WESTAMERICA BANCORPORATION
Form 4
July 31, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
PAYNE DAVID L

(Last) (First) (Middle)

(Street)

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WESTAMERICA BANCORPORATION [WABC]

3. Date of Earliest Transaction (Month/Day/Year)
07/27/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, President & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/27/2007		M		3,000	A	$ 32.7917	3,000	D	
Common Stock	07/27/2007		S		3,000	D	$ 40.81	0	D	
Common Stock	07/27/2007		M		500	A	$ 32.7917	500	D	
Common Stock	07/27/2007		S		500	D	$ 40.8	0	D	
Common Stock	07/27/2007		M		3,700	A	$ 32.7917	3,700	D	

Common Stock	07/27/2007		S	3,700	D	$ 40.79	0	D	
Common Stock	07/27/2007		M	823	A	$ 32.7917	823	D	
Common Stock	07/27/2007		S	823	D	$ 40.78	0	D	
Common Stock	07/27/2007		M	6,400	A	$ 32.7917	6,400	D	
Common Stock	07/27/2007		S	6,400	D	$ 40.77	0	D	
Common Stock	07/27/2007		M	5,229	A	$ 32.7917	5,229	D	
Common Stock	07/27/2007		S	5,229	D	$ 40.76	0	D	
Common Stock	07/27/2007		M	7,635	A	$ 32.7917	7,635	D	
Common Stock	07/27/2007		S	7,635	D	$ 40.75	0	D	
Common Stock	07/27/2007		M	16,545	A	$ 32.7917	219,711	I	by Trust
Common Stock							10,937.342 (1)	I	ESOP
Common Stock							528,837 (2)	I	Gibson Radio & Publishing Company
Common Stock							459	I	by Daughter
Common Stock							462	I	by Son

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Ar Underlying Sec (Instr. 3 and 4)

Security			(D) (Instr. 3, 4, and 5)							
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	A o N o
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			3,000	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			500	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			3,700	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			823	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			6,400	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			5,229	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			7,635	01/21/1999 (3)	01/21/2008	Common Stock	
Non-Qualified Stock Option (right to buy)	$ 32.7917	07/27/2007	M			16,545	01/21/1999 (3)	01/21/2008	Common Stock	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PAYNE DAVID L	X		Chairman, President & CEO	

Signatures

/s/ David L. Payne	07/31/2007
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Includes holdings through 6/30/07,the date of the latest quarterly report, in Westamerica Bancorporation's Tax Deferred Savings/Retirement (ESOP) Plan.
- **(2)** The reporting person is President and CEO of Gibson Radio and Publishing Company and disclaims beneficial ownership of 528,837 shares of Westamerica common stock.
- **(3)** Options vest ratably over three years beginning one year from date of grant.

Remarks:

This is filing #3 of three filings for 7/27/07.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Unrealized loss for less than twelve months

1

1,611

2

—

—

—

Unrealized loss for twelve months or longer

—

—

—

Explanation of Responses:

4

11,056

137

1

1,611

2

4

11,056

137

Explanation of Responses:

Collateralized mortgage obligations:

Unrealized loss for less than twelve months

2

1,590

4

3

7,141

40

Unrealized loss for twelve months or longer

8

42,399

1,640

8

61,108

Explanation of Responses:

2,260

10

43,989

1,644

11

68,249

2,300

Corporate debt securities:

Unrealized loss for less than twelve months

16

16,635

277

—

—

—

Unrealized loss for twelve months or longer

1

1,949

49

1

1,939

59

17

18,584

326

1

1,939

59

States and political subdivisions:

Unrealized loss for less than twelve months

2

3,018

9

7

4,432

7

Unrealized loss for twelve months or longer

35

24,423

93

81

54,178

710

37

27,441

102

Explanation of Responses:

88

58,610

717

Equity securities:

Unrealized loss for less than twelve months

2

8,949

909

—

—

—

Unrealized loss for twelve months or longer

1

1,927

334

—

—

—

3

10,876

1,243

—

—

Explanation of Responses:

—

Total available for sale:

Unrealized loss for less than twelve months

41

217,328

2,135

17

54,123

227

Unrealized loss for twelve months or longer

49

116,001

3,181

117

503,022

10,535

90

$

333,329

$

5,316

134

$

557,145

$

10,762

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

	December 31, 2015			December 31, 2014		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Held to Maturity						
U.S. treasury securities:						
Unrealized loss for less than twelve months	1	$ 25,115	$ 30	1	$ 25,002	$ 6
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	1	25,115	30	1	25,002	6
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	6	46,607	372	—	—	—
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	6	46,607	372	—	—	—
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	7	16,098	92	—	—	—
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	7	16,098	92	—	—	—
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	10	127,393	970	2	56,898	430
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	10	127,393	970	2	56,898	430
States and political subdivisions:						
Unrealized loss for less than twelve months	18	7,900	35	4	1,899	3
Unrealized loss for twelve months or longer	1	2,664	8	—	—	—
	19	10,564	43	4	1,899	3
Total held to maturity:						
Unrealized loss for less than twelve months	42	223,113	1,499	7	83,799	439
	1	2,664	8	—	—	—

Unrealized loss for twelve months or longer	43	$ 225,777	$ 1,507	7	$ 83,799	$ 439

During 2015, 2014 and 2013, the Company did not record any OTTI. Factors considered in the Company's analysis include the reasons for the unrealized loss position, the severity and duration of the unrealized loss position, credit worthiness, and forecasted performance of the investee. While some of the securities held in the investment portfolio have decreased in value since the date of acquisition, the severity of loss and the duration of the loss position are not believed to be significant enough to warrant OTTI of the securities. The Company does not intend, nor is it likely that the Company will be required, to sell these securities before the recovery of the cost basis.

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and fair value of securities, excluding trading and available for sale equity securities, at December 31, 2015 are shown by contractual maturity below (in thousands).

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 50,723	$ 50,940	$ 26,668	$ 26,639
Due after one year through five years	71,159	73,540	20,457	20,611
Due after five years through ten years	72,187	74,461	4,066	4,097
Due after ten years	358,932	358,973	70,897	70,609
	553,001	557,914	122,088	121,956
Residential mortgage-backed securities	34,864	35,853	23,735	24,046
Collateralized mortgage obligations	54,297	52,701	167,541	166,873
Commercial mortgage-backed securities	9,672	9,738	18,658	18,593
	$ 651,834	$ 656,206	$ 332,022	$ 331,468

The Company realized net gains of $13.1 million and $2.1 million during 2015 and 2014, respectively, and a net loss of $2.8 million from its trading securities portfolio during 2013, which are recorded as a component of other noninterest income within the consolidated statements of operations.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Securities with a carrying amount of $789.9 million and $895.5 million (with a fair value of $790.2 million and $890.3 million, respectively) at December 31, 2015 and 2014, were pledged to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law. Substantially all of these pledged securities were included in our available for sale and held to maturity securities portfolios at December 31, 2015 and 2014.

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

At both December 31, 2015 and 2014, NLC had investments on deposit in custody for various state insurance departments with carrying values of $9.2 million.

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

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

	December 31,	
	2015	2014
Commercial and industrial (1)	$ 2,155,773	$ 1,758,851
Real estate	2,313,239	1,694,835
Construction and land development	705,356	413,643
Consumer	45,672	53,147
	5,220,040	3,920,476
Allowance for non-covered loan losses	(45,415)	(37,041)
Total non-covered loans, net of allowance	$ 5,174,625	$ 3,883,435

(1)Includes margin loans to customers and correspondents of $602.8 million and $378.4 million at December 31, 2015 and 2014, respectively.

The Bank has lending policies in place with 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. Loans are underwritten with careful consideration of the borrower's financial condition, the specific purpose of the loan, the primary sources of repayment and any collateral pledged to secure the loan.

Underwriting procedures address financial components based on the size and complexity of the credit. The financial components include, but are not limited to, current and projected cash flows, shock analysis and/or stress testing, and trends in appropriate balance sheet and statement of operations ratios. The Bank's loan policy provides specific underwriting guidelines by portfolio segment, including commercial and industrial, real estate, construction and land development, and consumer loans. The guidelines for each individual portfolio segment set forth permissible and impermissible loan types. With respect to each loan type, the guidelines within the Bank's loan policy provide minimum requirements for the underwriting factors listed above. The Bank's underwriting procedures also include an analysis of any collateral and guarantor. Collateral analysis includes a complete description of the collateral, as well as determined values, monitoring requirements, loan to value ratios, concentration risk, appraisal requirements and other information relevant to the collateral being pledged. Guarantor analysis includes liquidity and cash flow evaluation based on the significance with which the guarantors are expected to serve as secondary repayment sources.

The Bank maintains a loan review department that reviews credit risk in response to both external and internal factors that potentially impact the performance of either individual loans or the overall loan portfolio. The loan review process reviews the creditworthiness of borrowers and determines compliance with the loan policy. The loan review process

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel. Results of these reviews are presented to management and the Bank's board of directors.

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

	December 31,	
	2015	2014
Carrying amount	$ 72,054	$ 48,909
Outstanding balance	92,682	67,740

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

	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of year	$ 12,814	$ 17,601	$ 17,553
Additions	14,579	—	622
Reclassifications from (to) nonaccretable difference, net(1)	19,759	15,225	18,793
Disposals of loans	(2,371)	(4,927)	(3,692)
Accretion	(27,037)	(15,085)	(15,675)
Balance, end of year	$ 17,744	$ 12,814	$ 17,601

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

The remaining nonaccretable difference for non-covered PCI loans was $28.5 million and $18.4 million at December 31, 2015 and 2014, respectively.

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

The amounts shown in following tables include loans accounted for on an individual basis, as well as acquired Pooled Loans. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level. Non-covered impaired loans are summarized by class in the following tables (in thousands).

