWS common stock certificates or shares of SWS common stock held in book-entry form will be mailed a transmittal form with instructions on how to exchange their SWS stock certificates or book-entry shares for the merger consideration.

**Q:**

**Will SWS be required to submit the proposal to approve the merger agreement to its stockholders even if SWS's board of directors has withdrawn, modified or qualified its recommendation?**

A:

Yes. Unless the merger agreement is terminated before the SWS special meeting, SWS is required to submit the proposal to approve the merger agreement to its stockholders even if SWS's board of directors has withdrawn, modified or qualified its recommendation.

**Q:**

**What if I cannot find my stock certificates?**

A:

There will be a procedure for you to receive the merger consideration in the merger, even if you have lost one or more of your SWS stock certificates. This procedure, however, may take time to complete. In order to ensure that you will be able to receive the merger consideration promptly after the merger is completed, if you cannot locate your SWS stock certificates after looking for them carefully, we urge you to contact the SWS transfer agent, Computershare Trust Company, as soon as possible and follow the procedure they explain to you for replacing your SWS stock

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certificates. Computershare Trust Company can be reached at (303) 262-0600, or you can write to them at the following address:

Computershare Trust Company
350 Indiana Street
Suite 800
Golden, CO 80401
(303) 262-0600

**Q:**

**What should I do if I receive more than one set of voting materials?**

A:

SWS stockholders may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold shares of SWS common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold such shares. If you are a holder of record of SWS common stock and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this proxy statement/prospectus in respect of all shares held to ensure that you vote every share of SWS common stock that you own.

**Q:**

**Will U.S. taxpayers be taxed on the Hilltop common stock and/or cash received in the merger?**

A:

The merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and it is a condition to the respective obligations of Hilltop and SWS to complete the merger that each of Hilltop and SWS receives a legal opinion to that effect. Accordingly, an SWS common stockholder generally will recognize gain, but not loss, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the shares of Hilltop common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of SWS common stock surrendered) and (2) the amount of cash received pursuant to the merger. Further, a holder of shares of SWS common stock generally will recognize gain or loss with respect to cash received instead of fractional shares of Hilltop common stock that the SWS common stockholder would otherwise be entitled to receive. For further information, please refer to "United States Federal Income Tax Consequences of the Merger." The U.S. federal income tax consequences described above may not apply to all holders of SWS common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.

**Q:**

**What is Hilltop's current relationship with SWS?**

A:

In March 2011, Hilltop, Oak Hill Capital Partners III, L.P. ("OHCP") and Oak Hill Capital Management Partners III, L.P. (collectively with OHCP, "Oak Hill") entered into a Funding Agreement (the "Funding Agreement") with SWS. On July 29, 2011, after receipt of regulatory and SWS stockholder approval, SWS completed the following transactions contemplated by the Funding Agreement:

- entered into a $100,000,000, five-year, unsecured loan comprised of equal commitments from each of Hilltop and Oak Hill under the terms of a credit agreement (the "Credit Agreement");

- issued warrants to each of Hilltop and Oak Hill for the purchase of up to 8,695,652 shares of SWS's common stock exercisable for five years from the date of issuance at a fixed exercise price of $5.75 per share, subject to anti-dilution adjustments; and

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granted each of Hilltop and Oak Hill certain rights, including registration rights, preemptive rights, and the right for each to appoint one person to the board of directors of SWS for so long as it owns 9.9% or more of all of the outstanding shares of SWS's common stock or securities convertible into at least 9.9% of SWS's outstanding common stock.

In addition to the 8,695,652 shares of SWS issuable to Hilltop upon exercise of its warrant, Hilltop holds an additional 1,475,387 shares of SWS common stock as of the date of this proxy statement/prospectus, equivalent to 4.5% beneficial ownership of the currently outstanding shares of SWS common stock and 24.4% beneficial ownership of the outstanding shares of SWS common stock if Hilltop's warrant were fully exercised. At the closing of the merger, Hilltop's warrant to acquire SWS common stock, if outstanding, will be cancelled. Mr. Gerald J. Ford, who is Chairman of Hilltop's board of directors, currently serves as Hilltop's designee on SWS's board of directors.

In connection with its acquisition of PlainsCapital Corporation in 2012, Hilltop provided certain passivity commitments to the Federal Reserve Board related to SWS. These passivity commitments provide that Hilltop cannot take certain actions, namely exercising any controlling influence over management or policies of SWS, without the prior approval of the Federal Reserve Bank.

The terms of the Credit Agreement include a covenant prohibiting SWS from undergoing a "Fundamental Change," which includes any merger, amalgamation or consolidation, and which SWS would breach by engaging in a merger, amalgamation or consolidation unless compliance were waived by each of Hilltop and Oak Hill. During the parties' negotiations with respect to the merger, Hilltop indicated to SWS that it would not be willing to grant a waiver of this covenant to permit a third party transaction (see "The Merger  Background of the Merger"). The Credit Agreement also prohibits SWS from prepaying the loan other than following a period during which the closing price for SWS common stock exceeds 150% of the exercise price of the warrants (or $8.625) for twenty out of any thirty consecutive trading days.

**Q:**

**What rights does Oak Hill have in relation to the merger?**

A:

Pursuant to a Letter Agreement dated March 31, 2014 between Oak Hill and SWS (the "Oak Hill Letter Agreement"), Oak Hill has agreed with SWS, subject to the terms and conditions of the Oak Hill Letter Agreement, to waive any terms of the Credit Agreement that would cause the merger to result in any default or event of default by SWS under the Credit Agreement.

Pursuant to the Oak Hill Letter Agreement and the merger agreement, at the closing of the merger, Oak Hill will deliver to SWS the certificates evidencing its warrants and any loans of Oak Hill to SWS then outstanding under the Credit Agreement, and SWS will issue and deliver to Oak Hill, in exchange for its warrants and loans, the following consideration: (i) the merger consideration that Oak Hill would have been entitled to receive upon consummation of the merger if its warrants had been exercised immediately prior to the effective time of the merger and (ii) an amount equal to the Applicable Premium (as defined in the Credit Agreement, being a calculation of the present value of all required interest payments due on a loan through its maturity date on the date the loan is repaid) calculated as if the loans held by Oak Hill were prepaid in full as of the closing date of the merger.

**Q:**

**Are there any voting agreements in relation to the merger?**

A:

Hilltop has agreed in the merger agreement to vote any shares of SWS that it owns as of the record date for the SWS special meeting (not including unissued shares that would be issuable upon the exercise of all or a portion of Hilltop's warrant) in favor of approval and adoption of the merger agreement. As of the date of this proxy statement/prospectus, Hilltop owns 1,475,387 shares of SWS common stock, or approximately 4.5% of the currently outstanding SWS common shares, excluding the 8,695,652 shares of SWS common stock that are issuable to Hilltop upon

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exercise of its warrant and the 8,695,652 shares of SWS common stock that are issuable to Oak Hill upon exercise of its warrants. Neither Oak Hill nor, to the knowledge of Hilltop and SWS, any other person has agreed to vote its shares in favor of the merger, and Oak Hill has covenanted in the Oak Hill Letter Agreement not to enter into any voting agreement with Hilltop with respect to the merger.

**Q:**

**Where can I find more information on Hilltop and SWS?**

A:

You can find more information about Hilltop and SWS from various sources described in the section of this proxy statement/prospectus entitled "Where You Can Find More Information."

**Q:**

**Whom can I talk to if I have questions?**

A:

SWS stockholders should contact SWS by telephone at (214) 859-1800 or MacKenzie Partners, Inc., SWS's proxy solicitor, collect at (212) 929-5500 or toll-free at (800) 322-2885.

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## SUMMARY

*This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To obtain a better understanding of the merger, we urge you to read this entire proxy statement/prospectus carefully, including the annexes, as well as those additional documents to which we refer you. You may obtain the information incorporated by reference into this proxy statement/prospectus by following the instructions in the section of this proxy statement/prospectus entitled "Where You Can Find More Information." Each item in this summary refers to the page of this proxy statement/prospectus beginning on which that subject is described in more detail.*

### The Companies (page 69)

***Hilltop***

Hilltop, a Maryland corporation, is a Dallas-based financial holding company with principal executive offices at 200 Crescent Court, Suite 1330, Dallas, Texas 75201. The telephone number of Hilltop's executive offices is (214) 855-2177, and its Internet website address is www.hilltop-holdings.com. Through its wholly owned subsidiary, PlainsCapital Corporation, a regional commercial banking franchise, Hilltop has three operating subsidiaries: PlainsCapital Bank, PrimeLending, and First Southwest. Through Hilltop's other wholly owned subsidiary, National Lloyds Corporation, Hilltop provides property and casualty insurance through two insurance companies, National Lloyds Insurance Company and American Summit Insurance Company.

Hilltop's common stock is listed on the New York Stock Exchange under the symbol "HTH."

***SWS***

SWS, a Delaware corporation, is a savings and loan holding company with principal executive offices at 1201 Elm Street, Suite 3500, Dallas, Texas 75270. The telephone number of SWS's executive offices is (214) 859-1800, and its Internet website address is www.swsgroupinc.com. SWS is focused on delivering a broad range of investment banking, commercial banking and related financial services to corporate, individual and institutional investors, broker/dealers, governmental entities and financial intermediaries. SWS is the largest full-service brokerage firm headquartered in the Southwestern United States (based on the number of financial advisors). SWS conducts its banking business through its wholly owned subsidiary, Southwest Securities, FSB, a federally chartered savings bank.

SWS's common stock is listed on the New York Stock Exchange under the symbol "SWS."

***Peruna LLC***

Peruna LLC, a Delaware limited liability company, is a wholly owned subsidiary of Hilltop. Peruna LLC is newly formed, and was organized for the purpose of effecting the merger. Other than those incident to its formation and the matters contemplated by the merger agreement, Peruna LLC has engaged in no business activities to date and it has no material assets or liabilities of any kind.

### Risk Factors (page 32)

An investment in shares of Hilltop common stock involves risks, some of which are related to the merger. In considering the merger, you should carefully consider the information about these risks set forth under "Risk Factors," together with the other information included or incorporated by reference or in this proxy statement/prospectus.

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**The Merger (page 237)**

If the merger is completed, each share of SWS common stock, par value $0.10 per share, issued and outstanding immediately prior to the completion of the merger will be converted into the right to receive $1.94 in cash and 0.2496 of a share of Hilltop common stock. We refer to this mix of cash and stock consideration as the merger consideration. No fractional shares of Hilltop common stock will be issued in connection with the merger. A holder of SWS common stock who otherwise would have received a fraction of a share of Hilltop common stock will instead receive an amount in cash rounded to the nearest cent. For example, if you hold 100 shares of SWS common stock, you will receive (i) $194, (ii) 24 shares of Hilltop common stock and (iii) a cash payment instead of the 0.96 shares of Hilltop common stock that you otherwise would have received.

The value of the merger consideration may fluctuate between the date of the SWS special meeting and the completion of the merger based upon the market value for Hilltop common stock. For information about the historical prices of Hilltop common stock, see "Market Prices and Dividends of Hilltop Common Stock."

The merger agreement governs the merger. The merger agreement is included in this proxy statement/prospectus as Annex A. Please read the merger agreement carefully. All descriptions in this summary and elsewhere in this prospectus of the terms and conditions of the merger are qualified by reference to the merger agreement.

**Recommendation of the SWS Board of Directors (page 251)**

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves), upon the unanimous recommendation of the Special Committee, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and fair to and in the best interests of the SWS stockholders and has approved the merger and the merger agreement. SWS's board of directors recommends that SWS stockholders vote "FOR" the merger proposal, "FOR" the compensation proposal and "FOR" the adjournment proposal. For the factors considered by SWS's board of directors in reaching its decision to approve the merger agreement, see "The Merger  Reasons for the Merger" and "The Merger  Recommendation of the SWS Board of Directors."

**Opinion of Financial Advisor to the Special Committee (page 256)**

On March 31, 2014, Sandler O'Neill & Partners, L.P. ("Sandler O'Neill"), financial advisor to the Special Committee in connection with the merger, rendered its oral opinion to the Special Committee, which was subsequently confirmed in a written opinion dated the same date, that, as of such date and based upon and subject to the various factors, assumptions and any limitations set forth in its written opinion, the merger consideration to be paid to the holders of SWS common stock in the proposed merger was fair, from a financial point of view, to such holders (other than Hilltop).

The full text of Sandler O'Neill's opinion, dated March 31, 2014, is attached as Annex B to this prospectus. You should read the opinion in its entirety for a discussion of, among other things, the assumptions made, procedures followed, matters considered and any limitations on the review undertaken by Sandler O'Neill in rendering its opinion.

Sandler O'Neill's written opinion is addressed to the Special Committee, is directed only to the merger consideration to be paid in the merger, and does not constitute a recommendation to any SWS stockholder as to how such stockholder should vote with respect to the merger or any other matter.

For further information, see "The Merger  Opinion of SWS's Financial Advisor."

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**What Holders of SWS Equity-Based Awards Will Receive (page 285)**

Each restricted share of SWS common stock granted prior to the date of the merger agreement will vest in full at the effective time of the merger, and the holders of such restricted shares will be entitled to receive the merger consideration for each such share on the same basis as SWS stockholders generally, less applicable withholding taxes, which will be withheld first from the cash portion of the merger consideration payable in respect of each such share. As of August 31, 2014, 370,388 unvested restricted shares of SWS common stock that were granted prior to the date of the merger agreement were outstanding. As permitted under the terms of the merger agreement, on August 20, 2014, SWS granted an aggregate of 181,814 restricted shares of SWS common stock to certain executive officers and key employees in satisfaction of their fiscal 2014 annual bonuses, which will be converted into restricted shares of Hilltop as of the effective time of the merger (with the number of Hilltop shares determined based on the value of the merger consideration), and will be subject to accelerated vesting (i) as to all of such restricted shares on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger, (ii) as to all of such restricted shares upon a change of control event (other than the merger) and (iii) as to a prorated portion of such restricted shares on termination of employment due to an employee's death or disability. The merger agreement also permits SWS to grant to non-employee directors, prior to the effective time of the merger, restricted shares of SWS common stock in the ordinary course of business consistent with past practice, with a grant date value not to exceed $35,000 per non-employee director.

As of the effective time of the merger, each deferred share of SWS common stock reflected in a participant account under SWS deferred compensation plans will be converted into 0.3328 of a deferred share of Hilltop common stock, which is equal to the sum of the portion of the merger consideration paid in Hilltop common stock and a number of shares of Hilltop common stock with a value as of immediately prior to the date of the merger agreement that is equal to the portion of the merger consideration paid in cash. Following the effective time of the merger, any such deferred shares that are not vested will continue to vest in accordance with the original terms of the SWS deferred shares and will vest in full on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger. Hilltop deferred shares will be distributed in accordance with the terms of the applicable plan and the participants' individual elections. As of August 31, 2014, 307,668 deferred shares of SWS common stock were outstanding.

For more information about these restricted and deferred shares, see "The Merger  Interests of SWS Directors and Executive Officers in the Merger".

**SWS Will Hold Its Special Meeting on , 2014 (page 62)**

The SWS special meeting will be held on , 2014, at 9:00 a.m., local time, at Renaissance Tower, 1201 Elm Street, Suite 4200, Dallas, Texas 75270. The purpose of the SWS special meeting is to vote on:

- a proposal to adopt and approve the merger agreement;
- a proposal to approve, on a non-binding, advisory basis, compensation that may be paid or would be payable to SWS's named executive officers that is based on or otherwise relates to the merger; and
- a proposal to approve the adjournment of the SWS special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the SWS special meeting to approve the merger proposal.

Only holders of record of SWS common stock at the close of business on October 3, 2014 will be entitled to vote at the SWS special meeting. Each share of SWS common stock is entitled to one vote on each proposal to be considered at the SWS special meeting.

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As of the record date for the SWS special meeting, there were shares of SWS common stock outstanding and entitled to vote at the SWS special meeting. As of the record date for the SWS special meeting, to the knowledge of SWS, directors and executive officers of SWS had the right to vote approximately shares of SWS common stock (not including the shares held by Hilltop described below), or approximately % of the outstanding shares of SWS common stock entitled to vote at the SWS special meeting. We currently expect that each of these individuals will vote their shares of SWS common stock in favor of the proposals to be presented at the SWS special meeting. In addition, Hilltop holds 1,475,387 shares of SWS common stock as of the date of this proxy statement/prospectus, or approximately 4.5% of the currently outstanding SWS common shares, and an additional 8,695,652 shares of SWS are issuable to Hilltop upon exercise of its warrant. Hilltop has agreed in the merger agreement to vote any shares of SWS that it owns as of the record date for the SWS special meeting (not including unissued shares that would be issuable upon the exercise of all or a portion of Hilltop's warrant) in favor of adoption of the merger agreement.

Approval of the merger proposal requires the affirmative vote of a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting. Approval of the compensation proposal and the adjournment proposal require, in each case, the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the SWS special meeting and entitled to vote on such proposal.

**Hilltop's Relationship with SWS (page 281)**

In March 2011, Hilltop, Oak Hill Capital Partners III, L.P. ("OHCP") and Oak Hill Capital Management Partners III, L.P. (collectively with OHCP, "Oak Hill") entered into a Funding Agreement (the "Funding Agreement") with SWS. On July 29, 2011, after receipt of regulatory and SWS stockholder approval, SWS completed the following transactions contemplated by the Funding Agreement:

- entered into a $100,000,000, five-year, unsecured loan comprised of equal commitments from each of Hilltop and Oak Hill under the terms of a credit agreement (the "Credit Agreement");
- issued warrants to each of Hilltop and Oak Hill for the purchase of up to 8,695,652 shares of SWS's common stock exercisable for five years from the date of issuance at a fixed exercise price of $5.75 per share, subject to anti-dilution adjustments; and
- granted each of Hilltop and Oak Hill certain rights, including registration rights, preemptive rights, and the right for each to appoint one person to the board of directors of SWS for so long as it owns 9.9% or more of all of the outstanding shares of SWS's common stock or securities convertible into at least 9.9% of SWS's outstanding common stock.

In addition to the 8,695,652 shares of SWS issuable to Hilltop upon exercise of its warrant, Hilltop holds an additional 1,475,387 shares of SWS common stock as of the date of this proxy statement/prospectus, equivalent to 4.5% beneficial ownership of the currently outstanding shares of SWS common stock and 24.4% beneficial ownership of the outstanding shares of SWS common stock if Hilltop's warrant were fully exercised. At the closing of the merger, Hilltop's warrant to acquire SWS common stock, if outstanding, will be cancelled. Mr. Gerald J. Ford, who is Chairman of Hilltop's board of directors, currently serves as Hilltop's designee on SWS's board of directors.

In connection with its acquisition of PlainsCapital Corporation in 2012, Hilltop provided certain passivity commitments to the Federal Reserve Board related to SWS. These passivity commitments provide that Hilltop cannot take certain actions, namely exercising any controlling influence over management or policies of SWS, without the prior approval of the Federal Reserve Bank.

The terms of the Credit Agreement include a covenant prohibiting SWS from undergoing a "Fundamental Change," which includes any merger, amalgamation or consolidation, and which SWS

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would breach by engaging in a merger, amalgamation or consolidation unless compliance were waived by each of Hilltop and Oak Hill. During the parties' negotiations with respect to the merger, Hilltop indicated to SWS that it would not be willing to grant a waiver of this covenant to permit a third party transaction (see "The Merger  Background of the Merger"). The Credit Agreement also prohibits SWS from prepaying the loan other than following a period during which the closing price for SWS common stock exceeds 150% of the exercise price of the warrants (or $8.625) for twenty out of any thirty consecutive trading days.

**The Oak Hill Letter Agreement (page 282)**

Pursuant to a Letter Agreement dated March 31, 2014 between Oak Hill and SWS (the "Oak Hill Letter Agreement"), Oak Hill has agreed with SWS, subject to the terms and conditions of the Oak Hill Letter Agreement, to waive any terms of the Credit Agreement that would cause the merger to result in any default or event of default by SWS under the Credit Agreement.

Pursuant to the Oak Hill Letter Agreement and the merger agreement, at the closing of the merger, Oak Hill will deliver to SWS the certificates evidencing its warrants and any loans of Oak Hill to SWS then outstanding under the Credit Agreement, and SWS will issue and deliver to Oak Hill, in exchange for its warrants and loans, the following consideration: (i) the merger consideration that Oak Hill would have been entitled to receive upon consummation of the merger if its warrants had been exercised immediately prior to the effective time of the merger and (ii) an amount equal to the Applicable Premium (as defined in the Credit Agreement, being a calculation of the present value of all required interest payments due on a loan through its maturity date on the date the loan is repaid) calculated as if the loans held by Oak Hill were prepaid in full as of the closing date of the merger.

**The Merger is Intended to Be Tax-Free to Holders of SWS Common Stock as to the Shares of Hilltop Common Stock They Receive (page 298)**

The merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and it is a condition to the respective obligations of Hilltop and SWS to complete the merger that each of Hilltop and SWS receives a legal opinion to that effect. Accordingly, an SWS common stockholder generally will recognize gain, but not loss, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the shares of Hilltop common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of SWS common stock surrendered) and (2) the amount of cash received pursuant to the merger. Further, a holder of shares of SWS common stock generally will recognize gain or loss with respect to cash received instead of fractional shares of Hilltop common stock that the SWS common stockholder would otherwise be entitled to receive. For further information, please refer to "United States Federal Income Tax Consequences of the Merger."

***The United States federal income tax consequences described above may not apply to all holders of SWS common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.***

**Interests of SWS Directors and Executive Officers in the Merger (page 275)**

SWS stockholders should be aware that SWS's directors and executive officers have interests in the merger that are different from, or in addition to, those of SWS stockholders generally. These interests and arrangements may create potential conflicts of interest. SWS's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that SWS stockholders vote in favor of approving

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the merger proposal and the compensation proposal. For purposes of the SWS agreements and plans described below, the completion of the transactions contemplated by the merger agreement will constitute a change of control. These interests include the following:

All outstanding restricted shares of SWS common stock granted prior to the date of the merger agreement will vest in full in connection with the merger and each holder will receive the merger consideration in exchange for each such restricted share. In addition, the vesting of outstanding deferred shares of SWS common stock will accelerate in full on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger;

As permitted under the terms of the merger agreement, on August 20, 2014, SWS granted an aggregate of 181,814 restricted shares of SWS common stock, with an aggregate grant date value of $1,325,434, to certain executive officers and key employees of SWS in satisfaction of their fiscal 2014 annual bonuses in the ordinary course of business and consistent with past practice, which will be converted into restricted shares of Hilltop as of the effective time of the merger (with the number of Hilltop shares determined based on the value of the merger consideration), and will be subject to accelerated vesting (i) as to all of such restricted shares on termination of employment by the employer without "cause" (as defined in the merger agreement) following the effective time of the merger, (ii) as to all of such restricted shares upon a change of control event (other than the merger) and (iii) as to a prorated portion of such restricted shares on termination of employment due to an employee's death or disability;

Between the date of the merger agreement and the effective time of the merger, SWS may grant non-employee directors of SWS restricted shares of SWS common stock in the ordinary course of business consistent with past practice with a grant date value not to exceed $35,000 per non-employee director;

Executive officers and other employees of SWS are entitled to cash severance in accordance with SWS's severance practice on termination of employment by the employer without "cause" (as defined in the merger agreement) at any time on or prior to December 31, 2015, contingent on the executive's or other employee's execution and non-revocation of a release of claims;

As permitted under the terms of the merger agreement, SWS is permitted to enter into retention agreements with employees in an aggregate amount up to $5,000,000. As of the date of this proxy statement/prospectus, SWS has entered into retention agreements with certain executive officers (and other employees) that provide for cash retention payments in the aggregate amount of $4,418,800, of which $975,000 in the aggregate is payable under the agreements with certain executive officers. These retention amounts will be paid in a lump sum within 30 days of the six-month anniversary of the effective time of the merger, subject to the applicable executive officer's or other employee's continued employment with SWS through such six-month anniversary (except that, on a termination of employment by the employer without "cause" (as defined in the retention agreement) after the effective time, the retention payment will be paid within 30 days of such termination date, contingent on the executive's (or other employee's) execution and non-revocation of a release of claims). Each retention agreement also includes restrictive covenants relating to confidentiality and the non-solicitation of customers and employees of SWS; and

Each of Hilltop and Peruna LLC has agreed to indemnify and advance expenses to each present and former director, officer and employee of SWS and its subsidiaries (when acting in such capacity) to the fullest extent permitted by law for any acts arising out of or pertaining to matters occurring at or existing prior to the closing of the merger. Hilltop will also provide director and officer liability insurance with respect to claims arising from facts or events

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occurring before the completion of the merger or, at SWS's option, SWS may purchase a "tail" policy for directors' and officers' liability insurance.

Messrs. Gerald J. Ford and J. Taylor Crandall are members of the SWS board of directors appointed by Hilltop and Oak Hill, respectively. Messrs. Ford and Crandall recused themselves from the vote of the SWS board of directors with respect to the approval and adoption of the merger agreement and the transactions contemplated thereby, including the merger. The decisions by the SWS Board that are described in this proxy statement/prospectus were all taken by unanimous vote of those directors who voted.

**Appraisal/Dissenters' Rights (page 270)**

Section 262 of the DGCL provides holders of shares of SWS common stock with the right to dissent from the merger and seek appraisal of their shares of SWS common stock in accordance with Delaware law. A holder of shares of SWS common stock who properly seeks appraisal and complies with the applicable requirements under Delaware law, referred to as a dissenting stockholder, will forego the merger consideration and instead receive a cash payment equal to the fair value of such stockholder's shares of SWS common stock in connection with the merger. Fair value will be determined by the Delaware Court of Chancery following an appraisal proceeding. Dissenting stockholders will not know the appraised fair value at the time such holders must elect whether to seek appraisal. The ultimate amount dissenting stockholders receive in an appraisal proceeding may be more or less than, or the same as, the amount such holders would have received under the merger agreement.

To seek appraisal, a stockholder of SWS must strictly comply with all of the procedures required under Delaware law, including:

delivering a written demand for appraisal to SWS before the vote is taken on the merger agreement at the SWS special meeting;

not voting in favor of the merger proposal; and

continuing to hold its shares of common stock through the effective time of the merger.

In connection with the foregoing, SWS stockholders who wish to seek appraisal should note that:

if you return a signed proxy without voting instructions, your proxy will be voted as recommended by the SWS board of directors and you may lose dissenters' rights;

if you return a signed proxy with instructions to vote "FOR" the merger agreement, your shares will be voted in favor of the merger agreement and you will lose dissenters' rights; and

if you wish to dissent and you execute and return a proxy, you must specify that your shares are to be either voted "AGAINST" or "ABSTAIN" with respect to approval of the merger.

Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights.

For a further description of the appraisal rights available to SWS stockholders and procedures required to exercise appraisal rights, see the section entitled "The Merger  Appraisal/Dissenters' Rights" included elsewhere in this joint proxy statement/prospectus and the provisions of the DGCL that grant appraisal rights and govern such procedures which are attached as Annex C to this document. If a stockholder of SWS holds shares of SWS common stock through a bank, brokerage firm or other nominee and the SWS stockholder wishes to exercise appraisal rights, such stockholder should consult with such stockholder's bank, brokerage firm or nominee. In view of the complexity of Delaware law, SWS stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.

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**Regulatory Approvals Required for the Merger (page 273)**

Hilltop and SWS have agreed to use their reasonable best efforts to obtain all regulatory approvals necessary or advisable to complete the transactions contemplated by the merger agreement, including the merger and the bank merger. These approvals include approvals from the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the Texas Department of Banking and the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), among others. Hilltop and SWS have filed, or are in the process of filing, applications and notifications to obtain the required regulatory approvals.

We are not aware of any material governmental approvals or actions that are required for completion of the merger other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought.

Although neither SWS nor Hilltop knows of any reason why these regulatory approvals cannot be obtained in a timely manner, SWS and Hilltop cannot be certain when or if they will be obtained.

**No Solicitation (page 293)**

The merger agreement contains restrictions on SWS's ability to solicit or engage in discussions or negotiations with any third party regarding a proposal to acquire a significant interest in SWS. Notwithstanding these restrictions, under certain limited circumstances, the board of directors of SWS may respond to an unsolicited proposal and may change or withdraw its recommendation with respect to a "superior proposal" (as defined in the section entitled "The Merger Agreement  No Solicitation").

**Conditions that Must be Satisfied or Waived for the Merger to Occur (page 295)**

Currently, we expect to complete the merger by the end of 2014. As more fully described in this proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include (1) approval of the merger proposal by SWS stockholders, (2) authorization for listing on the NYSE of the shares of Hilltop common stock to be issued in the merger, (3) the receipt of required regulatory approvals (including approvals of the Federal Reserve Board and the Texas Department of Banking and the expiration or termination of the waiting period under the HSR Act), (4) effectiveness of the registration statement of which this proxy statement/prospectus is a part and the absence of any stop order or threat of any stop order by the SEC, (5) the absence of any order, injunction or other legal restraint preventing the completion of the merger or making the completion of the merger illegal, (6) subject to the materiality standards provided in the merger agreement, the accuracy of the representations and warranties of Hilltop and SWS, (7) performance in all material respects by each of Hilltop and SWS of its obligations under the merger agreement and (8) receipt by each of Hilltop and SWS of an opinion from its counsel as to certain tax matters. In addition, Hilltop's obligation to complete the merger is further conditioned on the fact that there shall not be any regulatory changes, in connection with the grant of a requisite regulatory approval, which impose or would result in the imposition of a materially burdensome regulatory condition.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed. For a further discussion of the conditions to the completion of the merger, see "The Merger Agreement  Conditions to Completion of the Merger."

