UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

Commission File Number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

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

200 Crescent Court, Suite 1330

Dallas, TX	75201
(Address of principal executive offices)	(Zip Code)

(214) 855-2177

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant's common stock outstanding at July 29, 2015 was 99,517,560.

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HILLTOP HOLDINGS INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2015

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 583,043	$ 782,473
Federal funds sold	22,814	30,602
Securities purchased under agreements to resell	79,153	—
Assets segregated for regulatory purposes	188,094	76,013
Securities:		
Trading, at fair value	265,429	65,717
Available for sale, at fair value (amortized cost of $765,392 and $924,755 respectively)	763,463	925,535
Held to maturity, at amortized cost (fair value of $313,529 and $118,345, respectively)	312,960	118,209
	1,341,852	1,109,461
Loans held for sale	1,397,617	1,309,693
Non-covered loans, net of unearned income	4,956,969	3,920,476
Allowance for non-covered loan losses	(40,484)	(37,041)
Non-covered loans, net	4,916,485	3,883,435
Covered loans, net of allowance of $934 and $4,611, respectively	493,299	638,029
Broker-dealer and clearing organization receivables	2,070,770	167,884
Premises and equipment, net	206,411	206,991
FDIC indemnification asset	102,381	130,437
Covered other real estate owned	125,510	136,945
Other assets	636,183	458,862
Goodwill	251,808	251,808
Other intangible assets, net	61,778	59,783
Total assets	$ 12,477,198	$ 9,242,416
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 2,135,988	$ 2,076,385
Interest-bearing	4,660,449	4,293,507
Total deposits	6,796,437	6,369,892

Broker-dealer and clearing organization payables	2,048,176	179,042
Short-term borrowings	1,100,025	762,696
Securities sold, not yet purchased, at fair value	135,592	48
Notes payable	245,420	56,684
Junior subordinated debentures	67,012	67,012
Other liabilities	409,904	345,803
Total liabilities	10,802,566	7,781,177
Commitments and contingencies (see Notes 13 and 14)		
Stockholders' equity:		
Hilltop stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; Series B, liquidation value per share of $1,000; 114,068 shares issued and outstanding at December 31, 2014	—	114,068
Common stock, $0.01 par value, 125,000,000 shares authorized; 99,515,048 and 90,181,888 shares issued and outstanding, respectively	995	902
Additional paid-in capital	1,582,655	1,390,788
Accumulated other comprehensive income (loss)	(1,105)	651
Retained earnings (accumulated deficit)	90,376	(45,957)
Deferred compensation employee stock trust, net	1,182	—
Employee stock trust (29,589 shares, at cost)	(590)	—
Total Hilltop stockholders' equity	1,673,513	1,460,452
Noncontrolling interests	1,119	787
Total stockholders' equity	1,674,632	1,461,239
Total liabilities and stockholders' equity	$ 12,477,198	$ 9,242,416

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	$ 96,967	$ 92,204	$ 184,355	$ 171,948
Securities borrowed	9,675	1,878	19,693	3,342
Securities:				
Taxable	6,227	7,618	13,276	15,206
Tax-exempt	1,557	1,187	3,298	2,429
Other	1,236	1,521	2,709	3,311
Total interest income	115,662	104,408	223,331	196,236
Interest expense:				
Deposits	3,900	3,096	8,215	6,855
Securities loaned	6,889	927	14,395	1,765
Short-term borrowings	1,143	542	2,167	939
Notes payable	2,289	632	2,958	1,280
Junior subordinated debentures	595	587	1,180	1,171
Other	179	178	357	359
Total interest expense	14,995	5,962	29,272	12,369
Net interest income	100,667	98,446	194,059	183,867
Provision for loan losses	158	5,533	2,845	8,775
Net interest income after provision for loan losses	100,509	92,913	191,214	175,092
Noninterest income:				
Net realized gains on securities	—	—	4,403	—
Net gains from sale of loans and other mortgage production income	147,175	106,054	267,720	185,165
Mortgage loan origination fees	20,958	16,983	35,547	29,327
Net insurance premiums earned	40,318	40,777	79,885	81,096
Securities commissions and fees	41,137	6,994	84,188	13,992
Investment and securities advisory fees and commissions	29,665	15,270	54,587	29,607
Bargain purchase gain	—	—	80,657	—
Other	22,147	17,203	46,626	34,194
Total noninterest income	301,400	203,281	653,613	373,381
Noninterest expense:				