December 31, 2015	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 53,819	$ 12,256	$ 13,847	$ 26,103	$ 2,721
Unsecured	2,796	47	—	47	—
Real estate:					
Secured by commercial properties	58,043	16,304	25,214	41,518	2,756
Secured by residential properties	16,507	9,875	2,690	12,565	175
Construction and land development:					
Residential construction loans	395	—	221	221	8
Commercial construction loans and land development	8,060	3,397	1,646	5,043	174
Consumer	4,162	735	45	780	32
	$ 143,782	$ 42,614	$ 43,663	$ 86,277	$ 5,866

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2014	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 51,036	$ 14,096	$ 11,783	$ 25,879	$ 3,341
Unsecured	4,120	92	68	160	—
Real estate:					
Secured by commercial properties	29,865	7,243	15,536	22,779	1,878
Secured by residential properties	4,701	1,583	1,390	2,973	85
Construction and land development:					
Residential construction loans	—	—	—	—	—
Commercial construction loans and land development	16,108	8,062	1,819	9,881	154
Consumer	5,785	171	1,967	2,138	282
	$ 111,615	$ 31,247	$ 32,563	$ 63,810	$ 5,740

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

	Year Ended December 31,		
	2015	2014	2013
Commercial and industrial:			
Secured	$ 25,991	$ 30,626	$ 51,670
Unsecured	104	802	2,432
Real estate:			
Secured by commercial properties	32,149	29,517	45,887
Secured by residential properties	7,769	2,984	4,862
Construction and land development:			
Residential construction loans	111	—	354
Commercial construction loans and land development	7,462	14,849	26,090
Consumer	1,459	3,324	2,293
	$ 75,045	$ 82,102	$ 133,588

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

	December 31, 2015	December 31, 2014
Commercial and industrial:		
Secured	$ 17,717	$ 16,488
Unsecured	47	160
Real estate:		
Secured by commercial properties	4,597	438
Secured by residential properties	999	1,253
Construction and land development:		
Residential construction loans	—	—
Commercial construction loans and land development	114	703
Consumer	7	—
	$ 23,481	$ 19,042

At December 31, 2015 and 2014, non-covered non-accrual loans included non-covered PCI loans of $9.3 million and $6.6 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these non-covered PCI loans can no longer be reasonably estimated. In addition to the non-covered non-accrual loans in the table above, $1.6 million and $3.0 million of real estate loans secured by residential properties and classified as held for sale were in non-accrual status at December 31, 2015 and 2014, respectively.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Interest income, including recoveries and cash payments, recorded on non-covered impaired loans was $8.9 million, $3.3 million and $3.2 million during 2015, 2014 and 2013, respectively. Except as noted above, non-covered PCI loans are considered to be performing due to the application of the accretion method.

The Bank classifies loan modifications as TDRs when it concludes that it has both granted a concession to a debtor and that the debtor is experiencing financial difficulties. Loan modifications are typically structured to create affordable payments for the debtor and can be achieved in a variety of ways. The Bank modifies loans by reducing interest rates and/or lengthening loan amortization schedules. The Bank also reconfigures a single loan into two or more loans ("A/B Note"). The typical A/B Note restructure results in a "bad" loan which is charged off and a "good" loan or loans the terms of which comply with the Bank's customary underwriting policies. The debt charged off on the "bad" loan is not forgiven to the debtor.

The outstanding balance of TDRs granted during 2015, 2014 and 2013, respectively, is shown in the following tables (in thousands). At December 31, 2015, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs, compared with $0.5 million at December 31, 2014.

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2015	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ 82	$ 82
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	1,040	1,040
Secured by residential properties	—	—	—	—
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ —	$ —	$ 1,122	$ 1,122

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2014	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ 2,465	$ 2,465
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	317	317
Secured by residential properties	—	—	248	248
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	128	128
Consumer	—	—	—	—
	$ —	$ —	$ 3,158	$ 3,158

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2013	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ 10,390	$ 10,390
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	279	279
Secured by residential properties	—	—	777	777
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ —	$ —	$ 11,446	$ 11,446

The following table presents information regarding TDRs granted during the twelve months preceding December 31, 2015 for which a payment was at least 30 days past due in 2015 (dollars in thousands). There were no TDRs granted during the twelve months preceding December 31, 2014 for which a payment was at least 30 days past due in 2014.

	Number of Loans	Recorded Investment
Commercial and industrial:		
Secured	—	$ —
Unsecured	—	—
Real estate:		
Secured by commercial properties	1	1,040
Secured by residential properties	—	—
Construction and land development:		
Residential construction loans	—	—
Commercial construction loans and land development	—	—
Consumer	—	—
	1	$ 1,040

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

December 31, 2015	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non-PCI) Past Due 90 Days or Mo
Commercial and industrial:								
Secured	$ 14,869	$ 3,960	$ 8,414	$ 27,243	$ 2,009,505	$ 13,350	$ 2,050,098	$ 12
Unsecured	18	1	—	19	105,656	—	105,675	—
Real estate:								
Secured by commercial properties	1,008	964	293	2,265	1,528,084	41,128	1,571,477	—
Secured by residential properties	726	35	336	1,097	729,018	11,647	741,762	—
Construction and land development:								
Residential construction loans	343	—	—	343	103,819	221	104,383	—
Commercial construction loans and land development	733	1,845	114	2,692	593,352	4,929	600,973	—
Consumer	359	17	—	376	44,517	779	45,672	—
	$ 18,056	$ 6,822	$ 9,157	$ 34,035	$ 5,113,951	$ 72,054	$ 5,220,040	$ 12

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

December 31, 2014	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loa (Non-PCI) Past Due 90 Days or M
Commercial and industrial:								
Secured	$ 6,073	$ 964	$ 8,022	$ 15,059	$ 1,620,000	$ 13,374	$ 1,648,433	$ —
Unsecured	35	3	—	38	110,312	68	110,418	—
Real estate:								
Secured by commercial properties	67	—	—	67	1,173,504	22,341	1,195,912	—
Secured by residential properties	454	1,187	—	1,641	495,472	1,810	498,923	—
Construction and land development:								
Residential construction loans	175	—	—	175	64,871	—	65,046	—
Commercial construction loans and land development	4,319	—	575	4,894	334,525	9,178	348,597	—
Consumer	414	37	—	451	50,558	2,138	53,147	—
	$ 11,537	$ 2,191	$ 8,597	$ 22,325	$ 3,849,242	$ 48,909	$ 3,920,476	$ —

In addition to the non-covered loans shown in the table above, $50.8 million and $19.2 million of loans included in loans held for sale (with an unpaid principal balance of $51.1 million and $19.2 million, respectively) were 90 days past due and accruing interest at December 31, 2015 and 2014, respectively. These loans are guaranteed by U.S. government agencies and include loans that are subject to repurchase, or have been repurchased, by PrimeLending.

Management tracks credit quality trends on a quarterly basis related to: (i) past due levels, (ii) non-performing asset levels, (iii) classified loan levels, (iv) net charge-offs, and (v) general economic conditions in the state and local markets.

The Bank utilizes a risk grading matrix to assign a risk grade to each of the loans in its portfolio. A risk rating is assigned based on an assessment of the borrower's management, collateral position, financial capacity, and economic factors. The general characteristics of the various risk grades are described below.

Pass — "Pass" loans present a range of acceptable risks to the Bank. Loans that would be considered virtually risk-free are rated Pass — low risk. Loans that exhibit sound standards based on the grading factors above and present a reasonable risk to the Bank are rated Pass — normal risk. Loans that exhibit a minor weakness in one or more of the grading criteria but still present an acceptable risk to the Bank are rated Pass — high risk.

Special Mention — "Special Mention" loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the loans and weaken the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to require adverse classification.

Substandard — "Substandard" loans are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Many substandard loans are considered impaired.

PCI — "PCI" loans exhibited evidence of credit deterioration at acquisition that made it probable that all contractually required principal payments would not be collected.

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Notes to Consolidated Financial Statements (continued)

The following tables present the internal risk grades of non-covered loans, as previously described, in the portfolio by class (in thousands).

December 31, 2015	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,975,639	$ —	$ 61,109	$ 13,350	$ 2,050,098
Unsecured	105,569	—	106	—	105,675
Real estate:					
Secured by commercial properties	1,517,049	1,536	11,764	41,128	1,571,477
Secured by residential properties	724,701	—	5,414	11,647	741,762
Construction and land development:					
Residential construction loans	104,162	—	—	221	104,383
Commercial construction loans and land development	594,614	—	1,430	4,929	600,973
Consumer	44,736	35	122	779	45,672
	$ 5,066,470	$ 1,571	$ 79,945	$ 72,054	$ 5,220,040

December 31, 2014	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 1,566,208	$ 1,105	$ 67,746	$ 13,374	$ 1,648,433
Unsecured	110,256	—	94	68	110,418
Real estate:					
Secured by commercial properties	1,151,454	712	21,405	22,341	1,195,912
Secured by residential properties	492,549	—	4,564	1,810	498,923
Construction and land development:					
Residential construction loans	65,046	—	—	—	65,046
Commercial construction loans and land development	338,078	—	1,341	9,178	348,597
Consumer	50,968	—	41	2,138	53,147
	$ 3,774,559	$ 1,817	$ 95,191	$ 48,909	$ 3,920,476

Allowance for Loan Losses

It is management's responsibility at the end of each quarter, or more frequently as deemed necessary, to analyze the level of the allowance for loan losses to ensure that it is appropriate for the estimated credit losses in the portfolio. Estimated credit losses are the probable current amount of loans that the Company will be unable to collect given facts and circumstances as of the evaluation date. When management determines that a loan or portion thereof is uncollectible, the loan, or portion thereof, is charged-off against the allowance for loan losses, or for acquired loans accounted for in pools, charged against the pool discount. Recoveries on charge-offs of loans acquired in the Bank Transactions that occurred prior to their acquisition represent contractual cash flows not expected to be collected and are recorded as accretion income. Recoveries on acquired loans charged-off subsequent to their acquisition are credited to the allowance for loan loss, except for recoveries on loans accounted for in pools, which are credited to the pool discount.

The Company has developed a methodology that seeks to determine an allowance within the scope of the Receivables and Contingencies Topics of the ASC. Each of the loans that has been determined to be impaired is within the scope of the Receivables Topic. Impaired loans that are equal to or greater than $0.5 million are individually evaluated using one of three impairment measurement methods as of the evaluation date: (1) the present value of expected future discounted cash flows on the loan, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Specific reserves are provided in the estimate of the allowance based on the measurement of impairment under these three methods, except for collateral dependent loans, which require the fair value method. All non-impaired loans are within the scope of the Contingencies Topic. Estimates of loss for the Contingencies Topic are calculated based on historical loss, adjusted for qualitative or environmental factors. The Bank uses a rolling three year average net loss rate to calculate historical loss factors. The analysis is conducted by call report loan category, and further disaggregates commercial and industrial loans by collateral type. The analysis uses net charge-off experience by

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Notes to Consolidated Financial Statements (continued)

considering charge-offs and recoveries in determining the loss rate. The historical loss calculation for the quarter is calculated by dividing the current quarter net charge-offs for each loan category by the quarter ended loan category balance. The Bank utilizes a weighted average loss rate to better represent recent trends. The Bank weights the most recent four quarter average at 120% versus the oldest four quarters at 80%.

While historical loss experience provides a reasonable starting point for the analysis, historical losses are not the sole basis upon which the Company determines the appropriate level for the allowance for loan losses. Management considers recent qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including but not limited to:

- changes in the volume and severity of past due, nonaccrual and classified loans;
- changes in the nature, volume and terms of loans in the portfolio;
- changes in lending policies and procedures;
- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in lending management and staff;
- changes in the loan review system and the degree of oversight by the Bank's board of directors; and
- any concentrations of credit and changes in the level of such concentrations.

Changes in the volume and severity of past due, nonaccrual and classified loans, as well as changes in the nature, volume and terms of loans in the portfolio are key indicators of changes that could indicate a necessary adjustment to the historical loss factors. The magnitude of the impact of these factors on the qualitative assessment of the allowance for loan loss changes from quarter to quarter.

The loan review program is designed to identify and monitor problem loans by maintaining a credit grading process, requiring that timely and appropriate changes be made to reviewed loans and coordinating the delivery of the information necessary to assess the appropriateness of the allowance for loan losses. Loans are evaluated for impaired status when: (i) payments on the loan are delayed, typically by 90 days or more (unless the loan is both well secured and in the process of collection), (ii) the loan becomes classified, (iii) the loan is being reviewed in the normal course of the loan review scope, or (iv) the loan is identified by the servicing officer as a problem.