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**Termination of the Merger Agreement (page 296)**

Either party may terminate the merger agreement prior to completion of the merger in the following circumstances:

- a governmental entity that must grant a required regulatory approval has denied approval and such denial has become final, or an injunction or legal prohibition against the transaction becomes final and nonappealable;
- the merger has not been consummated by March 31, 2015 unless the failure of the merger to be completed by such date is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements under the merger agreement;
- the other party breaches any of its covenants or agreements under the merger agreement in a manner that would cause the closing conditions not to be satisfied and which is not cured 30 days following written notice of the breach (provided that the terminating party is not also in material breach of any of its obligations under the merger agreement); or
- the special meeting of the SWS stockholders shall have concluded without the approval of the merger proposal.

In addition, Hilltop may terminate the merger agreement in the following circumstances:

- prior to obtaining SWS stockholder approval, SWS's board of directors changes its recommendation with respect to the merger;
- prior to obtaining SWS stockholder approval, SWS is in material breach of its non-solicitation obligations or its obligations regarding soliciting stockholder approval for the merger; or
- prior to completion of the merger, if any governmental entity that must grant a requisite regulatory approval imposes a materially burdensome regulatory condition and there is no meaningful possibility such condition can be revised prior to March 31, 2015 unless the failure to obtain such approval without a materially burdensome regulatory condition is due to any breach by Hilltop of the merger agreement.

**Expenses and Termination Fees (page 296)**

In general, each of Hilltop and SWS will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement.

Upon termination of the merger agreement under specified circumstances, SWS may be required to pay Hilltop a termination fee of $8 million. SWS will be required to pay the termination fee to Hilltop if:

(i) a third party proposal has been publicly disclosed or made known to SWS management and not withdrawn, or any person has publicly announced or made known to SWS management and not withdrawn at least 10 business days' prior to the stockholder vote an intention to make a third party proposal, and thereafter the agreement is terminated:

- by either Hilltop or SWS because the merger has not been consummated by March 31, 2015 (without SWS stockholder approval of the merger proposal having been obtained) or because the SWS stockholders failed to approve the merger proposal at a meeting called for such purpose; or

by Hilltop for SWS's willful breach of any of its covenants or agreements under the merger agreement, which breach would cause certain closing conditions not to be satisfied and which is not cured during the applicable cure period;

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and, within 12 months of termination SWS consummates a third party acquisition or enters into an agreement in respect thereof (provided that the references to "15%" in the definition of third party acquisition shall be replaced with references to "50%" for this purpose); or

(ii) the merger agreement is terminated by Hilltop prior to the time SWS stockholders have approved the merger proposal because SWS or the board of directors of SWS changes its recommendation in favor of the merger, or SWS is in material breach of its non-solicitation obligations or its obligations regarding soliciting stockholder approval of the merger.

**The Rights of SWS Stockholders Will Change as a Result of the Merger (page 305)**

The rights of SWS stockholders will change as a result of the merger due to differences in Hilltop's and SWS's governing documents and states of incorporation. The rights of SWS stockholders are governed by Delaware law and by SWS's certificate of incorporation and bylaws, each as amended to date. Upon the completion of the merger, SWS stockholders will become stockholders of Hilltop and the rights of former SWS stockholders will therefore be governed by Maryland law and Hilltop's charter and bylaws as then in effect.

See "Comparison of Stockholders' Rights" included elsewhere in this proxy statement/prospectus for a description of the material differences in stockholders rights under each of the Hilltop and SWS governing documents and under Maryland and Delaware law.

**Litigation Relating to the Merger (page 283)**

Each of Hilltop, Peruna LLC, SWS and the individual members of the board of directors of SWS have been named as defendants in two purported shareholder class action lawsuits arising out of the merger. Both lawsuits were filed in Delaware Chancery Court (*Joseph Arceri v. SWS Group, Inc. et al* and *Chaile Steinberg v. SWS Group, Inc. et al* filed April 8, 2014 and April 11, 2014, respectively). On May 13, 2014, the court consolidated the actions. On June 10, 2014, plaintiffs filed a consolidated amended complaint. The complaint alleges claims for breach of fiduciary duty by the individual directors of SWS, and claims against Hilltop for aiding and abetting that breach of fiduciary duty. The complaint further alleges that the proxy statement/prospectus filed by Hilltop on May 29, 2014 omits or misstates certain material information. Plaintiffs seek, among other things, to enjoin the merger. Hilltop and SWS believe that the claims are without merit and each intends to vigorously defend against these actions.

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**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA FOR HILLTOP**

Set forth below is certain consolidated financial data of Hilltop as of and for the years ended December 31, 2009 through December 31, 2013 and as of and for the six months ended June 30, 2014 and 2013. The results of operations for the six months ended June 30, 2014 and 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. Hilltop management prepared the unaudited consolidated information as of and for the three months ended June 30, 2014 and 2013 on the same basis as it prepared Hilltop's audited consolidated financial statements as of and for the year ended December 31, 2013. In the opinion of Hilltop management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of this data for those dates. You should read Hilltop's selected historical financial data, together with the notes thereto, in conjunction with the more detailed information contained in Hilltop's consolidated financial statements and related notes and "Information About the Companies  Hilltop  Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this proxy statement/prospectus. Hilltop's operating results for 2012 include the results from the operations acquired in Hilltop's acquisition of PlainsCapital Corporation for the month of December 2012 and the operations acquired in Hilltop's acquisition of First National bank are included

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in Hilltop's operating results beginning September 14, 2013 (dollars in thousands, except per share data and weighted average shares outstanding).

| | Six Months Ended June 30, | | Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (Unaudited) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Total interest income | $ 196,236 | $ 150,772 | $ 329,075 | $ 39,038 | $ 11,049 | $ 8,154 | $ 6,866 |
| Total interest expense | 12,369 | 15,086 | 32,874 | 10,196 | 8,985 | 8,971 | 9,668 |
| Net interest income (loss) | 183,867 | 135,686 | 296,201 | 28,842 | 2,064 | (817) | (2,802) |
| Provision for loan losses | 8,775 | 24,294 | 37,158 | 3,800 | | | |
| Net interest income (loss) after provision for loan losses | 175,092 | 111,392 | 259,043 | 25,042 | 2,064 | (817) | (2,802) |
| Total noninterest income | 373,381 | 452,511 | 850,085 | 224,232 | 141,650 | 124,073 | 122,377 |
| Total noninterest expense | 463,841 | 475,391 | 911,735 | 255,517 | 155,254 | 124,811 | 123,036 |
| Income (loss) before income taxes | 84,632 | 88,512 | 197,393 | (6,243) | (11,540) | (1,555) | (3,461) |
| Income tax expense (benefit) | 30,648 | 32,479 | 70,684 | (1,145) | (5,009) | (1,007) | (1,349) |
| Net income (loss) | 53,984 | 56,033 | 126,709 | (5,098) | (6,531) | (548) | (2,112) |
| Less: Net income attributable to noncontrolling interest | 287 | 868 | 1,367 | 494 | | | |
| Income (loss) attributable to Hilltop | 53,697 | 55,165 | 125,342 | (5,592) | (6,531) | (548) | (2,112) |
| Dividends on preferred stock and other(1) | 2,852 | 1,852 | 4,327 | 259 | | 12,939 | 10,313 |
| Income (loss) applicable to Hilltop common stockholders | $ 50,845 | $ 53,313 | $ 121,015 | $ (5,851) | $ (6,531) | $ (13,487) | $ (12,425) |
| **Per Share Data:** | | | | | | | |
| Net income (loss) basic | $ 0.56 | $ 0.64 | $ 1.43 | $ (0.10) | $ (0.12) | $ (0.24) | $ (0.22) |
| Weighted average shares outstanding basic | 89,708 | 83,489 | 84,382 | 58,754 | 56,499 | 56,492 | 56,474 |
| Net income (loss) diluted | $ 0.56 | $ 0.61 | $ 1.40 | $ (0.10) | $ (0.12) | $ (0.24) | $ (0.22) |
| Weighted average shares outstanding diluted | 90,576 | 90,125 | 90,331 | 58,754 | 56,499 | 56,492 | 56,474 |
| Book value per common share | $ 14.22 | $ 12.59 | $ 13.27 | $ 12.34 | $ 11.60 | $ 11.56 | $ 11.77 |
| Tangible book value per common share | $ 10.70 | $ 8.73 | $ 9.70 | $ 8.37 | $ 11.01 | $ 10.95 | $ 11.13 |
| **Balance Sheet Data:** | | | | | | | |
| Total assets | $ 9,396,448 | $ 7,402,803 | $ 8,904,122 | $ 7,286,865 | $ 925,425 | $ 939,641 | $ 1,040,752 |
| Cash and due from banks | 673,972 | 596,351 | 713,099 | 722,039 | 578,520 | 649,439 | 790,013 |
| Securities | 1,328,716 | 1,106,379 | 1,261,989 | 1,081,066 | 224,200 | 148,965 | 129,968 |
| Loans held for sale | 1,410,873 | 1,412,960 | 1,089,039 | 1,401,507 | | | |
| Non-covered loans, net of unearned income | 3,714,837 | 3,253,001 | 3,514,646 | 3,152,396 | | | |
| Covered loans | 845,013 | | 1,006,369 | | | | |
| Allowance for loan losses | (40,546) | (26,237) | (34,302) | (3,409) | | | |
| Goodwill and other intangible assets, net | 317,113 | 324,153 | 322,729 | 331,508 | 33,062 | 34,587 | 36,229 |
| Total deposits | 6,155,310 | 4,496,469 | 6,722,918 | 4,700,461 | | | |
| Notes payable | 55,584 | 139,938 | 56,327 | 141,539 | 131,450 | 138,350 | 138,350 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Junior subordinated debentures | 67,012 | 67,012 | 67,012 | 67,012 | | | |
| Total stockholders' equity | 1,397,162 | 1,171,800 | 1,311,922 | 1,146,550 | 655,383 | 653,055 | 783,777 |
| | | | | | | | |
| **Performance Ratios(2):** | | | | | | | |
| Return on average stockholders' equity | 7.82% | 9.46% | 10.48% | -0.62% | | | |
| Return on average assets | 1.19% | 1.58% | 1.66% | -0.08% | | | |
| Net interest margin (taxable equivalent)(3) | 4.90% | 4.34% | 4.47% | 4.64% | | | |
| Efficiency ratio(4)(5)(6) | 59.56% | 39.03% | 42.58% | NM | | | |
| | | | | | | | |
| **Asset Quality Ratios(2):** | | | | | | | |
| Total nonperforming assets to total loans and other real estate(5) | 3.97% | 0.98% | 3.70% | NM | | | |
| Allowance for loan losses to nonperforming loans(5) | 105.16% | 111.49% | 136.39% | NM | | | |
| Allowance for loan losses to total loans(5) | 0.89% | 0.81% | 0.76% | NM | | | |
| Net charge-offs to average loans outstanding(5) | 0.11% | 0.09% | 0.18% | NM | | | |
| | | | | | | | |
| **Capital Ratios:** | | | | | | | |
| Equity to assets ratio | 14.86% | 15.82% | 14.73% | 15.71% | 70.82% | 69.50% | 75.31% |
| Tangible common equity to tangible assets | 10.63% | 10.35% | 10.19% | 10.05% | 69.74% | 68.33% | 62.56% |
| | | | | | | | |
| **Regulatory Capital Ratios(2):** | | | | | | | |
| Hilltop Leverage ratio(7) | 13.51% | 13.66% | 12.81% | 13.08% | | | |
| Hilltop Tier 1 risk-based capital ratio | 18.11% | 18.35% | 18.53% | 17.72% | | | |
| Hilltop Total risk-based capital ratio | 18.79% | 18.90% | 19.13% | 17.81% | | | |
| Bank Leverage ratio(7) | 9.97% | 9.74% | 9.29% | 8.84% | | | |
| Bank Tier 1 risk-based capital ratio | 13.22% | 12.77% | 13.38% | 11.83% | | | |
| Bank Total risk-based capital ratio | 13.90% | 13.35% | 14.00% | 11.93% | | | |
| | | | | | | | |
| **Other Data(8):** | | | | | | | |
| Net loss and LAE ratio | 66.1% | 91.2% | 70.3% | 74.4% | 72.2% | 60.5% | 61.0% |
| Expense ratio | 31.8% | 32.8% | 32.3% | 34.4% | 34.0% | 36.0% | 35.7% |
| GAAP combined ratio | 97.9% | 124.0% | 102.6% | 108.8% | 106.2% | 96.5% | 96.8% |
| Statutory surplus(9) | $ 128,483 | $ 109,793 | $ 125,054 | $ 120,319 | $ 118,708 | $ 119,297 | $ 117,063 |
| Statutory premiums to surplus ratio | 135.7% | 152.8% | 130.7% | 125.0% | 119.4% | 102.0% | 98.0% |

(1) Series A preferred stock was redeemed in September 2010.

(2) 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.

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(3) Taxable equivalent net interest income divided by average interest-earning assets. Our operations prior to the PlainsCapital Merger are limited to our insurance operations. Therefore, noted measure for 2012 reflects the ratio for the month ended December 31, 2012.

(4) Noninterest expenses divided by the sum of total noninterest income and net interest income for the year.

(5) 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.

(6) Only considers operations of banking segment.

(7) Ratio for 2012 was calculated using the average assets for the month of December.

(8) Only considers operations of insurance segment.

(9) Statutory surplus includes combined surplus of NLIC and ASIC.

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

Hilltop presents two measures in its selected financial data that are not measures of financial performance recognized by GAAP.

"Tangible book value per common share" is defined as total stockholders' equity, excluding preferred stock, reduced by goodwill and other intangible assets, divided by total common shares outstanding. "Tangible common stockholders' equity to tangible assets" is defined as 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 Hilltop 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 this disclosure is not necessarily comparable to that of other companies that use non-GAAP measures. The following table reconciles these Hilltop 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).

| | June 30, | | December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Book value per common share | $ 14.22 | $ 12.59 | $ 13.27 | $ 12.34 | $ 11.60 | $ 11.56 | $ 11.77 |
| Effect of goodwill and intangible assets per share | $ (3.52) | $ (3.86) | $ (3.57) | $ (3.97) | $ (0.59) | $ (0.61) | $ (0.64) |
| Tangible book value per common share | $ 10.70 | $ 8.73 | $ 9.70 | $ 8.37 | $ 11.01 | $ 10.95 | $ 11.13 |
| Hilltop stockholders' equity | $ 1,396,442 | $ 1,170,895 | $ 1,311,141 | $ 1,144,496 | $ 655,383 | $ 653,055 | $ 783,777 |
| Less: preferred stock | 114,068 | 114,068 | 114,068 | 114,068 | | | 119,108 |
| Less: goodwill and intangible assets, net | 317,113 | 324,153 | 322,729 | 331,508 | 33,062 | 34,587 | 36,229 |
| Tangible common equity | 965,261 | 732,674 | 874,344 | 698,920 | 622,321 | 618,468 | 628,440 |
| Total assets | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 9,396,448 | 7,402,803 | 8,904,122 | 7,286,865 | 925,425 | 939,641 | 1,040,752 |
| Less: goodwill and intangible assets, net | 317,113 | 324,153 | 322,729 | 331,508 | 33,062 | 34,587 | 36,229 |
| Tangible assets | 9,079,335 | 7,078,650 | 8,581,393 | 6,955,357 | 892,363 | 905,054 | 1,004,523 |
| Equity to assets | 14.86% | 15.82% | 14.73% | 15.71% | 70.82% | 69.50% | 75.31% |
| Tangible common equity to tangible assets | 10.63% | 10.35% | 10.19% | 10.05% | 69.74% | 68.33% | 62.56% |

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## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA FOR SWS

The following table sets forth the selected historical consolidated financial data for SWS. The selected consolidated financial data as of and for the fiscal years ended June 30, 2014, June 30, 2013, June 29, 2012, June 24, 2011 and June 25, 2010 have been derived from the audited financial statements of SWS for the fiscal years 2010-2014. You should not assume the historical results for any past periods indicate results for any future period.

You should read this selected consolidated financial data in conjunction with the audited consolidated financial statements and related notes thereto included in SWS's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. Please see the section of this proxy statement/prospectus entitled "Where You Can Find More Information."

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 29, 2012 | June 24, 2011 | June 25, 2010 |
| | (In thousands, except ratios and per share amounts) | | | | |
| ***Consolidated Operating Results:*** | | | | | |
| Total revenue | $ 311,288 | $ 318,114 | $ 353,741 | $ 389,819 | $ 422,227 |
| Net revenue(1) | 266,362 | 271,653 | 293,423 | 342,064 | 366,971 |
| Net loss | (7,078) | (33,445) | (4,729) | (23,203) | (2,893) |
| Loss per share basic(2) | $ (0.21) | $ (1.02) | $ (0.14) | $ (0.71) | $ (0.10) |
| Loss per share diluted(2) | $ (0.21) | $ (1.02) | $ (0.14) | $ (0.71) | $ (0.10) |
| Weighted average shares outstanding basic(2) | 32,997 | 32,870 | 32,650 | 32,515 | 30,253 |
| Weighted average shares outstanding diluted(2) | 32,997 | 32,870 | 32,650 | 32,515 | 30,253 |
| Cash dividends declared per common share | $ | $ | $ | $ 0.12 | $ 0.36 |
| ***Consolidated Financial Condition:*** | | | | | |
| Total assets | $ 4,075,906 | $ 3,780,373 | $ 3,546,843 | $ 3,802,157 | $ 4,530,691 |
| Long-term debt(3) | 163,348 | 165,181 | 138,450 | 86,247 | 99,107 |
| Stockholders' equity | 309,872 | 315,286 | 355,702 | 357,469 | 383,394 |
| Shares outstanding | 32,757 | 32,629 | 32,576 | 32,285 | 32,342 |
| Book value per common share | $ 9.46 | $ 9.66 | $ 10.92 | $ 11.07 | $ 11.85 |
| ***Bank Performance Ratios:*** | | | | | |
| Return on assets | 0.4% | 0.5% | 0.2% | (2.1)% | (0.8)% |
| Return on equity | 3.0% | 3.5% | 1.5% | (21.4)% | (9.1)% |
| Equity to assets ratio | 13.8% | 13.1% | 12.0% | 9.7% | 9.2% |

(1) Net revenue is equal to total revenues less interest expense.

(2) Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (paid or unpaid) are treated as participating securities and are factored into the calculation of earnings per share ("EPS"), except in periods with a net loss, when they are excluded.

(3) Includes FHLB advances with maturities in excess of one year. For fiscal years 2014, 2013 and 2012, includes the $100.0 million Credit Agreement with Hilltop and Oak Hill net of a $12.2 million, $16.9 million and $20.9 million discount at June 30, 2014, June 30, 2013 and June 29, 2012, respectively.

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**HILLTOP HOLDINGS INC. UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined financial statements show the impact on the separate historical financial statements of Hilltop and SWS after giving effect to the merger and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The following unaudited pro forma condensed combined statements of income and accompanying notes exclude the impact on Hilltop's historical statements of income of the assumption of substantially all of the liabilities, including all of the deposits, and acquisition of substantially all of the assets by PlainsCapital Bank (the "Bank"), a wholly owned subsidiary of Hilltop, of Edinburg, Texas-based First National Bank ("FNB") from the Federal Deposit Insurance Corporation (the "FDIC"), as receiver, on September 13, 2013 (the "FNB Transaction"). Pursuant to the Purchase and Assumption Agreement (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 that the Bank acquired. Due to the nature and magnitude of the FNB Transaction, coupled with the federal assistance and protection resulting from the FDIC loss-share agreements, historical financial information of FNB is not relevant to future operations. Hilltop has omitted certain historical financial information and the related pro forma financial information of FNB pursuant to the guidance provided in Staff Accounting Bulletin Topic 1.K, Financial Statements of Acquired Troubled Financial Institutions ("SAB 1:K"), and a request for relief granted by the SEC. SAB 1:K provides relief from the requirements of Rule 3-05 of Regulation S-X in certain instances, such as the FNB Transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution for which audited financial statements are not reasonably available and in which federal assistance is so persuasive as to substantially reduce the relevance of such information to an assessment of future operations.

The unaudited pro forma condensed combined balance sheet of Hilltop combines the historical balance sheets of Hilltop and SWS as of June 30, 2014 as if the merger of SWS with and into Hilltop's wholly owned subsidiary, Peruna LLC (the "SWS Merger") had occurred on June 30, 2014. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2013 and the six months ended June 30, 2014 are presented as if the SWS Merger had occurred on January 1, 2013. Hilltop and SWS have different fiscal year-ends. Therefore, the unaudited pro forma condensed combined statement of income for the year ended December 31, 2013 combines the audited results of Hilltop for the year ended December 31, 2013 with the unaudited results of SWS for the six months ended June 30, 2013 and the six months ended December 31, 2013. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the SWS Merger, and with respect to the statements of income only, expected to have a continuing impact on consolidated results of operations.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States. Hilltop is the acquirer for accounting purposes. Hilltop has not had sufficient time to completely evaluate the significant assets and liabilities to be acquired in the SWS Merger. Accordingly, the unaudited pro forma adjustments related to SWS, including the allocations of the purchase price, are preliminary and have been made solely for the purpose of providing unaudited pro forma combined financial information.

A final determination of the merger consideration and fair values of SWS's assets and liabilities, which cannot be made prior to the completion of the merger, will be based on the actual tangible and intangible assets and liabilities of SWS that exist as of the date of completion of the transaction. Consequently, amounts preliminarily allocated to bargain purchase gain and identifiable intangibles could change significantly from those allocations used in the unaudited pro forma condensed combined

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financial statements presented below and could result in a material change in amortization of acquired intangible assets.

In connection with the plan to integrate the operations of Hilltop and SWS following the completion of the SWS Merger, Hilltop anticipates that nonrecurring charges, such as costs associated with systems implementation, employee retention and severance agreements, and other costs related to exit or disposal activities, could be incurred. Hilltop is not able to determine the timing, nature, and amount of these charges as of the date of this proxy statement/prospectus. However, these charges could affect the results of operations of Hilltop and SWS, as well as those of the combined company as a result of the transaction, in the period in which they are recorded. Therefore, the unaudited pro forma condensed combined financial statements do not include the effects of the costs associated with any restructuring or integration activities resulting from the transactions, as they are nonrecurring in nature and not factually supportable at the time that the unaudited pro forma condensed combined financial statements were prepared. We estimate transaction-related expenses aggregating approximately $21.0 million will be incurred by Hilltop and SWS as a part of the SWS Merger for employees, advisors, counsel and other third-parties. These transaction-related expenses are not included in the unaudited pro forma condensed combined statements of income.

Pursuant to the Funding Agreement, SWS entered into a $50.0 million unsecured loan with Oak Hill and warrants to purchase up to 8,695,652 shares of SWS common stock. The unaudited pro forma condensed combined financial statements include the effects of Oak Hill exercising its warrants prior to the closing of the SWS Merger, the effect of which is provided for in the Oak Hill Letter Agreement. The Credit Agreement governing the unsecured loan provides that upon prepayment of the unsecured loan, Oak Hill is entitled to a make-whole interest payment equal to the present value of all required interest payments due on the loan from the date the loan is repaid through its maturity date. Therefore, the unaudited pro forma condensed combined balance sheet includes the effects of an estimated make-whole interest payment by SWS of $8.0 million to Oak Hill prior to the closing of the SWS Merger. This make-whole interest payment has been excluded from the unaudited pro forma condensed combined statements of income, as it represents a nonrecurring item that does not have a continuing impact on results of operations.

The actual amounts recorded as of the completion of the SWS Merger may differ materially from the information presented in these unaudited pro forma condensed combined financial statements as a result of:

- changes in the trading price for Hilltop's common stock;
- net cash used or generated in SWS's operations between the signing of the merger agreement and completion of the merger;
- the timing of the completion of the merger;
- other changes in SWS's net assets that occur prior to completion of the merger, which could cause material differences in the information presented below; and
- changes in the financial results of the combined company, which could cause material changes in the information presented below.

The unaudited pro forma condensed combined financial statements are provided for informational purposes only. The unaudited pro forma condensed combined financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma condensed combined financial statements and related

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adjustments require management to make certain assumptions and estimates. The unaudited pro forma condensed combined financial statements should be read together with:

- the accompanying notes to the unaudited pro forma condensed combined financial statements;
- Hilltop's separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2013, included in this proxy statement/prospectus beginning on page F-1;
- Hilltop's separate unaudited historical consolidated interim financial statements and accompanying notes as of and for the three and six months ended June 30, 2014 included in this proxy statement/prospectus beginning on page F-94;
- Audited Statement of Assets Acquired and Liabilities Assumed by the Bank related to the FNB Transaction at September 13, 2013 and the accompanying notes thereto, included in this proxy statement/prospectus beginning on page F-157;
- SWS's separate audited historical consolidated financial statements and accompanying notes as of and for the year ended June 30, 2014, incorporated by reference into this proxy statement/prospectus; and
- other information pertaining to Hilltop and SWS contained in or, with respect to SWS, incorporated by reference into this proxy statement/prospectus. See "Selected Historical Consolidated Financial Data for Hilltop" and "Selected Historical Consolidated Financial Data for SWS" included elsewhere in this proxy statement/prospectus.