Employees' compensation and benefits	200,381	124,445	382,954	230,874
Loss and loss adjustment expenses	41,241	35,275	60,101	53,612
Policy acquisition and other underwriting expenses	11,740	11,652	23,414	23,339
Occupancy and equipment, net	30,842	25,762	60,027	52,100
Other	69,113	54,078	141,297	103,916
Total noninterest expense	353,317	251,212	667,793	463,841
Income before income taxes	48,592	44,982	177,034	84,632
Income tax expense	18,137	16,294	33,557	30,648
Net income	30,455	28,688	143,477	53,984
Less: Net income attributable to noncontrolling interest	405	177	758	287
Income attributable to Hilltop	30,050	28,511	142,719	53,697
Dividends on preferred stock	428	1,426	1,854	2,852
Income applicable to Hilltop common stockholders	$ 29,622	$ 27,085	$ 140,865	$ 50,845
Earnings per common share:				
Basic	$ 0.30	$ 0.30	$ 1.41	$ 0.56
Diluted	$ 0.30	$ 0.30	$ 1.40	$ 0.56
Weighted average share information:				
Basic	99,486	89,709	99,613	89,708
Diluted	100,410	90,569	100,507	90,576

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$ 30,455	$ 28,688	$ 143,477	$ 53,984
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities available for sale, net of tax of $(3,829), $7,638, $625 and $17,221, respectively	(6,855)	13,553	1,058	32,362
Reclassification adjustment for gains included in net income, net of tax of $(1,589)	—	—	(2,814)	—
Comprehensive income	23,600	42,241	141,721	86,346
Less: comprehensive income attributable to noncontrolling interest	405	177	758	287
Comprehensive income applicable to Hilltop	$ 23,195	$ 42,064	$ 140,963	$ 86,059

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(Unaudited)

ock	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained Earnings (Accumulated	Deferred Compensation Employee Stock Trust,	Employee Stock Trust		Total Hilltop Stockholders
Amount	Shares	Amount	Capital	Income (Loss)	Deficit)	Net	Shares	Amount	Equity
$ 114,068	90,176	$ 902	$ 1,388,641	$ (34,863)	$ (157,607)	$ —	—	$ —	$ 1,311,141
—	—	—	—	—	53,697	—	—	—	53,697
—	—	—	—	32,362	—	—	—	—	32,362
—	—	—	1,979	—	—	—	—	—	1,979
—	5	—	115	—	—	—	—	—	115
—	—	—	(2,852)	—	—	—	—	—	(2,852)
—	—	—	—	—	—	—	—	—	—
$ 114,068	90,181	$ 902	$ 1,387,883	$ (2,501)	$ (103,910)	$ —	—	$ —	$ 1,396,442
$ 114,068	90,182	$ 902	$ 1,390,788	$ 651	$ (45,957)	$ —	—	$ —	$ 1,460,452
—	—	—	—	—	142,719	—	—	—	142,719
—	—	—	—	(1,756)	—	—	—	—	(1,756)
—	10,101	101	199,932	—	—	—	—	—	200,033

—	—	—	4,253	—	—	—	—	—	4,253
—	6	—	113	—	—	—	—	—	113
—	—	—	—	—	(1,854)	—	—	—	(1,854)
(114,068)	—	—	—	—	—	—	—	—	(114,068)
—	(774)	(8)	(12,431)	—	(4,532)	—	—	—	(16,971)
—	—	—	—	—	—	1,182	30	(590)	592
—	—	—	—	—	—	—	—	—	—
—	99,515	$ 995	$ 1,582,655	$ (1,105)	$ 90,376	$ 1,182	30	$ (590)	$ 1,673,513