In connection with the Bank Transactions, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. PCI loans acquired in the PlainsCapital Merger are accounted for on an individual loan basis, while PCI loans acquired in each of the FNB Transaction and SWS Merger are accounted for in pools as well as on an individual loan basis. Cash flows expected to be collected are recast quarterly for each loan or pool. These evaluations require the continued use and updating of key assumptions and estimates such as default rates, loss severity given default and prepayment speed assumptions (similar to those used for the initial fair value estimate). Management judgment must be applied in developing these assumptions. If expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan or pool increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield. This increase in accretable yield is taken into income over the remaining life of the loan.

Loans without evidence of credit impairment at acquisition are subsequently evaluated for any required allowance at each reporting date. An allowance for loan losses is calculated using a methodology similar to that described above for originated loans. The allowance as determined for each loan collateral type is compared to the remaining fair value discount for that loan collateral type. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan and once the discount is depleted, losses are applied against the allowance established for that loan.

The allowance for loan losses is subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance.

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Notes to Consolidated Financial Statements (continued)

Changes in the allowance for non-covered loan losses, distributed by portfolio segment, are shown below (in thousands).

Year Ended December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 18,999	$ 11,131	$ 6,450	$ 461	$ 37,041
Provision charged to (recapture from) operations	4,518	7,937	(386)	104	12,173
Loans charged off	(7,144)	(605)	—	(378)	(8,127)
Recoveries on charged off loans	3,681	520	—	127	4,328
Balance, end of year	$ 20,054	$ 18,983	$ 6,064	$ 314	$ 45,415

Year Ended December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 16,865	$ 8,331	$ 7,957	$ 88	$ 33,241
Provision charged to (recapture from) operations	6,116	2,696	(1,692)	627	7,747
Loans charged off	(6,926)	(114)	—	(359)	(7,399)
Recoveries on charged off loans	2,944	218	185	105	3,452
Balance, end of year	$ 18,999	$ 11,131	$ 6,450	$ 461	$ 37,041

Year Ended December 31, 2013	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 1,845	$ 977	$ 582	$ 5	$ 3,409
Provision charged to operations	20,940	7,281	7,634	238	36,093
Loans charged off	(9,359)	(209)	(524)	(216)	(10,308)
Recoveries on charged off loans	3,439	282	265	61	4,047
Balance, end of year	$ 16,865	$ 8,331	$ 7,957	$ 88	$ 33,241

The non-covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ 11,354	$ 97	$ —	$ —	$ 11,451
Loans collectively evaluated for impairment	2,131,069	2,260,367	700,206	44,893	5,136,535
PCI Loans	13,350	52,775	5,150	779	72,054
	$ 2,155,773	$ 2,313,239	$ 705,356	$ 45,672	$ 5,220,040

December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ 11,842	$ 1,420	$ 703	$ —	$ 13,965
Loans collectively evaluated for impairment	1,733,567	1,669,264	403,762	51,009	3,857,602
PCI Loans	13,442	24,151	9,178	2,138	48,909
	$ 1,758,851	$ 1,694,835	$ 413,643	$ 53,147	$ 3,920,476

The allowance for non-covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ 1,380	$ —	$ —	$ —	$ 1,380
Loans collectively evaluated for impairment	17,333	16,052	5,882	282	39,549
PCI Loans	1,341	2,931	182	32	4,486
	$ 20,054	$ 18,983	$ 6,064	$ 314	$ 45,415

	Commercial and		Construction and		

December 31, 2014	Industrial	Real Estate	Land Development	Consumer	Total
Loans individually evaluated for impairment	$ 421	$ —	$ —	$ —	$ 421
Loans collectively evaluated for impairment	15,658	9,168	6,296	179	31,301
PCI Loans	2,920	1,963	154	282	5,319
	$ 18,999	$ 11,131	$ 6,450	$ 461	$ 37,041

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Notes to Consolidated Financial Statements (continued)

6. Covered Assets and Indemnification Asset

As discussed in Note 2 to the consolidated financial statements, the Bank assumed substantially all of the liabilities, including all of the deposits, and acquired substantially all of the assets of FNB in an FDIC-assisted transaction on September 13, 2013. As part of the P&A Agreement, the Bank and the FDIC entered into loss-share agreements covering future losses incurred on certain acquired loans and OREO. The Company refers to acquired commercial and single family residential loan portfolios and OREO that are subject to the loss-share agreements as “covered loans” and “covered OREO”, respectively, and these assets are presented as separate line items in the Company’s consolidated balance sheets. Collectively, covered loans and covered OREO are referred to as “covered assets”. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of net losses on the first $240.4 million of net losses incurred; (ii) 0% of net losses in excess of $240.4 million up to and including $365.7 million of net losses incurred; and (iii) 80% of net losses in excess of $365.7 million of net losses incurred. Net losses are defined as book value losses plus certain defined expenses incurred in the resolution of assets, less subsequent recoveries. Under the loss-share agreement for commercial assets, the amount of subsequent recoveries that are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is no limit on the amount of subsequent recoveries reimbursable to the FDIC under the loss-share agreement for single family residential assets. The loss-share agreements for commercial and single family residential assets are in effect for 5 years and 10 years, respectively, from the Bank Closing Date, and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. The asset arising from the loss-share agreements, referred to as the “FDIC Indemnification Asset,” is measured separately from the covered loan portfolio because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

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 its actual net realized losses over the life of the loss-share agreements are less than the FDIC’s initial estimate of losses on covered assets. The “true-up” payment is calculated using a defined formula set forth in the P&A Agreement. At December 31, 2015, the Bank has recorded a related “true-up” payment accrual of $5.5 million based on the current estimate of aggregate realized losses on covered assets over the life of the loss-share agreements.

Covered Loans and Allowance for Covered Loan Losses

Loans acquired in the FNB Transaction that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in the consolidated balance sheets. Covered loans are reported exclusive of the cash flow reimbursements that may be received from the FDIC.

The Bank’s portfolio of acquired covered loans had a fair value of $1.1 billion as of the Bank Closing Date, with no carryover of any allowance for loan losses. Acquired covered loans were preliminarily segregated between those considered to be PCI loans and those without credit impairment at acquisition.

In connection with the FNB Transaction, the Bank acquired loans both with and without evidence of credit quality deterioration since origination. The Company’s accounting policies for acquired covered loans, including covered PCI loans, are consistent with that of acquired non-covered loans, as described in Note 5 to the consolidated financial statements. The Company has established under its PCI accounting policy a framework to aggregate certain acquired covered loans into various loan pools based on a minimum of two layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

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Notes to Consolidated Financial Statements (continued)

The following table presents the carrying value of the covered loans summarized by portfolio segment (in thousands).

	December 31, 2015	December 31, 2014
Commercial and industrial	$ 8,801	$ 30,780
Real estate	341,048	552,850
Construction and land development	30,445	59,010
Consumer	—	0
	380,294	642,640
Allowance for covered loans	(1,532)	(4,611)
Total covered loans, net of allowance	$ 378,762	$ 638,029

The following table presents the carrying value and the outstanding contractual balance of the covered PCI loans (in thousands).

	December 31, 2015	December 31, 2014
Carrying amount	$ 221,974	$ 435,388
Outstanding balance	408,221	685,393

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

	Year Ended December 31, 2015	Year Ended December 31, 2014	Period from September 14, 2013 through December 31, 2013
Balance, beginning of period	$ 193,493	$ 156,548	$ —
Additions	—	—	167,974

Reclassifications from (to) nonaccretable difference, net(1)	70,884	105,470	3,492
Transfer of loans to covered OREO(2)	(1,309)	7,703	4,407
Accretion	(86,349)	(76,228)	(19,325)
Balance, end of period	$ 176,719	$ 193,493	$ 156,548

(1) Reclassifications from nonaccretable difference are primarily due to net increases in expected cash flows in the quarterly recasts, but may also include the reclassification and immediate income recognition of nonaccretable difference due to the favorable resolution of loans accounted for individually. Reclassifications to nonaccretable difference occur when accruing loans are moved to nonaccrual and expected cash flows are no longer predictable and the accretable yield is eliminated.

(2) Transfer of loans to covered OREO is the difference between the value removed from the pool and the expected cash flows for the loan.

The remaining nonaccretable difference for covered PCI loans was $172.2 million and $382.5 million at December 31, 2015 and 2014, respectively. During 2015 and 2014, a combination of factors affecting the inputs to the Bank's quarterly recast process led to the reclassifications from nonaccretable difference to accretable yield. These transfers resulted from revised cash flows that reflect better-than-expected performance of the covered PCI loan portfolio as a result of the Bank's strategic decision to dedicate resources to the liquidation of covered loans during the noted periods.

Covered impaired loans include non-accrual loans, TDRs, PCI loans and partially charged-off loans. Substantially all covered impaired loans are PCI loans. The amounts shown in following tables include Pooled Loans, as well as loans accounted for on an individual basis. For Pooled Loans, the recorded investment with allowance and the related allowance consider impairment measured at the pool level.

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Notes to Consolidated Financial Statements (continued)

Covered impaired loans are summarized by class in the following tables (in thousands).

December 31, 2015	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 15,532	$ 3,380	$ 2,415	$ 5,795	$ 495
Unsecured	9,377	619	1,162	1,781	246
Real estate:					
Secured by commercial properties	211,657	67,983	29,388	97,371	245
Secured by residential properties	186,443	96,469	3,180	99,649	514
Construction and land development:					
Residential construction loans	2,024	661	—	661	—
Commercial construction loans and land development	56,070	20,910	—	20,910	—
Consumer	—	—	—	—	—
	$ 481,103	$ 190,022	$ 36,145	$ 226,167	$ 1,500

December 31, 2014	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial and industrial:					
Secured	$ 26,447	$ 7,436	$ 6,636	$ 14,072	$ 265
Unsecured	14,111	2,107	4,697	6,804	882
Real estate:					
Secured by commercial properties	387,302	193,111	35,142	228,253	2,381
Secured by residential properties	235,505	129,571	12,918	142,489	937
Construction and land development:					
Residential construction loans	2,749	1,018	354	1,372	69
	94,949	45,646	—	45,646	—

Commercial construction loans and land development					
Consumer	—	—	—	—	—
	$ 761,063	$ 378,889	$ 59,747	$ 438,636	$ 4,534

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

	Year Ended December 31,		
	2015	2014	2013
Commercial and industrial:			
Secured	$ 9,934	$ 21,296	$ 14,260
Unsecured	4,293	8,347	4,945
Real estate:			
Secured by commercial properties	162,812	296,780	182,653
Secured by residential properties	121,069	170,931	99,686
Construction and land development:			
Residential construction loans	1,017	3,039	2,353
Commercial construction loans and land development	33,278	83,505	60,682
Consumer	—	—	—
	$ 332,403	$ 583,898	$ 364,579

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Notes to Consolidated Financial Statements (continued)

Covered non-accrual loans are summarized by class in the following table (in thousands).