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**HILLTOP HOLDINGS INC. UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF JUNE 30, 2014**

| | Historical | | Pro Forma | Pro Forma | |
|---|---|---|---|---|---|
| | Hilltop | SWS | Adjustments | Combined | Notes |
| | (in thousands) | | | | |
| **Assets:** | | | | | |
| Cash and due from banks | $ 673,972 | $ 99,620 | $ (94,159) | $ 679,433 | A |
| Federal funds sold and securities purchased under agreements to resell | 14,813 | 72,582 | | 87,395 | |
| Assets segregated for regulatory purposes | | 190,240 | | 190,240 | |
| Securities: | | | | | |
| Trading | 61,663 | 235,625 | | 297,288 | |
| Available for sale | 1,201,778 | 494,848 | (74,559) | 1,622,067 | B |
| Held to maturity | 65,275 | 12,549 | 403 | 78,227 | C |
| Total securities | 1,328,716 | 743,022 | (74,156) | 1,997,582 | |
| Loans held for sale | 1,410,873 | | | 1,410,873 | |
| Non-covered loans, net of unearned income and allowance for non-covered loan losses | 3,678,406 | 867,935 | (19,466) | 4,526,875 | D |
| Covered loans, net | 840,898 | | | 840,898 | |
| Broker-dealer and clearing organization receivables | 190,764 | 1,992,941 | | 2,183,705 | |
| Insurance premiums receivable | 27,957 | | | 27,957 | |
| Deferred policy acquisition costs | 22,027 | | | 22,027 | |
| Premises and equipment, net | 201,545 | 15,864 | (3,000) | 214,409 | E |
| FDIC indemnification asset | 175,114 | | | 175,114 | |
| Covered other real estate owned | 142,174 | | | 142,174 | |
| Mortgage servicing rights | 35,877 | | | 35,877 | |
| Other assets | 336,199 | 86,150 | 5,681 | 428,030 | F |
| Goodwill | 251,808 | 7,552 | (7,552) | 251,808 | G |
| Other intangible assets, net | 65,305 | | 10,000 | 75,305 | H |
| Total assets | $ 9,396,448 | $ 4,075,906 | $ (182,652) | $ 13,289,702 | |
| **Liabilities:** | | | | | |
| Deposits | $ 6,155,310 | $ 1,354,633 | $ (4,931) | $ 7,505,012 | I |
| Broker-dealer and clearing organization payables | 227,891 | 1,913,976 | | 2,141,867 | |
| Reserve for losses and loss adjustment expenses | 35,146 | | | 35,146 | |
| Unearned insurance premiums | 94,611 | | | 94,611 | |
| Short-term borrowings | 437,193 | 98,343 | | 535,536 | |
| Advances from Federal Home Loan Bank | 750,000 | 77,130 | 1,761 | 828,891 | J |
| Notes payable | 55,584 | 87,769 | (87,769) | 55,584 | K |
| Junior subordinated debentures | 67,012 | | | 67,012 | |
| Stock purchase warrants | | 27,796 | (27,796) | | L |
| Other liabilities | 176,539 | 206,387 | 4,700 | 387,626 | M |
| Total liabilities | 7,999,286 | 3,766,034 | (114,035) | 11,651,285 | |

| | | | | | |
|---|---|---|---|---|---|
| **Stockholders' Equity:** | | | | | |
| Preferred stock | 114,068 | | | 114,068 | |
| Common stock | 902 | 3,331 | (3,230) | 1,003 | N |
| Additional paid-in capital | 1,387,883 | 324,480 | (110,816) | 1,601,547 | O |
| Accumulated other comprehensive loss | (2,501) | (4,519) | (2,576) | (9,596) | P |
| Accumulated deficit | (103,910) | (10,439) | 45,024 | (69,325) | Q |
| Deferred compensation, net | | 3,189 | (3,189) | | R |
| Treasury stock | | (6,170) | 6,170 | | S |
| Total stockholders' equity before noncontrolling interest | 1,396,442 | 309,872 | (68,617) | 1,637,697 | |
| Noncontrolling interest | 720 | | | 720 | |
| Total stockholders' equity | 1,397,162 | 309,872 | (68,617) | 1,638,417 | |
| Total liabilities and stockholders' equity | $ 9,396,448 | $ 4,075,906 | $ (182,652) | $ 13,289,702 | |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

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**HILLTOP HOLDINGS INC. UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2014**

| | Historical | | Pro Forma | Pro Forma | |
|---|---|---|---|---|---|
| | Hilltop | SWS | Adjustments | Combined | Notes |
| | (in thousands, except per share data) | | | | |
| Interest income: | | | | | |
| Loans, including fees | $ 171,948 | $ 12,974 | $ 1,364 | $ 186,286 | T |
| Investment and other interest income | 24,288 | 30,865 | (3,247) | 51,906 | U |
| Total interest income | 196,236 | 43,839 | (1,883) | 238,192 | |
| Interest expense: | | | | | |
| Deposits | 6,855 | 223 | | 7,078 | |
| Short-term borrowings | 934 | 1,109 | | 2,043 | |
| Notes payable | 1,280 | 6,665 | (6,665) | 1,280 | V |
| Junior subordinated debentures | 1,171 | | | 1,171 | |
| Other | 2,129 | 14,432 | | 16,561 | |
| Total interest expense | 12,369 | 22,429 | (6,665) | 28,133 | |
| Net interest income | 183,867 | 21,410 | 4,782 | 210,059 | |
| Provision for (recapture of) loan losses | 8,775 | (2,070) | | 6,705 | |
| Net interest income after provision for (recapture of) loan losses | 175,092 | 23,480 | 4,782 | 203,354 | |
| Noninterest income: | | | | | |
| Net gains from sale of loans and other mortgage production income | 185,165 | | | 185,165 | |
| Mortgage loan origination fees | 29,327 | | | 29,327 | |
| Net insurance premiums earned | 81,096 | | | 81,096 | |
| Investment and securities advisory fees and commissions | 43,599 | 82,178 | | 125,777 | |
| Other | 34,194 | 25,293 | | 59,487 | |
| Total noninterest income | 373,381 | 107,471 | | 480,852 | |
| Noninterest expense: | | | | | |
| Employees' compensation and benefits | 230,874 | 95,141 | | 326,015 | |
| Loss and loss adjustment expenses | 53,612 | | | 53,612 | |
| Policy acquisition and other underwriting expenses | 23,339 | | | 23,339 | |
| Occupancy & equipment | 52,100 | 15,133 | (300) | 66,933 | Y |
| Other | 103,916 | 28,211 | (2,704) | 129,423 | Z |
| Total noninterest expense | 463,841 | 138,485 | (3,004) | 599,322 | |
| Income (loss) before income taxes | 84,632 | (7,534) | 7,786 | 84,884 | |
| Income tax expense | 30,648 | 1,527 | 2,725 | 34,900 | AA |

| | | | | |
|---|---|---|---|---|
| Net income (loss) | 53,984 | (9,061) | 5,061 | 49,984 |
| Less: Net income attributable to noncontrolling interest | 287 | | | 287 |
| Less: Dividends on preferred stock | 2,852 | | | 2,852 |
| Income (loss) applicable to common stockholders | $ 50,845 | $ (9,061) | $ 5,061 | $ 46,845 |
| Earnings (loss) per common share: | | | | |
| Basic | $ 0.56 | $ (0.28) | | $ 0.47 |
| Diluted | $ 0.56 | $ (0.28) | | $ 0.47 |
| Weighted average share information: | | | | |
| Basic | 89,708 | 32,912 | (22,857) | 99,763 |
| Diluted | 90,576 | 32,912 | (22,857) | 100,631 |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

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**HILLTOP HOLDINGS INC. UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2013**

| | Historical | | Pro Forma | Pro Forma | |
|---|---|---|---|---|---|
| | Hilltop | SWS | Adjustments | Combined | Notes |
| | (in thousands, except per share data) | | | | |
| Interest income: | | | | | |
| Loans, including fees | $ 284,782 | $ 30,298 | $ 3,234 | $ 318,314 | T |
| Investment and other interest income | 44,293 | 60,384 | (6,263) | 98,414 | U |
| Total interest income | 329,075 | 90,682 | (3,029) | 416,728 | |
| Interest expense: | | | | | |
| Deposits | 14,877 | 569 | | 15,446 | |
| Short-term borrowings | 1,814 | 2,605 | | 4,419 | |
| Notes payable | 10,512 | 12,827 | (12,827) | 10,512 | V |
| Junior subordinated debentures | 2,409 | | | 2,409 | |
| Other | 3,262 | 30,930 | | 34,192 | |
| Total interest expense | 32,874 | 46,931 | (12,827) | 66,978 | |
| Net interest income | 296,201 | 43,751 | 9,798 | 349,750 | |
| Provision for (recapture of) loan losses | 37,158 | (9,559) | | 27,599 | |
| Net interest income after provision for (recapture of) loan losses | 259,043 | 53,310 | 9,798 | 322,151 | |
| Noninterest income: | | | | | |
| Net realized gains on securities | 4,937 | | | 4,937 | |
| Net gains from sale of loans and other mortgage production income | 457,531 | | | 457,531 | |
| Mortgage loan origination fees | 79,736 | | | 79,736 | |
| Net insurance premiums earned | 157,533 | | | 157,533 | |
| Investment and securities advisory fees and commissions | 93,093 | 175,639 | (2,259) | 266,473 | W |
| Bargain purchase gain | 12,585 | | | 12,585 | |
| Other | 44,670 | 40,290 | | 84,960 | |
| Total noninterest income | 850,085 | 215,929 | (2,259) | 1,063,755 | |
| Noninterest expense: | | | | | |
| Employees' compensation and benefits | 480,496 | 202,314 | (1,627) | 681,183 | X |
| Loss and loss adjustment expenses | 110,755 | | | 110,755 | |
| Policy acquisition and other underwriting expenses | 46,289 | | | 46,289 | |
| Occupancy & equipment | 86,248 | 31,499 | (727) | 117,020 | Y |
| Other | 187,947 | 47,270 | 1,331 | 236,548 | Z |
| Total noninterest expense | 911,735 | 281,083 | (1,023) | 1,191,795 | |
| Income (loss) before income taxes | 197,393 | (11,844) | 8,562 | 194,111 | |
| Income tax expense | 70,684 | 24,343 | (10,460) | 84,567 | AA |

| | | | | |
|---|---|---|---|---|
| Net income (loss) | 126,709 | (36,187) | 19,022 | 109,544 |
| Less: Net income attributable to noncontrolling interest | 1,367 | | | 1,367 |
| Less: Dividends on preferred stock | 4,327 | | | 4,327 |
| Income (loss) applicable to common stockholders | $ 121,015 | $ (36,187) | $ 19,022 | $ 103,850 |
| Earnings (loss) per common share: | | | | |
| Basic | $ 1.43 | $ (1.10) | | $ 1.09 |
| Diluted | $ 1.40 | $ (1.10) | | $ 1.08 |
| Weighted average share information: | | | | |
| Basic | 84,382 | 33,023 | (22,968) | 94,437 |
| Diluted | 90,331 | 33,023 | (22,968) | 100,386 |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

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**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**1. Basis of Pro Forma Presentation**

The unaudited pro forma condensed combined balance sheet as of June 30, 2014 and the unaudited pro forma condensed combined statements of income for the six months ended June 30, 2014 and the year ended December 31, 2013 are based on the historical financial statements of Hilltop Holdings Inc. ("Hilltop") and SWS Group, Inc. ("SWS") after giving effect to the completion of the merger and the assumptions and adjustments described in the accompanying notes. Hilltop and SWS have different fiscal year-ends. Therefore, the unaudited pro forma condensed combined statement of income for the year ended December 31, 2013 combines the audited results of Hilltop for the year ended December 31, 2013 with the unaudited results of SWS for the six months ended June 30, 2013 and the six months ended December 31, 2013. The unaudited pro forma condensed combined financial statements do not reflect cost savings or operating synergies expected to result from the transactions, or the costs to achieve these cost savings or operating synergies, or any anticipated disposition of assets that may result from the integration of the operations of the two companies. The unaudited pro forma condensed combined statements of income do not give effect to the recent acquisition of First National Bank ("FNB") from the Federal Deposit Insurance Corporation (the "FDIC"), as receiver, as further described below.

On September 13, 2013 (the "Bank Closing Date"), PlainsCapital Bank (the "Bank"), a wholly owned subsidiary of Hilltop, assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of Edinburg, Texas-based FNB from the FDIC, as receiver, and reopened former FNB branches acquired from the FDIC under the "PlainsCapital Bank" name (the "FNB Transaction"). Pursuant to the Purchase and Assumption Agreement (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. The fair market value of the assets acquired was $2.2 billion, including $1.1 billion in covered loans, $286.2 million in securities, $121.0 million in covered OREO and $45.9 million in non-covered loans. The Bank also assumed $2.2 billion in liabilities, consisting primarily of deposits. Due to the nature and magnitude of the FNB Transaction, coupled with the federal assistance and protection resulting from the FDIC loss-share agreements, historical financial information of FNB is not relevant to future operations. Hilltop has omitted certain historical financial information and the related pro forma financial information of FNB pursuant to the guidance provided in Staff Accounting Bulletin Topic 1.K, Financial Statements of Acquired Troubled Financial Institutions ("SAB 1:K"), and a request for relief granted by the SEC. SAB 1:K provides relief from the requirements of Rule 3-05 of Regulation S-X in certain instances, such as the FNB Transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution for which audited financial statements are not reasonably available and in which federal assistance is so persuasive as to substantially reduce the relevance of such information to an assessment of future operations.

The SWS Merger will be accounted for under the acquisition method of accounting. In business combination transactions in which the consideration given is not in the form of cash (that is, in the form of non-cash assets, liabilities incurred, or equity interests issued), measurement of the merger consideration is based on the fair value of the consideration given or the fair value of the asset (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable.

All of the assets acquired and liabilities assumed in a business combination are recognized at their acquisition-date fair value, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The bargain purchase gain represents the excess of the preliminary estimated fair value of the underlying net tangible assets and intangible assets over the preliminary estimated merger consideration. Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. Subsequent to

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the completion of the SWS Merger, Hilltop and SWS will finalize an integration plan, which may affect how the assets acquired, including intangible assets, will be utilized by the combined company. For those assets in the combined company that will be phased out or will no longer be used, additional amortization, depreciation and possibly impairment charges will be recorded after management completes the integration plan.

The unaudited pro forma information is presented solely for informational purposes and is not necessarily indicative of the combined results of operations or financial position that might have been achieved for the periods or dates indicated, nor is it necessarily indicative of the future results of the combined company.

**2. Preliminary Estimated Merger Consideration**

On March 31, 2014, Hilltop entered into a definitive merger agreement with SWS providing for the merger of SWS with and into Peruna LLC, a wholly owned subsidiary of Hilltop. The merger agreement provides for SWS common stockholders, excluding Hilltop, to receive a total of 10.1 million shares of Hilltop common stock and $78.2 million in cash for SWS common stock. The value of the per share purchase consideration would be approximately $7.25 based upon the closing price of Hilltop common stock on June 30, 2014 multiplied by the exchange ratio of 0.2496x and adding the cash portion of the merger consideration of $1.94 per share (collectively, the "Merger Consideration"). The value of the Merger Consideration will fluctuate with the market price of Hilltop common stock.

Based on SWS's shares of common stock, equity awards and stock purchase warrants outstanding as of June 30, 2014, and assuming that, as of the closing of the SWS Merger, all equity awards are vested and exercised and all stock purchase warrants are exercised, the preliminary estimated merger consideration is as follows (in thousands).

***Preliminary Estimated Merger Consideration***

| | | |
|---|---|---|
| Number of shares of SWS common stock outstanding upon closing of merger | 50,459 | |
| Less shares held by Hilltop upon closing of merger | (10,171) | |
| Number of shares of SWS common stock to be acquired upon closing of merger | 40,288 | |
| Multiplied by per share exchange ratio | 0.2496x | |
| Number of shares of Hilltop common stock as exchanged | 10,055 | |
| Multiplied by Hilltop common stock price on June 30, 2014 | $ 21.26 | |
| Estimated fair value of Hilltop common stock issued | | $ 213,765 |
| Estimated cash distribution to SWS common stockholders(1) | | 78,159 |
| Estimated fair value of Hilltop existing investment in SWS | | 74,639 |
| Total Preliminary Estimated Merger Consideration | | $ 366,563 |

(1) The estimated cash distribution to SWS common stockholders equals the cash portion of the Merger Consideration of $1.94, multiplied by 40,288,000 shares of SWS common stock exchanged upon closing of the merger.

**3. Preliminary Estimated Merger Consideration Allocation**

Under the acquisition method of accounting, the total merger consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of SWS based on their estimated fair values as of the closing of the SWS Merger. If the fair value of net assets purchased exceeds the merger consideration given, a "bargain purchase gain" is recognized. If the merger consideration given exceeds the fair value of the net assets received, goodwill is recognized.

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The allocation of the estimated merger consideration is preliminary because the proposed merger has not yet been completed. The preliminary allocation is based on estimates, assumptions, valuations, and other studies which have not progressed to a stage where there is sufficient information to make a definitive allocation. Accordingly, the merger consideration allocation and unaudited pro forma adjustments will remain preliminary until Hilltop management determines the final merger consideration and the fair values of assets acquired and liabilities assumed. The final determination of the merger consideration allocation is anticipated to be completed as soon as practicable after the completion of the merger and will be based on the price of Hilltop's common stock immediately prior to the effective time of the SWS Merger. The final amounts allocated to assets acquired and liabilities assumed could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements.

The total preliminary estimated merger consideration as shown in the table above is allocated to SWS's tangible and intangible assets and liabilities as of June 30, 2014 based on their preliminary estimated fair values as follows (in thousands).

***Preliminary Estimated Merger Consideration Allocation***

| | | |
|---|---|---|
| Cash and due from banks | $ | 87,620 |
| Federal funds sold and securities purchased under agreements to resell | | 72,582 |
| Assets segregated for regulatory purposes | | 190,240 |
| Securities | | 743,425 |
| Non-covered loans, net | | 848,469 |
| Broker-dealer and clearing organization receivables | | 1,992,941 |
| Premises and equipment, net | | 12,864 |
| Other assets | | 91,159 |
| Deposits | | (1,349,702) |
| Broker-dealer and clearing organization payables | | (1,913,976) |
| Short-term borrowings | | (98,343) |
| Advances from Federal Home Loan Bank | | (78,891) |
| Other liabilities | | (211,087) |
| Intangible assets | | 10,000 |
| Bargain purchase gain | | (30,738) |
| | | |
| Preliminary Estimated Merger Consideration | $ | 366,563 |
| Less Hilltop existing investment in SWS | | (74,639) |
| | | |
| Preliminary Estimated Merger Consideration, excluding Hilltop existing investment in SWS | $ | 291,924 |

Approximately $10.0 million has been preliminarily allocated to amortizable intangible assets acquired. The amortization related to the preliminary fair value of net amortizable intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed combined financial statements.

*Identifiable intangible assets.* The preliminary fair values of intangible assets were determined based on the provisions of ASC 805, which defines fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 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 at the measurement date. Intangible assets were identified that met either the separability

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criterion or the contractual-legal criterion described in ASC 805. The preliminary allocation to intangible assets is as follows (dollars in thousands).

| | | Estimated Useful Life (Years) | Amortization Method |
|---|---|---|---|
| Customer contracts and relationships | $ 8,000 | 10 | accelerated |
| Core deposit intangible | 1,000 | 10 | accelerated |
| Trademarks and trade names | 1,000 | 20 | straight-line |
| Total intangible assets | $ 10,000 | | |

*Bargain Purchase Gain.* The bargain purchase gain represents the excess of the preliminary estimated fair value of the underlying net tangible and intangible assets over the preliminary estimated merger consideration. The bargain purchase gain resulting from the SWS Merger is a one-time, extraordinary gain that is not expected to be repeated in future periods. As noted above, the final amounts allocated to assets and liabilities could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements. This may cause us to revise our estimates, which could result in the recognition of additional bargain purchase gain, or the recognition of less or no bargain purchase gain, in which case we may be required to record goodwill that would be subject to an ongoing impairment analysis.

**4. Preliminary Unaudited Pro Forma and Merger Accounting Adjustments**

The unaudited pro forma financial information is not necessarily indicative of what the financial position or operating results actually would have been had the SWS Merger taken place on January 1, 2013, and includes adjustments which are preliminary and may be revised. Such revisions may result in material changes. The financial position shown herein is not necessarily indicative of what the past financial position of the combined companies would have been, nor necessarily indicative of the financial position of the post-merger periods. The unaudited pro forma financial information does not give consideration to the impact of possible expense efficiencies, synergies, strategy modifications, asset dispositions, or other actions that may result from the SWS Merger.

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The following unaudited pro forma adjustments result from accounting for the merger, including the determination of fair value of the assets, liabilities and commitments which Hilltop, as the acquirer for accounting purposes, will acquire from SWS. The descriptions related to these preliminary adjustments are as follows (in thousands).

***Balance Sheet***

| | | | |
|---|---|---|---|
| A | Adjustments to cash: | | |
| | To reflect cash used to purchase outstanding shares of SWS | $ | (78,159) |
| | To reflect cash used to pay estimated transaction costs | | (8,000) |
| | To reflect cash used to pay make-whole interest on note payable by SWS to Oak Hill | | (8,000) |
| | | $ | (94,159) |
| B | Adjustments to available for sale investments: | | |
| | To eliminate Hilltop historical investment in SWS | $ | (74,639) |
| | To reflect purchase fair value of Hilltop investment in SWS | | 80 |
| | | $ | (74,559) |
| C | Adjustment to held to maturity investments: | | |
| | To reflect estimated fair value at acquisition date | $ | 403 |
| D | Adjustment to non-covered loans, net: | | |
| | To reflect estimated fair value at acquisition date | $ | (19,466) |
| E | Adjustment to premises and equipment, net: | | |
| | To reflect estimated fair value at acquisition date | $ | (3,000) |
| F | Adjustments to other assets: | | |
| | To reflect deferred tax asset changes resulting from pro forma adjustments | $ | 12,728 |
| | To reflect current tax recoverable from estimated transaction costs | | 1,400 |
| | To reflect deferred tax liability arising from identified intangible assets | | (3,500) |
| | To reflect estimated fair value of other assets at acquisition date | | (4,947) |
| | | $ | 5,681 |
| G | Adjustment to goodwill: | | |
| | To eliminate SWS historical acquired goodwill | $ | (7,552) |
| H | Adjustment to other intangible assets, net: | | |
| | To reflect the identified intangibles associated with the SWS Merger | $ | 10,000 |
| I | Adjustment to deposits: | | |
| | To reflect estimated fair value at acquisition date | $ | (4,931) |
| J | Adjustment to advances from Federal Home Loan Bank: | | |
| | To reflect estimated fair value at acquisition date | $ | 1,761 |
| K | Adjustments to notes payable: | | |
| | To reflect amortization of the remaining discount on notes payable held by SWS | $ | 12,231 |
| | To reflect the issuance of SWS common stock in exchange for foregiveness of SWS notes payable held by Hilltop and Oak Hill | | (100,000) |
| | | $ | (87,769) |
| L | Adjustment to stock purchase warrants: | | |
| | To reflect the issuance of SWS common stock in exchange for foregiveness of SWS notes payable held by Hilltop and Oak Hill | $ | (27,796) |

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| | | | |
|---|---|---|---|
| M | Adjustment to other liabilities: | | |
| | To reflect estimated fair value at acquisition date | $ | 4,700 |
| N | Adjustments to common stock: | | |
| | To reflect the issuance of SWS common stock in exchange for SWS notes payable and warrants held by Hilltop and Oak Hill | $ | 1,739 |
| | To eliminate SWS historical common stock, including common stock issued for SWS notes payable and warrants held by Hilltop and Oak Hill | | (5,070) |
| | To reflect the issuance of Hilltop common stock to SWS stockholders | | 101 |
| | | $ | (3,230) |
| O | Adjustments to additional paid-in capital: | | |
| | To reflect the issuance of SWS common stock in exchange for SWS notes payable and warrants held by Hilltop and Oak Hill | $ | 126,057 |
| | To eliminate SWS historical additional paid-in capital, including common stock issued for SWS notes payable and warrants held by Hilltop and Oak Hill | | (450,537) |
| | To reflect the issuance of Hilltop common stock to SWS stockholders | | 213,664 |
| | | $ | (110,816) |
| P | Adjustments to accumulated other comprehensive loss: | | |
| | To eliminate SWS historical accumulated other comprehensive loss | $ | 4,519 |
| | To reflect recognition of unrealized gains on prior investment interests | | (7,095) |
| | | $ | (2,576) |
| Q | Adjustments to accumulated deficit: | | |
| | To eliminate SWS historical accumulated deficit | $ | 10,439 |
| | To reflect increase in estimated fair value of Hilltop historical investment in SWS at acquisition date | | 52 |
| | To reflect the bargain purchase gain associated with the SWS Merger | | 30,738 |
| | To reflect estimated transactions costs, net of tax | | (3,300) |
| | To reflect recognition of unrealized gains on prior investment interests | | 7,095 |
| | | $ | 45,024 |
| R | Adjustment to deferred compensation, net: | | |
| | To eliminate SWS historical deferred compensation, net | $ | (3,189) |
| S | Adjustment to treasury stock: | | |
| | To eliminate SWS historical treasury stock | $ | 6,170 |

Pursuant to the acquisition method of accounting, the final Merger Consideration will be based on the price of Hilltop's common stock immediately prior to the effective time of the SWS Merger. A 20% difference in per share price at the closing of the SWS Merger compared to the amount used in these unaudited pro forma condensed combined financial statements would increase or decrease total Merger Consideration and the bargain purchase gain by approximately $42 million.

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***Statements of Income***

| | | Six Months Ended June 30, 2014 | Year Ended December 31, 2013 |
|---|---|---|---|
| T | Adjustment to loan interest income: | | |
| | To reflect accretion of loan discounts resulting from loan fair value pro forma adjustment | $ 1,364 | $ 3,234 |
| U | Adjustments to investment and other interest income: | | |
| | To reflect elimination of historical interest income from Hilltop investment in SWS | $ (3,209) | $ (6,166) |
| | To reflect foregone interest resulting from pro forma cash adjustments, excluding make-whole provision | (38) | (97) |
| | | $ (3,247) | $ (6,263) |
| V | Adjustment to interest expense on notes payable: | | |
| | To reflect elimination of historical interest expense from Hilltop and Oak Hill notes payable in SWS | $ (6,665) | $ (12,827) |
| W | | | |
| | Adjustment to investment and securities advisory fees and commissions: | | |
| | To reflect elimination of SWS discontinued operations from its historical operating results | $ | $ (2,259) |
| X | Adjustment to employees' compensation and benefits: | | |
| | To reflect elimination of SWS discontinued operations from its historical operating results | $ | $ (1,627) |
| Y | Adjustments to occupancy and equipment expense: | | |
| | To reflect reduction in deprecation expense resulting from premises and equipment pro forma adjustment | $ (300) | $ (600) |
| | To reflect elimination of SWS discontinued operations from its historical operating results | | (127) |
| | | $ (300) | $ (727) |
| Z | Adjustments to other noninterest expense: | | |
| | To reflect elimination of historical unrealized losses from Hilltop and Oak Hill warrants in SWS | $ (3,508) | $ (54) |
| | To reflect intangible amortization expense resulting from identified intangibles associated with the SWS Merger | 804 | 1,740 |
| | To reflect elimination of SWS discontinued operations from its historical operating results | | (355) |
| | | $ (2,704) | $ 1,331 |
| AA | Adjustments to income tax expense: | | |
| | To reflect the income tax effect of pro forma adjustments at Hilltop's estimated combined statutory tax rate of 35%, excluding historical SWS pro forma adjustments | $ 2,725 | $ (10,460) |

Note that the estimated transaction costs included as part of the unaudited pro forma condensed combined balance sheet as of June 30, 2014 have not been included in the above unaudited pro forma adjustments. In addition, the unaudited pro forma condensed combined statements of income exclude nonrecurring items resulting directly from the SWS Merger and that do not have a continuing impact

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on results of operations. These items include estimated pre-tax income aggregating approximately $11.0 million as of June 30, 2014 associated with the recognition of gains on prior investment interests in SWS by Hilltop and the recognition of the remaining unrecognized discount on Hilltop's note receivable from SWS, and estimated pre-tax expense aggregating approximately $8.0 million as of June 30, 2014 associated with the estimated make-whole interest payment by SWS to Oak Hill.

**5. Unaudited Preliminary Estimated Accretion/Amortization of Certain Purchase Accounting Adjustments**

The following table sets forth an estimate of the expected effects, if not using the straight-line method, of the projected aggregate purchase accounting adjustments reflected in the unaudited pro forma condensed combined financial statements on the future income before income tax expense of Hilltop after the SWS Merger (in thousands).

| | Accretion (Amortization) | | | | |
|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Loans, including fees | $ 3,234 | $ 2,651 | $ 2,258 | $ 1,882 | $ 1,122 |
| Other intangibles | (1,690) | (1,515) | (1,339) | (1,163) | (988) |
| Increase in income before income tax expense | $ 1,544 | $ 1,136 | $ 919 | $ 719 | $ 134 |

The actual effect of purchase accounting adjustments on the future income before income tax expense of Hilltop may differ from these estimates based on the closing date estimates of fair values and the use of different amortization methods than assumed above.

**6. Earnings per Common Share**

Unaudited pro forma earnings per common share for the six months ended June 30, 2014 and for the year ended December 31, 2013 have been calculated using Hilltop's historic weighted average common shares outstanding plus the common shares issued as a part of the SWS Merger.

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The following table presents the computation of basic and diluted unaudited pro forma earnings per common share (in thousands, except per share data).

| | Three Months Ended March 31, 2014 | Year Ended December 31, 2013 |
|---|---|---|
| Basic earnings per share: | | |
| Pro forma combined net income | $ 46,845 | $ 103,850 |
| Less: income applicable to participating shares | (220) | (515) |
| Pro forma combined net earnings available to Hilltop common stockholders | $ 46,625 | $ 103,335 |
| Pro forma weighted average common shares outstanding basic: | | |
| Historic Hilltop | 89,708 | 84,382 |
| Common shares issued to SWS common stockholders | 10,055 | 10,055 |
| Pro forma weighted average common shares outstanding basic | 99,763 | 94,437 |
| Pro forma combined net earnings per common share basic | $ 0.47 | $ 1.09 |
| Diluted earnings per share: | | |
| Pro forma combined net income | $ 46,845 | $ 103,850 |
| Add: interest expense on senior exchangeable notes (net of tax) | | 5,059 |
| Pro forma combined net earnings available to Hilltop common stockholders | $ 46,845 | $ 108,909 |
| Pro forma weighted average common shares outstanding basic | 99,763 | 94,437 |
| Effect of potentially dilutive securities | 868 | 5,949 |
| Pro forma weighted average common shares outstanding diluted | 100,631 | 100,386 |
| Pro forma combined net earnings per common share diluted | $ 0.47 | $ 1.08 |

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## UNAUDITED COMPARATIVE PER SHARE DATA

The following tables present: (1) historical per share information for Hilltop; (2) pro forma per share information of the combined company after giving effect to the acquisition of SWS by Hilltop; and (3) historical and equivalent pro forma per share information for SWS.

We derived the combined company pro forma per share information primarily by combining information from the historical consolidated financial statements of Hilltop and SWS. You should read these tables, together with the historical consolidated financial statements of Hilltop which are included in this proxy statement/prospectus and of SWS which are filed with the SEC and incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information." You should not rely on the pro forma per share information as being necessarily indicative of actual results had the acquisition occurred on January 1, 2013 (for statement of earnings purposes) or June 30, 2014 (for book value per share data purposes). The unaudited pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible business model changes as a result of current market conditions which may impact revenues, expense efficiencies, asset dispositions, share repurchases and other factors. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods nor is it indicative of the results of operations in future periods or the future financial position of the combined company. The unaudited pro forma adjustments are based upon available information and certain assumptions that Hilltop management believes are reasonable. Upon completion of the merger, the operating results of SWS will be reflected in the consolidated financial statements of Hilltop on a prospective basis.

| | Hilltop Historical | SWS Historical | Pro Forma Combined | Per Equivalent SWS Share(1) |
|---|---|---|---|---|
| **Income (loss) from operations for the year ended December 31, 2013:** | | | | |
| Basic earnings (loss) per share | $ 1.43 | $ (1.10) | $ 1.09 | $ 0.27 |
| Diluted earnings (loss) per share | $ 1.40 | $ (1.10) | $ 1.08 | $ 0.27 |
| | | | | |
| **Dividends paid for the year ended December 31, 2013:** | $ | $ | $ | $ |
| **Book value per share as of December 31, 2013:** | $ 13.27 | $ 9.57 | N/A | N/A |
| | | | | |
| **Income from operations for the six months ended June 30, 2014:** | | | | |
| Basic earnings per share | $ 0.56 | $ (0.28) | $ 0.47 | $ 0.12 |
| Diluted earnings per share | $ 0.56 | $ (0.28) | $ 0.47 | $ 0.12 |
| | | | | |
| **Dividends paid for the six months ended June 30, 2014:** | $ | $ | $ | $ |
| **Book value per share as of June 30, 2014:** | $ 14.22 | $ 9.46 | $ 15.20 | $ 3.79 |

(1) The per equivalent SWS share data is based only on the 0.2496 shares of Hilltop common stock to be issued to SWS stockholders as the stock portion of the merger consideration for each share of SWS common stock and does not give effect to the $1.94 in cash to be received by SWS stockholders as the cash portion of the merger consideration for each share of SWS common stock.