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating Activities		
Net income	$ 143,477	$ 53,984
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	2,845	8,775
Depreciation, amortization and accretion, net	(36,557)	(48,612)
Net realized gains on securities	(4,403)	—
Bargain purchase gain	(80,657)	—
Deferred income taxes	(2,691)	4,842
Other, net	(2,810)	2,191
Net change in securities purchased under agreements to resell	(34,412)	—
Net change in assets segregated for regulatory purposes	69,529	(3,998)
Net change in trading securities	66,356	(2,817)
Net change in broker-dealer and clearing organization receivables	(929,477)	(146,643)
Net change in FDIC Indemnification Asset	28,882	15,024
Net change in other assets	(69,150)	(39,844)
Net change in broker-dealer and clearing organization payables	1,021,493	177,748
Net change in other liabilities	(13,349)	18,512
Net gains from sales of loans	(267,720)	(185,165)
Loans originated for sale	(6,858,751)	(4,927,983)
Proceeds from loans sold	6,993,935	4,782,239
Net cash provided by (used in) operating activities	26,540	(291,747)
Investing Activities		
Proceeds from maturities and principal reductions of securities held to maturity	23,509	911
Proceeds from sales, maturities and principal reductions of securities available for sale	548,280	97,867
Purchases of securities held to maturity	(146,433)	(66,207)
Purchases of securities available for sale	(16,725)	(47,557)
Net change in loans	244,681	68,552
Purchases of premises and equipment and other assets	(14,394)	(19,815)
Proceeds from sales of premises and equipment and other real estate owned	70,767	38,281
Proceeds from redemption of bank owned life insurance	822	—
Net cash paid for Federal Home Loan Bank and Federal Reserve Bank stock	(14,313)	(31,440)

Net cash from acquisition	41,097	—
Net cash provided by investing activities	737,291	40,592
Financing Activities		
Net change in deposits	(1,123,301)	(647,143)
Net change in short-term borrowings	173,089	845,106
Proceeds from notes payable	150,078	1,000
Payments on notes payable	(35,970)	(1,743)
Redemption of preferred stock	(114,068)	—
Payments to repurchase common stock	(16,971)	—
Dividends paid on preferred stock	(3,280)	(2,768)
Net cash distributed to noncontrolling interest	(426)	(348)
Other, net	(200)	(187)
Net cash provided by (used in) financing activities	(971,049)	193,917
Net change in cash and cash equivalents	(207,218)	(57,238)
Cash and cash equivalents, beginning of period	813,075	746,023
Cash and cash equivalents, end of period	$ 605,857	$ 688,785
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 27,662	$ 13,046
Cash paid for income taxes, net of refunds	$ 95,708	$ 5,582
Supplemental Schedule of Non-Cash Activities		
Conversion of loans to other real estate owned	$ 37,241	$ 34,391
Common stock issued in acquisition	$ 200,626	$ —

See accompanying notes.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting and Reporting Policies

Nature of Operations

Hilltop Holdings Inc. (“Hilltop” and, collectively with its subsidiaries, the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999. The Company’s primary line of business is to provide business and consumer banking services from offices located throughout Texas through PlainsCapital Bank (the “Bank”). In addition, the Company provides an array of financial products and services through its broker-dealer, mortgage origination and insurance subsidiaries.

The Company provides its products and services through three primary operating subsidiaries, PlainsCapital Corporation (“PlainsCapital”), Hilltop Securities Holdings LLC (“Hilltop Securities”) and National Lloyds Corporation (“NLC”). PlainsCapital is a financial holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, traditional banking services, wealth and investment management and treasury management primarily in Texas and residential mortgage lending throughout the United States. Hilltop Securities is a holding company, headquartered in Dallas, Texas, that provides, through its subsidiaries, investment banking and other related financial services, including municipal advisory, sales, trading and underwriting of taxable and tax-exempt fixed income securities, equity trading, clearing, securities lending, structured finance and retail brokerage services throughout the United States. NLC is a property and casualty insurance holding company, headquartered in Waco, Texas, that provides, through its subsidiaries, fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States.