	December 31, 2015	December 31, 2014
Commercial and industrial:		
Secured	$ 68	$ 442
Unsecured	—	883
Real estate:		
Secured by commercial properties	442	30,823
Secured by residential properties	2,516	1,046
Construction and land development:		
Residential construction loans	541	1,018
Commercial construction loans and land development	5,411	11
Consumer	—	—
	$ 8,978	$ 34,223

At December 31, 2015 and 2014, covered non-accrual loans included covered PCI loans of $5.3 million and $31.2 million, respectively, for which discount accretion has been suspended because the extent and timing of cash flows from these covered PCI loans can no longer be reasonably estimated.

Interest income, including recoveries and cash payments, recorded on covered impaired loans was $17.2 million during 2015. Interest income recorded on covered impaired loans during 2014 and 2013 was nominal. Except as noted above, covered PCI loans are considered to be performing due to the application of the accretion method.

The Bank classifies loan modifications of covered loans as TDRs in a manner consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. The outstanding balance of TDRs granted during 2015 and 2014 is shown in the following tables (in thousands). There were no TDRs granted during the period from September 14, 2013 through December 31, 2013. Pooled Loans are not in the scope of the disclosure requirements for TDRs. At December 31, 2015 and 2014, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs.

Recorded Investment in Loans Modified by

Year Ended December 31, 2015	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ —	$ —
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	—	—
Secured by residential properties	188	388	248	824
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ 188	$ 388	$ 248	$ 824

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

	Recorded Investment in Loans Modified by			
Year Ended December 31, 2014	A/B Note	Interest Rate Adjustment	Payment Term Extension	Total Modification
Commercial and industrial:				
Secured	$ —	$ —	$ —	$ —
Unsecured	—	—	—	—
Real estate:				
Secured by commercial properties	—	—	—	—
Secured by residential properties	369	326	—	695
Construction and land development:				
Residential construction loans	—	—	—	—
Commercial construction loans and land development	—	—	—	—
Consumer	—	—	—	—
	$ 369	$ 326	$ —	$ 695

The following table presents information regarding TDRs granted during the twelve months preceding December 31, 2015 for which a payment was at 30 days past due in 2015 (dollars in thousands). There were no TDRs granted during the twelve months preceding December 31, 2014 for which a payment was at least 30 days past due in 2014.

	Number of Loans	Recorded Investment
Commercial and industrial:		
Secured	—	$ —
Unsecured	—	—
Real estate:		
Secured by commercial properties	1	—
Secured by residential properties	1	248
Construction and land development:		
Residential construction loans	—	—
Commercial construction loans and land development	—	—
Consumer	—	—
	2	$ 248

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

December 31, 2015	Loans Past Due 30 59 Days	Loans Past Due 60 89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non PCI) Past 90 Days or Mor
Commercial and industrial:								
Secured	$ 51	$ —	$ 68	$ 119	$ 1,175	$ 5,727	$ 7,021	$ —
Unsecured	—	—	—	—	—	1,780	1,780	—
Real estate:								
Secured by commercial properties	—	—	100	100	28,957	96,928	125,985	—
Secured by residential properties	3,399	418	1,104	4,921	113,524	96,618	215,063	—
Construction and land development:								
Residential construction loans	—	—	540	540	264	121	925	—
Commercial construction loans and land development	47	1	95	143	8,577	20,800	29,520	—
Consumer	—	—	—	—	—	—	—	—
	$ 3,497	$ 419	$ 1,907	$ 5,823	$ 152,497	$ 221,974	$ 380,294	$ —

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Notes to Consolidated Financial Statements (continued)

December 31, 2014	Loans Past Due 30 59 Days	Loans Past Due 60 89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	PCI Loans	Total Loans	Accruing Loans (Non PCI) Past 90 Days or More
Commercial and industrial:								
Secured	$ —	$ —	$ 454	$ 454	$ 8,681	$ 13,630	$ 22,765	$ 11
Unsecured	10	—	—	10	1,200	6,805	8,015	—
Real estate:								
Secured by commercial properties	876	—	105	981	41,576	227,772	270,329	—
Secured by residential properties	3,089	493	405	3,987	137,342	141,192	282,521	48
Construction and land development:								
Residential construction loans	—	—	896	896	390	354	1,640	—
Commercial construction loans and land development	39	25	8	72	11,663	45,635	57,370	8
Consumer	—	—	—	—	—	—	—	—
	$ 4,014	$ 518	$ 1,868	$ 6,400	$ 200,852	$ 435,388	$ 642,640	$ 67

The Bank assigns a risk grade to each of its covered loans in a manner consistent with the existing loan review program and risk grading matrix used for non-covered loans, as described in Note 5 to the consolidated financial statements. The following tables present the internal risk grades of covered loans in the portfolio by class (in thousands).

December 31, 2015	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 758	$ —	$ 536	$ 5,727	$ 7,021
Unsecured	—	—	—	1,780	1,780

Real estate:					
Secured by commercial properties	24,070	—	4,987	96,928	125,985
Secured by residential properties	111,128	491	6,826	96,618	215,063
Construction and land development:					
Residential construction loans	264	—	540	121	925
Commercial construction loans and land development	6,847	—	1,873	20,800	29,520
Consumer	—	—	—	—	—
	$ 143,067	$ 491	$ 14,762	$ 221,974	$ 380,294

December 31, 2014	Pass	Special Mention	Substandard	PCI	Total
Commercial and industrial:					
Secured	$ 7,712	$ —	$ 1,423	$ 13,630	$ 22,765
Unsecured	1,210	—	—	6,805	8,015
Real estate:					
Secured by commercial properties	35,973	—	6,584	227,772	270,329
Secured by residential properties	133,756	—	7,573	141,192	282,521
Construction and land development:					
Residential construction loans	268	—	1,018	354	1,640
Commercial construction loans and land development	9,501	—	2,234	45,635	57,370
Consumer	—	—	—	—	—
	$ 188,420	$ —	$ 18,832	$ 435,388	$ 642,640

The Bank’s impairment methodology for the covered loans is consistent with that of non-covered loans as discussed in Note 5 to the consolidated financial statements. To the extent there is experienced or projected credit deterioration on the acquired covered loan pools subsequent to amounts estimated at the previous quarterly recast date and expected cash flows for a loan or pool decreases, an increase in the allowance for loan losses is made through a charge to the provision for loan losses. If expected cash flows for a loan or pool increase, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield. This increase in accretable yield is taken into

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

income over the remaining life of the loan. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to the acquisition date in a manner consistent with the allowance for non-covered loan losses.

Changes in the allowance for covered loan losses, distributed by portfolio segment, are shown below (in thousands). The year ended December 31, 2013 below refers to the period from September 14, 2013 through December 31, 2013.

Year Ended December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 1,193	$ 3,334	$ 84	$ —	$ 4,611
Provision charged to operations	258	189	95	—	542
Loans charged off	(915)	(2,869)	(179)	—	(3,963)
Recoveries on charged off loans	222	120	—	—	342
Balance, end of year	$ 758	$ 774	$ —	$ —	$ 1,532

Year Ended December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Balance, beginning of year	$ 1,053	$ 8	$ —	$ —	$ 1,061
Provision charged to operations	230	8,725	231	—	9,186
Loans charged off	(90)	(5,399)	(147)	—	(5,636)
Recoveries on charged off loans	—	—	—	—	—
Balance, end of year	$ 1,193	$ 3,334	$ 84	$ —	$ 4,611

Commercial and Construction and

Year Ended December 31, 2013	Industrial	Real Estate	Land Development	Consumer	Total
Balance, beginning of year	$ —	$ —	$ —	$ —	$ —
Provision charged to operations	1,057	8	—	—	1,065
Loans charged off	(4)	—	—	—	(4)
Recoveries on charged off loans	—	—	—	—	—
Balance, end of year	$ 1,053	$ 8	$ —	$ —	$ 1,061

The covered loan portfolio was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ 540	$ —	$ 540
Loans collectively evaluated for impairment	1,294	147,502	8,984	—	157,780
PCI Loans	7,507	193,546	20,921	—	221,974
	$ 8,801	$ 341,048	$ 30,445	$ —	$ 380,294

December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ 801	$ —	$ 801
Loans collectively evaluated for impairment	10,345	183,886	12,220	—	206,451
PCI Loans	20,435	368,964	45,989	—	435,388
	$ 30,780	$ 552,850	$ 59,010	$ —	$ 642,640

The allowance for covered loan losses was distributed by portfolio segment and impairment methodology as shown below (in thousands).

December 31, 2015	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	17	15	—	—	32

PCI Loans		741		759		—		—	1,500
	$	758	$	774	$	—	$	—	$ 1,532

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Notes to Consolidated Financial Statements (continued)

December 31, 2014	Commercial and Industrial	Real Estate	Construction and Land Development	Consumer	Total
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	46	16	15	—	77
PCI Loans	1,147	3,318	69	—	4,534
	$ 1,193	$ 3,334	$ 84	$ —	$ 4,611

Covered Other Real Estate Owned

A summary of the activity in covered OREO is as follows (in thousands).

	Year Ended December 31,		Period from September 14, 2013 through December 31,
	2015	2014	2013
Balance, beginning of period	$ 136,945	$ 142,833	$ —
Fair value of assets acquired as of Bank Closing Date	—	—	135,187
Additions to covered OREO	50,465	64,934	19,185
Dispositions of covered OREO	(71,765)	(51,150)	(11,539)
Valuation adjustments in the period	(16,555)	(19,672)	—
Balance, end of period	$ 99,090	$ 136,945	$ 142,833

During 2015 and 2014, the Bank wrote down certain covered OREO assets to fair value to reflect new appraisals on certain OREO acquired in the FNB Transaction and OREO acquired from the foreclosure on certain FNB loans acquired in the FNB Transaction. Although the Bank recorded a fair value discount on the acquired assets upon acquisition, in some cases additional downward valuations were required.

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

FDIC Indemnification Asset

A summary of the activity in the FDIC Indemnification Asset is as follows (in thousands).

	Year Ended December 31,		Period from September 14, 2013 through December 31,
	2015	2014	2013
Balance, beginning of period	$ 130,437	$ 188,291	$ —
Fair value of assets acquired as of Bank Closing Date	—	—	185,680
FDIC Indemnification Asset accretion (amortization)	1,147	3,445	1,699
Transfers to due from FDIC and other	(39,936)	(61,299)	912
Balance, end of period	$ 91,648	$ 130,437	$ 188,291

As of December 31, 2015, the Bank had billed and collected $100.3 million from the FDIC, which represented reimbursable covered losses and expenses through September 30, 2015.

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Notes to Consolidated Financial Statements (continued)

7. Cash and Due from Banks

Cash and due from banks consisted of the following (in thousands).