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## COMPARATIVE MARKET PRICES AND DIVIDENDS

Hilltop common stock is listed on the New York Stock Exchange under the trading symbol "HTH." and SWS common stock is listed on the New York Stock Exchange under the trading symbol "SWS." The following table sets forth the high and low reported sale prices per share of Hilltop common stock and SWS common stock, and the cash dividends declared per share for the periods indicated.

| | Hilltop Common Stock Market Price | | | SWS Common Stock Market Price | | |
|---|---|---|---|---|---|---|
| | High | Low | Dividend | High | Low | Dividend |
| **2011** | | | | | | |
| First Quarter | $ 10.13 | $ 9.01 | $ | $ 6.49 | $ 4.27 | $ 0.01 |
| Second Quarter | 10.09 | 8.60 | | 6.76 | 5.56 | 0.01 |
| Third Quarter | 9.01 | 7.12 | | 6.31 | 3.67 | |
| Fourth Quarter | 8.60 | 6.88 | | 7.56 | 4.03 | |
| **2012** | | | | | | |
| First Quarter | $ 9.10 | $ 7.87 | $ | $ 7.77 | $ 4.79 | $ |
| Second Quarter | 10.89 | 7.75 | | 5.94 | 5.08 | |
| Third Quarter | 12.80 | 10.21 | | 6.58 | 5.23 | |
| Fourth Quarter | 14.49 | 12.57 | | 6.33 | 4.02 | |
| **2013** | | | | | | |
| First Quarter | $ 14.21 | $ 12.34 | $ | $ 6.82 | $ 5.32 | $ |
| Second Quarter | 16.94 | 12.59 | | 6.29 | 5.30 | |
| Third Quarter | 18.71 | 15.46 | | 6.28 | 5.19 | |
| Fourth Quarter | 24.05 | 17.09 | | 6.59 | 5.31 | |
| **2014** | | | | | | |
| First Quarter | $ 25.61 | $ 22.42 | $ | $ 8.29 | $ 6.01 | $ |
| Second Quarter | 25.08 | 19.72 | | 8.06 | 6.95 | |
| Third Quarter (through September 12, 2014) | 22.39 | 19.32 | | 7.60 | 6.99 | |

The following table sets forth the closing prices of Hilltop and SWS as reported on January 9, 2014, the last trading day prior to Hilltop publicly announcing its interest in a transaction with SWS and September 12, 2014, the last trading day prior to the date of this proxy statement/prospectus. The table also shows the implied value of one share of SWS common stock at each applicable date, which was calculated by multiplying the closing price for one share of Hilltop common stock by the exchange ratio of 0.2496 and adding the cash component of the merger consideration of $1.94 per SWS common share.

| | Hilltop Common Stock Closing Price | SWS Common Stock Closing Price | Implied Value of SWS Common Stock |
|---|---|---|---|
| January 9, 2014 | $ 23.44 | $ 6.06 | $ 7.79 |
| September 12, 2014 | $ 20.58 | $ 7.17 | $ 7.08 |

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## RISK FACTORS

*In addition to general investment risks, the other information included and incorporated by reference in this proxy statement/prospectus (please see the section entitled "Where You Can Find More Information"), including the matters addressed in the section entitled "Forward-Looking Statements," you should carefully consider the following risks before deciding whether to adopt and approve the merger agreement.*

### Risk Factors Relating to the Merger

***Because the market price of Hilltop common stock will fluctuate and the per share merger consideration may be adjusted, SWS stockholders cannot be sure of the value of the merger consideration they will receive.***

Upon completion of the merger, each share of SWS common stock will be converted into merger consideration consisting of $1.94 in cash and 0.2496 in Hilltop common stock. As of June 30, 2014, the book value per share of SWS common stock was $9.46 and the tangible book value per share of SWS common stock was $9.23. Giving effect to the merger as of June 30, 2014, the pro forma book value per equivalent SWS share is $3.79 (the per equivalent SWS share figure is based only on the 0.2496 shares of Hilltop common stock to be issued to SWS stockholders as the stock portion of the merger consideration for each share of SWS common stock and does not give effect to the $1.94 in cash to be received by SWS stockholders as the cash portion of the merger consideration for each share of SWS common stock). The market value of the merger consideration may vary from the closing price of Hilltop common stock on the date the merger was announced, on the date that this proxy statement/prospectus was mailed to SWS stockholders, on the date of the special meeting of the SWS stockholders and on the date the merger is completed and thereafter. Any change in the market price of Hilltop common stock prior to completion of the merger will affect the market value of the merger consideration that SWS stockholders will receive upon completion of the merger. Accordingly, at the time of the special meeting, SWS stockholders will not know, or be able to calculate, the value of the merger consideration they would receive upon completion of the merger. SWS is not permitted to terminate the merger agreement or resolicit the vote of its stockholders solely because of changes in the market price of Hilltop's common stock, and there will be no adjustment to the merger consideration for changes in such market price. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond SWS's control.

We urge you to obtain current market quotations for shares of Hilltop common stock before you vote your shares at the SWS special meeting.

***The results of operations of Hilltop after the merger may be affected by factors different from those currently affecting the results of operations of Hilltop and SWS.***

The businesses of Hilltop and SWS differ in important respects and, accordingly, the results of operations of the combined company and the market price of the combined company's common stock may be affected by factors different from those currently affecting the independent results of operations of Hilltop and SWS. For a discussion of the business of Hilltop and of certain factors to consider in connection with Hilltop's business, see "Information About the Companies  Hilltop" included elsewhere in this proxy statement/prospectus and the consolidated financial statements of Hilltop beginning on page F-1 of this proxy statement/prospectus. For a discussion of the business of SWS and of certain factors to consider in connection with SWS's business, see "Information About the Companies  SWS" and the information included in this proxy statement/prospectus and referred to under "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.

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***The fairness opinion that SWS has obtained from Sandler O'Neill, has not been, and is not expected to be, updated to reflect any changes in circumstances that may have occurred since the signing of the merger agreement.***

The fairness opinions issued to the Special Committee by Sandler O'Neill regarding the fairness, from a financial point of view, of the consideration to be received by stockholders of SWS other than Hilltop in connection with the merger, speaks only as of March 31, 2014. Changes in the operations and prospects of Hilltop or SWS, general market and economic conditions and other factors which may be beyond the control of Hilltop and SWS, and on which the fairness opinion was based, may have altered the value of Hilltop or SWS or the market price of shares of Hilltop common stock as of the date of this proxy statement/prospectus, or may alter such values and market price by the time the merger is completed. For example, the implied value of SWS common stock was $7.88 per share on the date of the fairness opinion and $7.08 per share as of September 12, 2014. Sandler O'Neill does not have any obligation to update, revise or reaffirm its opinion to reflect subsequent developments, and has not done so. For a description of the opinion that SWS received from its financial advisor, please refer to "The Merger  Opinion of SWS's Financial Advisor" included elsewhere in this proxy statement/prospectus. For a description of the other factors considered by SWS's board of directors in determining to approve the merger, please refer to "The Merger  Reasons for the Merger and "The Merger  Recommendation of the SWS Board of Directors" included elsewhere in this proxy statement/prospectus.

***The merger is subject to the receipt of consents and approvals from government entities that may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.***

The merger is conditioned on the receipt of all requisite governmental and regulatory authorizations, consents, orders and approvals from the Federal Reserve Board and the Texas Department of Banking and the expiration or termination of the waiting period under the HSR Act. These government entities may impose conditions on the completion of the merger and bank merger or require changes to the terms of the merger or bank merger. Although Hilltop and SWS do not currently expect that any such material conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying or preventing completion of the merger or imposing additional costs on or limiting the revenues of the combined company following the merger and the bank merger, any of which might have an adverse effect on the combined company following the merger and the bank merger. See "The Merger  Regulatory Approvals Required for the Merger."

***Upon your receipt of shares of Hilltop common stock as merger consideration, you will become a stockholder in Hilltop, a Maryland corporation, which may change certain stockholder rights and privileges you hold as a stockholder of SWS, a Delaware corporation.***

Hilltop is a Maryland corporation and is governed by the laws of the State of Maryland and by its articles of incorporation and bylaws. Maryland corporation law extends to stockholders certain rights and privileges that may not exist under Delaware law and, conversely, does not extend certain rights and privileges that you may have as a stockholder of SWS, which is governed by Delaware law and SWS's certificate of incorporation and bylaws. For a detailed discussion of the rights of Hilltop stockholders versus the rights of SWS stockholders, please see the section of this proxy statement/prospectus entitled "Comparison of Stockholders' Rights."

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***SWS will be subject to business uncertainties, and Hilltop and SWS are subject to contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on SWS and consequently on Hilltop. These uncertainties may impair SWS's ability to attract, retain and motivate key personnel while the merger is pending, and could cause customers and others that deal with SWS to seek to change existing business relationships with SWS. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles. If key employees depart because of issues relating to such uncertainty or a desire not to remain with the business, SWS's or Hilltop's respective business following the merger could be negatively impacted.

In addition, the merger agreement restricts SWS and, to a lesser extent, Hilltop from taking certain specified actions until the merger occurs without the consent of the other party. These restrictions may prevent Hilltop and SWS from pursuing attractive business opportunities that may arise prior to the completion of the merger. See "The Merger Agreement  Covenants and Agreement" included elsewhere in this proxy statement/prospectus for a description of the restrictive covenants applicable to Hilltop and SWS. In addition, SWS's or Hilltop's businesses may be indirectly adversely affected by the failure to pursue other beneficial opportunities due to the focus of management on the merger.

***The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the price of Hilltop common stock and SWS common stock to decline.***

The merger is subject to customary conditions to closing, including the receipt of required regulatory approvals and approval of the SWS stockholders. If any condition to the merger is not satisfied or waived, the merger will not be completed. In addition, Hilltop and SWS may terminate the merger agreement under certain circumstances even if the merger is approved by SWS stockholders, including if the merger has not been consummated by March 31, 2015. If Hilltop and SWS do not complete the merger, the trading price of Hilltop and SWS common stock may decline to the extent that the current prices reflect a market assumption that the merger will be completed. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed, additional risks could materialize, which could materially and adversely affect the business, financial condition and results of Hilltop or SWS. For more information on closing conditions to the merger agreement, see "The Merger Agreement  Conditions to Completion of the Merger" included elsewhere in this proxy statement/prospectus.

***The merger agreement limits SWS's ability to pursue an alternative transaction and requires SWS to pay a termination fee of $8 million under certain circumstances relating to alternative acquisition proposals.***

SWS agreed in the merger agreement that it will not, and will cause its subsidiaries not to, and will use its reasonable best efforts to cause its or their respective officers, directors, employees, representatives or agents not to, knowingly encourage, solicit, participate in, knowingly facilitate or initiate discussions, negotiations, inquiries, proposals or offers with or provide any non-public information to, any person relating to any third party acquisition (as defined below) or any inquiry, proposal or offer reasonably likely to lead to a third party acquisition, subject to exceptions set forth in the merger agreement. See "The Merger Agreement  No Solicitation" included elsewhere in this proxy statement/prospectus. The merger agreement also provides for the payment by SWS of a termination fee in the amount of $8 million in the event that Hilltop terminates the merger agreement for certain reasons including a change in the recommendation of SWS's board of directors or a termination of the merger agreement in certain circumstances followed by an acquisition of, or an agreement to acquire, SWS by a third party. These provisions may discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of SWS from considering or proposing such an

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acquisition. Furthermore, if the merger agreement is terminated and SWS's board of directors seeks another party to acquire SWS, SWS stockholders cannot be certain that SWS will be able to find a party willing to engage in a transaction or to pay the equivalent or greater consideration than that which Hilltop has agreed to pay in the merger. See "The Merger Agreement Termination Fee" included elsewhere in this proxy statement/prospectus.

***SWS's Credit Agreement with Hilltop and Oak Hill contains a covenant restricting SWS's ability to enter into alternative transactions and Hilltop has not waived this covenant.***

On July 29, 2011, SWS entered into a Credit Agreement in respect of a $100,000,000, five-year, unsecured loan comprised of a $50,000,000 commitment from Hilltop and a $50,000,000 commitment from Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners III, L.P. The terms of the Credit Agreement include a covenant prohibiting SWS from undergoing a "Fundamental Change," which includes any merger, amalgamation or consolidation, and which SWS would breach by engaging in a merger, amalgamation or consolidation unless compliance were waived by each of Hilltop and Oak Hill. During the parties' negotiations with respect to the merger, Hilltop indicated to SWS that it would not be willing to grant a waiver of this covenant to permit a third party transaction. The existence of the Merger Covenant, and Hilltop's unwillingness to waive it, may have discouraged and may continue to discourage potential competing acquirors that might have an interest in acquiring all or a significant part of SWS from considering or proposing such an acquisition (see "The Merger Background of the Merger" and "The Merger Hilltop's Relationship with SWS").

***Current Hilltop stockholders and SWS stockholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.***

Current Hilltop stockholders have the right to vote in the election of the Hilltop board of directors and on other matters affecting Hilltop. Current SWS stockholders have the right to vote in the election of the SWS board of directors and on other matters affecting SWS. Immediately after the merger is completed, it is expected that, on a fully diluted basis, current Hilltop stockholders will own approximately 90%, and current SWS stockholders will own approximately 10%, of the outstanding shares of Hilltop common stock. As a result of the merger, current Hilltop stockholders will have less influence on the management and policies of Hilltop post-merger than they currently have, and current SWS stockholders will have less influence on the management and policies of Hilltop post-merger than they currently have with respect to SWS.

***The financial analyses and forecasts considered by Hilltop, SWS and SWS's financial advisor may not be realized, which may adversely affect the market price of Hilltop shares following the merger.***

In performing its financial analyses and rendering its opinion regarding the fairness, from a financial point of view, of the merger consideration set forth in the merger agreement, the financial advisor to SWS independently reviewed and relied on, among other things, internal standalone financial analyses and forecasts provided to it by SWS. Certain of these analyses and forecasts were also provided to Hilltop. See the section titled "The Merger Certain SWS Prospective Financial Information" included elsewhere in this proxy statement/prospectus. SWS's financial advisor assumed, at the direction of the board of directors of SWS, that such financial information was reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of SWS as to the future performance of SWS and that such future financial results will be achieved at the times and in the amounts projected by management of SWS. These analyses and forecasts were prepared by, or as directed by, the management of SWS and were also considered by the SWS board of directors and the Special Committee. None of these analyses or forecasts was prepared with a view towards public disclosure or compliance with the published guidelines of the SEC, generally accepted accounting principles in the U.S. ("GAAP"), statutory accounting principles ("SAP") or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation

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of financial forecasts. These projections are inherently based on various estimates and assumptions that are subject to the judgment of those preparing them. These projections are also subject to significant economic, competitive, industry and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of SWS and Hilltop. Accordingly, SWS's and/or Hilltop's financial condition or results of operations may not be consistent with those set forth in such analyses and forecasts. Worse financial results could have a material adverse effect on the market price of Hilltop common stock following the merger.

***The directors and executive officers of SWS have interests in the merger that are different from, or in addition to, those of other SWS stockholders generally. Therefore, the directors and executive officers of SWS may have a conflict of interest in recommending the proposals being voted on at the SWS special meeting.***

The directors and executive officers of SWS may have interests in the merger that are different from, or in addition to, those of SWS stockholders generally. These interests include, among others, the accelerated vesting of equity awards and other potential payments in connection with (or subsequent to) the merger. The SWS board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement and in recommending that SWS stockholders vote in favor of approving the merger agreement. These interests may influence the executive officers and directors of SWS to support or approve the proposals to be presented at the SWS special meeting.

See "The Merger  Interests of SWS Directors and Executive Officers in the Merger" included elsewhere in this proxy statement/prospectus for a more detailed description of these interests.

***The completion of the merger may trigger change in control provisions in certain agreements to which SWS is a party.***

The completion of the merger may trigger change in control provisions in certain agreements to which SWS is a party. If SWS and Hilltop are unable to negotiate waivers of those provisions, the counterparties may exercise their rights and remedies under the agreements (including terminating the agreements or seeking monetary penalties). Even if SWS or Hilltop is able to obtain waivers, the counterparties may demand a fee for such waivers or seek to renegotiate the agreements on materially less favorable terms than those currently in place.

***Termination of the merger agreement could negatively impact SWS and/or Hilltop.***

If the merger agreement is terminated, there may be various consequences. For example, SWS's or Hilltop's businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. A termination of the merger agreement may also damage the reputations and franchise values of Hilltop and SWS. If the merger agreement is terminated and SWS's board of directors seeks another merger or business combination, SWS stockholders cannot be certain that SWS will be able to find a party willing to engage in a transaction or to pay the equivalent or greater consideration than that which Hilltop has agreed to pay in the merger. In addition, if the merger agreement is terminated under certain circumstances, SWS may be required to pay Hilltop a termination fee of $8 million.

***The combined company expects to incur substantial expenses related to the merger.***

The combined company expects to incur substantial expenses in connection with completing the merger and combining the business, operations, networks, systems, technologies, policies and procedures of the two companies. Although Hilltop and SWS have assumed that a certain level of transaction and combination expenses would be incurred, there are a number of factors beyond their control that could affect the total amount or the timing of their combination expenses. Many of the

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expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and combination expenses associated with the merger could, particularly in the near term, exceed the savings that the combined company expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the completion of the merger. As a result of these expenses, both Hilltop and SWS expect to take charges against their earnings before and after the completion of the merger. The charges taken in connection with the merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present. Further, if the merger is not completed, both SWS and Hilltop would have to recognize these expenses without realizing the expected benefits of the merger.

***If completed, the merger may not produce its anticipated results, and Hilltop and SWS may be unable to combine their operations in the manner expected.***

Hilltop and SWS entered into the merger agreement with the expectation that the merger will result in various benefits. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the Hilltop and SWS organizations can be combined in an efficient, effective and timely manner.

It is possible that the transition process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, controls, procedures, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the anticipated benefits of the merger. The combined company's results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur prior to the closing of the merger. The companies may have difficulty addressing possible differences in corporate cultures and management philosophies. The transition process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the combined company's future business, financial condition, operating results and prospects.

***The merger may not be accretive to earnings and may cause dilution to Hilltop's earnings per share, which may negatively affect the market price of Hilltop's common stock.***

The merger may not be accretive to earnings, and Hilltop could encounter additional transaction and integration-related costs, may fail to realize all of the benefits anticipated in the merger or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in Hilltop's adjusted earnings per share or decrease or delay the expected accretive effect of the merger and contribute to a decrease in the price of Hilltop's common stock.

***If the merger fails to qualify as a "reorganization" within the meaning of Section 368(a) of the Code, SWS stockholders may be required to recognize additional gain or loss on the exchange of their shares of SWS common stock in the merger for U.S. federal income tax purposes.***

Hilltop and SWS have structured the merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. Neither Hilltop nor SWS intends to request any ruling from the Internal Revenue Service as to the tax consequences of the exchange of shares of SWS common stock for shares of Hilltop common stock in the merger. If the merger fails to qualify as a reorganization, an SWS stockholder would generally recognize gain or loss for U.S. federal income tax purposes on each share of SWS common stock exchanged in the merger in an amount equal to the difference between that stockholder's basis in such share and the sum of the amount of the cash and the fair market value of the shares of Hilltop common stock the SWS stockholder receives or may receive in exchange for each

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such share of SWS common stock. You are urged to consult with your own tax advisor regarding the proper reporting of the amount and timing of such gain or loss. See "United States Federal Income Tax Consequences of the Merger" elsewhere in this proxy statement/prospectus.

***Pending litigation against SWS and Hilltop could result in an injunction preventing the completion of the merger or a judgment resulting in the payment of damages.***

In connection with the merger, purported SWS stockholders have filed putative shareholder class action lawsuits against SWS, the members of the SWS board of directors and Hilltop. Among other remedies, the plaintiffs seek to enjoin the merger. If the cases are not resolved, these lawsuits could prevent or delay completion of the merger and result in substantial costs to SWS and Hilltop, including any costs associated with the indemnification of directors and officers. Plaintiffs may file additional lawsuits against SWS, Hilltop and/or the directors and officers of either company in connection with the merger. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is completed may adversely affect Hilltop's business, financial condition, results of operations and cash flows.

***The unaudited pro forma condensed combined financial statements included in this proxy statement/prospectus are presented for illustrative purposes only and the actual financial condition and results of operations of the combined company following the merger may differ materially.***

The unaudited pro forma condensed combined financial statements contained in this proxy statement/prospectus are presented for illustrative purposes only, are based on various adjustments, assumptions and preliminary estimates and may not be an indication of the combined company's financial condition or results of operations following the merger for several reasons. The actual financial condition and results of operations of the combined company following the merger may not be consistent with, or evident from, these unaudited pro forma condensed combined financial statements. In addition, the assumptions used in preparing the unaudited pro forma financial information may not prove to be accurate, and other factors may affect the combined company's financial condition or results of operations following the merger. Any potential decline in the combined company's financial condition or results of operations may cause significant variations in the stock price of the combined company.

***The market price of Hilltop common stock after the merger may be affected by factors different from those affecting the shares of SWS or Hilltop currently.***

Upon completion of the merger, holders of SWS common stock will become holders of Hilltop common stock. Hilltop's business differs in important respects from that of SWS, and, accordingly, the results of operations of the combined company and the market price of Hilltop common stock after the completion of the merger may be affected by factors different from those currently affecting the independent results of operations of each of SWS and Hilltop. For a discussion of the business of Hilltop and of certain factors to consider in connection with Hilltop's business, see "Information About the Companies  Hilltop" included elsewhere in this proxy statement/prospectus and the consolidated financial statements of Hilltop beginning on page F-1 of this proxy statement/prospectus. For a discussion of the business of SWS and of certain factors to consider in connection with SWS's business, see "Information About the Companies  SWS" and the information incorporated by reference in this proxy statement/prospectus and referred to under "Where You Can Find More Information."

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**Risk Factors Relating to Hilltop's Business**

***Hilltop may fail to realize all of the anticipated benefits of its merger with PlainsCapital Corporation ("PlainsCapital") or the acquisition of the deposits and assets of First National Bank ("FNB").***

Achieving the anticipated cost savings and financial benefits of Hilltop's 2012 merger with PlainsCapital Corporation (the "PlainsCapital Merger") and 2013 acquisition of the deposits and substantially all of the assets of First National Bank (the "FNB Transaction") and any other acquisitions Hilltop may complete will depend, in part, on Hilltop's ability to successfully integrate the operations of the respective companies with its 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 Hilltop's 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 Hilltop's day-to-day business. Any inability to realize the full extent, or any, of the anticipated cost savings and financial benefits of the PlainsCapital Merger, the FNB Transaction, as well as any delays encountered in the integration process, could have an adverse effect on Hilltop's business and results of operations, which could adversely affect Hilltop's financial condition and cause a decrease in its earnings per share or decrease or delay the expected accretive effect of the FNB Transaction and contribute to a decrease in the price of Hilltop's common stock.

***If Hilltop's allowance for loan losses is insufficient to cover actual loan losses, Hilltop's banking segment earnings will be adversely affected.***

As a lender, Hilltop is exposed to the risk that Hilltop could sustain losses because Hilltop's borrowers may not repay their loans in accordance with the terms of their loans. Hilltop has 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. As a result of the PlainsCapital Merger and the FNB Transaction, Hilltop was required under GAAP to estimate the fair value of the loan portfolio after the consummation of the PlainsCapital Merger in 2012 and the FNB Transaction in 2013 and write-down the recorded value of the 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. PlainsCapital's and FNB's respective allowance for loan losses that had been maintained prior to the PlainsCapital Merger and the FNB Transaction were eliminated in this accounting process. A new allowance for loan losses has been established for loans made by PlainsCapital Bank (the "Bank") subsequent to consummation of the PlainsCapital Merger and for any decrease from that originally estimated as of the acquisition date in the estimate of cash flows to be received from the loans acquired in the PlainsCapital Merger and the FNB Transaction.

The estimates of fair value as of the consummation of the PlainsCapital Merger and the FNB Transaction 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 Hilltop 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 Hilltop could adopt to address credit risk could provide complete assurance that Hilltop will not incur unexpected losses. These losses could have a material adverse effect on Hilltop's business, financial condition, results of operations and cash flows. In addition, federal regulators periodically evaluate the adequacy of the allowance for loan losses

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and may require Hilltop to increase its provision for loan losses or recognize further loan charge-offs based on judgments different from those of Hilltop's Bank management.

***An adverse change in real estate market values may result in losses in Hilltop's banking segment and otherwise adversely affect Hilltop's profitability.***

At June 30, 2014, approximately 42% of the loan portfolio of Hilltop's banking segment was comprised of loans with real estate as the primary component of collateral. The real estate collateral in each case provides an alternate 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 Hilltop's collateral and its ability to sell the collateral upon any foreclosure. In the event of a default with respect to any of these loans, the amounts Hilltop receives upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. As a result, Hilltop's profitability and financial condition may be adversely affected by a decrease in real estate market values.

***Loans acquired in the FNB Transaction may not be covered by the loss-share agreements if the FDIC determines that Hilltop has not adequately managed these loans.***

Under the terms of the loss-share agreements Hilltop entered into with the FDIC in connection with the FNB Transaction, the FDIC is obligated to reimburse Hilltop for the following losses on covered loans: (i) 80% of losses on the first $240.4 million of losses incurred; (ii) 0% of losses in excess of $240.4 million up to and including $365.7 million of losses incurred; and (iii) 80% of losses in excess of $365.7 million of losses incurred. The loss-share agreements for commercial and single family residential loans 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 September 13, 2013 (the "Bank Closing Date"). Although the FDIC has agreed to reimburse Hilltop for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if Hilltop does not manage covered loans in accordance with the loss-share agreements. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that Hilltop realizes on these loans could differ materially from the carrying value that will be reflected in Hilltop's consolidated financial statements, based upon the timing and amount of collections on the covered loans in future periods. Any losses Hilltop experiences in the assets acquired in the FNB Transaction that are not covered under the loss-share agreements could have an adverse effect on Hilltop's 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 the FDIC's initial estimate of losses on covered assets is greater than the actual realized losses. The "true-up" payment is calculated using a defined formula set forth in the purchase and assumption agreement Hilltop entered into with the FDIC in connection with the FNB Transaction.

***Hilltop's business and results of operations may be adversely affected by unpredictable economic, market and business conditions.***

Hilltop's business and results of operations are affected by general economic, market and business conditions. The credit quality of Hilltop's loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which Hilltop's conducts its business. Hilltop's continued financial success depends to a degree on factors beyond Hilltop's 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, bankruptcies, household income and consumer spending;

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general economic consequences of international conditions, such as weakness in European sovereign debt 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 Hilltop has experienced with the past economic downturn and continuation of a weakened economy and employment growth, could adversely affect Hilltop's consumer and commercial businesses and securities portfolios, Hilltop's level of charge-offs and provision for credit losses, the carrying value of Hilltop's deferred tax assets, the investment portfolio of Hilltop's insurance segment, Hilltop's capital levels and liquidity, and Hilltop's results of operations.

Continued elevated unemployment, under-employment and household debt, along with continued stress in the consumer real estate market and certain commercial real estate markets, pose challenges for economic performance and the financial services industry. The sustained high unemployment rate and the lengthy duration of unemployment have directly impaired consumer finances and pose risks to the financial services industry. Continued uncertainty in the housing markets and elevated levels of distressed and delinquent mortgages pose further risks to the housing market. 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 Hilltop's fees and costs.

***Hilltop's geographic concentration may magnify the adverse effects and consequences of any regional or local economic downturn.***

Hilltop conducts its banking operations primarily in Texas. Substantially all of the real estate loans in Hilltop's loan portfolio are secured by properties located in Texas, with more than 78% and 82% secured by properties located in the Dallas/Fort Worth and Austin/San Antonio markets at December 31, 2013 and 2012, respectively. Adverse economic conditions in Texas may result in a reduction in the value of the collateral securing these loans. Likewise, substantially all of the real estate loans in Hilltop's loan portfolio are made to borrowers who live and conduct business in Texas. In addition, mortgage origination fee income is dependent to a significant degree on economic conditions in Texas and California. During 2013, approximately 23% and 18% by dollar volume of Hilltop's mortgage loans originated were collateralized by properties located in Texas and California, respectively. Texas insureds accounted for approximately 69% and 70% of Hilltop's insurance segment's gross premiums written in 2013 and 2012, respectively. Any regional or local economic downturn that affects Texas or, to a lesser extent, California, may affect Hilltop and its profitability more significantly and more adversely than Hilltop's competitors that are less geographically concentrated.

***Hilltop's geographic concentration may also exacerbate the adverse effects on Hilltop's insurance segment of inherently unpredictable catastrophic events.***

Hilltop's 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 Hilltop's insurance segment to assess its probable maximum insurance losses generally failed to adequately project the financial impact of these hurricanes. Although Hilltop's insurance segment may attempt to exclude certain losses, such as terrorism and other similar risks, from some coverage that Hilltop's insurance segment writes, it may be prohibited from, or may not be successful in, doing so. The occurrence of

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losses from catastrophic events may have a material adverse effect on Hilltop's 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 Hilltop's insurance segment expects that these factors will increase the severity of losses in the future. Factors that may influence Hilltop's 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.

Hilltop's insurance segment writes insurance primarily in the states of Texas, Oklahoma, Arizona, Tennessee, Georgia and Louisiana. In 2013, Texas accounted for 69.1%, Oklahoma accounted for 9.1%, Arizona accounted for 8.7%, Tennessee accounted for 5.8% and Georgia accounted for 3.5% of Hilltop's premiums. 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 Hilltop's insurance segment's financial condition and results of operations more significantly than other insurance companies that conduct business across a broader geographic area. Although Hilltop's 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 $140.0 million, Hilltop's insurance segment's losses would exceed the limits of its reinsurance coverage.