On January 1, 2015, Hilltop completed its acquisition of SWS Group, Inc. (“SWS”) in a stock and cash transaction, whereby SWS merged with and into Hilltop Securities, a wholly owned subsidiary of Hilltop initially formed for the purpose of facilitating this transaction (the "SWS Merger"). SWS’s broker-dealer subsidiaries, Southwest Securities (“Southwest Securities”) and SWS Financial Services, Inc. (“SWS Financial”), became subsidiaries of Hilltop Securities. Immediately following the SWS Merger, SWS’s banking subsidiary, Southwest Securities, FSB (“SWS FSB”), was merged into the Bank, an indirect wholly owned subsidiary of Hilltop. As a result of the SWS Merger, each outstanding share of SWS common stock was converted into the right to receive 0.2496 shares of Hilltop common stock and $1.94 in cash, equating to $6.92 per share based on Hilltop’s closing price on December 31, 2014 and resulting in an aggregate purchase price of $349.1 million, consisting of 10.1 million shares of common stock, $78.2 million in cash and $70.3 million associated with Hilltop’s existing investment in SWS common stock. Additionally, due to appraisal rights proceedings filed in connection with the SWS Merger, the merger consideration is subject to change, and is therefore, preliminary as of the date of this report. Based on preliminary purchase date valuations, the fair value of the assets acquired was $3.3 billion, including $707.5 million in securities, $863.8 million in non-covered loans and $1.2 billion in broker-dealer and clearing organization receivables. The fair value of liabilities assumed was $2.9 billion, consisting primarily of deposits of $1.3 billion and $1.1 billion in broker-dealer and clearing organization payables.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"), and in conformity with the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of management, these financial statements contain all adjustments necessary for a fair statement of the results of the interim periods presented. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K"). Results for interim periods are not necessarily indicative of results to be expected for a full year or any future period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates regarding the allowance for loan losses, the fair values of

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financial instruments, the amounts receivable from the Federal Deposit Insurance Corporation (the “FDIC”) under loss-share agreements (the “FDIC Indemnification Asset”), reserves for losses and loss adjustment expenses, the mortgage loan indemnification liability, and the potential impairment of assets are particularly subject to change. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements. As discussed in Note 2 to the consolidated financial statements, the SWS Merger purchase date valuations associated with loans and taxes are considered preliminary because management’s review and approval of certain key assumptions is not complete.

The operations of SWS were included in the Company’s operating results beginning January 1, 2015 and such operations included a preliminary bargain purchase gain of $82.8 million as disclosed in the Company’s Quarterly Report on Form 10-Q filed with the SEC on May 6, 2015. During the quarter ended June 30, 2015, the estimated fair value of the customer relationship intangible asset acquired as of January 1, 2015 was adjusted in accordance with the Business Combinations Topic of the Accounting Standards Codification (“ASC”) as a result of management’s review and approval of certain key assumptions that existed as of January 1, 2015. This adjustment resulted in a decrease in the preliminary bargain purchase gain associated with the SWS Merger to $80.7 million. This change is reflected in the consolidated statements of operations within noninterest income during the six months ended June 30, 2015. The adjustment to the preliminary bargain purchase gain decreased net income for the three months ended March 31, 2015 by $2.1 million as compared with amounts previously reported in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015. Additionally, certain amounts previously reported in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 within the consolidated balance sheet as of March 31, 2015, the related statement of comprehensive income, stockholders’ equity and cash flows for the three months ended March 31, 2015, as well as the notes to the consolidated financial statements, will be revised in future filings.

Certain reclassifications have been made to the prior period consolidated financial statements to conform with the current period presentation.

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

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC, the controlling and sole managing member of PrimeLending Ventures, LLC (“Ventures”).

Hilltop has a 100% membership interest in Hilltop Securities, which operates through its wholly-owned subsidiaries, First Southwest Holdings, LLC (“First Southwest”), Southwest Securities and SWS Financial (collectively, the “Hilltop Broker-Dealers”). The principal subsidiaries of First Southwest are First Southwest Company, LLC (“FSC”), a broker-dealer registered with the SEC and the Financial Industry Regulatory Authority (“FINRA”) and a member of the New York Stock Exchange (“NYSE”), and First Southwest Asset Management, LLC, a registered investment advisor under the Investment Advisors Act of 1940. Southwest Securities is a broker-dealer registered with the SEC and FINRA and a member of the NYSE, and SWS Financial is an introducing broker-dealer that is also registered with the SEC and FINRA.

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

The consolidated financial statements include the accounts of the above-named entities. All significant intercompany transactions and balances have been eliminated. Noncontrolling interests have been recorded for minority ownership in entities that are not wholly owned and are presented in compliance with the provisions of Noncontrolling Interest in Subsidiary Subsections of the Financial Accounting Standards Board ("FASB") ASC.

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

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2. Acquisition

SWS Merger

On January 1, 2015, Hilltop completed its acquisition of SWS in a stock and cash transaction as discussed in Note 1 to the consolidated financial statements. The operations of SWS are included in the Company's operating results beginning January 1, 2015. Such operating results include a preliminary bargain purchase gain of $80.7 million and are not necessarily indicative of future operating results. SWS's results of operations prior to the acquisition date are not included in the Company's consolidated operating results.