	December 31, 2015	December 31, 2014
Cash on hand	$ 55,168	$ 47,947
Clearings and collection items	91,466	76,381
Deposits at Federal Reserve Bank	316,605	425,704
Deposits at Federal Home Loan Bank	3,514	1,500
Deposits in FDIC-insured institutions	185,283	230,941
	$ 652,036	$ 782,473

The amounts above include interest-bearing deposits of $442.4 million and $628.3 million at December 31, 2015 and 2014, respectively. Cash on hand and deposits at the Federal Reserve Bank satisfy regulatory reserve requirements at December 31, 2015.

8. Premises and Equipment

The components of premises and equipment are summarized as follows (in thousands).

	December 31, 2015	December 31, 2014
Land and premises	$ 122,221	$ 122,560
Furniture and equipment	166,423	142,255
	288,644	264,815
Less accumulated depreciation and amortization	(88,026)	(57,824)
	$ 200,618	$ 206,991

The amounts shown above include assets recorded under capital leases of $7.8 million and $6.6 million, net of accumulated amortization of $1.8 million and $1.2 million at December 31, 2015 and 2014, respectively.

Occupancy expense was reduced by rental income of $2.2 million, $2.4 million and $1.8 million during 2015, 2014 and 2013, respectively. Depreciation and amortization expense on premises and equipment, which includes amortization of capital leases, amounted to $37.2 million, $30.7 million and $24.8 million during 2015, 2014 and 2013, respectively.

9. Goodwill and Other Intangible Assets

At both December 31, 2015 and 2014, the carrying amount of goodwill of $251.8 million was comprised of $24.0 million recorded in connection with the acquisition of NLC and $227.8 million recorded in connection with the PlainsCapital Merger.

Other intangible assets of $54.9 million and $59.8 million at December 31, 2015 and 2014, respectively, include an indefinite lived intangible asset with an estimated fair value of $3.0 million related to state licenses acquired as a part of the NLC acquisition in January 2007.

The Company performed required annual impairment tests of its goodwill and other intangible assets having an indefinite useful life as of October 1st for each of its reporting units. At October 1, 2015, the Company determined that the estimated fair value of each of its reporting units exceeded its carrying value. The Company estimated the fair values of its reporting units based on both a market and income approach using historic, normalized actual and forecast results.

Based on this evaluation, the Company concluded that the goodwill and other identifiable intangible assets were fully realizable at December 31, 2015.

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The Company's evaluation includes multiple assumptions, including estimated discounted cash flows and other estimates that may change over time. If future discounted cash flows become less than those projected by the Company, future impairment charges may become necessary that could have a materially adverse impact on the Company's results of operations and financial condition. As quoted market prices in active stock markets are relevant evidence of fair value, a significant decline in the Company's common stock trading price may indicate an impairment of goodwill.

The carrying value of intangible assets subject to amortization was as follows (in thousands).

December 31, 2015	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	4 - 12	$ 38,930	$ (17,497)	$ 21,433
Trademarks and trade names	15 - 20	20,000	(5,894)	14,106
Noncompete agreements	4 - 6	11,650	(7,095)	4,555
Customer contracts and relationships	12 - 14	21,400	(10,038)	11,362
Agent relationships	13	3,600	(3,188)	412
		$ 95,580	$ (43,712)	$ 51,868

December 31, 2014	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	7 - 12	$ 38,770	$ (12,104)	$ 26,666
Trademarks and trade names	10 - 20	20,000	(3,723)	16,277
Noncompete agreements	4 - 6	11,650	(4,794)	6,856
Customer contracts and relationships	8 - 12	14,100	(7,729)	6,371
Agent relationships	13	3,600	(2,987)	613
		$ 88,120	$ (31,337)	$ 56,783

Amortization expense related to intangible assets during 2015, 2014 and 2013 was $12.4 million, $11.1 million and $11.1 million, respectively.

The estimated aggregate future amortization expense for intangible assets at December 31, 2015 is as follows (in thousands).

2016	$ 10,174
2017	8,262
2018	7,235
2019	5,192
2020	4,356
Thereafter	16,649
	$ 51,868

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Mortgage Servicing Rights

The following tables present the changes in fair value of the Company's MSR and other information related to the serviced portfolio (dollars in thousands).

	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of year	$ 36,155	$ 20,149	$ 2,080
Additions	24,974	35,056	13,886
Sales	—	(11,387)	—
Changes in fair value:			
Due to changes in model inputs or assumptions (1)	(2,150)	(5,267)	4,782
Due to customer payoffs	(6,694)	(2,396)	(599)
Balance, end of year	$ 52,285	$ 36,155	$ 20,149

	December 31,	
	2015	2014
Mortgage loans serviced for others	$ 5,051,884	$ 3,645,220
MSR asset as a percentage of serviced mortgage loans	1.03 %	0.99 %

(1) Primarily represents normal customer payments, changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates and the refinement of other MSR model assumptions.

The key assumptions used in measuring the fair value of the Company's MSR were as follows.

	December 31,	
	2015	2014
Weighted average constant prepayment rate	11.51 %	12.17 %
Weighted average discount rate	10.92 %	11.01 %
Weighted average life (in years)	6.5	6.3

A sensitivity analysis of the fair value of the Company's MSR to certain key assumptions is presented in the following table (in thousands).

	December 31, 2015	December 31, 2014
Constant prepayment rate:		
Impact of 10% adverse change	$ (2,177)	$ (1,648)
Impact of 20% adverse change	(4,195)	(3,169)
Discount rate:		
Impact of 10% adverse change	(2,073)	(1,431)
Impact of 20% adverse change	(3,989)	(2,753)

This sensitivity analysis presents the effect of hypothetical changes in key assumptions on the fair value of the MSR. The effect of such hypothetical change in assumptions generally cannot be extrapolated because the relationship of the change in one key assumption to the change in the fair value of the MSR is not linear. In addition, in the analysis, the impact of an adverse change in one key assumption is calculated independent of any impact on other assumptions. In reality, changes in one assumption may change another assumption.

Contractually specified servicing fees, late fees and ancillary fees earned of $19.6 million, $13.3 million and $3.2 million during 2015, 2014 and 2013, respectively, were included in other noninterest income within the consolidated statements of operations.

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Notes to Consolidated Financial Statements (continued)

11. Deposits

Deposits are summarized as follows (in thousands).

	December 31, 2015	2014
Noninterest-bearing demand	$ 2,235,436	$ 2,076,385
Interest-bearing:		
NOW accounts	1,077,576	1,242,110
Money market	1,500,780	861,851
Brokered - money market	133,380	79,937
Demand	380,214	136,886
Savings	273,390	299,051
Time	1,325,342	1,575,910
Brokered - time	26,565	97,762
	$ 6,952,683	$ 6,369,892

At December 31, 2015, deposits include $622.1 million of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000. Scheduled maturities of interest-bearing time deposits at December 31, 2015 are as follows (in thousands).

2016	$ 799,215
2017	386,295
2018	83,284
2019	51,209
2020 and thereafter	31,904
	$ 1,351,907

12. Short-term Borrowings

Short-term borrowings are summarized as follows (in thousands).

	December 31, 2015	December 31, 2014
Federal funds purchased	$ 58,925	$ 128,100
Securities sold under agreements to repurchase	217,748	136,396
Federal Home Loan Bank	600,000	375,000
Short-term bank loans	70,700	123,200
	$ 947,373	$ 762,696

Federal funds purchased and securities sold under agreements to repurchase generally mature daily, on demand, or on some other short-term basis. The Bank and the Hilltop Broker-Dealers execute transactions to sell securities under agreements to repurchase with both customers and broker-dealers. Securities involved in these transactions are held by the Bank, the Hilltop Broker-Dealers or a third-party dealer.

Information concerning federal funds purchased and securities sold under agreements to repurchase is shown in the following tables (dollars in thousands).

	Year Ended December 31, 2015	2014	2013
Average balance during the year	$ 315,904	$ 319,806	$ 281,067
Average interest rate during the year	0.33 %	0.17 %	0.19 %
Maximum month-end balance during the year	514,776	535,232	415,730

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Notes to Consolidated Financial Statements (continued)

	December 31,	
	2015	2014
Average interest rate at end of year	0.26 %	0.15 %
Securities underlying the agreements at end of year:		
Carrying value	$ 250,981	$ 166,734
Estimated fair value	$ 250,045	$ 163,852

FHLB short-term borrowings mature over terms not exceeding 365 days and are collateralized by FHLB Dallas stock, nonspecified real estate loans and certain specific commercial real estate loans. At December 31, 2015, the Bank had available collateral of $1.5 billion, substantially all of which was blanket collateral. Other information regarding FHLB short-term borrowings is shown in the following tables (dollars in thousands).

	Year Ended December 31,		
	2015	2014	2013
Average balance during the year	$ 294,959	$ 261,550	$ 106,415
Average interest rate during the year	0.27 %	0.18 %	0.13 %
Maximum month-end balance during the year	$ 600,000	$ 575,000	$ 525,000

	December 31,	
	2015	2014
Average interest rate at end of year	0.35 %	0.16 %

The Hilltop Broker-Dealers use short-term bank loans periodically to finance securities owned, margin loans to customers and correspondents, and underwriting activities. Interest on the borrowings varies with the federal funds rate. The weighted average interest rate on the borrowings at December 31, 2015 and 2014 was 1.26% and 1.07%, respectively.

13. Notes Payable

Notes payable consisted of the following (in thousands).

	December 31, 2015	2014
NLIC note payable due May 2033, three-month LIBOR plus 4.10% (4.64% at December 31, 2015) with interest payable quarterly	$ 10,000	$ 10,000
NLIC note payable due September 2033, three-month LIBOR plus 4.05% (4.59% at December 31, 2015) with interest payable quarterly	10,000	10,000
ASIC note payable due April 2034, three-month LIBOR plus 4.05% (4.59% at December 31, 2015) with interest payable quarterly	7,500	7,500
First Southwest nonrecourse notes, paid off in January 2015	—	4,184
Insurance company note payable due March 2035, three-month LIBOR plus 3.40% (3.94% at December 31, 2015) with interest payable quarterly	20,000	20,000
Federal Home Loan Bank notes, maturities ranging from May 2016 to June 2030 with interest payable monthly	36,042	—
Insurance company line of credit due December 31, 2016, 3.25% plus a calculated index rate (4.00% at December 31, 2015) with interest payable quarterly	7,000	5,000
Senior Notes due April 2025, net	148,174	—
	$ 238,716	$ 56,684

NLIC, ASIC and Insurance Company Notes Payable

The NLIC and ASIC notes payable to unaffiliated companies are each subordinated in right of payment to all policy claims and other indebtedness of NLIC and ASIC, respectively. Further, all payments of principal and interest require the prior approval of the Insurance Commissioner of the State of Texas and are only payable to the extent that the statutory surplus of NLIC exceeds $30 million and ASIC exceeds $15 million.

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Notes to Consolidated Financial Statements (continued)

The NLIC, ASIC and Insurance Company loan agreements relating to the notes payable contain various covenants pertaining to limitations on additional debt, dividends, officer and director compensation, and minimum capital requirements. The Company was in compliance with the covenants at December 31, 2015.