***Hilltop's business is subject to interest rate risk, and fluctuations in interest rates may adversely affect Hilltop's earnings, capital levels and overall results.***

The majority of Hilltop's assets are monetary in nature and, as a result, Hilltop is subject to significant risk from changes in interest rates. Changes in interest rates may impact Hilltop's net interest income in Hilltop's banking segment as well as the valuation of Hilltop's assets and liabilities in each of Hilltop's segments. Earnings in Hilltop's banking segment are significantly dependent on Hilltop's 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. Hilltop expects to periodically experience "gaps" in the interest rate sensitivities of Hilltop's banking segment's assets and liabilities, meaning that either Hilltop's interest-bearing liabilities will be more sensitive to changes in market interest rates than Hilltop's interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to Hilltop's position, this "gap" may work against Hilltop, and Hilltop's earnings 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 Hilltop's 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 Hilltop's income generated from mortgage origination activities. Conversely, a decrease in the general level of interest rates, among other things, may lead to prepayments on Hilltop's loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the general level of market interest rates may adversely affect Hilltop's net yield on interest-earning assets, loan origination volume and Hilltop's overall results.

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Hilltop's insurance segment invested over 87% of its invested assets in fixed maturity assets such as bonds and mortgage-backed securities at June 30, 2014. Because bond trading prices decrease as interest rates rise, a significant increase in interest rates could have a material adverse effect on Hilltop's insurance segment's financial condition and results of operations. On the other hand, decreases in interest rates could have an adverse effect on Hilltop's 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 Hilltop's insurance segment to receive interest payments that are below the then prevailing interest rates for longer time periods than expected. The volatility of Hilltop's insurance segment's claims may force it to liquidate securities, which may cause it to incur capital losses. If Hilltop's 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 Hilltop experiences market disruption and volatility, such as that experienced in 2009 and 2010, Hilltop may experience additional losses on Hilltop's investments and reductions in Hilltop's earnings. Investment losses could significantly decrease the asset base and statutory surplus of Hilltop's insurance segment, thereby adversely affecting its ability to conduct business and potentially its A.M. Best financial strength rating.

Hilltop's financial advisory segment holds securities, principally fixed-income municipal bonds, to support sales, underwriting and other customer activities. If interest rates increase, the value of debt securities held in the financial advisory segment's inventory would decrease. Rapid or significant changes in interest rates could adversely affect the segment's bond sales, underwriting activities and financial advisory businesses.

In addition, Hilltop holds 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 Hilltop's available for sale investment portfolio.

Market interest rates are affected by many factors outside of Hilltop's control, including inflation, recession, unemployment, money supply, international disorder and instability in domestic and foreign financial markets. Hilltop 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 Hilltop's business. Hilltop 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 Hilltop's earnings and capital levels and overall results of operations.

***Hilltop's banking segment is subject to funding risks associated with its high deposit concentration and its potential reliance on brokered deposits.***

At June 30, 2014, the Bank's fifteen largest depositors, excluding Hilltop and First Southwest Holdings, LLC, a wholly owned subsidiary of PlainsCapital ("First Southwest"), accounted for 13.26% of the Bank's total deposits, and the Bank's five largest depositors, excluding First Southwest, accounted for 8.63% of the Bank's total deposits. Brokered deposits at June 30, 2014 accounted for 3.8% of the Bank's total deposits, and Hilltop may increase Hilltop's reliance on brokered deposits in the future. The loss of one or more of Hilltop's largest Bank customers, a significant decline in Hilltop's deposit balances due to ordinary course fluctuations related to these customers' businesses, or if Hilltop increases its reliance on brokered deposits, the loss of a significant amount of Hilltop's brokered deposits could adversely affect Hilltop's liquidity. Additionally, such circumstances could require Hilltop to raise deposit rates in an attempt to attract new deposits, or purchase federal funds or

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borrow funds on a short-term basis at higher rates, which would adversely affect Hilltop's results of operations. Under applicable regulations, if the Bank were no longer "well capitalized," the Bank would not be able to accept brokered deposits without the approval of the FDIC.

***Hilltop is heavily dependent on dividends from its subsidiaries.***

Hilltop is a financial holding company engaged in the business of managing, controlling and operating its subsidiaries, including National Lloyds Corporation ("NLC") and its two insurance company subsidiaries, NLIC and ASIC, as well as the Bank and the Bank's subsidiaries, PrimeLending and First Southwest. Hilltop conducts no material business or other activity other than activities incidental to holding stock in NLC and the Bank. As a result, Hilltop relies substantially on the profitability of, and dividends from, these subsidiaries to pay its operating expenses, to satisfy its obligations and to pay dividends on its preferred stock. As with most financial institutions, the profitability of the Bank is subject to the fluctuating cost and availability of money, changes in interest rates and in economic conditions in general. PrimeLending and First Southwest contribute to the Bank's profitability and, in turn, on its ability to pay dividends to Hilltop. If the Bank, however, is unable to make cash distributions to Hilltop, then Hilltop may also be unable to obtain funds from PrimeLending and First Southwest, and Hilltop may be unable to satisfy its obligations or make distributions on its preferred stock.

Likewise, Hilltop's insurance segment also operates as a holding company. Dividends and other permitted payments from its operating subsidiaries are expected to be its primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends, if any, to Hilltop. NLIC and ASIC are subject to significant regulatory restrictions and limitations under debt agreements limiting their ability to declare and pay dividends, including the indenture governing NLIC'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. Together these restrictions could, in turn, limit NLC's ability to pay dividends.

***Hilltop is subject to extensive supervision and regulation that could restrict its activities and impose financial requirements or limitations on the conduct of its business and limit its ability to generate income.***

Hilltop is 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. Insurance regulations promulgated by state insurance departments are primarily intended to protect policyholders rather than stockholders. Likewise, regulations promulgated by FINRA are primarily intended to protect customers of broker-dealer businesses rather than stockholders.

These regulations affect Hilltop's lending practices, capital structure, capital requirements, investment practices, dividend policy and growth, among other things. Failure to comply with laws, regulations or policies could result in damages, civil money penalties or reputational damage, as well as sanctions and supervisory actions by regulatory agencies that could subject Hilltop to significant restrictions on its business and its ability to expand through acquisitions or branching. While Hilltop has 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 its financial condition and results of operations.

The U.S. Congress and federal regulatory agencies frequently revise banking and securities laws, regulations and policies. The Dodd-Frank Act, which became law in July 2010, has had, and will continue to have, a significant effect on the regulation of financial institutions and the financial services

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industry. The Dodd-Frank Act, among other things, established the CFPB and requires the CFPB and other federal agencies to implement many provisions of the Dodd-Frank Act. Hilltop expects that several aspects of the Dodd-Frank Act may affect its 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 and disclosure and reporting requirements. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will affect Hilltop's business. Compliance with these new laws and regulations likely will result in additional costs, which could be significant and may adversely impact Hilltop's results of operations, financial condition, and liquidity. For additional discussion of the Dodd-Frank Act, see "Information About the Companies  Hilltop  Government Supervision and Regulation" included elsewhere in this proxy statement/prospectus.

During the second quarter of 2013, 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 otherwise impact Hilltop's ability to branch, commence new activities or make acquisitions.

Hilltop cannot predict whether or in what form any other proposed regulations or statutes will be adopted or the extent to which its business may be affected by any new regulation or statute. Such changes could subject Hilltop's business to additional costs, limit the types of financial services and products it 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 will substantially amend 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 will be effective 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 will be: (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 current 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 will result 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%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would 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 Hilltop's results of operations and growth, require the raising of additional capital, restrict its ability to pay dividends or repurchase shares and result in regulatory actions if Hilltop 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

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the initial nine-quarter planning horizon for stressed capital projections continues through the fourth quarter of 2015, which overlaps with the implementation of the Basel III capital reforms beginning on January 1, 2015. At June 30, 2014, Hilltop and the Bank had approximately $9.4 billion and $8.2 billion, respectively, in total consolidated assets and their average of total consolidated assets for the four most recent consecutive quarters was $9.1 billion and $8.1 billion, respectively. Accordingly, Hilltop and the Bank are not currently subject to capital planning and stress testing requirements. However, as a result of the proposed merger, Hilltop will have more than $10.0 billion in assets and will become subject to the stress testing requirements, which would likely increase Hilltop's cost of regulatory compliance. Management continues to study the implementation of Basel III regulatory capital reforms and stress testing requirements.

***The CFPB recently issued "ability-to-repay" and "qualified mortgage" rules that may have a negative impact on Hilltop's loan origination process and foreclosure proceedings, which could adversely affect Hilltop's 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 Hilltop makes outside of the "qualified mortgage" criteria could expose Hilltop to an increased risk of liability and reduce or delay Hilltop's ability to foreclose on the underlying property. It is difficult to predict how the CFPB's "qualified mortgage" rule will impact Hilltop when it takes effect, but any decreases in loan origination volume or increases in compliance and foreclosure costs caused by the rule could negatively affect Hilltop's business, operating results and financial condition.

***Hilltop's mortgage origination segment is subject to investment risk on loans that it originates.***

Hilltop intends to sell, and not hold for investment, substantially all residential mortgage loans that it originates through PrimeLending. At times, however, Hilltop may originate a loan or execute an interest rate lock commitment ("IRLC") with a customer pursuant to which Hilltop agrees to originate a mortgage loan on a future date at an agreed-upon interest rate without having identified a purchaser for such loan or the loan underlying such IRLC. An identified purchaser may also decline to purchase a loan for a variety of reasons. In these instances, Hilltop will bear interest rate risk on an IRLC until, and unless, Hilltop is able to find a buyer for the loan underlying such IRLC and the risk of investment on a loan until, and unless, Hilltop is 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 Hilltop to repurchase the loan at the full amount that it paid. During periods of market downturn, Hilltop has at times chosen to hold mortgage loans when the identified purchasers have declined to purchase such loans because it could not obtain an acceptable substitute bid price for such loan. The failure of mortgage loans that Hilltop holds on its books to perform adequately could have a material adverse effect on Hilltop's financial condition, liquidity and results of operations.

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***Changes in interest rates may change the value of Hilltop's mortgage servicing rights portfolio which may increase the volatility of Hilltop's earnings.***

Hilltop has recently expanded, and may continue to expand, its residential mortgage servicing operations within its mortgage origination segment. As a result of Hilltop's mortgage servicing business, Hilltop has a portfolio of mortgage servicing rights ("MSR"). A MSR is the right to service a mortgage loan collect principal, interest and escrow amounts for a fee. Hilltop measures and carries all of its residential MSRs 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 MSRs 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 Hilltop receives over the life of the mortgage loans would be reduced. In the future, Hilltop may use various derivative financial instruments to provide a level of protection against such interest rate risk. However, no hedging strategy can protect Hilltop 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 Hilltop's risks and losses. The increasing size of Hilltop's MSR portfolio may increase its interest rate risk and correspondingly, the volatility of Hilltop's earnings, especially if Hilltop cannot adequately hedge the interest rate risk relating to its MSRs.

At June 30, 2014, Hilltop's MSRs had a fair value of $35.9 million. Changes in fair value of Hilltop's MSRs are recorded to earnings in each period. Depending on the interest rate environment, it is possible that the fair value of Hilltop's MSRs may be reduced in the future. If such changes in fair value significantly reduce the carrying value of Hilltop's MSRs, Hilltop's financial condition and results of operations would be negatively affected.

***Hilltop's financial advisory business is subject to various risks associated with the securities industry, particularly those impacting the public finance industry.***

Hilltop's financial advisory 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 Hilltop's financial advisory 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 Hilltop provides 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. First Southwest is much smaller and has much less capital than many competitors in the securities industry. In addition, First Southwest is an operating subsidiary of the Bank, which means that its activities are limited to those that are permissible for the Bank.

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***Income that Hilltop recognized as a bargain purchase gain in connection with the FNB Transaction is subject to change.***

In September 2013, Hilltop assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets, of FNB from the FDIC in the FNB Transaction. Hilltop acquired approximately $2.2 billion in assets and assumed $2.2 billion in liabilities in the FNB Transaction. The FNB Transaction was accounted for under the purchase method of accounting. Hilltop recorded a pre-tax bargain purchase gain totaling $12.6 million as a result of the FNB Transaction, which was included as a component of noninterest income in Hilltop's consolidated statement of operations for the year ended December 31, 2013. The amount of the gain was equal to the amount by which the estimated fair value of assets purchased exceeded the estimated fair value of liabilities assumed. The bargain purchase gain resulting from the FNB Transaction was a non-recurring gain that is not expected to be repeated in future periods. Hilltop used significant estimates and assumptions to value the identifiable assets acquired and liabilities assumed. Any revisions to its estimates could result in the recognition of additional bargain purchase gain, which would be recorded as noninterest income, or the recognition of less or no bargain purchase gain, in which case Hilltop would reduce noninterest income and may be required to record goodwill that would be subject to an ongoing impairment analysis.

***Income that Hilltop recognizes in connection with the purchase discount of the credit-impaired loans acquired in the PlainsCapital Merger and the FNB Transaction 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 PlainsCapital Merger and the FNB Transaction, Hilltop acquired loans at a discount of $146.6 million and $343.1 million, respectively. The PlainsCapital Merger and the FNB Transaction were each accounted for under the purchase method of accounting. Accordingly, these 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 Hilltop's books, the related discount will no longer be available for accretion into income. Accretion of $28.6 million and $61.8 million on loans purchased at a discount in the PlainsCapital Merger was recorded as interest income during the six months ended June 30, 2014 and the year ended December 31, 2013, respectively, and accretion of $15.3 million and $7.5 million on loans purchased at a discount in the FNB Transaction was recorded as interest income during the six months ended June 30, 2014 and the period from September 14, 2013 to December 31, 2013, respectively. As of June 30, 2014, the balance of Hilltop's discount on loans in the aggregate was $349.6 million.

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

As a result of purchase accounting in connection with Hilltop's acquisition of NLC, the PlainsCapital Merger and the FNB Transaction, Hilltop's consolidated balance sheet at June 30, 2014, contained goodwill of $251.8 million and other intangible assets of $65.3 million. On an ongoing basis, Hilltop evaluates 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 Hilltop. If Hilltop determines that a material impairment has occurred, Hilltop will be required to write-off the impaired portion of intangible assets, which could have a material adverse effect on its results of operations in the period in which the write-off occurs.

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***The accuracy of Hilltop's financial statements and related disclosures could be affected if Hilltop is exposed to actual conditions different from the judgments, assumptions or estimates used in Hilltop's critical accounting policies.***

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

***Hilltop is dependent on its management team, and the loss of Hilltop's senior executive officers or other key employees could impair its relationship with customers and adversely affect Hilltop's business and financial results.***

Hilltop's success is dependent, to a large degree, upon the continued service and skills of its existing management team and other key employees with long-term customer relationships. Hilltop's business and growth strategies are built primarily upon its 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 Hilltop's business because of their skills, knowledge of the market, years of industry experience and the difficulty of finding qualified replacement personnel. In addition, Hilltop currently does 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 Hilltop, its business, financial condition, results of operations and growth could suffer.

***A decline in the market for advisory services could adversely affect Hilltop's business and results of operations.***

Hilltop's financial advisory 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. Financial advisory revenues from the public finance group of First Southwest represented the largest component of Hilltop's financial advisory segment's net revenues for the year ended December 31, 2013. Unlike other investment banks, First Southwest earns most of its revenues from its advisory fees and, to a lesser extent, from other business activities such as commissions and underwriting. 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 First Southwest's 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. Hilltop expects that the reliance of its financial advisory 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 Hilltop's business and results of operations.

***Negative publicity regarding Hilltop, or financial institutions in general, could damage Hilltop's reputation and adversely impact its business and results of operations.***

Hilltop's ability to attract and retain customers and conduct its business could be adversely affected to the extent Hilltop's reputation is damaged. Reputational risk, or the risk to its business, earnings and capital from negative public opinion regarding Hilltop, or financial institutions in general, is inherent in its business. Adverse perceptions concerning Hilltop's reputation could lead to difficulties in generating

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and maintaining accounts as well as in financing them. In particular, negative perceptions concerning Hilltop's reputation could lead to decreases in the level of deposits that consumer and commercial customers and potential customers choose to maintain with Hilltop. 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 Hilltop 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, Hilltop's failure to address, or the perception that it has failed to address, these issues appropriately could impact Hilltop's ability to keep and attract customers and/or employees and could expose Hilltop to litigation and/or regulatory action, which could have an adverse effect on Hilltop's business and results of operations.

***Hilltop's 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 Hilltop's reputation or the disclosure of confidential information.***

Hilltop relies heavily on communications and information systems to conduct its business and maintain the security of confidential information and complex transactions, which subjects Hilltop 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 of 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 Hilltop's customer relationship management, securities trading, general ledger, deposits, computer systems, electronic underwriting servicing or loan origination systems. Third parties with which Hilltop does business may also be sources of cybersecurity or other technological risks.

Although Hilltop devotes significant resources to maintain and regularly upgrade its systems and networks with measures such as intrusion and detection 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. Hilltop's computer systems, software and networks may be adversely affected by cyber incidents such as unauthorized access; loss or destruction of data (including confidential client information); account takeovers; unavailability of service; computer viruses or other malicious code; cyber attacks; and other events. 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 information, damage to Hilltop's reputation with its clients 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 Hilltop and its clients and customers. Such events could also cause interruptions or malfunctions in Hilltop's operations.

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

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***Hilltop faces strong competition from other financial institutions and financial service and insurance companies, which may adversely affect its operations and financial condition.***

Hilltop's banking and mortgage origination businesses face vigorous competition from banks and other 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 Hilltop does. Hilltop also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations, each of which may offer more favorable financing than Hilltop is able to provide. In addition, some of Hilltop's non-bank competitors are not subject to the same extensive regulations that govern Hilltop. The banking business in Texas has become increasingly competitive over the past several years, and Hilltop expects the level of competition it faces to further increase. Hilltop's profitability depends on its ability to compete effectively in these markets. This competition may reduce or limit Hilltop's margins on banking services, reduce Hilltop's market share and adversely affect Hilltop's results of operations and financial condition.

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. In the current market environment, competition in Hilltop's insurance business' industry is based primarily on products offered, 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. Hilltop's insurance business competes with many other insurers, including large national companies who have greater financial, marketing and management resources than Hilltop's insurance segment. Many of these competitors also have better ratings and market recognition than Hilltop's insurance business. Hilltop's insurance segment seeks to distinguish itself from its competitors by providing a broad product line and targeting those market segments that provide the best opportunity to earn an underwriting profit.

In addition, a number of new, proposed or potential industry developments also could increase competition in Hilltop's insurance business' industry. These developments include changes in practices and other effects caused by the Internet (including direct marketing campaigns by Hilltop's 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 Hilltop's insurance business from expanding its book of business. Hilltop's 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 Hilltop's insurance business. New competition could reduce the demand for Hilltop's insurance segment's insurance products, which could have a material adverse effect on its financial condition and results of operations.

The financial advisory and investment banking industries also are intensely competitive industries and will likely remain competitive. Hilltop's financial advisory 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. Hilltop's financial advisory business competes on the basis of a number of factors, including the quality of advice and service, innovation, reputation and price. Many of Hilltop's financial advisory 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

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directors to serve their clients' needs, greater global reach and more established relationships with their customers than Hilltop's financial advisory business. Additionally, certain competitors of Hilltop's 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, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. Increased pressure created by any current or future competitors, or by competitors of Hilltop's financial advisory business collectively, could materially and adversely affect Hilltop's 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, Hilltop's financial advisory business may from time to time make certain pricing, service or marketing decisions that also could materially and adversely affect Hilltop's business and results of operations.

***Hilltop's mortgage origination and insurance businesses are subject to seasonal fluctuations and, as a result, Hilltop's results of operations for any given quarter may not be indicative of the results that may be achieved for the full fiscal year.***

Hilltop's mortgage origination business is subject to several variables that can impact loan origination volume, including seasonal and interest rate fluctuations. Hilltop typically experiences increased loan origination volume from purchases of homes during the second and third calendar quarters, when more people tend to move and buy or sell homes. In addition, an increase in the general level of interest rates may, among other things, adversely affect the demand for mortgage loans and Hilltop's 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 Hilltop's 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, Hilltop's results of operations for any single quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Generally, Hilltop's 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 Hilltop's 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 Hilltop's insurance segment depend upon its ability to assess accurately the potential losses associated with the risks that it insures. Hilltop's insurance segment establishes reserve liabilities to cover the payment of all losses and loss adjustment expenses incurred under the policies that it writes. These liability estimates include case estimates, which are established for specific claims that have been reported to Hilltop's insurance segment, and liabilities for claims that have been incurred but not reported ("IBNR"). Loss adjustment expenses represent expenses incurred to investigate and settle claims. To the extent that losses and loss adjustment expenses 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 Hilltop's ability to sell insurance policies.

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The liability estimation process for Hilltop's 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 Hilltop's 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. Hilltop's insurance segment's liabilities for losses and loss adjustment expenses 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, Hilltop's 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 loss adjustment expense is an inherently uncertain process. Accordingly, actual loss and loss adjustment expenses paid will likely deviate, perhaps substantially, from the liability estimates reflected in Hilltop's insurance segment's consolidated financial statements. Claims could exceed Hilltop's insurance segment's estimate for liabilities for losses and loss adjustment expenses, which could have a material adverse effect on its financial condition and results of operations.

***If Hilltop's 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, Hilltop's 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.***

Hilltop's insurance segment purchases reinsurance to protect itself from certain risks and to share certain risks it underwrites. During 2013 and 2012, Hilltop's insurance segment's personal lines ceded 10.2% and 12.1%, respectively, of its direct insurance premiums written (primarily through excess of loss, quota share and catastrophe reinsurance treaties) and its commercial lines ceded 4.6% and 4.9%, 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 9.3% in the year ended December 31, 2013, which is partially attributable to reduced limits, lower rates and lower reinstatement premiums in 2013 of $0.2 million. Reinsurance cost generally fluctuates as a result of storm costs or any changes in capacity within the reinsurance market.

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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, Hilltop's insurance segment may not be able to obtain desired amounts of reinsurance. Even if Hilltop's 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 Hilltop's insurance segment's premium rates, Hilltop's 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 Hilltop's insurance segment guaranteed the rates, Hilltop's insurance segment would be adversely affected. In addition, if Hilltop's 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 Hilltop's insurance segment's revenue and may have a material adverse effect on its results of operations and financial condition.

At June 30, 2014, Hilltop's insurance segment had $4.1 million in reinsurance recoverables, including ceded paid loss recoverables, ceded losses and loss adjustment expense recoverables and ceded unearned insurance premiums. Hilltop's insurance segment expects to continue to purchase substantial reinsurance coverage in the foreseeable future. Because Hilltop's 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 Hilltop's insurance segment for losses paid, or delays in reimbursing Hilltop's insurance segment for losses paid, its liability for these claims could materially and adversely affect its financial condition and results of operations.

***Hilltop is subject to legal claims and litigation that could have a material adverse effect on its business.***

Hilltop faces significant legal risks in each of the business segments in which Hilltop operates, 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 Hilltop or any of Hilltop's subsidiaries could have a material adverse effect on Hilltop's results of operations or cause significant reputational harm to Hilltop, which could seriously harm Hilltop's 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 Hilltop is 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 Hilltop's business, which, in turn, could have a material adverse effect on Hilltop's financial condition and results of operations.

***Hilltop may be subject to environmental liabilities in connection with the foreclosure on real estate assets securing the loan portfolio of Hilltop's banking segment.***

Hazardous or toxic substances or other environmental hazards may be located on the real estate that secures Hilltop's loans. If Hilltop acquires such properties as a result of foreclosure, or otherwise, Hilltop could become subject to various environmental liabilities. For example, Hilltop could be held liable for the cost of cleaning up or otherwise addressing contamination at or from these properties. Hilltop 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, Hilltop could be held liable for costs relating to environmental contamination at or from Hilltop's current or former properties. Hilltop may not detect all environmental hazards associated with

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these properties. If Hilltop ever became subject to significant environmental liabilities, Hilltop's business, financial condition, liquidity and results of operations could be harmed.

***If Hilltop fails to maintain an effective system of internal controls over financial reporting, the accuracy and timing of its financial reporting may be adversely affected.***

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

***The debt agreements of Hilltop's 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 Hilltop's Substantial Cash Position and Related Strategies for its Use**

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

Hilltop is endeavoring to make acquisitions or effect business combinations with a substantial portion of Hilltop's remaining available cash. Hilltop 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.

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The success of any acquisition or business combination will depend upon, among other things, the ability of management and Hilltop's employees to integrate personnel, operations, products and technologies effectively, to retain and motivate key personnel and to retain customers and clients of targets. In addition, any acquisition or business combination Hilltop undertakes may consume available cash resources, result in potentially dilutive issuances of equity securities and divert management's attention from other business concerns. Even if Hilltop conducts extensive due diligence on a target business that Hilltop acquires or with which Hilltop merges, its diligence may not surface all material issues that may adversely affect a particular target business, and Hilltop may be forced to later write-down or write-off assets, restructure Hilltop's operations or incur impairment or other charges that could result in Hilltop's reporting losses. Consequently, Hilltop also may need to make further investments to support the acquired or combined company and may have difficulty identifying and acquiring the appropriate resources.

Hilltop may enter, through acquisitions or a business combination, into new lines of business or initiate new service offerings subject to the restrictions imposed upon Hilltop 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 Hilltop may combine or that Hilltop may ultimately acquire.

***Existing circumstances may result in several of Hilltop's directors having interests that may conflict with its interests.***

A director who has a conflict of interest with respect to an issue presented to Hilltop's board will have no inherent legal obligation to abstain from voting upon that issue. Hilltop does not have provisions in its bylaws or charter that require an interested director to abstain from voting upon an issue, and Hilltop does not expect to add provisions in Hilltop's 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 Hilltop's 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 Hilltop's 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.

***Difficult market conditions have adversely affected the yield on Hilltop's available cash.***

Hilltop's primary objective is to preserve and maintain the liquidity of Hilltop's 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 Hilltop receives on its available cash. If current levels of market disruption and volatility continue or worsen, there can be no assurance that Hilltop will receive any significant yield on its available cash. Further, given current market conditions, no assurance can be given that Hilltop will be able to preserve its available cash.

**Risks Related to Hilltop's Common Stock**

***Hilltop 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 Hilltop's 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 Hilltop's stockholders;

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may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded Hilltop's 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, Hilltop's ability to use its net operating loss carry forwards; and

may adversely affect prevailing market prices for Hilltop's common stock.

Hilltop's authorized capital stock includes ten million shares of preferred stock, and Hilltop currently has 114,068 shares of Series B Preferred Stock issued and outstanding, liquidation preference $1,000 per share, to the Secretary of the Treasury pursuant to the SBLF. Hilltop's 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 Hilltop's charter, Hilltop's 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 Hilltop's 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.

***Hilltop's common stock price may experience substantial volatility, which may affect your ability to sell Hilltop's common stock at an advantageous price.***

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

***Hilltop's rights and the rights of Hilltop's stockholders to take action against Hilltop's directors and officers are limited.***

Hilltop is 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 Hilltop's best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, Hilltop's charter eliminates Hilltop's directors' and officers' liability to Hilltop and its 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. Hilltop's bylaws require Hilltop to indemnify Hilltop's 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, Hilltop's stockholders and Hilltop may have more limited rights against Hilltop's directors and officers than might otherwise exist under common law. In addition, Hilltop may be obligated to fund the defense costs incurred by Hilltop's directors and officers.

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***The Treasury's investment in Hilltop imposes restrictions and obligations upon Hilltop that could adversely affect the rights of Hilltop's common stockholders.***

Hilltop's has sold 114,068 shares of Hilltop's Series B Preferred Stock, liquidation preference $1,000 per share, for $114.1 million, to the Secretary of the Treasury pursuant to the SBLF. The shares of Series B Preferred Stock are senior to shares of Hilltop's common stock with respect to dividends and liquidation preference. The terms of the Series B Preferred Stock provided for the payment of non-cumulative dividends on a quarterly basis. As long as shares of Series B Preferred Stock remain outstanding, Hilltop may not pay dividends to Hilltop's common stockholders (nor may Hilltop repurchase or redeem any shares of Hilltop's common stock) during any quarter in which Hilltop fails to declare and pay dividends on the Series B Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series B Preferred Stock, Hilltop may only declare and pay dividends on Hilltop's common stock (or repurchase shares of Hilltop's common stock), if, after payment of such dividend, the dollar amount of Hilltop's Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of September 27, 2011, excluding any charge-offs and redemptions of the Series B Preferred Stock.

***Provisions in Hilltop's charter and bylaws, as well as applicable banking and insurance laws, could discourage acquisition bids or merger proposals, which may adversely affect the market price of Hilltop's common stock.***

Authority to Issue Additional Shares. Under Hilltop's charter, its 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 Hilltop's board of directors that may delay or prevent a change in control of Hilltop, even if the change is in the best interests of the SWS stockholders. At June 30, 2014, 114,068 shares of preferred stock were designated or outstanding.

Banking Laws. Any change in control of Hilltop 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 Hilltop.

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 Hilltop's 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;

the impact on the interests of Texas policyholders; and

any anti-competitive results that may arise from the consummation of the acquisition of control.

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These laws may discourage potential acquisition proposals for Hilltop and may delay, deter or prevent a change of control of Hilltop, including transactions that some or all of Hilltop's stockholders might consider desirable.

Restrictions on Calling Special Meeting, Cumulative Voting and Director Removal. Hilltop's bylaws includes a provision prohibiting the holders of less than a majority of the voting power represented by all of Hilltop's shares issued, outstanding and entitled to be voted at a proposed meeting, from calling a special meeting of stockholders. Hilltop's charter does not provide for the cumulative voting in the election of directors. In addition, Hilltop's charter provides that Hilltop's directors may be removed only 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 Hilltop's 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 Hilltop's bylaws and charter may delay, discourage or prevent an attempted acquisition or change in control of Hilltop.