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

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

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

Cash and due from banks	$ 119,314
Federal funds sold and securities purchased agreements to resell	44,741
Assets segregated for regulatory purposes	181,610
Securities	707,476
Non-covered loans, net	863,819
Broker-dealer and clearing organization receivables	1,221,793
Other assets	157,594
Total identifiable assets acquired	3,296,347
Deposits	(1,287,509)
Broker-dealer and clearing organization payables	(1,109,978)
Short-term borrowings	(164,240)
Securities sold, not yet purchased, at fair value	(140,409)

Notes payable		(76,643)
Other liabilities		(87,786)
Total liabilities assumed		(2,866,565)
Preliminary estimated bargain purchase gain		(80,657)
		349,125
Less Hilltop existing investment in SWS		(70,282)
Net identifiable assets acquired	$	278,843

The preliminary bargain purchase gain represents the excess of the preliminary estimated fair value of the underlying net tangible assets and intangible assets over the preliminary merger consideration. The SWS Merger was a tax-free reorganization under Section 368(a) of the Internal Revenue Code, therefore no income taxes were recorded in connection with the preliminary bargain purchase gain. The Company used significant estimates and assumptions to value certain identifiable assets acquired and liabilities assumed. Because management's review and approval of certain key assumptions is not complete, the purchase date valuations related to loans and taxes are considered preliminary and could differ significantly when finalized. The preliminary bargain purchase gain was primarily driven by the Company's ability to realize acquired deferred tax assets through its consolidated core earnings and the decline in the price of the Company's common stock between the date the fixed conversion ratio was agreed upon and the closing date.

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

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

Transaction and integration related expenses associated with the SWS Merger of $4.5 million and $0.4 million during the three months ended June 30, 2015 and 2014, respectively, and $14.5 million and $0.4 million during the six months ended June 30, 2015 and 2014, respectively, are included in noninterest expense within the consolidated statements of operations. Such expenses were for professional services and other incremental employee and contractual costs associated with the integration of SWS's operations.

In connection with the SWS Merger, Hilltop acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses. Acquired loans were segregated between those considered to be purchased credit impaired ("PCI") loans and those without credit impairment at acquisition. The following table presents details on acquired loans at the acquisition date (in thousands).

	Loans, excluding PCI Loans	PCI Loans	Total Loans
Commercial and industrial (1)	$ 447,959	$ 9,850	$ 457,809
Real estate	324,477	62,218	386,695
Construction and land development	14,708	1,391	16,099
Consumer	3,216	—	3,216
Total	$ 790,360	$ 73,459	$ 863,819

(1) Acquired loans include margin loans to customers and correspondents of $269.4 million associated with acquired broker-dealer operations, none of which are PCI loans.

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

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

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

Contractually required principal and interest payments	$ 901,672
Contractual cash flows not expected to be collected	39,721
Fair value at acquisition	790,360

Pro Forma Results of Operations

The results of operations acquired in the SWS Merger have been included in the Company's consolidated financial results since January 1, 2015. The following table discloses the impact of SWS on the Company's results of operations. The table presents pro forma results had the SWS Merger taken place on January 1, 2014 and includes the estimated impact of purchase accounting adjustments (in thousands). The purchase accounting adjustments reflect the impact of recording the acquired loans at fair value, including the estimated accretion of the purchase discount on the loan portfolio. Accretion estimates were based on the acquisition date purchase discount on the loan portfolio, as it was not practicable to determine the amount of discount that would have been recorded based on economic conditions that existed on January 1, 2014. The pro forma results do not include any potential operating cost savings as a result of the

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SWS Merger. Further, certain costs associated with any integration activities are also not reflected in the pro forma results. Pro forma results exclude nonrecurring items resulting directly from the SWS Merger that do not have a continuing impact on results of operations. The pro forma results are not necessarily indicative of what would have occurred had the SWS Merger taken place on the indicated date.

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Net interest income	$ 115,795	$ 215,637
Other revenues	255,537	480,852
Net income	31,416	56,147

3. Fair Value Measurements

Fair Value Measurements and Disclosures

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

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

- Level 2 Inputs: Observable inputs other than Level 1 prices. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, yield curves, prepayment speeds, default rates, credit risks and loss severities), and inputs that are derived from or corroborated by market data, among others.