NLC has entered into an indenture relating to the NLIC, ASIC and Insurance Company notes payable which provides that (i) if a person or group becomes the beneficial owner directly or indirectly of 50% or more of its equity securities and (ii) if NLC's ratings are downgraded by a nationally recognized statistical rating organization (as defined in the Securities Exchange Act of 1934, as amended (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 outstanding principal amount.

First Southwest Nonrecourse Notes

In 2005, First Southwest participated in a monetization of future cash flows totaling $95.3 million from several tobacco companies owed to a law firm under a settlement agreement ("Fee Award"). In connection with the transaction, a special purpose entity that was consolidated with First Southwest issued $30.3 million of nonrecourse notes to finance the purchase of the Fee Award, to establish a reserve account and to fund issuance costs. Cash flows from the settlement were the sole source of payment for the nonrecourse notes. The nonrecourse notes carried an interest rate of 8.58%. The First Southwest nonrecourse notes were paid off in January 2015.

Federal Home Loan Bank notes

The FHLB notes, assumed by the Bank in the SWS Merger, have interest rates ranging from 0.80% to 5.83%, with a weighted average interest rate of 2.13% at December 31, 2015. The FHLB notes, as well as other borrowings from the FHLB, are collateralized by FHLB stock, a blanket lien on commercial and real estate loans, as well as by the amount of securities that are in safekeeping at the FHLB, the value of which was $2.3 billion at December 31, 2015.

Insurance Company Line of Credit

The Company’s insurance subsidiary has a line of credit with a financial institution which allows for borrowings by NLC of up to $7.5 million and is collateralized by substantially all of NLC’s assets. The loan agreements relating to the line of credit contain various financial and other covenants which must be maintained until all indebtedness to the financial institution is repaid. The Company was in compliance with the covenants at December 31, 2015.

Senior Notes

On April 9, 2015, Hilltop completed an offering of $150.0 million aggregate principal amount of its 5% senior notes due 2025 (“Senior Unregistered Notes”) in a private offering that was exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). The Senior Unregistered Notes were offered within the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to persons outside of the United States under Regulation S under the Securities Act. The Senior Unregistered Notes were issued pursuant to an indenture, dated as of April 9, 2015, by and between Hilltop and U.S. Bank National Association, as trustee. The net proceeds from the offering, after deducting estimated fees and expenses and the initial purchasers’ discounts, were approximately $148 million. Hilltop used the net proceeds of the offering to redeem all of Hilltop’s outstanding Non-Cumulative Perpetual Preferred Stock, Series B at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million, and Hilltop utilized the remainder for general corporate purposes. Unamortized debt issuance costs presented as a reduction from the Senior Notes are discussed further in Note 1 to the consolidated financial statements.

In connection with the issuance of the Senior Unregistered Notes, on April 9, 2015, the Company entered into a registration rights agreement with the initial purchasers of the Senior Unregistered Notes. Under the terms of the registration rights agreement, the Company agreed to offer to exchange the Senior Unregistered Notes for notes registered under the Securities Act (the “Senior Registered Notes”). The terms of the Senior Registered Notes are substantially identical to the Senior Unregistered Notes for which they were exchanged (including principal amount, interest rate, maturity and

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redemption rights), except that the Senior Registered Notes generally are not subject to transfer restrictions. On May 22, 2015 and subject to the terms and conditions set forth in the Senior Registered Notes prospectus, the Company commenced an offer to exchange the Senior Unregistered Notes for Senior Registered Notes. Substantially all of the Senior Unregistered Notes were tendered in the exchange offer, and on June 22, 2015, the Company fulfilled its requirements under the registration rights agreement for the Senior Unregistered Notes by issuing Senior Registered Notes in exchange for the tendered Senior Unregistered Notes. The Senior Registered Notes and the Senior Unregistered Notes that remain outstanding are collectively referred to as the “Senior Notes.”

The Senior Notes bear interest at a rate of 5% per year, payable semi-annually in arrears in cash on April 15 and October 15 of each year, commencing on October 15, 2015. The Senior Notes will mature on April 15, 2025, unless Hilltop redeems the Senior Notes, in whole at any time or in part from time to time, on or after January 15, 2025 (three months prior to the maturity date of the Senior Notes) at its election at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The indenture contains covenants that limit the Company’s ability to, among other things and subject to certain significant exceptions: (i) dispose of or issue voting stock of certain of the Company’s bank subsidiaries or subsidiaries that own voting stock of the Company’s bank subsidiaries, (ii) incur or permit to exist any mortgage, pledge, encumbrance or lien or charge on the capital stock of certain of the Company’s bank subsidiaries or subsidiaries that own capital stock of the Company’s bank subsidiaries and (iii) sell all or substantially all of the Company’s assets or merge or consolidate with or into other companies. The indenture also provides for certain events of default, which, if any of them occurs, would permit or require the principal amount, premium, if any, and accrued and unpaid interest on the then outstanding Senior Notes to be declared immediately due and payable.

Scheduled Maturities

Scheduled maturities for notes payable outstanding at December 31, 2015 are as follows (in thousands).

2016	$ 7,575
2017	7,693
2018	13,444
2019	5,311

2020	3,944
Thereafter	201,628
	$ 239,595

14. Junior Subordinated Debentures and Trust Preferred Securities

PlainsCapital has four statutory Trusts, three of which were formed under the laws of the state of Connecticut and one of which, PCC Statutory Trust IV, was formed under the laws of the state of Delaware. The Trusts were created for the sole purpose of issuing and selling preferred securities and common securities, using the resulting proceeds to acquire junior subordinated debentures issued by PlainsCapital (the “Debentures”). Accordingly, the Debentures are the sole assets of the Trusts, and payments under the Debentures are the sole revenue of the Trusts. All of the common securities are owned by PlainsCapital; however, PlainsCapital is not the primary beneficiary of the Trusts. Accordingly, the Trusts are not included in the Company’s consolidated financial statements.

The Trusts have issued $65,000,000 of floating rate preferred securities and $2,012,000 of common securities and have invested the proceeds from the securities in floating rate Debentures of PlainsCapital.

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Information regarding the PlainsCapital Debentures is shown in the following table (in thousands).

Investor	Issue Date	Amount
PCC Statutory Trust I	July 31, 2001	$ 18,042
PCC Statutory Trust II	March 26, 2003	$ 18,042
PCC Statutory Trust III	September 17, 2003	$ 15,464
PCC Statutory Trust IV	February 22, 2008	$ 15,464

The stated term of the Debentures is 30 years with interest payable quarterly. The rate on the Debentures, which resets quarterly, is 3-month LIBOR plus an average spread of 3.22%. The total average interest rate at December 31, 2015 was 3.65%. The term, rate and other features of the preferred securities are the same as the Debentures. PlainsCapital's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee of the Trust's obligations under the preferred securities.

15. Income Taxes

The significant components of the income tax provision are as follows (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ 49,570	$ 85,303	$ 51,441
State	3,969	3,087	3,414
	53,539	88,390	54,855
Deferred:			
Federal	17,295	(21,851)	14,573
State	81	(931)	1,256
	17,376	(22,782)	15,829
	$ 70,915	$ 65,608	$ 70,684

The income tax provision differs from the amount that would be computed by applying the statutory Federal income tax rate of 35% to income before income taxes as a result of the following (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Computed tax at federal statutory rate	$ 99,223	$ 62,358	$ 69,088
Tax effect of:			
Non-taxable acquisition gain	(33,426)	—	—
Nondeductible transaction costs	3,969	102	—
Nondeductible expenses	3,215	2,201	2,363
State income taxes	2,632	1,401	3,035
Tax-exempt income, net	(2,563)	(2,085)	(2,042)
Valuation allowance	(1,889)	1,889	—
Minority interest	(562)	(318)	(479)
Prior year return to provision adjustment	170	360	(1,141)
Other	146	(300)	(140)
	$ 70,915	$ 65,608	$ 70,684

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Notes to Consolidated Financial Statements (continued)

The components of the tax effects of temporary differences that give rise to the net deferred tax asset included in other assets within the consolidated balance sheets are as follows (in thousands).

	December 31,	
	2015	2014
Deferred tax assets:		
Net operating and built-in loss carryforward	$ 23,937	$ 15,919
Covered loans	58,236	53,195
Purchase accounting adjustment - loans	15,689	15,110
Allowance for loan losses	17,462	15,255
Compensation and benefits	41,702	22,498
Indemnification agreements	11,269	6,631
Foreclosed property	13,219	13,458
Capital loss carryforward	—	1,950
Other	21,979	14,793
	203,493	158,809
Deferred tax liabilities:		
Premises and equipment	26,518	13,567
FDIC Indemnification Asset	35,636	38,546
Intangible assets	20,945	18,989
Derivatives	9,861	9,368
Net unrealized change in securities and other investments	1,432	260
Loan servicing	19,363	13,531
Other	16,734	19,646
	130,489	113,907
Total net deferred tax asset	73,004	44,902
Less valuation allowance	(2,195)	(1,950)
Net deferred tax asset	$ 70,809	$ 42,952

The Company’s effective tax rate was 25.0%, 36.8% and 35.8% during 2015, 2014 and 2013, respectively. The decrease in the Company’s effective tax rate during 2015 was primarily due to no income taxes being recorded in connection with the bargain purchase gain of $81.3 million associated with the SWS Merger because the acquisition was a tax-free reorganization under Section 368(a) of the Internal Revenue Code. In addition, the Company recorded an income tax benefit of $2.1 million as a result of the SWS Merger to reverse the deferred tax liability for the difference between book and tax basis on Hilltop’s investment in SWS common stock and reversed a previously established valuation allowance of $1.9 million on a deferred tax asset associated with a capital loss carryforward.

At December 31, 2015 and 2014, the Company had net operating loss carryforwards for Federal income tax purposes of $46.5 million and $45.5 million, respectively. This increase in net operating loss carryforwards was a result of the SWS Merger, significantly offset by the utilization of $44.0 million of net operating loss carryforwards during 2015. The net operating loss carryforwards are subject to either separate return year limitations or annual Section 382 limitations on their usage. These net operating loss carryforwards expire in 2025 and later years. The Company expects to realize its current deferred tax asset for these net operating loss carryforwards through the implementation of certain tax planning strategies, core earnings, and reversal of timing differences. At December 31, 2015, the Company also had a recognized built-in loss ("RBIL") carryover of $21.0 million from the ownership change resulting from the SWS Merger. These RBILs are subject to the annual Section 382 limitation rules similar to the Company's net operating loss carryforwards. The Company's remaining net unrealized built-in loss of $16.1 million, if recognized during a five year recognition period before January 1, 2020, would also be subject to the annual Section 382 limitation. The RBIL's are expected to be fully realized prior to any expiration.

Based on the Company's evaluation of its deferred tax assets, management has recorded a valuation allowance of $2.2 million at December 31, 2015 against its gross deferred tax asset for an investment that may result in a capital loss. This increase in the valuation allowance of $0.3 million from December 31, 2014 was a result of an increase in the valuation allowance of $2.2 million from the SWS Merger, significantly offset by a decrease of $1.9 million associated with the

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Notes to Consolidated Financial Statements (continued)

unexpected capital gain recognition on a capital loss carryforward. The Company has no valuation allowance on the remainder of its deferred tax assets at December 31, 2015 or 2014.