***An investment in Hilltop's common stock is not an insured deposit.***

An investment in Hilltop's 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 Hilltop's common stock.

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## FORWARD LOOKING STATEMENTS

This proxy statement/prospectus contains or incorporates by reference a number of "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about the financial conditions, results of operations, earnings outlook and prospects of Hilltop, SWS and the potential combined company and may include statements for the period following the completion of the merger. You can find many of these statements by looking for words such as "plan," "believe," "expect," "intend," "anticipate," "estimate," "budget," "indicate," "target," "project," "potential," "could," "should," "may," "possible" or other similar expressions which identify these forward-looking statements and appear in a number of places in this proxy statement/prospectus (and the documents to which we refer you in this proxy statement/prospectus) and include, but are not limited to, all statements relating directly or indirectly to the timing or likelihood of completing the merger, plans for future growth and other business development activities as well as capital expenditures, financing sources and the effects of regulation and competition and all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers.

The forward-looking statements involve certain risks and uncertainties. The ability of either Hilltop or SWS to predict results or the actual effects of its plans and strategies, or those of the combined company, is subject to inherent uncertainty. Factors that may cause actual events or results to differ materially from such forward-looking statements include those set forth under "Risk Factors" included elsewhere in, or incorporated in, this proxy statement/prospectus, as well as, among others, the following:

- those discussed and identified in public filings with the SEC made by Hilltop or SWS;
- fluctuations in the market price of Hilltop common stock and the related effect on the market value of the merger consideration that common stockholders will receive upon completion of the merger;
- business uncertainties and contractual restrictions while the merger is pending;
- the possibility that the proposed merger does not close when expected or at all because required regulatory, stockholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;
- the terms of the proposed merger may need to be modified to satisfy such approvals or conditions;
- the anticipated benefits from the proposed merger are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the companies operate;
- the ability to promptly and effectively combine the businesses of SWS and Hilltop;
- reputational risks and the reaction of the companies' respective customers to the merger;
- diversion of management time on merger related issues;
- changes in general economic, market and business conditions;
- changes in asset quality and credit risk and risks associated with concentrations in real estate related loans;

the inability to sustain revenue and earnings;

changes in interest rates and capital markets and the value of securities held;

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inflation;

customer borrowing, repayment, investment and deposit practices;

the introduction, withdrawal, success and timing of business initiatives;

changes in accounting policies;

changes in tax and regulatory compliance requirements;

changes in federal, state and local tax rates;

the ability to attract and retain key personnel;

the availability of borrowings under credit lines, credit agreements and credit facilities;

the potential for litigation and other regulatory liability;

technology changes;

competitive conditions; and

the impact, extent and timing of actions of the Federal Reserve Board and federal and state banking regulators, and legislative and regulatory actions and reforms, including those associated with the Dodd-Frank Act.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/prospectus. Any forward-looking statements made or incorporated in this proxy statement/prospectus are qualified in their entirety by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Hilltop or SWS will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed or incorporated in this proxy statement/prospectus and attributable to Hilltop or SWS or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/prospectus. Except to the extent required by applicable law or regulation, Hilltop and SWS undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect new information or the occurrence of unanticipated events.

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## THE SWS SPECIAL MEETING

This section contains information about the special meeting of SWS stockholders that has been called to allow SWS stockholders to consider and vote on the merger agreement and other related matters.

Together with this proxy statement/prospectus, SWS is also sending you a notice of the SWS special meeting and a form of proxy that is solicited by the SWS board of directors for use at the special meeting and at any adjournments or postponements of the special meeting. The SWS special meeting will be held on , 2014, at 9:00 a.m., local time, at Renaissance Tower, 1201 Elm Street, Suite 4200, Dallas, Texas 75270.

### Matters to be Considered

At the SWS special meeting, holders of SWS common stock as of the record date will be asked to consider and vote on:

- a proposal to adopt and approve the merger agreement (the "merger proposal");
- a proposal to approve, on a non-binding, advisory basis, compensation that may be paid or would be payable to SWS's named executive officers that is based on or otherwise relates to the merger (the "compensation proposal"); and
- a proposal to approve the adjournment of the SWS special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the SWS special meeting to approve the merger proposal (the "adjournment proposal").

### Proxies

Each copy of this proxy statement/prospectus mailed to holders of SWS common stock is accompanied by a form of proxy with instructions for voting. If you hold stock in your name as a stockholder of record, you may complete, sign, date and mail your proxy card in the enclosed postage paid return envelope as soon as possible, vote by telephone by calling the toll-free number listed on the SWS proxy card, vote by accessing the internet site listed on the SWS proxy card or vote in person at the SWS special meeting. If you hold your stock in "street name" through a bank or broker, you must direct your bank or broker to vote in accordance with the instruction form included with these materials and forwarded to you by your bank or broker. This voting instruction form provides instructions for voting. To vote using the proxy card you must sign, date and return it in the enclosed postage-paid envelope. Instructions on how to vote by telephone or by the internet are included with your proxy card.

If you are a holder of record, to change your vote, you must:

- mail a new signed proxy card with a later date to SWS;
- vote by calling the toll-free number listed on the SWS proxy card or accessing the internet site listed on the SWS proxy card by 11:59 p.m., Eastern Time, on , 2014; or
- attend the SWS special meeting and vote in person.

If you wish to revoke rather than change your vote, you must send a written, signed revocation to SWS Group, Inc., 1201 Elm Street, Suite 3500, Dallas, Texas 75270, Attn: , which must be received prior to the exercise of the proxy. You must include your control number.

If you hold shares in "street name" and wish to change or revoke your vote, please refer to the information on the voting instruction form included with these materials and forwarded to you by your bank, broker or other holder of record to see your voting options.

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All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted as recommended by the SWS board of directors.

SWS stockholders with shares represented by stock certificates should not send SWS stock certificates with their proxy cards. After the merger is completed, holders of SWS common stock certificates or shares of SWS common stock held in book-entry form will be mailed a transmittal form with instructions on how to exchange their SWS stock certificates or book-entry shares for the merger consideration.

**Participants in the SWS 401(k) Plan**

If you hold shares indirectly in the SWS 401(k) Plan, you have the right to direct the plan trustee how to vote the shares that you hold in your account. In accordance with the terms of the plan, if you fail to instruct the plan trustee how to vote your plan shares, the trustee will generally vote your plan shares in the same proportion as the shares voted pursuant to the instructions of participants who timely give such instructions.

**Solicitation of Proxies**

SWS will bear the entire cost of soliciting proxies from its stockholders. In addition to solicitation of proxies by mail, SWS will request that banks, brokers, and other record holders send proxies and proxy material to the beneficial owners of SWS common stock and secure their voting instructions. SWS will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, SWS may use several of its regular employees, who will not be specially compensated, to solicit proxies from SWS stockholders, either personally or by telephone, facsimile, letter or other electronic means. SWS has made arrangements with MacKenzie Partners, Inc. to assist SWS in soliciting proxies and has agreed to pay them $30,000, plus reasonable expenses for these services.

**Record Date**

The close of business on October 3, 2014 has been fixed as the record date for determining the SWS stockholders entitled to receive notice of and to vote at the SWS special meeting. At that time, shares of SWS common stock were outstanding, held by approximately holders of record.

**Quorum**

In order to conduct business at the SWS special meeting, there must be a quorum. A quorum is the number of shares that must be present at the meeting, either in person or by proxy. To have a quorum at the special meeting requires the presence of stockholders or their proxies who are entitled to cast at least a majority of the votes that all stockholders are entitled to cast. Abstentions and broker non-votes will be counted for the purpose of determining whether a quorum is present.

You are entitled to one vote for each share of SWS common stock you held as of the record date.

**Vote Required**

Approval of the merger proposal requires the affirmative vote of a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting. Because the affirmative vote of the holders of at least a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting is needed to approve the merger proposal, an abstention or a broker non-vote will have the effect of a vote against the merger proposal. Approval of the

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compensation proposal and the adjournment proposal require, in each case, the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the SWS special meeting and entitled to vote on such proposal. An abstention or broker non-vote will have no effect on the compensation proposal or the adjournment proposal. Each holder of SWS common stock will be entitled to one vote per share on each of the proposals presented at the SWS annual meeting. As of the date of this proxy statement/prospectus, Hilltop owns 1,475,387 shares of SWS common stock, or approximately 4.5% of the currently outstanding SWS common shares, and an additional 8,695,652 shares of SWS are issuable to Hilltop upon exercise of its warrant, equivalent to total beneficial ownership of approximately 24.4% on an as-converted basis.

Every SWS stockholder's vote is important. The SWS board of directors urges SWS stockholders to promptly vote by: (1) completing, signing, dating and mailing your proxy card in the enclosed postage paid return envelope as soon as possible; (2) calling the toll-free number listed on the SWS proxy card; or (3) accessing the internet site listed on the SWS proxy card. If you hold your stock in "street name" through a bank or broker, please direct your bank or broker to vote in accordance with the instruction form included with these materials and forwarded to you by your bank or broker.

**Shares Held by Officers and Directors**

As of the record date, to the knowledge of SWS, directors and executive officers of SWS had the right to vote approximately shares of SWS common stock (not including the shares held by Hilltop described below), or approximately % of the outstanding shares of SWS common stock entitled to vote at the special meeting. We currently expect that each of these individuals will vote their shares of SWS common stock in favor of the proposals to be presented at the special meeting.

**Shares Held by Hilltop**

As of the date of this proxy statement/prospectus, Hilltop owns 1,475,387 shares of SWS common stock, or approximately 4.5% of the currently outstanding SWS common shares, and an additional 8,695,652 shares of SWS are issuable to Hilltop upon exercise of its warrant, equivalent to total beneficial ownership of approximately 24.4% on an as-converted basis. Hilltop has agreed in the merger agreement to vote any shares of SWS that it owns as of the record date for the SWS special meeting (not including unissued shares that would be issuable upon the exercise of all or a portion of Hilltop's warrant) in favor of approval and adoption of the merger agreement.

**Recommendation of the SWS Board of Directors**

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves), upon the unanimous recommendation of the Special Committee, has approved the merger agreement and the transactions contemplated thereby, including the merger. See "The Merger  Reasons for the Merger" and "The Merger  Recommendation of the SWS Board of Directors" included elsewhere in this proxy statement/prospectus for a more detailed discussion of the SWS board of directors' recommendation.

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves) recommends that you vote your shares as follows:

"**FOR**" the adoption and approval of the merger agreement;

"**FOR**" the approval, on a non-binding, advisory basis, of the compensation that may be paid or would be payable to SWS's named executive officers that is based on or otherwise relates to the merger; and

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"**FOR**" the approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger proposal

**Attending the Special Meeting**

All holders of SWS common stock, including holders of record and stockholders who hold their stock through banks, brokers, nominees or any other holder of record, are invited to attend the SWS special meeting. Only stockholders of record on the record date can vote in person at the SWS special meeting. If you are not a stockholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the SWS special meeting. If you plan to attend the SWS special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. SWS reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

**Delivery of Proxy Materials**

As permitted by applicable law, only one copy of this joint proxy statement/prospectus is being delivered to stockholders residing at the same address, unless such stockholders have notified SWS of their desire to receive multiple copies of the joint proxy statement/prospectus.

SWS will promptly deliver, upon oral or written request, a separate copy of the joint proxy statement/prospectus to any stockholder residing at an address to which only one copy of such document was mailed. Requests for additional copies should be directed to Investor Relations, at 1201 Elm Street, Suite 3500, Dallas, Texas 75270 or by telephone at (214) 859-1800.

**Appraisal/Dissenter's Rights**

Section 262 of the DGCL provides holders of shares of SWS common stock with the right to dissent from the merger and seek appraisal of their shares of SWS common stock in accordance with Delaware law. A holder of shares of SWS common stock who properly seeks appraisal and complies with the applicable requirements under Delaware law, referred to as a dissenting stockholder, will forego the merger consideration and instead receive a cash payment equal to the fair value of such stockholder's shares of SWS common stock in connection with the merger. Fair value will be determined by the Delaware Court of Chancery following an appraisal proceeding. Dissenting stockholders will not know the appraised fair value at the time such holders must elect whether to seek appraisal. The ultimate amount dissenting stockholders receive in an appraisal proceeding may be more or less than, or the same as, the amount such holders would have received under the merger agreement.

To seek appraisal, a stockholder of SWS must strictly comply with all of the procedures required under Delaware law, including:

delivering a written demand for appraisal to SWS before the vote is taken on the merger agreement at the SWS special meeting;

not voting in favor of the merger proposal; and

continuing to hold its shares of common stock through the effective time of the merger.

In connection with the foregoing, SWS stockholders who wish to seek appraisal should note that:

if you return a signed proxy without voting instructions, your proxy will be voted as recommended by the SWS board of directors and you may lose dissenters' rights;

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if you return a signed proxy with instructions to vote "FOR" the merger agreement, your shares will be voted in favor of the merger agreement and you will lose dissenters' rights; and

if you wish to dissent and you execute and return a proxy, you must specify that your shares are to be either voted "AGAINST" or "ABSTAIN" with respect to approval of the merger.

Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights.

For a further description of the appraisal rights available to SWS stockholders and procedures required to exercise appraisal rights, see the section entitled "The Merger  Appraisal/Dissenters' Rights" included elsewhere in this joint proxy statement/prospectus and the provisions of the DGCL that grant appraisal rights and govern such procedures which are attached as Annex C to this document. If a stockholder of SWS holds shares of SWS common stock through a bank, brokerage firm or other nominee and the SWS stockholder wishes to exercise appraisal rights, such stockholder should consult with such stockholder's bank, brokerage firm or nominee. In view of the complexity of Delaware law, SWS stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.

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## PROPOSALS SUBMITTED TO SWS STOCKHOLDERS

### Adoption and Approval of the Merger Agreement (Proposal 1)

This proxy statement/prospectus is being furnished to SWS stockholders as part of the solicitation of proxies by the SWS board of directors for use at the SWS special meeting to consider and vote on the proposal to adopt and approve the merger agreement. **IF SWS STOCKHOLDERS FAIL TO ADOPT AND APPROVE THE MERGER AGREEMENT, THE MERGER CANNOT BE COMPLETED**. Holders of SWS common stock should read this proxy statement/prospectus carefully and in its entirety, including the annexes, for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A.

After careful consideration, upon the unanimous recommendation of the Special Committee, the SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves) determined that the merger agreement and the transactions contemplated thereby were advisable and fair to and in the best interests of the SWS stockholders and approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. See "The Merger  Reasons for the Merger" and "The Merger  Recommendation of the SWS Board of Directors" included elsewhere in this proxy statement/prospectus for a more detailed discussion of the SWS board of directors' recommendation.

Approval of the merger proposal requires the affirmative vote of a majority of the shares of SWS common stock outstanding on the record date for the SWS special meeting.

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves) recommends that its stockholders vote "**FOR**" the adoption and approval of the merger agreement. For a discussion of interests of SWS's directors and executive officers in the merger that may be different from, or in addition to, the interest of SWS stockholders generally, see "The Merger  Interests of SWS Certain Directors and Executive Officers in the Merger" included elsewhere in this proxy statement/prospectus.

### Non-Binding Advisory Vote Approving Compensation (Proposal 2)

The Dodd-Frank Act and Rule 14a-21(c) under the Exchange Act require SWS to provide its stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation that may be paid or would be payable to the named executive officers of SWS that is based on or otherwise relates to the merger. Information required by Item 402(t) of Regulation S-K concerning this compensation, subject to certain assumptions described herein, is presented under the heading "The Merger  Interests of SWS Directors and Executive Officers in the Merger  Golden Parachute Compensation."

Accordingly, SWS is requesting that holders of SWS common stock approve the following resolution:

> "RESOLVED, that the stockholders of SWS Group, Inc. approve, on a non-binding advisory basis, the compensation that may be paid or would be payable to its named executive officers that is based on or otherwise relates to the merger, as disclosed in the proxy statement/prospectus relating to the SWS special meeting in the table titled "Golden Parachute Compensation" pursuant to Item 402(t) of Regulation S-K, including the related footnotes and associated narrative discussion."

Approval of this proposal is not a condition to completion of the merger. **While the SWS board of directors intends to consider the vote resulting from this proposal, the vote is advisory, and therefore not binding on SWS or on Hilltop or the board of directors or the compensation committees of SWS or Hilltop**. Accordingly, such compensation, including amounts that SWS is contractually obligated to

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pay, would still be payable regardless of the outcome of this advisory vote, subject only to the conditions applicable thereto.

Approval of the compensation proposal requires the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the special meeting and entitled to vote on the proposal.

The SWS board of directors recommends (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves) that its stockholders vote "**FOR**" the approval, on a non-binding, advisory basis, of the compensation that may be paid or would be payable to SWS's named executive officers that is based on or otherwise relates to the merger.

**Approval of the Adjournment or Postponement of the SWS Special Meeting (Proposal 3)**

The SWS special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the merger proposal.

If, at the SWS special meeting, the number of shares of SWS common stock present or represented and voting in favor of the merger proposal is insufficient to approve such proposal, SWS intends to move to adjourn the SWS special meeting in order to solicit additional proxies for the adoption and approval of the merger agreement. In accordance with the SWS bylaws, a vote to approve the proposal to adjourn the SWS special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the SWS special meeting to approve the merger proposal may be taken in the absence of a quorum. **SWS does not intend to call a vote on this proposal if the merger proposal has been approved at the SWS special meeting.**

In this proposal, SWS is asking its stockholders to authorize the holder of any proxy solicited by the SWS board of directors to vote in favor of granting discretionary authority to proxy holders, and each of them individually, to adjourn the SWS special meeting to another time and place for the purpose of soliciting additional proxies. If SWS stockholders approve this adjournment proposal, SWS could adjourn the SWS special meeting and any adjourned session of the SWS special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from SWS stockholders who have previously voted.

Approval of the adjournment proposal requires the affirmative vote of a majority of the shares of SWS common stock represented in person or by proxy at the SWS special meeting and entitled to vote on the proposal.

The SWS board of directors (other than Messrs. Gerald J. Ford and J. Taylor Crandall, who recused themselves) recommends that holders of SWS common stock vote "**FOR**" the approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt and approve the merger agreement.

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## INFORMATION ABOUT THE COMPANIES HILLTOP

*Unless the context otherwise indicates, all references in this "Information About the Companies Hilltop" section to the "Company," "we," "us," "our" or "ours" or similar words are to Hilltop Holdings Inc. and its direct and indirect wholly owned subsidiaries (and, for avoidance of doubt, do not refer to SWS), references to "Hilltop" refer solely to Hilltop Holdings Inc., references to "PlainsCapital" refer to PlainsCapital Corporation (a wholly owned subsidiary of Hilltop), references to the "Bank" refer to PlainsCapital Bank (a wholly owned subsidiary of PlainsCapital), references to "FNB" refer to First National Bank, references to "First Southwest" refer to First Southwest Holdings, LLC (a wholly owned subsidiary of the Bank) and its subsidiaries as a whole, references to "FSC" refer to First Southwest Company (a 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, and references to "NLC" refer to National Lloyds Corporation (a wholly owned subsidiary of Hilltop) and its subsidiaries as a whole.*

### Business

#### Company Background

Beginning in 1995, we operated as several companies under the name "Affordable Residential Communities" or "ARC," a Maryland corporation. We engaged in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses.

In January 2007, we acquired NLC, a property and casualty insurance holding company.

On July 31, 2007, we sold substantially all of the operating assets used in our manufactured home communities business and our retail sales and financing business to American Residential Communities LLC. In conjunction with this transaction, we transferred to the buyer the rights to the "Affordable Residential Communities" name, changed our name to Hilltop Holdings Inc., and moved our headquarters to Dallas, Texas. As a result, our primary operations from August 2007 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. NLC operates through its wholly owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC").

On November 30, 2012, we acquired PlainsCapital Corporation through a plan of merger (the "PlainsCapital Merger"), whereby PlainsCapital Corporation merged into our wholly owned subsidiary, which continued as the surviving entity under the name "PlainsCapital Corporation". Concurrent with the consummation of the PlainsCapital Merger, we became a financial holding company registered under the Bank Holding Company Act of 1956 (the "Bank Holding Company Act"), as amended by the Gramm-Leach-Bliley Act of 1999 (the "Gramm-Leach-Bliley Act").

On September 13, 2013, the Bank assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets, of FNB from the FDIC, as receiver, and reopened former FNB branches acquired from the FDIC under the "PlainsCapital Bank" name (the "FNB Transaction").

We intend to make acquisitions with certain of the remaining proceeds from the American Residential Communities transaction and, if necessary or appropriate, from additional equity or debt financing sources.

Following the PlainsCapital Merger, our primary line of business has been to provide business and consumer banking services from offices located throughout central, north and west Texas through the Bank. The acquisition of FNB's expansive branch network allows the Bank to further develop its Texas footprint through expansion into the Rio Grande Valley, Houston, Corpus Christi, Laredo and El Paso

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markets, among others. In addition to the Bank, our other subsidiaries have specialized areas of expertise that allow us to provide an array of financial products and services such as mortgage origination, insurance and financial advisory services.

At June 30, 2014, on a consolidated basis, we had total assets of $9.4 billion, total deposits of $6.2 billion, total loans, including loans held for sale, of $6.0 billion and stockholders' equity of $1.4 billion. Our operating results beginning December 1, 2012 include the banking, mortgage origination and financial advisory operations acquired in the PlainsCapital Merger and the results of our banking operations include the operations acquired in the FNB Transaction since September 14, 2013.

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

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 proxy statement/prospectus are inactive textual references only. The information on our website is not incorporated by reference into this proxy statement/prospectus.

**Organizational Structure**

Our organizational structure is comprised of two primary operating business units, NLC (insurance) and PlainsCapital (financial services and products). Within the PlainsCapital unit are three primary wholly owned operating subsidiaries: the Bank, PrimeLending and First Southwest. The following provides additional details regarding our updated organizational structure at June 30, 2014.

**Geographic Dispersion of our Businesses**

The Bank provides traditional banking services, residential mortgage lending, wealth and investment management, treasury management and capital equipment leasing. Substantially all of our banking operations are in Texas, and as a result of the FNB Transaction, the Bank has a presence in every major market in Texas.

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For the year ended December 31, 2013, approximately 66% of PrimeLending's origination volume was concentrated in nine states (none of the other states in which PrimeLending operated during 2013 had volume of 3% or more). The following table is a summary of the origination volume by state for the year ended December 31, 2013 (dollars in thousands).

| | Volume | % of Total |
|---|---|---|
| Texas | $ 2,660,810 | 22.56% |
| California | 2,082,184 | 17.66% |
| North Carolina | 618,802 | 5.25% |
| Virginia | 466,531 | 3.96% |
| Florida | 456,643 | 3.87% |
| Arizona | 392,006 | 3.32% |
| Maryland | 385,215 | 3.27% |
| Ohio | 383,518 | 3.25% |
| Washington | 360,100 | 3.05% |
| All other states | 3,986,753 | 33.81% |
| | $ 11,792,562 | 100.00% |

Our insurance products are distributed through a broad network of independent agents and a select number of managing general agents, referred to as MGAs, which are concentrated in five states (none of the other states in which we operated during 2013 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | % of Total | 2012 | % of Total | 2011 | % of Total |
| Texas | $ 125,696 | 69.1% | $ 118,361 | 69.5% | $ 117,046 | 73.0% |
| Oklahoma | 16,494 | 9.1% | 15,398 | 9.1% | 10,804 | 6.7% |
| Arizona | 15,904 | 8.7% | 13,914 | 8.2% | 12,376 | 7.7% |
| Tennessee | 10,589 | 5.8% | 10,527 | 6.2% | 9,489 | 5.9% |
| Georgia | 6,393 | 3.5% | 5,454 | 3.2% | 4,380 | 2.7% |
| All other states | 6,892 | 3.8% | 6,547 | 3.8% | 6,346 | 4.0% |
| Total | $ 181,968 | 100.0% | $ 170,201 | 100.0% | $ 160,441 | 100.0% |

FSC, a diversified investment banking firm and a registered broker-dealer, competes for business nationwide. Public finance financial advisory revenues, of which 76% are from entities located in Texas, represent a significant portion of total segment revenues.

**Business Segments**

Under U.S. generally accepted accounting principles ("GAAP"), our two business units are comprised of four reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, mortgage origination, insurance and financial advisory. 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.

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For more financial information about each of our business segments, see " Management's Discussion and Analysis of Financial Condition and Results of Operations," herein. See also Note 30 in the notes to our audited consolidated financial statements included herein.

*Banking*

The banking segment includes the operations of the Bank and, since September 14, 2013, the operations acquired in the FNB Transaction. At June 30, 2014, our banking segment had $8.2 billion in assets and total deposits of $6.0 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-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 table below sets 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, 2013 (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 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 commercial and industrial non-covered loans category includes a $1.3 billion warehouse line of credit extended to PrimeLending, of which $1.0 billion was drawn at December 31, 2013, as well as term loans at First Southwest that had an outstanding balance of $23.0 million at December 31, 2013. Amounts advanced against the warehouse line and the First Southwest term loans are included in the table below, but are eliminated from the consolidated balance sheets.

| Non-covered loans | Loans, excluding PCI Loans | PCI Loans | Total Loans | % of Total Non-Covered Loans |
|---|---|---|---|---|
| Commercial and industrial: | | | | |
| Secured | $ 2,229,778 | $ 35,372 | $ 2,265,150 | 53.3% |
| Unsecured | 106,855 | 1,444 | 108,299 | 2.6% |
| Real estate: | | | | |
| Secured by commercial properties | 1,045,964 | 36,255 | 1,082,219 | 25.5% |
| Secured by residential properties | 373,242 | 2,995 | 376,237 | 8.9% |
| Construction and land development: | | | | |
| Residential construction loans | 65,079 | | 65,079 | 1.5% |
| Commercial construction loans and land development | 279,655 | 19,817 | 299,472 | 7.0% |
| Consumer | 51,067 | 4,509 | 55,576 | 1.3% |
| Total non-covered loans | $ 4,151,640 | $ 100,392 | $ 4,252,032 | 100.0% |

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| Covered loans | Loans, excluding PCI Loans | PCI Loans | Total Loans | % of Total Covered Loans |
|---|---|---|---|---|
| Commercial and industrial: | | | | |
| Secured | $ 24,913 | $ 28,520 | $ 53,433 | 5.3% |
| Unsecured | 3,620 | 9,890 | 13,510 | 1.4% |
| Real estate: | | | | |
| Secured by commercial properties | 64,819 | 365,306 | 430,125 | 42.7% |
| Secured by residential properties | 158,485 | 199,372 | 357,857 | 35.6% |
| Construction and land development: | | | | |
| Residential construction loans | 7,463 | 4,705 | 12,168 | 1.2% |
| Commercial construction loans and land development | 17,913 | 121,363 | 139,276 | 13.8% |
| Total covered loans | $ 277,213 | $ 729,156 | $ 1,006,369 | 100.0% |

Our lending policies seek to achieve the goal of establishing an asset portfolio that will provide a return on stockholders' equity sufficient to maintain capital to assets ratios that meet or exceed established regulations. In support of that goal, we have designed our underwriting standards to determine:

That our borrowers possess sound ethics and competently manage their affairs;

That we know the source of the funds the borrower will use to repay the loan;

That the purpose of the loan makes economic sense; and

That we identify relevant risks of the loan and determine that the risks are acceptable.

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

Commercial and industrial loans are primarily made within Texas and are underwritten on the basis of the borrower's ability to service the debt from cash flow from an operating business. In general, commercial and industrial loans involve more credit risk than residential and commercial 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 also 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

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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) generate 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 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, it 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. We generally require that the subject property of a construction loan for commercial real estate be pre-leased, since 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, 2013, the Bank had $582.6 million in one-to-four family residential loans, which represented 12.9% of its total loans held for investment.

*Personal Banking.* We offer a broad range of personal banking products and services for individuals. Similar to our business banking operations, we also provide our 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. We offer a variety of deposit accounts to our personal banking customers including savings, checking, interest-bearing checking, money market and certificates of deposit.

We loan to individuals for personal, family and household purposes, including lines of credit, home improvement loans, home equity loans, credit cards and loans for purchasing and carrying securities. At December 31, 2013, we had $55.6 million of loans for these purposes, which are shown in the non-covered loans table above as "Consumer."

*Wealth and Investment Management.* Our 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. We offer trust and asset management services in order to assist these customers in managing, and ultimately transferring, their wealth. Our 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.

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*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 June 30, 2014, it operated from over 300 locations in 42 states. During 2013, PrimeLending originated approximately 23% of its mortgages from its Texas locations and approximately 18% of its mortgages from locations in California. The mortgage lending business is subject to seasonality, as we typically experience increased loan origination volume from purchases of homes during the spring and summer, when more people tend to move and buy or sell homes, and the overall demand for mortgage loans is driven largely by the applicable interest rates at any given time.

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 with servicing released. While PrimeLending's loan origination volume has decreased since the second quarter of 2013, PrimeLending increased the amount of loans on which it retained servicing. 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.

Since its inception, PrimeLending has grown from a staff of 20 individuals producing approximately $80 million in annual closed mortgage loan volume to a staff of approximately 2,600 producing $11.8 billion in 2013. 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 we define to be loans to borrowers having a Fair Isaac Corporation (FICO) score lower than 620 on conventional mortgages and VA loans or 600 on 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. 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 14 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.