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

Fair Value Option

The Company has elected to measure substantially all of PrimeLending's mortgage loans held for sale and retained mortgage servicing rights ("MSR") asset at fair value, under the provisions of the Fair Value Option. The Company elected to apply the provisions of the Fair Value Option to these items so that it would have the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. At June 30, 2015, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.36 billion, and the unpaid principal balance of those loans was $1.32 billion. At December 31, 2014, the aggregate fair value of PrimeLending's mortgage loans held for sale accounted for under the Fair Value Option was $1.27 billion, and the unpaid principal balance of those loans was $1.22 billion. The interest component of fair value is reported as interest income on loans in the accompanying consolidated statements of operations.

On October 2, 2014, Hilltop exercised its warrant to purchase 8,695,652 shares of SWS common stock at an exercise price of $5.75 per share (the "SWS Warrant") and paid the aggregate exercise price by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under its credit agreement with SWS. Following the

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exercise of the SWS Warrant, Hilltop owned approximately 21% of the outstanding shares of SWS common stock as of October 2, 2014. Contemporaneous with the exercise of the SWS Warrant, Hilltop changed the accounting method for its investment in SWS common stock and elected to account for its investment in accordance with the provisions of the Fair Value Option as permitted by GAAP. Hilltop had previously accounted for its investment in SWS common stock as an available for sale security. Under the Fair Value Option, Hilltop's investment in SWS common stock is recorded at fair value effective October 2, 2014, with changes in fair value being recorded in other noninterest income within the consolidated statements of operations rather than as a component of other comprehensive income. At December 31, 2014, the fair value of Hilltop's investment in SWS common stock was $70.3 million and is included in other assets within the consolidated balance sheet.

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

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

June 30, 2015	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 7,043	$ 258,370	$ 16	$ 265,429
Available for sale securities	13,948	749,515	—	763,463
Loans held for sale	—	1,341,768	19,123	1,360,891
Derivative assets	—	44,335	—	44,335
MSR asset	—	—	44,985	44,985
Trading liabilities	33,792	101,800	—	135,592
Derivative liabilities	—	6,749	—	6,749

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 39	$ 65,678	$ —	$ 65,717
Available for sale securities	13,762	911,773	—	925,535
Loans held for sale	—	1,263,135	9,017	1,272,152
Derivative assets	—	23,805	—	23,805
MSR asset	—	—	36,155	36,155
Investment in SWS common stock	70,282	—	—	70,282
Trading liabilities	—	48	—	48
Derivative liabilities	—	12,849	—	12,849

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

	Balance at Beginning of Period	Purchases/ Additions	Sales/ Reductions	Total Gains or Losses (Realized or Unrealized) Included in Net Income	Included in Other Comprehensive Income (Loss)	Balance at End of Period
Three months ended June 30, 2015						
Trading securities	$ 5,932	$ —	$ (3,397)	$ (2,519)	$ —	$ 16
Loans held for sale	19,495	17,473	(9,453)	(8,392)	—	19,123
MSR asset	31,648	9,406	—	3,931	—	44,985
Total	$ 57,075	$ 26,879	$ (12,850)	$ (6,980)	$ —	$ 64,124
Six months ended June 30, 2015						
Trading securities	$ —	$ 7,301	$ (3,397)	$ (3,888)	$ —	$ 16
Loans held for sale	9,017	28,609	(9,724)	(8,779)	—	19,123
MSR asset	36,155	12,096	—	(3,266)	—	44,985
Total	$ 45,172	$ 48,006	$ (13,121)	$ (15,933)	$ —	$ 64,124
Three months ended June 30, 2014						
Available for sale securities	$ 64,098	$ —	$ —	$ 616	$ (895)	$ 63,819
Loans held for sale	26,826	5,522	(24,009)	2,070	—	10,409
MSR asset	29,939	7,376	—	(1,438)	—	35,877
Derivative liabilities	(5,950)	—	—	(350)	—	(6,300)
Total	$ 114,913	$ 12,898	$ (24,009)	$ 898	$ (895)	$ 103,805
Six months ended June 30, 2014						
Available for sale securities	$ 60,053	$ —	$ —	$ 1,209	$ 2,557	$ 63,819
Loans held for sale	27,729	10,422	(29,603)	1,861	—	10,409
MSR asset	20,149	14,808	—	920	—	35,877
Derivative liabilities	(5,600)	—	—	(700)	—	(6,300)
Total	$ 102,331	$ 25,230	$ (29,603)	$ 3,290	$ 2,557	$ 103,805

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. The available for sale securities noted in the table above reflect Hilltop's note receivable from SWS and the SWS Warrant. On October 2, 2014, as previously discussed, Hilltop exercised the SWS Warrant in full and paid the aggregate exercise price by the automatic elimination of the $50.0 million aggregate principal amount note due to Hilltop under the credit agreement.