GAAP requires the measurement of uncertain tax positions. Uncertain tax positions are the difference between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes. At both December 31, 2015 and 2014, the total amount of gross unrecognized tax benefits was $0.6 million, of which $0.4 million if recognized, would favorably impact the Company's effective tax rate.

The Company files income tax returns in U.S. federal and numerous state jurisdictions. The Company is subject to tax audits in numerous jurisdictions in the United States until the applicable statute of limitations expires. The Company is no longer subject to U.S. federal tax examinations for tax years prior to 2012. The Company is open for various state tax audits for tax years 2011 and later. The Company is currently under income tax examination by several state authorities for tax years 2011 through 2013. The Company does not expect any significant liability to arise as a result of the examinations.

16. Employee Benefits

Hilltop and its subsidiaries have benefit plans that provide for elective deferrals by employees under Section 401(k) of the Internal Revenue Code. Employee contributions are determined by the level of employee participation and related salary levels per Internal Revenue Service regulations. Hilltop and its subsidiaries match a portion of employee contributions based on entity-specific factors including the level of normal operating earnings and the amount of eligible employees' contributions and salaries. In addition, Hilltop, PlainsCapital and the Bank made additional contributions to employees' 401(k) accounts based on achievement of certain corporate objectives through December 31, 2015. The amount charged to operating expense for these matching contributions totaled $12.6 million, $8.8 million and $7.5 million during 2015, 2014 and 2013, respectively.

Effective upon the completion of the PlainsCapital Merger, the Company recorded a liability of $8.9 million associated with separate retention agreements entered into between Hilltop and two executive officers of PlainsCapital. At December 31, 2015 and 2014, the recorded liability, including interest, was $9.0 million.

The Bank purchased $15.0 million of flexible premium universal life insurance in 2001 to help finance the annual expense incurred in providing various employee benefits. At December 31, 2015 and 2014, the carrying value of the policies included in other assets was $24.2 million and $24.8 million, respectively. During 2015, 2014 and 2013, the Bank recorded income of $0.8 million, $0.4 million and $0.4 million, respectively, related to the policies that was reported in other noninterest income within the consolidated statement of operations.

Deferred Compensation Plan

As a result of the SWS Merger, the Company assumed a deferred compensation plan offered by the former SWS (the “SWS Plan”) that allows former SWS eligible officers and employees to defer a portion of their bonus compensation and commissions. The SWS Plan matched 15% of the deferrals made by participants up to a predetermined limit through matching contributions that vest ratably over four years. Pursuant to the terms of the SWS Plan, the trustee periodically purchased the former SWS common stock in the open market. As a result of the SWS Merger, the former SWS common shares were converted into Hilltop common stock based on the terms of the merger agreement. No further contributions can be made to this plan.

The assets of the SWS Plan are held in a rabbi trust and primarily include investments in company-owned life insurance (“COLI”) and Hilltop common stock. These assets are consolidated with those of the Company. Investments in COLI are carried at the cash surrender value of the insurance policies and recorded in other assets within the consolidated balance sheet at December 31, 2015. Investments in Hilltop common stock, which are carried at cost and accounted for in a manner similar to treasury stock, and the corresponding liability related to the deferred compensation plan are presented as components of stockholders’ equity as employee stock trust and deferred compensation employee stock trust, net, respectively, at December 31, 2015.

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17. Related Party Transactions

Pursuant to a Sublease Agreement, Diamond A Administration Company LLC ("Diamond A Admin"), an affiliate of Gerald J. Ford, the current Chairman of the Board of Hilltop and the beneficial owner of 15.8% of Hilltop common stock at December 31, 2015, currently provides office space to Hilltop at a cost of $24,030 per month. This Sublease Agreement continues in effect until July 31, 2018 or such earlier date that the base lease expires.

Jeremy B. Ford, a director and the President and Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P. Diamond A Financial, L.P. owned 15.7% of the outstanding Hilltop common stock at December 31, 2015. He also is a director and the Secretary of Diamond A Admin, which provides office space to Hilltop as described the preceding paragraph. Diamond A Admin is owned by Hunter's Glen/Ford, Ltd., a limited partnership in which a trust for the benefit of Jeremy B. Ford is a 46% limited partner.

Jeremy B. Ford is the son of Gerald J. Ford. Corey G. Prestidge, Hilltop's General Counsel and Secretary, is the son-in-law of Gerald J. Ford. Accordingly, Messrs. Jeremy Ford and Corey Prestidge are brothers-in-law.

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers and their affiliates (collectively referred to as related parties) totaling $34.2 million and $32.7 million at December 31, 2015 and 2014, respectively. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. For such loans during 2015, total principal additions were $8.0 million and total principal payments were $6.5 million.

At December 31, 2015 and 2014, the Bank held deposits of related parties of $61.5 million and $161.9 million, respectively.

A related party is the lessor in an operating lease with the Bank. The Bank's minimum payment under the lease is $0.5 million annually through 2028, for an aggregate remaining obligation of $6.5 million at December 31, 2015.

The Bank purchases loans from a company for which a related party serves as a director, president and chief executive officer. At December 31, 2015 and 2014, the outstanding balance of the purchased loans was $3.9 million and $6.0 million, respectively. The loans were purchased with recourse to the company in the ordinary course of business and the related party had no direct financial interest in the transactions.

PlainsCapital Equity, LLC is a limited partner in certain limited partnerships that have received loans from the Bank. The Bank made those loans in the normal course of business, using underwriting standards and offering terms that are substantially the same as those used or offered to non-affiliated borrowers. At December 31, 2015 and 2014, the Bank had outstanding loans of $0.1 million and $0.2 million, respectively, in which PlainsCapital Equity, LLC had a limited partnership interest. The investment of PlainsCapital Equity, LLC in these limited partnerships was $3.8 million at both December 31, 2015 and 2014.

18. Commitments and Contingencies

The Bank acts as agent on behalf of certain correspondent banks in the purchase and sale of federal funds that aggregated $23.0 million at December 31, 2015. At December 31, 2014, there were no such amounts outstanding.

Legal Matters

The Company is subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. The Company evaluates these contingencies based on information currently available, including advice of counsel. The Company establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. A portion of the Company's exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates

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of possible loss contingencies, the Company does not take into account the availability of insurance coverage, other than that provided by reinsurers in the insurance segment. When it is practicable, the Company estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. When the Company is able to estimate such possible losses, and when it estimates that it is reasonably possible it could incur losses, in excess of amounts accrued, the Company is required to make a disclosure of the aggregate estimation. As available information changes, however, the matters for which the Company is able to estimate, as well as the estimates themselves will be adjusted, accordingly.

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified, unsupported, or uncertain damages; damages other than compensatory, such as punitive damages; a matter presenting meaningful legal uncertainties, including novel issues of law; multiple defendants and jurisdictions; whether discovery has begun or not or discovery is not complete; meaningful settlement discussions have not commenced; and whether the claim involves a class action and if so, how the class is defined. As a result of some of these factors, the Company may be unable to estimate reasonably possible losses with respect to some or all of the pending and threatened litigation and claims asserted against the Company.

Following completion of Hilltop's acquisition of SWS, several purported holders of shares of SWS common stock filed petitions in the Court of Chancery of the State of Delaware seeking appraisal for their shares pursuant to Section 262 of the Delaware General Corporation Law. These petitions were consolidated as In re SWS Group, Inc., C.A. No. 10554-VCG. As of February 24, 2016, the consolidated matter represented a total of approximately 5.2 million shares of SWS common stock. The Company intends to vigorously defend this matter.

On or about November 2, 2012, FSC, along with thirteen other defendants, was named in a lawsuit pending in the state of Rhode Island Superior Court styled Rhode Island Economic Development Corporation v. Wells Fargo Securities, LLC, et al. FSC is included in connection with its role as financial advisor to the State of Rhode Island, specifically in connection with the Rhode Island Economic Development Corporation's issuance of $75 million in bonds to finance a loan to 38 Studios, LLC. 38 Studios, LLC ultimately failed to repay the loan and the Rhode Island Economic Development Corporation is seeking recovery to repay the bonds it issued to make such loan. FSC intends to defend itself vigorously in this action.

The Company is involved in information-gathering requests and investigations (both formal and informal), as well as reviews, examinations and proceedings (collectively, "Inquiries") by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding certain of its businesses, business practices and policies, as well as the conduct of persons with whom it does business. Additional Inquiries will arise from time to time. In connection with those Inquiries, the Company receives document requests, subpoenas and other requests for information. The Inquiries, including the Inquiry described below, could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on the Company's consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in the Company’s business practices, and could result in additional expenses and collateral costs, including reputational damage.

As a part of an industry-wide inquiry, PrimeLending received a subpoena from the Office of Inspector General of the U.S. Department of Housing and Urban Development regarding mortgage-related practices, including those relating to origination practices for loans insured by the Federal Housing Administration (the “FHA”). On August 20, 2014, PrimeLending received a Civil Investigative Demand from the United States Department of Justice (the “DOJ”) related to this Inquiry. 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 FHA. No allegations have been asserted against PrimeLending. PrimeLending cannot predict the ultimate outcome of this investigation, and cannot make a reasonable estimate of potential liability, if any, at this time. PrimeLending continues to cooperate with the investigation.

While the final outcome of litigation and claims exposures or of any Inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and Inquiries will not have a material

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Notes to Consolidated Financial Statements (continued)

effect on the Company's business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be material to the Company's business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

Other Contingencies

The mortgage origination segment may be responsible for errors or omissions relating to its representations and warranties that each loan sold meets certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. If determined to be at fault, the mortgage origination segment either repurchases the affected loan from the investor or reimburses the investor's losses. The mortgage origination segment has established an indemnification liability reserve for such probable losses.

Generally, the mortgage origination segment first becomes aware that an investor believes a loss has been incurred on a sold loan when it receives a written request from the investor to repurchase the loan or reimburse the investor's losses. Upon completing its review of the investor's request, the mortgage origination segment establishes a specific claims reserve for the loan if it concludes its obligation to the investor is both probable and reasonably estimable.

An additional reserve has been established for probable investor losses that may have been incurred, but not yet reported to the mortgage origination segment based upon a reasonable estimate of such losses. Factors considered in the calculation of this reserve include, but are not limited to, the total volume of loans sold exclusive of specific investor requests, actual investor claim settlements and the severity of estimated losses resulting from future claims, and the mortgage origination segment's history of successfully curing defects identified in investor claim requests. While the mortgage origination segment's sales contracts typically include borrower early payment default repurchase provisions, these provisions have not been a primary driver of investor claims to date, and therefore, are not a primary factor considered in the calculation of this reserve.

At December 31, 2015 and 2014, the mortgage origination segment's indemnification liability reserve totaled $16.6 million and $17.6 million, respectively. The provision for indemnification losses was $4.0 million, $3.1 million and $3.5 million during 2015, 2014 and 2013, respectively.

The following tables provide for a roll-forward of claims activity for loans put-back to the mortgage origination segment based upon an alleged breach of a representation or warranty with respect to a loan sold and related indemnification liability reserve activity (in thousands).