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*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 ratings for NLIC and ASIC of "A" (Excellent) were affirmed by A.M. Best in April 2014. An "A" rating is the third highest of 16 rating categories used by A.M. Best. In evaluating a company's financial and operating performance, A.M. Best reviews a company's profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its liabilities for losses and loss adjustment expenses ("LAE"), the adequacy of its surplus, its capital structure, the experience and competence of its management and its market presence. 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 does not include such a deduction for depreciation. In 2010, NLC expanded its homeowners insurance products to include replacement cost coverage, which also includes limited water coverage. These new products have been marketed and sold primarily in Texas. The development and implementation of these new products contributed to the premium growth at NLC since 2011. Rate increases and exposure management are expected to moderate future policy growth.

*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

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numerous factors, the most important of which are the financial stability of the reinsurer, its history of responding to claims and its overall reputation.

NLC purchases catastrophe excess of loss reinsurance to a limit that exceeds the Hurricane 200-year return time as modeled by RMS Risk Link v.13.0 and equals the Hurricane 500-year return time as modeled by AIR Classic v.15.0.

*Liabilities for Unpaid Losses and Loss Adjustment Expenses.* NLC's liabilities for losses and loss adjustment expenses include liabilities for reported losses, liabilities for incurred but not reported, or IBNR, losses and liabilities for LAE, less a reduction for reinsurance recoverables related to those liabilities. The amount of liabilities for reported claims is based primarily on a claim-by-claim evaluation of coverage, liability, injury severity or scope of property damage, and any other information considered relevant to estimating exposure presented by the claim. The amounts of liabilities for IBNR losses and LAE are estimated on the basis of historical trends, adjusted for changes in loss costs, underwriting standards, policy provisions, product mix and other factors. Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors that are subject to significant variation. Liabilities for LAE are intended to cover the ultimate cost of settling claims, including investigation and defense of lawsuits resulting from such claims. Based upon the contractual terms of the reinsurance agreements, reinsurance recoverables offset, in part, NLC's gross liabilities.

Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer and the insurer's payment of that loss. NLC's liabilities for unpaid losses represent the best estimate at a given point in time of what it expects to pay claimants, based on facts, circumstances and historical trends then known. During the loss settlement period, additional facts regarding individual claims may become known and, consequently, it often becomes necessary to refine and adjust the estimates of liability.

*Loss Development.* The following tables set forth the annual calendar year-end reserves of NLIC and ASIC since 2004 and the subsequent development of these reserves through December 31, 2013. These tables present accident year development data. The first line of each table shows, for the years indicated, net liability, including IBNR, as originally estimated. The next section sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The changes in the original estimate are caused by a combination of factors, including: (1) claims being settled for amounts different than originally estimated; (2) the net liability being increased or decreased for claims remaining open as more information becomes known about those individual claims; and (3) more or fewer claims being reported after December 31, 2004 than had occurred prior to that date. The bottom section of the table shows, by year, the cumulative amounts of net losses and LAE paid as of the end of each succeeding year.

The "net cumulative redundancy (deficiency)" represents, as of December 31, 2013, the difference between the latest re-estimated net liability and the net liability as originally estimated for losses and LAE retained by us. A redundancy means the original estimate was higher than the current estimate; and a deficiency means that the original estimate was lower than the current estimate. The following loss development tables for NLIC and ASIC are presented net of reinsurance recoverable (in thousands).

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**National Lloyds Insurance Company**

| | Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Original Reserve* | $ 33,951 | $ 41,282 | $ 47,684 | $ 44,613 | $ 65,592 | $ 60,392 | $ 55,482 | $ 81,589 | $ 87,943 | $ 86,524 |
| 1 year later | 28,106 | 36,332 | 43,640 | 44,064 | 64,864 | 62,337 | 54,987 | 82,065 | 88,708 | |
| 2 years later | 27,593 | 40,391 | 43,465 | 44,134 | 65,070 | 62,014 | 54,672 | 81,782 | | |
| 3 years later | 25,747 | 41,231 | 43,394 | 43,950 | 64,702 | 61,759 | 54,554 | | | |
| 4 years later | 25,712 | 39,735 | 43,387 | 43,788 | 64,569 | 61,328 | | | | |
| 5 years later | 25,579 | 39,699 | 43,366 | 43,649 | 64,547 | | | | | |
| 6 years later | 25,582 | 39,675 | 43,365 | 43,679 | | | | | | |
| 7 years later | 25,568 | 39,674 | 43,363 | | | | | | | |
| 8 years later | 25,565 | 39,677 | | | | | | | | |
| 9 years later | 25,565 | | | | | | | | | |
| Net cumulative redundancy (deficiency) | 8,386 | 1,605 | 4,321 | 934 | 1,045 | (936) | 928 | (193) | (765) | |
| Cumulative amount of net liability paid as of: | | | | | | | | | | |
| 1 year later | 24,747 | 32,871 | 42,301 | 42,478 | 63,761 | 59,977 | 53,387 | 79,853 | 82,762 | |
| 2 years later | 25,149 | 34,625 | 42,668 | 43,245 | 64,203 | 60,517 | 53,872 | 80,591 | | |
| 3 years later | 25,388 | 36,157 | 43,140 | 43,495 | 64,391 | 61,081 | 54,161 | | | |
| 4 years later | 25,462 | 39,533 | 43,361 | 43,563 | 64,477 | 61,233 | | | | |
| 5 years later | 25,521 | 39,646 | 43,365 | 43,648 | 64,538 | | | | | |
| 6 years later | 25,538 | 37,674 | 43,365 | 43,650 | | | | | | |
| 7 years later | 25,564 | 39,674 | 43,363 | | | | | | | |
| 8 years later | 25,565 | 39,677 | | | | | | | | |
| 9 years later | 25,565 | | | | | | | | | |

**American Summit Insurance Company**

| | Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Original Reserve* | $ 8,297 | $ 11,041 | $ 13,003 | $ 9,351 | $ 12,769 | $ 9,773 | $ 12,486 | $ 14,829 | $ 13,547 | $ 15,152 |
| 1 year later | 7,388 | 9,932 | 13,014 | 9,154 | 12,009 | 9,423 | 13,153 | 14,126 | 13,235 | |
| 2 years later | 6,999 | 9,918 | 12,998 | 9,335 | 11,943 | 9,088 | 12,974 | 14,044 | | |
| 3 years later | 6,859 | 9,918 | 13,435 | 9,235 | 11,880 | 9,023 | 12,873 | | | |
| 4 years later | 6,772 | 9,797 | 13,216 | 9,200 | 12,048 | 8,701 | | | | |
| 5 years later | 6,714 | 9,820 | 13,195 | 9,197 | 12,342 | | | | | |
| 6 years later | 6,787 | 9,815 | 13,188 | 9,196 | | | | | | |
| 7 years later | 6,743 | 9,812 | 13,187 | | | | | | | |
| 8 years later | 6,730 | 9,913 | | | | | | | | |
| 9 years later | 6,730 | | | | | | | | | |
| Net cumulative redundancy (deficiency) | 1,567 | 1,128 | (184) | 155 | 427 | 1,072 | (387) | 785 | 312 | |
| Cumulative amount of net liability paid as of: | | | | | | | | | | |
| 1 year later | 6,566 | 9,341 | 12,429 | 8,732 | 11,560 | 8,800 | 12,390 | 13,511 | 12,423 | |
| 2 years later | 6,610 | 9,578 | 12,639 | 9,095 | 11,637 | 8,803 | 12,632 | 13,842 | | |
| 3 years later | 6,682 | 9,679 | 13,326 | 9,193 | 11,726 | 8,917 | 12,792 | | | |
| 4 years later | 6,699 | 9,740 | 13,161 | 9,196 | 12,040 | 8,672 | | | | |
| 5 years later | 6,714 | 9,813 | 13,188 | 9,196 | 12,341 | | | | | |
| 6 years later | 6,720 | 9,813 | 13,188 | 9,196 | | | | | | |

| | | | |
|---|---|---|---|
| 7 years later | 6,723 | 9,812 | 13,187 |
| 8 years later | 6,730 | 9,813 | |
| 9 years later | 6,730 | | |

*

Including amounts paid in respective year.

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Please refer to Note 28 in the notes to Hilltop's audited consolidated financial statements included in this proxy statement/prospectus for a reconciliation of the reserves presented in the tables above to the reserves for losses and loss adjustment expenses set forth in the consolidated balance sheets at December 31, 2013 and 2012.

Current loss reserve development has been generally favorable with the exception of accident year 2012. Accident years 2007 through 2011 have shown cumulative favorable loss development of $3.8 million through December 31, 2013. Accident year 2012 had net unfavorable loss development of $0.5 million, with unfavorable development of $0.8 million at NLIC, offset by favorable loss development of $0.3 million at ASIC. The unfavorable loss development at NLIC is significantly attributable to extraordinary increases in losses from wind and hail losses and storms that occurred in Texas during 2012.

The following table is a reconciliation of the gross liability to net liability for losses and loss adjustment expenses (in thousands).

| | December 31,* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Gross unpaid losses | $ 18,091 | $ 34,023 | $ 33,780 | $ 58,882 | $ 44,835 | $ 34,012 | $ 27,468 |
| Reinsurance recoverable | (2,692) | (14,613) | (21,102) | (43,773) | (25,083) | (10,385) | (4,508) |
| Net unpaid losses | $ 15,399 | $ 19,410 | $ 12,678 | $ 15,109 | $ 19,752 | $ 23,627 | $ 22,960 |

* Information is not presented for the periods ended prior to January 31, 2007, as that is the date Hilltop Holdings Inc. acquired the insurance operations.

The methods that our actuaries utilize to estimate ultimate loss and LAE amounts are the paid and reported loss development method and the paid and reported Bornhuetter-Ferguson method (the "BF method"). Insured losses for a given accident year change in value over time as additional information on claims is received, as claim conditions change and as new claims are reported. This process is commonly referred to as loss development. To project ultimate losses and LAE, our actuaries examine the paid and reported losses and LAE for each accident year and multiply these values by a loss development factor. The selected loss development factors are based upon a review of the loss development patterns indicated in the companies' historical loss triangles and applicable insurance industry loss development factors.

The BF method is a procedure that weights an expected ultimate loss and LAE amount, and the result of the loss development method. This method is useful when loss data is immature or sparse because it is not as sensitive as the loss development method to unusual variations in the paid or reported amounts. The BF method requires an initial estimate of expected ultimate losses and LAE. For each year, the expected ultimate losses and LAE is based on a review of the ultimate loss ratios indicated in the companies' historical data and applicable insurance industry ultimate loss ratios. Each loss development factor, paid or reported, implies a certain percent of the ultimate losses and LAE is still unpaid or unreported. The amounts of unpaid or unreported losses and LAE by year are estimated as the percentage unpaid or unreported, times the expected ultimate loss and LAE amounts. To project ultimate losses and LAE, the actual paid or reported losses and LAE to date are added to the estimated unpaid or unreported amounts.

The results of each actuarial method performed by year are reviewed to select an ultimate loss and LAE amount for each accident year. In general, more weight is given to the loss development projections for more mature accident periods and more weight is given to the BF methods for less mature accident periods.

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The combination of the methodologies described above is used for all insurance lines of business, regardless of whether the line is a short-tailed or long-tailed line of business, though specific parameter selections within the methods vary to reflect the nature of the underlying line of business. ASIC and NLIC specialize in writing fire and extended coverage for low-value dwellings, mobile homes and homeowners, which generally are considered short-tailed coverages. In addition, ASIC and NLIC write a small amount of commercial risks, which are still predominantly property coverages, along with some low-limit liability coverages.

The reserve analysis performed by our actuaries provides preliminary central estimates of the unpaid losses and LAE. At each quarter-end, the results of the reserve analysis are summarized and discussed with our senior management. The senior management group considers many factors in determining the amount of reserves to record for financial statement purposes. These factors include the extent and timing of any recent catastrophic events, historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and reported loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

In arriving at our best estimate of the unpaid losses and LAE, and based on management discussion with our actuaries, we would consider reasonably likely changes in the key assumptions, such as the underlying loss development pattern or the expected loss ratio, to have an impact on our best estimate by plus or minus 10%. At December 31, 2013, this equates to approximately plus or minus $2.3 million, or 1.8% of insurance segment equity, and 2.1% of calendar year 2013 insurance losses.

*Financial Advisory*

Our financial advisory segment operates through First Southwest. FSC, a wholly owned subsidiary of First Southwest, is a diversified investment banking firm and a registered broker-dealer with the SEC and the Financial Industry Regulatory Authority ("FINRA") and a member of the New York Stock Exchange. First Southwest's primary focus is on providing public finance services.

At June 30, 2014, First Southwest employed approximately 400 people and maintained 25 locations nationwide, nine of which are in Texas. At June 30, 2014, First Southwest had consolidated assets of $712.7 million, maintained $120.4 million in equity capital and had more than 1,600 public sector clients.

First Southwest has four primary lines of business: (i) public finance, (ii) capital markets, (iii) correspondent clearing services, and (iv) asset management.

*Public Finance.* First Southwest's public finance group represents its largest department. This group advises cities, counties, school districts, utility districts, tax increment zones, special districts, state agencies and other governmental entities nationwide. 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.

*Capital Markets.* Through its capital markets group, First Southwest trades fixed income securities to support sales and other customer activities, underwrites tax-exempt and taxable fixed income securities and trades equities on an agency basis on behalf of its retail and institutional clients. In addition, First Southwest provides asset and liability management advisory services to community banks.

*Correspondent Clearing Services.* The correspondent clearing services group offers omnibus and fully disclosed clearing services to FINRA member firms for trade executing, clearing and back office services. Services are provided to approximately 80 correspondent firms.

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*Asset Management.* First Southwest Asset Management is an investment advisor registered under the Investment Advisers Act of 1940 providing state and local governments with advice and assistance with respect to arbitrage rebate compliance, portfolio management and local government investment pool administration. In the area of arbitrage rebate, First Southwest Asset Management advises municipalities with respect to the emerging regulations relating to arbitrage rebates. Further, First Southwest Asset Management assists governmental entities with the complexities of investing public funds in the fixed income markets. As an investment adviser registered with the SEC, First Southwest Asset Management promotes cash management-based investment strategies that seek to adhere to the standards imposed by the fiduciary responsibilities of investment officers of public funds. At June 30, 2014, First Southwest Asset Management served as investment manager of $6.8 billion in short-term fixed income portfolios of municipal governments and investment adviser for $5.1 billion invested by municipal governments, and a group within FSC served as administrator for local government investment pools totaling $7.8 billion.

**Competition**

We face significant competition with respect to 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 larger branch networks than we do, and offer a broader range of products and services.

Our lending and mortgage origination competitors include commercial banks, savings banks, savings and loan associations, credit unions, finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, asset-based non-bank lenders, government agencies and certain other non-financial institutions. Competition for deposits and in providing lending and mortgage origination products and services to 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 includes such additional factors 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 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.

We also face significant competition for financial advisory services on a number of factors, including price, perceived expertise, quality of advice, range of services, innovation and local presence. Our financial advisory 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.

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**Employees**

At June 30, 2014, we employed approximately 4,400 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 of our financial advisory services, depositors, borrowers, the insurance funds of the FDIC and the Securities Investment Protection Corporation (the "SIPC") and the banking system as a whole, 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 discussion 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.

Changed the base for FDIC insurance assessments.

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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

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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.

In December 2013, U.S. regulators issued final regulations to implement the Volcker Rule. The Volcker Rule will, over time, prohibit "banking entities," including Hilltop and its subsidiaries, from engaging in certain prohibited "proprietary trading" activities, as defined in the Volcker Rule regulations, subject to specified exemptions. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with "covered funds," as defined in the Volcker Rule regulations. Banking entities have until July 21, 2015 to bring all of their activities and investments into conformance with the Volcker Rule, subject to possible extensions. The Volcker Rule requires banking entities to establish comprehensive compliance programs designed to help ensure and monitor compliance with restrictions under the Volcker Rule. We are continuing to evaluate the effects of the final regulations implementing the Volcker Rule, but we do not currently anticipate that the Volcker Rule will have a material effect on our operations.

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.

***Hilltop***

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. 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

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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 prohibits Hilltop from engaging in activities other than those of banking, managing or controlling banks or furnishing services to, or performing services for, its subsidiaries, except that it may engage in, directly or indirectly, certain activities that the Federal Reserve Board has determined to be closely related to banking or managing and controlling banks as to be a proper incident thereto. In approving acquisitions or the addition of activities, the Federal Reserve Board considers, among other things, whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

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

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

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

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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.* The Federal Reserve Board currently uses a system of risk-based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines, a risk weight factor of 0% to 100% is assigned to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a "risk-weighted" asset base. Under the Federal Reserve Board's current regulatory capital standards, at least half of the risk-based capital must consist of core (Tier 1) capital, which is comprised of:

- common stockholders' equity (includes 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));
- certain noncumulative perpetual preferred stock and related surplus; and
- minority interests in the equity capital accounts of consolidated subsidiaries (excludes goodwill and various intangible assets).

Under the Federal Reserve Board's current regulatory capital standards, the remainder, supplementary (Tier 2) capital, may consist of:

- allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets;
- certain perpetual preferred stock and related surplus;
- hybrid capital instruments;
- perpetual debt;
- mandatory convertible debt securities;
- term subordinated debt;
- intermediate term preferred stock; and
- certain unrealized holding gains on equity securities.

Total capital is the sum of Tier 1 and Tier 2 capital. Under the Federal Reserve Board's current regulatory capital standards, the guidelines require a minimum ratio of total capital to total risk-weighted assets of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). At June 30, 2014, our ratio of Tier 1 capital to total risk-weighted assets was 18.11% and our ratio of total capital to total risk-weighted assets was 18.79%.

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In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. We are required to maintain a leverage ratio of 4.0%, and, at June 30, 2014, our leverage ratio was 13.51%.

The federal banking agencies' risk-based 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 directs 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. These minimum capital requirements may not be 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. Beginning on January 1, 2015, Hilltop, PlainsCapital and the Bank will become subject to new capital rules based on Basel III requirements. These requirements are discussed below.

*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".

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*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.

In addition, an entity is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of our outstanding common stock, or otherwise obtaining control or a "controlling influence" over us.

*Emergency Economic Stabilization Act of 2008 and the Small Business Jobs Act of 2010.* The U.S. Congress, the U.S. Department of the Treasury ("U.S. Treasury") and the federal banking regulators took broad action beginning in early September 2008 to address volatility in the U.S. banking system. The Emergency Economic Stabilization Act of 2008 authorized the U.S. Treasury to purchase from financial institutions and their holding companies certain mortgage loans, mortgage-backed securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in the Troubled Asset Relief Program ("TARP") Capital Purchase Program.

On December 19, 2008, PlainsCapital sold 87,631 shares of its Fixed Rate Cumulative Perpetual Stock, Series A and a warrant to purchase, upon net exercise, 4,382 shares of its Fixed Rate Cumulative Perpetual Stock, Series B to the U.S. Treasury for $87.6 million pursuant to the TARP Capital Purchase Program. The U.S. Treasury immediately exercised its warrant on December 19, 2008, and PlainsCapital issued the underlying shares of its Series B Preferred Stock to the U.S. Treasury. On September 27, 2011, PlainsCapital entered into a Securities Purchase Agreement with the Secretary of the Treasury (the "Purchase Agreement") pursuant to which PlainsCapital issued 114,068 shares of its newly designated Non-Cumulative Perpetual Preferred Stock, Series C for a total purchase price of $114,068,000. The proceeds from the sale of PlainsCapital's Series C Preferred Stock were used to redeem and repurchase PlainsCapital's Series A and Series B Preferred Stock. PlainsCapital's Series C Preferred Stock was issued pursuant to the Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. In connection with the PlainsCapital Merger, Hilltop assumed PlainsCapital's obligations under the Purchase Agreement and redeemed PlainsCapital's outstanding Series C Preferred Stock in exchange for the Non-Cumulative Perpetual Preferred Stock, Series B of Hilltop (the "Hilltop Series B Preferred Stock").

On November 29, 2012, Hilltop filed with the State Department of Assessments and Taxation of the State of Maryland articles supplementary for the Hilltop Series B Preferred Stock, setting forth its terms. Holders of the Hilltop Series B Preferred Stock are entitled to noncumulative cash dividends at a fluctuating dividend rate based on the Bank's level of qualified small business lending ("QSBL"). The Hilltop Series B Preferred Stock is non-voting, except in limited circumstances, and ranks senior to Hilltop's common stock with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of Hilltop.

The terms of the Hilltop Series B Preferred Stock restrict Hilltop's ability to pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment on its common stock and other Hilltop capital stock ranking junior to the Hilltop Series B Preferred Stock, and on other preferred stock and other stock ranking on a parity with the Hilltop Series B Preferred Stock, in the event that Hilltop does not declare dividends on the Hilltop Series B Preferred Stock during any dividend period.

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The Hilltop Series B Preferred Stock qualifies as Tier 1 capital and is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. Until December 31, 2013, the dividend rate, as a percentage of the liquidation amount (being $1,000 per share of Series B Preferred Stock), fluctuated based upon changes in the level of QSBL by the Bank. From January 1, 2014 until March 26, 2016, the dividend rate is fixed at 5.0% based upon the Bank's level of QSBL at September 30, 2013. Beginning March 27, 2016, the dividend rate on any outstanding shares of Hilltop Series B Preferred Stock will be fixed at nine percent (9%) per annum.

Except as noted in the next sentence, the Hilltop Series B Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100 percent of the liquidation amount (being $1,000 per share of Series B Preferred Stock) plus accrued but unpaid dividends to the date of redemption for the current period, subject to approval of the Federal Reserve Board. In the agreement and plan of merger with PlainsCapital Corporation, the Company agreed not to redeem or otherwise acquire the Hilltop Series B Preferred Stock prior to the second anniversary of the closing date of the PlainsCapital Merger, or November 30, 2014. For more information, see "Risk Factors  Risks Relating to Hilltop's Business  The Treasury's investment in us imposes restrictions and obligations upon us that could adversely affect the rights of our common stockholders."

*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.

***PlainsCapital Bank***

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 June 30, 2014, the Bank's total assets were $8.2 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 Memorandum of Understanding 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

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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 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.

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*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 Riegle-Neal Act amendments, once a state or national bank has established branches in a state, that bank may establish and acquire additional branches at any location in the state at which any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. If a state opted out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or de novo. Under the Dodd-Frank Act, de novo interstate branching by national 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 have been permitted to establish a branch.

*Prompt Corrective Action.* The Federal Deposit Insurance Corporation Improvement Act of 1991 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.

*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.

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In 2009, the FDIC adopted a final rule requiring a special assessment on insured institutions as part of its effort to rebuild the FDIC deposit insurance fund ("DIF"). The FDIC administers the DIF, and all insured depository institutions are required to pay assessments to the FDIC that fund the DIF. The Dodd-Frank Act broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution during the assessment period. On February 7, 2011, the FDIC issued a final rule implementing revisions to the assessment system mandated by the Dodd-Frank Act. The new regulation was effective April 1, 2011 and was reflected in the June 30, 2011 FDIC DIF balance and the invoices for assessments due September 30, 2011. Accruals for DIF assessments were $1.0 million for the year ended December 31, 2013.

The FDIC is required to maintain a designated reserve ratio of the 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.

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.

The Dodd-Frank Act instituted, for all insured depository institutions, unlimited deposit insurance on noninterest-bearing transaction accounts for the period from December 31, 2010 through December 31, 2012 for all depositors, including consumers, businesses and government entities. This unlimited insurance coverage, which expired on December 31, 2012, was separate from, and in addition to, the insurance coverage provided to a depositor's other deposit accounts held at an FDIC-insured institution up to the permissible limit of $250,000.

*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 second quarter of 2013, 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  Risks Relating to Hilltop's Business  We are subject to extensive supervision and regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to generate income."

*Privacy.* Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated

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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 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 administrative subpoenas of financial records;
- 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

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when conducting supervisory activities related to the safety and soundness of individual banks and the banking system.

Under the regulatory capital guidelines (without giving effect to Basel III discussed below), 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 4.0%, and a Tier 1 capital to average total assets ratio of at least 4.0% (3.0% for banks receiving the highest examination rating) to be considered "adequately capitalized." See the discussion herein under "The FDIC Improvement Act." At June 30, 2014, the Bank's ratio of total risk-based capital to risk-weighted assets was 13.90%, the Bank's ratio of Tier 1 capital to risk-weighted assets was 13.22% and the Bank's ratio of Tier 1 capital to average total assets was 9.97%.

*BASEL III.* In December 2010, the Basel Committee on Banking Supervision (the "Basel Committee") released revised frameworks for the regulation of capital and liquidity of internationally active banking organizations. These new frameworks are generally referred to as "Basel III." On July 2, 2013, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency released final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. These final rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Hilltop, PlainsCapital and the Bank will begin transitioning to the new final rules on January 1, 2015 when new minimum capital requirements, as set forth in the table below, are effective. However, the new capital conservation buffer and certain deductions from common equity Tier 1 capital phase in over a time period from 2015 through 2019.

The following table summarizes the Basel III transition schedule for new ratios and capital definitions 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)(1) | 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.

(1)
Deductions from common equity Tier 1 capital include goodwill and other intangibles, deferred tax assets that arise from net operating loss and tax credit carryforwards (above certain levels), gains-on-sale in connection with a securitization, any defined benefit pension fund net asset (for banking organizations that are not insured depository institutions), investments in a banking organization's own capital instruments, mortgage servicing assets (above certain levels) and investments in the capital of unconsolidated financial institutions (above certain levels).

The new 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

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all banking organizations, including community 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.

The new rules treatment of one- to four-family residential mortgage exposures remains the same as under current general risk-based capital rules. This includes a 50 percent risk weight for prudently underwritten first lien mortgage loans that are not past due, reported as nonaccrual, or restructured, and a 100 percent risk weight for all other residential mortgages. Also in the new rules, non-advanced approaches banking organizations, such as Hilltop and the Bank, are given a one-time option to filter certain Accumulated Other Comprehensive Income ("AOCI") components, comparable to the treatment under the current general risk-based capital rule. The AOCI opt-out election must be made on the institution's first regulatory filing after January 1, 2015.

The new rules also make certain major changes from the current general risk-based capital rules, including, but not limited to the following:

Implementing higher minimum capital requirements, including a new common equity Tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5 percent and a Tier 1 capital ratio of 6.0 percent (an increase from 4.0 percent), and a total capital ratio that remains at 8.0 percent. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0 percent. The new rules maintain the general structure of the current prompt corrective action framework (described below) while incorporating these increased minimum requirements starting January 1, 2015.

Changing the definition of capital by incorporating stricter eligibility criteria for regulatory capital instruments that would disallow the including of instruments such as trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing rights, deferred tax assets, and other certain investments in the capital of unconsolidated financial institutions. In addition, the new rules require that most regulatory capital deductions be made from common equity Tier 1 capital.

The Dodd-Frank Act prohibits references to, and reliance on, external credit ratings in the banking regulations and directs the agencies to use alternative standards of creditworthiness. The new rules replace the ratings-based approach with a simplified supervisory formula approach in order to determine the appropriate risk-weights of securitization exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Mortgage servicing assets and deferred tax assets are subject to stricter individual and aggregate limitations as a percentage of common equity Tier 1 capital than those applicable under the current general risk-based capital rules.

Increasing the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk-weights and credit conversion factors.

In order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation 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. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016.

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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.

Although these new capital ratios do not become effective until 2015 and 2016, the banking regulators will expect bank holding companies and banks to meet these requirements well ahead of that date. The bank regulatory agencies may also set higher capital requirements for holding companies or banks whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements in order to meet well-capitalized standards, and future regulatory change could impose higher capital standards as a routine matter.

On January 6, 2013, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, met and unanimously endorsed a four year delay in the Basel Committee's rules establishing a liquidity coverage ratio ("LCR"). Under the revised liquidity requirements, large, internationally active banks would be required to meet 60 percent of the LCR obligations by 2015, and the full rule would be phased in annually through 2019. The proposal would also apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that are not internally active but have more than $50 billion in total assets, such as the Company. The proposal would not apply to bank holding companies with less than $50 billion in total assets. We continue to monitor developments related to Basel III.

*FIRREA.* The Financial Institutions Reform, Recovery and Enforcement Act of 1989, or 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

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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.* The Federal Deposit Insurance Corporation Improvement Act of 1991, or 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.

FDICIA also places certain restrictions on activities of banks depending on their level of capital. FDICIA divides banks into five different categories, depending on their level of capital. Under current regulations:

a bank is deemed to be "well capitalized" if it has a total Risk-Based Capital Ratio of 10.0% or more, a Tier 1 Capital Ratio of 6.0% or more, a Leverage Ratio of 5.0% or more, and the bank is not subject to an order or capital directive to meet and maintain a certain capital level;

a bank is deemed to be "adequately capitalized" if it has a total Risk-Based Capital Ratio of 8.0% or more, a Tier 1 Capital Ratio of 4.0% or more and a Leverage Ratio of 4.0% or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a Leverage Ratio of 3.0% or more);

a bank is deemed to be "undercapitalized" if it has a total Risk-Based Capital Ratio of less than 8.0%, a Tier 1 Capital Ratio of less than 4.0% or a Leverage Ratio of less than 4.0%;

a bank is deemed to be "significantly undercapitalized" if it has a Risk-Based Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0% and a Leverage Ratio of less than 3.0%; and

a bank is deemed to be "critically undercapitalized" if it has a Leverage Ratio of less than or equal to 2.0%.

Under the new capital rules discussed above, banks will have to maintain a common equity Tier 1 capital ratio of 6.5%, a Tier 1 capital ratio of 8%, a total capital ratio of 10%, and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements.