For Level 3 financial instruments measured at fair value on a recurring basis at June 30, 2015, the significant unobservable inputs used in the fair value measurements were as follows.

Financial instrument	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Trading securities	Discounted cash flow	Discount rate	8 - 17 % (10 %)
Loans held for sale	Discounted cash flow / Market comparable	Projected price	88 - 96 % (95 %)
MSR asset	Discounted cash flow	Constant prepayment rate	10.41 %
		Discount rate	10.96 %

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

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Trading securities include corporate debt securities that are valued using a discounted cash flow model with observable market data; however, due to the distressed nature of these bonds, the Company has determined that these securities should be valued as a Level 3 financial instrument.

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

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

The following table presents the changes in fair value for instruments that are reported at fair value under the Fair Value Option (in thousands).

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	$ (9,063)	$ —	$ (9,063)	$ 35,651	$ —	$ 35,651
MSR asset	3,931	—	3,931	(1,438)	—	(1,438)

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Net Losses	Other Noninterest Income	Total Changes in Fair Value	Net Gains	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	$ (15,758)	$ —	$ (15,758)	$ 40,169	$ —	$ 40,169
MSR asset	(3,266)	—	(3,266)	920	—	920

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

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

At June 30, 2015, estimates for these significant unobservable inputs were as follows.

	PCI Loans PlainsCapital Merger		FNB Transaction		SWS Merger	
Weighted average default rate	47	%	59	%	48	%
Weighted average loss severity rate	54	%	40	%	36	%
Weighted average prepayment speed	0	%	5	%	0	%

At June 30, 2015, the resulting weighted average expected loss on PCI loans associated with the PlainsCapital Merger, FNB Transaction and SWS Merger was 25%, 23% and 17%, respectively.

The Company obtains updated appraisals of the fair value of collateral securing impaired collateral dependent loans at least annually, in accordance with regulatory guidelines. The Company also reviews the fair value of such collateral on a quarterly basis. If the quarterly review indicates that the fair value of the collateral may have deteriorated, the Company

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orders an updated appraisal of the fair value of the collateral. Because the Company obtains updated appraisals when evidence of a decline in the fair value of collateral exists, it typically does not adjust appraised values.

Other Real Estate Owned — The Company reports other real estate owned ("OREO") at fair value less estimated cost to sell. Any excess of recorded investment over fair value, less cost to sell, is charged against either the allowance for loan losses or the related PCI pool discount when property is initially transferred to OREO. Subsequent to the initial transfer to OREO, downward valuation adjustments are charged against earnings. The Company determines fair value primarily using independent appraisals of OREO properties. The resulting fair value measurements are classified as Level 2 or Level 3 inputs, depending upon the extent to which unobservable inputs determine the fair value measurement. The Company considers a number of factors in determining the extent to which specific fair value measurements utilize unobservable inputs, including, but not limited to, the inherent subjectivity in appraisals, the length of time elapsed since the receipt of independent market price or appraised value, and current market conditions. At June 30, 2015, the most significant unobservable input used in the determination of fair value of OREO was a discount to independent appraisals for estimated holding periods of OREO properties. Such discount was 1% per month for estimated holding periods of 6 to 24 months. Level 3 inputs were used to determine the initial fair value at acquisition of a large group of smaller balance properties that were acquired in the FNB Transaction. In the FNB Transaction, the Bank acquired OREO of $135.2 million, all of which is covered by FDIC loss-share agreements. At June 30, 2015 and December 31, 2014, the estimated fair value of covered OREO was $125.5 million and $136.9 million, respectively, and the underlying fair value measurements utilize Level 2 and Level 3 inputs. The fair value of non-covered OREO at June 30, 2015 and December 31, 2014 was $0.9 million and $0.8 million, respectively, and is included in other assets within the consolidated balance sheets. Level 3 inputs were used to determine the initial fair value at acquisition of properties totaling $5.6 million that were acquired in the SWS Merger. During the reported periods, all fair value measurements for non-covered OREO subsequent to initial recognition utilized Level 2 inputs.