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In addition, the FDIC has the ability to downgrade a bank's classification (but not to "critically undercapitalized") based on other considerations even if the bank meets the capital guidelines. According to these guidelines, the Bank was classified as "well capitalized" at June 30, 2014.

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.

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.

*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 June 30, 2014, the Bank was "well capitalized" and therefore not subject to any limitations with respect to its brokered deposits. Brokered deposits are the subject of a study under the Dodd-Frank Act.

*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.

*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, or FHLB, system, of which the Bank is a member, consists of 12 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

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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.

*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 (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.

***PrimeLending***

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.

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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. The risk retention requirement has not become effective to date but is expected to be 5%, subject to increase or decrease by regulation. Final regulations have not yet been issued.

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.

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.

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*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.

Additional rules and regulations are expected including risk retention rules which would require 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. The risk retention requirement has not become effective to date but is expected to be 5%, subject to increase or decrease by regulation. Any additional regulatory requirements affecting PrimeLending mortgage origination operations will result in increased compliance costs and may impact revenue.

***NLC***

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, or 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

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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, or 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, 2013, the most recent date for which the RBC calculation was performed, NLIC and ASIC capital and surplus levels exceeded the minimum RBC requirements that would trigger regulatory attention. In their 2013 statutory financial statements, both NLIC and ASIC complied with the NAIC's RBC reporting requirements. As of June 30, 2014, management was not aware of any changes in financial condition or structure that would cause NLIC or ASIC to not be in compliance with the required RBC ratio.

The NAIC's Insurance Regulatory Information System, or 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 2013, 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 2.0% 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. Additionally, NLIC's two-year operating ratio was calculated at 100%, which equals the threshold of 100%, primarily due to the significant weather events experienced over the past two year period.

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

*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.

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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, or 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 Reauthorization Act further extended the Program through December 31, 2014 and fixed the reimbursement percentage at 85% 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 $1.7 million for 2013 and is estimated to be $1.2 million in 2014. 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 2013.

*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.

*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

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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, 2013, the extraordinary dividend limit for NLIC and ASIC was $9.9 million and $2.6 million, respectively. In addition, NLC's insurance companies may only pay dividends out of their earned surplus.

*Statutory accounting principles.* Statutory accounting principles, or 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 2013, 2012 or 2011. 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, or NFIP. The NFIP is administered and regulated by the Federal Emergency Management Agency (FEMA). NLIC and ASIC operates 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. 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.

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*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, or TWIA, 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.

***First Southwest***

FSC is a broker-dealer registered with the SEC, FINRA, all 50 U.S. states, the District of Columbia and Puerto Rico. 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. FSC is a member of, and is 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, capital structure, record keeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, 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 previously. 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 a broker-dealer, its 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 FSC may conduct are limited by its agreements with, and its oversight by, FINRA and by federal and state law. Participation in new business lines, including trading of new products or participation on new exchanges or in new countries often requires governmental and/or exchange approvals, which may take significant time and resources. In addition, FSC is an operating subsidiary of the Bank, which means its activities are further limited by those that are permissible for the Bank. As a result, FSC may be prevented from entering new businesses that may be profitable in a timely manner, if at all.

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*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, 2013, FSC was in compliance with applicable net capital requirements.

The SEC and FINRA impose rules that require notification when net capital falls below certain predefined criteria. 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.

*Securities Investor Protection Corporation.* FSC is required by federal law to 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.

*Changing Regulatory Environment.* The regulatory environment in which FSC operates is subject to frequent change. Its 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 or other U.S. and state governmental regulatory authorities, or FINRA. FSC's business, financial condition and operating results 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, FSC can expect to incur increasing compliance costs, along with the industry as a whole.

**Properties**

Hilltop leases office space for its principal executive offices in Dallas, Texas. In addition to its principal office, Hilltop's various business segments conduct business at various locations.

*Banking.* At June 30, 2014, Hilltop's banking segment conducted business at 86 locations throughout Texas, including seven support facilities. Hilltop's banking segment's principal executive offices are located in Dallas, Texas, in space leased by PlainsCapital. Hilltop leases 29 banking locations including its principal offices and owns the remaining 57 banking locations. Hilltop has options to renew leases at most locations.

*Mortgage Origination.* Hilltop's mortgage origination segment is headquartered in Dallas, Texas and at June 30, 2014 conducted business from approximately 300 locations in 42 states. Each of these locations is leased by PrimeLending.

*Insurance.* At June 30, 2014, Hilltop's insurance segment leases office space in Waco, Texas for all corporate, claims, customer service and data center operations.

*Financial Advisory.* Hilltop's financial advisory segment is headquartered in Dallas, Texas and at June 30, 2014 conducted business at 25 locations in 14 states. Each of these offices is leased by First Southwest.

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**Legal Proceedings**

On August 20, 2014, PrimeLending received a Civil Investigative Demand from the United States Department of Justice (the "DOJ") related to the Inquiry being conducted by the Office of Inspector General of the U.S. Department of Housing and Urban Development regarding mortgage-related practices. According to the Civil Investigative Demand, the DOJ is conducting an investigation to determine whether PrimeLending has violated the False Claims Act in connection with originating and underwriting single-family residential mortgage loans insured by the Federal Housing Administration (FHA). PrimeLending has not yet responded to the Civil Investigative Demand, but continues to cooperate with this investigation.

For a description of other material pending legal proceedings relating to Hilltop's business, see the discussion set forth under the heading "Legal Matters" in Note 18 to Hilltop's audited consolidated financial statements included in this proxy statement/prospectus and Note 11 to Hilltop's unaudited consolidated financial statements also included in this proxy statement/prospectus. See also "The Merger  Litigation Relating to the Merger."

**Market for Hilltop'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 $20.58 on September 12, 2014 and at $23.79 on March 31, 2014, the date immediately prior to the public announcement of the merger. At September 12, 2014, there were 90,182,915 shares of our common stock outstanding with 528 stockholders of record.

In connection with the PlainsCapital Merger, on November 29, 2012, we filed with the State Department of Assessments and Taxation of the State of Maryland articles supplementary for the Series B Preferred Stock, setting forth its terms. Holders of the Series B Preferred Stock are entitled to noncumulative cash dividends at a fluctuating dividend rate based on the Bank's level of qualified small business lending. The Series B Preferred Stock is non-voting, except in limited circumstances, and ranks senior to our common stock with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of Hilltop.

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 over 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. In addition, as long as shares of Series B Preferred Stock remain outstanding, we may not pay dividends to our common stockholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series B Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series B Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of September 27, 2011, excluding any charge-offs and redemptions of the Series B Preferred Stock.

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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 " Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Restrictions on Dividends and Distributions."

The high and low sales prices per quarter for Hilltop's common stock during 2014, 2013 and 2012 are included in the section of this proxy statement/prospectus entitled "Comparative Market Prices and Dividends."

***Securities Authorized for Issuance under Equity Compensation Plans***

The following table sets forth information at December 31, 2013 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 audited consolidated financial statements included in this proxy statement/prospectus.

**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 | 3,519,657 |
| Total | 600,000 | $ 7.70 | 3,519,657 |

*

Excludes shares of restricted stock granted under the 2003 equity incentive plan (the "2003 Plan"), as all such shares are vested. No exercise price is required to be paid upon the vesting of the restricted shares of common stock granted. 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 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, 2013, 480,343 awards had been granted pursuant to the 2012 Plan. 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 by Hilltop during the six months ended June 30, 2014 or the twelve months ended December 31, 2013.

***Recent Sales of Unregistered Securities***

On January 17, 2014, April 17, 2014 and July 14, 2014 Hilltop issued an aggregate of 2,303, 2,708 and 2,216 shares of common stock under the Hilltop Holdings 2012 Equity Incentive Plan to certain non-employee directors as compensation for their service on Hilltop's Board of Directors during the

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fourth quarter of 2013 and first and second quarters of 2014, respectively. The shares were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act.

**Selected Financial Data**

See "Selected Historical Consolidated Financial Data for Hilltop" beginning on page 11 of this proxy statement/prospectus.

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

*The following discussion is intended to help the reader understand Hilltop's results of operations and financial condition and is provided as a supplement to, and should be read in conjunction with, Hilltop's unaudited and 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. Hilltop's 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 "Risk Factors" and elsewhere in this proxy statement/prospectus. See "Forward-Looking Statements." All dollar amounts in the following discussion are in thousands, except per share amounts.*

**OVERVIEW**

Beginning in 1995, we operated as several companies under the name "Affordable Residential Communities" or "ARC," now known as Hilltop Holdings Inc., a Maryland corporation. We engaged in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses.

In January 2007, we acquired NLC. NLC owns National Lloyds Insurance Company, or NLIC, and American Summit Insurance Company, or ASIC, both of which are licensed property and casualty insurers operating in multiple states. In addition, NLC also owns NALICO GA, a general agency that operates in Texas. NLIC commenced business in 1949 and currently operates in 14 states, with its largest market being the state of Texas. NLIC carries a financial strength rating of "A" (Excellent) by A.M. Best. ASIC was formed in 1955 and currently operates in 13 states, its largest market being the state of Arizona. ASIC carries a financial strength rating of "A" (Excellent) by A.M. Best. Both of these companies are regulated by the Texas Department of Insurance.

On July 31, 2007, we sold substantially all of the operating assets used in our manufactured home communities business and our retail sales and financing business to American Residential Communities LLC. We received gross proceeds of approximately $890 million in cash, which represents the aggregate purchase price of $1.8 billion, less the indebtedness assumed by the buyer. After giving effect to expenses, taxes and our preferred stock and senior notes that remained outstanding following the sale, our net cash balance was approximately $550 million. As a result of the sale, our 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.

On November 30, 2012, we acquired PlainsCapital Corporation in a stock and cash transaction, whereby PlainsCapital Corporation merged with and into our wholly owned subsidiary, which continued as the surviving entity under the name "PlainsCapital Corporation" (the "PlainsCapital Merger"). Based on Hilltop's closing stock price on November 30, 2012, the total purchase price was $813.5 million, consisting of 27.1 million shares of common stock, $311.8 million in cash and the issuance of 114,068 shares of Hilltop Non-Cumulative Perpetual Preferred Stock, Series B ("Hilltop Series B Preferred Stock"). The fair value of assets acquired, excluding goodwill, totaled $6.5 billion,

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including $3.2 billion of loans, $730.8 million of investment securities and $70.7 million of identifiable intangibles. The fair value of the liabilities assumed was $5.9 billion, including $4.5 billion of deposits.

Concurrent with the consummation of the PlainsCapital Merger, we became a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999.

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.

Following the PlainsCapital Merger, our primary line of business has been to provide business and consumer banking services from offices located throughout central, north and west Texas through the Bank. Further, the acquisition of FNB's expansive branch network allows the Bank to further develop its Texas footprint through expansion into the Rio Grande Valley, Houston, Corpus Christi, Laredo and El Paso markets, among others. In addition to the Bank, our other subsidiaries have specialized areas of expertise that allow us to provide an array of financial products and services such as mortgage origination, insurance and financial advisory services.

On March 31, 2014, we entered into a definitive merger agreement with SWS providing for the merger of SWS with and into a subsidiary of Hilltop formed for the purpose of facilitating this transaction (see "The Merger Agreement" included elsewhere in this proxy statement/prospectus). Under the terms of the merger agreement, SWS stockholders will receive per share consideration of 0.2496 shares of Hilltop common stock and $1.94 of cash, equating to $7.25 per share based on Hilltop's closing price on June 30, 2014. The value of the merger consideration will fluctuate with the market price of Hilltop common stock. We intend to fund the cash portion of the consideration through available cash. The merger is subject to customary closing conditions, including regulatory approvals and approval of the stockholders of SWS, and is expected to be completed prior to the end of 2014.

At June 30, 2014, on a consolidated basis, we had total assets of $9.4 billion, total deposits of $6.2 billion, total loans, including loans held for sale, of $6.0 billion and stockholders' equity of $1.4 billion. At December 31, 2013, on a consolidated basis, we had total assets of $8.9 billion, total deposits of $6.7 billion, total loans, including loans held for sale, of $5.6 billion and stockholders' equity of $1.3 billion. Our operating results beginning December 1, 2012 include the banking, mortgage origination and financial advisory operations acquired in the PlainsCapital Merger. Accordingly, our operating results and financial condition for the year ended December 31, 2013 are not comparable to prior years. Additionally, the presentation of our historical consolidated financial statements for 2011 has been modified and certain items have been reclassified to conform to the 2012 and 2013 presentation, which is more consistent with that of a financial institution that provides an array of financial products and services. Our banking operations include the operations acquired in the FNB Transaction since September 14, 2013.

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***Segment Information***

We have two primary operating business units, PlainsCapital (financial services and products) and NLC (insurance). Within the PlainsCapital unit are three primary wholly owned operating subsidiaries: the Bank, PrimeLending and First Southwest. 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, mortgage origination, insurance and financial advisory. During the fourth quarter of 2013, we began presenting certain amounts previously allocated to the four reportable business segments under the heading Corporate to better reflect our internal organizational structure. This change had no impact on our consolidated results of operations. Our historical segment disclosures and Management's Discussion and Analysis of Financial Condition and Results of Operations have been revised to conform to the current presentation. Consistent with the segment operating results during 2013, we anticipate that future revenues will be driven primarily from the banking segment, with the remainder being generated by our mortgage origination, insurance and financial advisory segments. Based on historical results of PlainsCapital Corporation, which we acquired on November 30, 2012, the relative share of total revenue provided by our banking and mortgage origination segments fluctuates depending on market conditions, and operating results for the mortgage origination segment tend to be more volatile than operating results for the banking segment.

The banking segment includes the operations of the Bank and, since September 14, 2013, the operations acquired in the FNB Transaction. The banking segment primarily provides business and consumer banking products and 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 mortgage origination segment includes the operations of PrimeLending, which offers a variety of loan products from offices in 42 states and generates revenue predominantly from fees charged on the origination of loans and from selling these loans in the secondary market.

The insurance segment includes the operations of NLC, which operates through its wholly owned subsidiaries, NLIC and ASIC. 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.

The financial advisory segment generates a majority of its revenues from fees and commissions earned from investment advisory and securities brokerage services at First Southwest. The principal subsidiaries of First Southwest are FSC, a broker-dealer registered with the SEC and Financial Industry Regulatory Authority, and a member of the New York Stock Exchange, and First Southwest Asset Management, Inc., a registered investment advisor under the Investment Advisors Act of 1940. FSC holds trading securities to support sales, underwriting and other customer activities. These securities are marked to market through other noninterest income. FSC uses derivatives to support mortgage origination programs of certain non-profit housing organization clients. FSC hedges its related exposure to interest rate risk from these programs with U.S. Agency to-be-announced, or TBA, mortgage-backed securities. These derivatives are marked to market through other noninterest income.

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 not allocated to business segments. Balance sheet amounts for remaining subsidiaries not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations."

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Additional information concerning our reportable segments is presented in Note 30, Segment and Related Information, in the notes to our audited consolidated financial statements included in this proxy statement/prospectus and Note 20 of our unaudited consolidated financial statements also included in this proxy statement/prospectus. The following tables present certain information about the operating results of Hilltop's reportable segments (in thousands).

| Three Months Ended June 30, 2014 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 90,828 | $ (2,389) | $ 838 | $ 3,178 | $ 1,695 | $ 4,296 | $ 98,446 |
| Provision for loan losses | 5,516 | | | 17 | | | 5,533 |
| Noninterest income | 16,392 | 122,820 | 43,123 | 25,838 | | (4,892) | 203,281 |
| Noninterest expense | 60,240 | 111,224 | 49,420 | 28,359 | 2,565 | (596) | 251,212 |
| Income (loss) before income taxes | $ 41,464 | $ 9,207 | $ (5,459) | $ 640 | $ (870) | $ | $ 44,982 |

| Six Months Ended June 30, 2014 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 170,401 | $ (6,528) | $ 1,817 | $ 5,808 | $ 3,387 | $ 8,982 | $ 183,867 |
| Provision for loan losses | 8,744 | | | 31 | | | 8,775 |
| Noninterest income | 32,621 | 214,583 | 85,896 | 50,435 | | (10,154) | 373,381 |
| Noninterest expense | 120,917 | 201,857 | 81,762 | 55,724 | 4,753 | (1,172) | 463,841 |
| Income (loss) before income taxes | $ 73,361 | $ 6,198 | $ 5,951 | $ 488 | $ (1,366) | $ | $ 84,632 |

| Three Months Ended June 30, 2013 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 68,597 | $ (11,847) | $ 873 | $ 3,511 | $ (105) | $ 7,396 | $ 68,425 |
| Provision for loan losses | 11,300 | | | (11) | | | 11,289 |
| Noninterest income | 11,928 | 165,257 | 40,777 | 28,863 | | (7,592) | 239,233 |
| Noninterest expense | 31,919 | 134,487 | 62,144 | 30,373 | 1,673 | (196) | 260,400 |
| Income (loss) before income taxes | $ 37,306 | $ 18,923 | $ (20,494) | $ 2,012 | $ (1,778) | $ | $ 35,969 |

| Six Months Ended June 30, 2013 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 136,268 | $ (23,850) | $ 1,886 | $ 6,754 | $ (236) | $ 14,864 | $ 135,686 |
| Provision for loan losses | 24,266 | | | 28 | | | 24,294 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Noninterest income | 24,132 | 311,785 | 80,202 | 51,641 | | (15,249) | 452,511 |
| Noninterest expense | 62,599 | 256,758 | 96,410 | 56,099 | 3,910 | (385) | 475,391 |
| Income (loss) before income taxes | $ 73,535 | $ 31,177 | $ (14,322) | $ 2,268 | $ (4,146) | $ | $ 88,512 |

| Year Ended December 31, 2013 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 293,254 | $ (37,840) | $ 7,442 | $ 12,064 | $ (1,597) | $ 22,878 | $ 296,201 |
| Provision for loan losses | 37,140 | | | 18 | | | 37,158 |
| Noninterest income | 71,045 | 537,497 | 166,163 | 102,714 | | (27,334) | 850,085 |
| Noninterest expense | 155,102 | 472,284 | 166,006 | 112,360 | 10,439 | (4,456) | 911,735 |
| Income (loss) before income taxes | $ 172,057 | $ 27,373 | $ 7,599 | $ 2,400 | $ (12,036) | $ | $ 197,393 |

| Year Ended December 31, 2012 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ 24,885 | $ (4,987) | $ 4,730 | $ 1,191 | $ 39 | $ 2,984 | $ 28,842 |
| Provision for loan losses | 3,670 | | | 130 | | | 3,800 |
| Noninterest income | 4,601 | 57,618 | 154,147 | 10,909 | | (3,043) | 224,232 |
| Noninterest expense | 16,130 | 50,296 | 163,585 | 11,078 | 14,487 | (59) | 255,517 |
| Income (loss) before income taxes | $ 9,686 | $ 2,335 | $ (4,708) | $ 892 | $ (14,448) | $ | $ (6,243) |

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| Year Ended December 31, 2011 | Banking | Mortgage Origination | Insurance | Financial Advisory | Corporate | All Other and Eliminations | Hilltop Consolidated |
|---|---|---|---|---|---|---|---|
| Net interest income (expense) | $ | $ | $ 4,915 | $ | $ (2,851) | $ | $ 2,064 |
| Provision for loan losses | | | | | | | |
| Noninterest income | | | 141,650 | | | | 141,650 |
| Noninterest expense | | | 146,386 | | 8,868 | | 155,254 |
| Income (loss) before income taxes | $ | $ | $ 179 | $ | $ (11,719) | $ | $ (11,540) |

***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 $183.9 million in net interest income during the six months ended June 30, 2014, compared with net interest income of $135.7 million during the same period in 2013. The year-over-year increase in net interest income was primarily due to the inclusion of those operations acquired as a part of the FNB Transaction within our banking segment. We generated $296.2 million in net interest income during the year ended December 31, 2013, compared with net interest income of $28.8 million in 2012 and net interest income of $2.1 million in 2011. The significant year-over-year increases in net interest income were primarily due to $267.5 million and $21.1 million in net interest income during the year ended December 31, 2013 and the month ended December 31, 2012, respectively, generated by those operations acquired as part of the PlainsCapital Merger.

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

(i) *Income from mortgage operations.* Through our wholly owned subsidiary, PrimeLending, we generate noninterest income by originating and selling mortgage loans. During the six months ended June 30, 2014 and 2013, we generated $214.5 million and $311.7 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. During the year ended December 31, 2013, we generated $537.3 million 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, compared with $57.6 million during the month ended December 31, 2012.

(ii) *Net insurance premiums earned.* Through our wholly owned insurance subsidiary, NLC, we provide fire and limited homeowners insurance for low value dwellings and manufactured homes. We generated $81.1 million in net insurance premiums earned during the six months ended June 30, 2014, compared with $76.1 million during the same period in the prior year. We generated $157.5 million, $146.7 million and $134.0 million in net insurance premiums earned during 2013, 2012 and 2011, respectively.

(iii) *Investment advisory fees and commissions and securities brokerage fees and commissions.* Through our wholly owned subsidiary, First Southwest, we provide public finance advisory and various investment banking and brokerage services. We generated $43.6 million and $48.0 million in investment advisory fees and commissions and securities brokerage fees and commissions during the six months ended June 30, 2014 and 2013, respectively. We generated $93.1 million in investment advisory fees and commissions and securities brokerage fees and commissions during the year ended December 31, 2013, compared with $11.2 million during the month ended December 31, 2012.

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In the aggregate, we generated $373.4 million and $452.5 million in noninterest income during the six months ended June 30, 2014 and 2013, respectively. The significant year-over-year decrease in noninterest income 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 and insurance segments. In the aggregate, we generated $850.1 million, $224.2 million and $141.7 million in noninterest income during 2013, 2012 and 2011, respectively. The significant year-over-year increases in noninterest income during 2013 and 2012 were primarily due to the inclusion of the mortgage origination and financial advisory operations that we acquired as a part of the PlainsCapital Merger.

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.

**Three and Six Months ended June 30, 2014 and 2013**

***Consolidated Operating Results***

Net income applicable to common stockholders for the three months ended June 30, 2014 was $27.1 million, or $0.30 per diluted share, compared to net income applicable to common stockholders of $20.9 million, or $0.24 per diluted share, for the three months ended June 30, 2013. Net income applicable to common stockholders for the six months ended June 30, 2014 was $50.8 million, or $0.56 per diluted share, compared to net income applicable to common stockholders of $53.3 million, or $0.61 per diluted share, for the six months ended June 30, 2013.

Certain items included in net income for 2013 and 2014 resulted from purchase accounting associated with the merger of PlainsCapital Corporation with and into a wholly owned subsidiary of Hilltop on November 30, 2012 (the "PlainsCapital Merger") and the FNB Transaction. Income before taxes for the three months ended June 30, 2014 includes net accretion of $17.0 million and $10.4 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $2.3 million and $0.3 million, respectively. During the three months ended June 30, 2013, income before taxes includes net accretion of $15.9 million on earning assets and liabilities acquired in the PlainsCapital Merger, offset by amortization of identifiable intangibles of $2.5 million. Income before taxes for the six months ended June 30, 2014 includes net accretion of $27.0 million and $19.9 million on earning assets and liabilities acquired in the PlainsCapital Merger and FNB Transaction, respectively, offset by amortization of identifiable intangibles of $4.6 million and $0.5 million, respectively. During the six months ended June 30, 2013, income before taxes includes net accretion of $31.9 million on earning assets and liabilities acquired in the PlainsCapital Merger, offset by amortization of identifiable intangibles of $4.9 million.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Year Ended December 31, 2013 |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | |
| **Performance Ratios:** | | | | | |
| Return on average stockholders' equity | 7.99% | 7.29% | 7.82% | 9.46% | 10.48% |
| Return on average assets | 1.24% | 1.24% | 1.19% | 1.58% | 1.66% |
| Net interest margin (taxable equivalent)(1) | 5.18% | 4.33% | 4.90% | 4.34% | 4.47% |

(1) Taxable equivalent net interest income divided by average interest-earning assets.

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During the three months ended June 30, 2014, the consolidated taxable equivalent net interest margin of 5.18% was impacted by PlainsCapital Merger related accretion of discount on loans of $17.8 million, amortization of premium on acquired securities of $1.0 million and amortization of premium on acquired time deposits of $0.2 million. Additionally, FNB Transaction related accretion of discount on loans of $8.1 million and amortization of premium on acquired time deposits of $2.3 million also impacted the consolidated taxable equivalent net interest margin during the three months ended June 30, 2014. These items increased the consolidated taxable equivalent net interest margin by 140 basis points for the three months ended June 30, 2014. The consolidated taxable equivalent net interest margin was 4.33% for the three months ended June 30, 2013. The taxable equivalent net interest margin for the second quarter of 2013 was impacted by PlainsCapital Merger related accretion of discount on loans of $16.7 million, amortization of premium on acquired securities of $1.4 million and amortization of premium on acquired time deposits of $0.6 million. These items increased the consolidated taxable equivalent interest margin by 98 basis points for the three months ended June 30, 2013.

During the six months ended June 30, 2014, the consolidated taxable equivalent net interest margin of 4.90% was impacted by PlainsCapital Merger related accretion of discount on loans of $28.6 million, amortization of premium on acquired securities of $1.9 million and amortization of premium on acquired time deposits of $0.3 million. Additionally, FNB Transaction related accretion of discount on loans of $15.3 million and amortization of premium on acquired time deposits of $4.6 million also impacted the consolidated taxable equivalent net interest margin during the six months ended June 30, 2014. These items increased the consolidated taxable equivalent net interest margin by 121 basis points for the six months ended June 30, 2014. The consolidated taxable equivalent net interest margin was 4.34% for the six months ended June 30, 2013. The taxable equivalent net interest margin for the six months ended June 30, 2013 was impacted by PlainsCapital Merger related accretion of discount on loans of $33.6 million, amortization of premium on acquired securities of $3.4 million and amortization of premium on acquired time deposits of $1.7 million. These items increased the consolidated taxable equivalent interest margin by 97 basis points for the six months ended June 30, 2013.

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate |
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Loans, gross(1) | $ 5,526,869 | $ 92,204 | 6.63% | $ 4,352,489 | $ 65,213 | 5.95% |
| Investment securities taxable | 1,144,269 | 7,618 | 2.66% | 996,624 | 6,480 | 2.60% |
| Investment securities non-taxable(2) | 185,533 | 1,772 | 3.82% | 201,383 | 1,772 | 3.52% |
| Federal funds sold and securities purchased under agreements to resell | 20,308 | 14 | 0.28% | 34,594 | 35 | 0.40% |
| Interest-bearing deposits in other financial institutions | 575,653 | 317 | 0.22% | 581,676 | 242 | 0.25% |
| Other | 218,413 | 3,068 | 5.62% | 164,754 | 3,009 | 7.31% |
| Interest-earning assets, gross | 7,671,045 | 104,993 | 5.44% | 6,331,520 | 76,751 | 4.82% |
| Allowance for loan losses | (38,909) | | | (20,588) | | |
| Interest-earning assets, net | 7,632,136 | | | 6,310,932 | | |
| Noninterest-earning assets | 1,304,522 | | | 818,914 | | |
| **Total assets** | $ 8,936,658 | | | $ 7,129,846 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | $ 4,523,194 | $ 3,096 | 0.27% | $ 3,379,302 | $ 3,406 | 0.40% |
| Notes payable and other borrowings | 966,143 | 2,866 | 1.18% | 1,044,784 | 4,337 | 1.66% |
| Total interest-bearing liabilities | 5,489,337 | 5,962 | 0.43% | 4,424,086 | 7,743 | 0.70% |
| Noninterest-bearing liabilities | | | | | | |
| Noninterest-bearing deposits | 1,761,194 | | | 1,179,264 | | |
| Other liabilities | 307,846 | | | 341,929 | | |
| Total liabilities | 7,558,377 | | | 5,945,279 | | |
| Stockholders' equity | 1,377,769 | | | 1,183,830 | | |
| Noncontrolling interest | 512 | | | 737 | | |
| **Total liabilities and stockholders' equity** | $ 8,936,658 | | | $ 7,129,846 | | |
| **Net interest income(2)** | | $ 99,031 | | | $ 69,008 | |

| | | |
|---|---|---|
| **Net interest spread(2)** | 5.01% | 4.12% |
| **Net interest margin(2)** | 5.18% | 4.33% |

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| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate | Average Outstanding Balance | Interest Earned or Paid | Annualized Yield or Rate |
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Loans, gross(1) | $ 5,299,145 | $ 171,948 | 6.47% | $ 4,280,580 | $ 130,099 | 6.06% |
| Investment securities taxable | 1,133,315 | 15,206 | 2.69% | 948,789 | 12,392 | 2.61% |
| Investment securities non-taxable(2) | 184,345 | 3,633 | 3.94% | 209,816 | 3,794 | 3.62% |
| Federal funds sold and securities purchased under agreements to resell | 23,305 | 33 | 0.28% | 22,462 | 56 | 0.50% |
| Interest-bearing deposits in other financial institutions | 770,206 | 912 | 0.24% | 664,002 | 575 | 0.25% |
| Other | 203,428 | 5,708 | 5.64% | 159,685 | 5,114 | 6.45% |
| Interest-earning assets, gross | 7,613,744 | 197,440 | 5.17% | 6,285,334 | 152,030 | 4.83% |
| Allowance for loan losses | (37,891) | | | (13,720) | | |
| Interest-earning assets, net | 7,575,853 | | | 6,271,614 | | |
| Noninterest-earning assets | 1,336,127 | | | 845,500 | | |