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

					Total Gains (Losses) for the Three Months Ended June 30,		Total Gains (Losses) for the Six Months Ended June 30,	
June 30, 2015	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	2015	2014	2015	2014
Non-covered impaired loans	$ —	$ —	$ 66,273	$ 66,273	$ (578)	$ (222)	$ (229)	$ (437)
Covered impaired loans	—	—	76,384	76,384	431	(1,341)	3,649	(3,032)
Non-covered other real estate owned	—	—	—	—	—	(9)	(28)	(111)
	—	16,656	—	16,656	(3,108)	(2,528)	(4,058)	(2,959)

Covered other
real estate
owned

The Fair Value of Financial Instruments Subsection of the ASC requires disclosure of the fair value of financial assets and liabilities, including the financial assets and liabilities previously discussed. The methods for determining estimated fair value for financial assets and liabilities is described in detail in Note 3 to the consolidated financial statements included in the Company's 2014 Form 10-K.

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

		Estimated Fair Value			
June 30, 2015	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Financial assets:					
Cash and cash equivalents	$ 605,857	$ 605,857	$ —	$ —	$ 605,857
Held to maturity securities	312,960	—	313,529	—	313,529
Loans held for sale	36,726	—	36,726	—	36,726
Non-covered loans, net	4,916,485	—	626,810	4,312,845	4,939,655
Covered loans, net	493,299	—	—	623,324	623,324
Broker-dealer and clearing organization receivables	2,070,770	—	2,070,770	—	2,070,770
FDIC indemnification asset	102,381	—	—	102,381	102,381
Other assets	60,094	—	43,708	16,386	60,094
Financial liabilities:					
Deposits	6,796,437	—	6,801,653	—	6,801,653
Broker-dealer and clearing organization payables	2,048,176	—	2,048,176	—	2,048,176
Short-term borrowings	1,100,025	—	1,100,025	—	1,100,025
Debt	312,432	—	305,772	—	305,772
Other liabilities	3,753	—	3,753	—	3,753

		Estimated Fair Value			
December 31, 2014	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Financial assets:					
Cash and cash equivalents	$ 813,075	$ 813,075	$ —	$ —	$ 813,075
Held to maturity securities	118,209	—	118,345	—	118,345
Loans held for sale	37,541	—	37,541	—	37,541
Non-covered loans, net	3,883,435	—	378,425	3,528,769	3,907,194
Covered loans, net	638,029	—	—	767,751	767,751
Broker-dealer and clearing organization receivables	167,884	—	167,884	—	167,884
FDIC indemnification asset	130,437	—	—	130,437	130,437
Other assets	59,432	—	43,937	15,495	59,432
Financial liabilities:					
Deposits	6,369,892	—	6,365,555	—	6,365,555
	179,042	—	179,042	—	179,042

Broker-dealer and clearing organization payables					
Short-term borrowings	762,696	—	762,696	—	762,696
Debt	123,696	—	117,028	—	117,028
Other liabilities	2,144	—	2,144	—	2,144

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4. Securities

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

	June 30, 2015	December 31, 2014
U.S. Treasury securities	$ 6,021	$ —
U.S. government agencies:		
Bonds	32,464	—
Residential mortgage-backed securities	22,858	25,058
Collateralized mortgage obligations	1,260	—
Commercial mortgage-backed securities	15	—
Corporate debt securities	67,217	4
States and political subdivisions	68,516	40,616
Unit investment trusts	33,085	—
Private-label securitized product	32,281	—
Other	1,712	39
Totals	$ 265,429	$ 65,717

The Hilltop Broker-Dealers may purchase securities at a future date at the then-current market price to facilitate customer transactions. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheet, had a value of $135.6 million at June 30, 2015.

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

	Available for Sale			
June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 19,384	$ 226	$ (3)	$ 19,607
U.S. government agencies:				
Bonds	389,007	1,336	(6,495)	383,848
Residential mortgage-backed securities	48,761	1,058	(158)	49,661
Collateralized mortgage obligations	67,018	143	(2,710)	64,451
Corporate debt securities	100,947	4,099	(278)	104,768
States and political subdivisions	125,963	1,672	(1,082)	126,553

Commercial mortgage-backed securities	579