	Representation and Warranty Specific Claims Activity - Origination Loan Balance		
	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of period	$ 53,906	$ 51,912	$ 39,693
Claims made	71,783	50,558	40,001
Claims resolved with no payment	(38,862)	(29,257)	(17,746)
Repurchases	(14,884)	(15,439)	(6,255)
Indemnification payments	(14,645)	(3,868)	(3,781)
Balance, end of period	$ 57,298	$ 53,906	$ 51,912

	Indemnification Liability Reserve Activity		
	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of period	$ 17,619	$ 21,121	$ 18,964
Additions for new sales	4,006	3,109	3,539
Repurchases	(1,420)	(1,593)	(251)
Early payment defaults	(64)	(143)	(528)
Indemnification payments	(3,027)	(1,708)	(1,003)
Change in estimate	(474)	(3,167)	400
Balance, end of period	$ 16,640	$ 17,619	$ 21,121

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Notes to Consolidated Financial Statements (continued)

	December 31, 2015	December 31, 2014
Reserve for Indemnification Liability:		
Specific claims	$ 5,210	$ 7,912
Incurred but not reported claims	11,430	9,707
Total	$ 16,640	$ 17,619

Although management considers the total indemnification liability reserve to be appropriate, there may be changes in the reserve over time to address incurred losses, due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters is considered in the reserving process when probable and estimable.

In connection with the FNB Transaction, the Bank entered into two loss-share agreements with the FDIC that collectively cover $1.2 billion of loans and OREO acquired in the FNB Transaction. Pursuant to the loss-share agreements, the FDIC has agreed to reimburse the Bank the following amounts with respect to the covered assets: (i) 80% of net losses on the first $240.4 million of net losses incurred; (ii) 0% of net losses in excess of $240.4 million up to and including $365.7 million of net losses incurred; and (iii) 80% of net losses in excess of $365.7 million of net losses incurred. Net losses are defined as book value losses plus certain defined expenses incurred in the resolution of assets, less subsequent recoveries. Under the loss-share agreement for commercial assets, the amount of subsequent recoveries that are reimbursable to the FDIC for a particular asset is limited to book value losses and expenses actually billed plus any book value charge-offs incurred prior to the Bank Closing Date. There is no limit on the amount of subsequent recoveries reimbursable to the FDIC under the loss-share agreement for single family residential assets. The loss-share agreements for commercial and single family residential assets are in effect for 5 years and 10 years, respectively, from the Bank Closing Date and the loss recovery provisions to the FDIC are in effect for 8 years and 10 years, respectively, from the Bank Closing Date. 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 its actual net realized losses over the life of the loss-share agreements are less than the FDIC’s initial estimate of losses on covered assets. The “true-up” payment is calculated using a defined formula set forth in the P&A Agreement. As of December 31, 2015, the Bank estimated that the sum of covered losses and reimbursable expenses subject to the loss-share agreements will exceed $240.4 million, but will not exceed $365.7 million. Unless actual plus projected covered losses and reimbursable expenses exceed $365.7 million, the Bank will not record additional amounts to the FDIC Indemnification Asset. As of December 31, 2015, the Bank had billed $125.4 million of covered net losses to the FDIC, of which 80%, or $100.3 million, were reimbursable under the loss-share agreements. As of December 31, 2015, the Bank had received aggregate reimbursements of $100.3 million from the FDIC.

As discussed in Note 16 to the consolidated financial statements, effective upon completion of the PlainsCapital Merger, Hilltop entered into separate retention agreements with two executive officers of PlainsCapital, one having an initial term of three years (with automatic one-year renewals at the end of two years and each anniversary thereof) and the other having an initial term of two years (with automatic one-year renewals at the end of the first year and each anniversary thereof). Each of these retention agreements provides for severance pay benefits if the executive officer's employment is terminated without "cause".

In addition to these retention agreements, Hilltop and its subsidiaries maintain employment contracts with certain officers that provide for benefits in the event of a "change in control" as defined in these agreements.

Hilltop and its subsidiaries lease space, primarily for branch facilities and automated teller machines, under noncancelable operating leases with remaining terms, including renewal options, of 1 to 13 years and under capital leases with remaining terms of 9 to 13 years. Rental expense under the operating leases was $40.3 million, $31.4 million and $29.2 million in 2015, 2014 and 2013, respectively.

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Future minimum lease payments under these agreements follow (in thousands).

	Operating Leases	Capital Leases
2016	$ 33,231	$ 1,103
2017	26,573	1,129
2018	23,670	1,167
2019	15,721	1,187
2020	12,378	1,198
Thereafter	31,435	7,127
Total minimum lease payments	$ 143,008	12,911
Amount representing interest		(5,444)
Present value of minimum lease payments		$ 7,467

19. Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit that involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. The contract amounts of those instruments reflect the extent of involvement (and therefore the exposure to credit loss) the Bank has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Because some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.7 billion at December 31, 2015 and outstanding financial and performance standby letters of credit of $38.9 million at December 31, 2015.

The Bank uses the same credit policies in making commitments and standby letters of credit as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, in these transactions is based on management’s credit evaluation of the borrower. Collateral held varies but may include real estate, accounts receivable, marketable securities, interest-bearing deposit accounts, inventory, and property, plant and equipment.

In the normal course of business, the Hilltop Broker-Dealers execute, settle, and finance various securities transactions that may expose the Hilltop Broker-Dealers to off-balance sheet risk in the event that a customer or counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the accounts of the Hilltop Broker-Dealers, use of derivatives to support certain non-profit housing organization clients, clearing agreements between the Hilltop Broker-Dealers and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

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20. Stock-Based Compensation

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the “2012 Plan”), the Company may grant nonqualified stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights and other awards to employees of the Company, its subsidiaries and outside directors of the Company. Upon the approval by stockholders and effectiveness of the 2012 Plan in September 2012, no additional awards were permissible under the 2003 Equity Incentive Plan (the “2003 Plan”). In the aggregate, 4,000,000 shares of common stock may be delivered pursuant to awards granted under the 2012 Plan. At December 31, 2015, 2,570,555 shares of common stock remain available for issuance pursuant to the 2012 Plan, including shares that may be delivered pursuant to outstanding awards. Compensation expense related to the 2012 Plan and the 2003 Plan was $8.3 million, $4.7 million and $1.7 million during 2015, 2014 and 2013, respectively.

During 2015, 2014 and 2013, Hilltop granted 13,631, 9,519 and 9,343 shares of common stock, respectively, to certain non-employee members of the Company’s Board of Directors for services rendered to the Company pursuant to the 2012 Plan.

Restricted Stock Awards

The Compensation Committee of the Board of Directors of the Company has issued restricted shares of Hilltop common stock (“Restricted Stock Awards”) pursuant to the 2012 Plan. The Restricted Stock Awards generally cliff vest on the third anniversary of the grant date and are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods. The award agreements governing the Restricted Stock Awards provide for accelerated vesting under certain conditions.

Prior to the completion of the SWS Merger and in accordance with the SWS merger agreement, on August 20, 2014, SWS granted restricted shares of SWS common stock to certain of its executive officers and key employees. On January 1, 2015, the effective time of the SWS Merger, these restricted shares of SWS common stock converted into the right to receive an aggregate of 62,994 Restricted Stock Awards based on the value of the merger consideration, and their vesting schedule did not accelerate. Such Restricted Stock Awards generally have begun to vest in three equal annual installments commencing on August 20, 2015, and are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods.

At December 31, 2015, unrecognized compensation expense related to outstanding Restricted Stock Awards of $0.7 million is expected to be recognized over a weighted average period of 0.30 years.

Restricted Stock Units

The Compensation Committee of the Board of Directors of the Company has issued RSUs pursuant to the 2012 Plan. Certain RSUs are subject to time-based vesting conditions and generally provided for a cliff vest on the third anniversary of the grant date, while other RSUs provided for vesting based upon the achievement of certain performance goals over a three-year period service conditions set forth in the award agreements, with associated costs generally recognized on a straight-line basis over the respective vesting periods. The RSUs are not transferable, and the shares of common stock issuable upon conversion of vested RSUs are generally subject to transfer restrictions for a period of one year following conversion, subject to certain exceptions. In addition, the applicable RSU award agreements provide for accelerated vesting under certain conditions.

At December 31, 2015, 709,399 of the outstanding RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 165,875 outstanding RSUs vest based upon the achievement of certain performance goals over a three-year period. At December 31, 2015, unrecognized compensation expense related to outstanding RSUs of $11.3 million is expected to be recognized over a weighted average period of 1.85 years.

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Notes to Consolidated Financial Statements (continued)

The following table summarizes information about nonvested Restricted Stock Award and RSU activity for the noted periods (shares in thousands).

	Restricted Stock Awards		RSUs	
	Outstanding	Weighted Average Grant Date Fair Value	Outstanding	Weighted Average Grant Date Fair Value
Balance, January 1, 2013	-	$ -	-	$ -
Granted	471	$ 13.32	-	$ -
Balance, December 31, 2013	471	$ 13.32	-	$ -
Granted	-	$ -	444	$ 23.16
Vested/Released	(2)	$ 13.25	(1)	$ 24.06
Forfeited	(3)	$ 13.25	(8)	$ 23.74
Balance, December 31, 2014	466	$ 13.32	435	$ 23.14
Granted	63	$ 19.95	491	$ 19.61
Vested/Released	(54)	$ 19.58	(12)	$ 22.45
Forfeited	(22)	$ 13.25	(39)	$ 21.93
Balance, December 31, 2015	453	$ 13.50	875	$ 21.22

Vested/Released Restricted Stock Awards and RSUs include an aggregate of 4,784 shares withheld to satisfy employee statutory tax obligations during 2015 and 2014. Pursuant to certain RSU award agreements, an aggregate of 7,025 vested RSUs at December 31, 2015 require deferral of the settlement in shares and statutory tax obligations to a future date.

Stock Options

Stock options granted on November 2, 2011 to two senior executives pursuant to the 2003 Plan to purchase an aggregate of 600,000 shares of the Company’s common stock (the “Stock Option Awards”) at an exercise price of $7.70 per share were fully vested and exercisable at December 31, 2015. These Stock Option Awards expire on November 2, 2016. The fair value for these Stock Option Awards granted was estimated using the Black-Scholes option pricing model with an expected volatility of 25%, a risk-free interest rate of 0.96%, a dividend yield rate of zero, a five-year expected life of the options and a forfeiture rate of 15%.

21. Regulatory Matters

Bank

The Bank and Hilltop are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct, material effect on the consolidated financial statements. The regulations require the Bank and Hilltop to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

On January 1, 2015, the new comprehensive capital framework (“Basel III”) for U.S. banking organizations became effective for the Bank and Hilltop for reporting periods beginning after January 1, 2015 (subject to a phase-in period through January 2019). Under Basel III, total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of common equity Tier 1 capital and additional Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital.

Quantitative measures established by regulation to ensure capital adequacy require the companies to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

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In addition, under the final rules, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed to continue to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, if an institution grows to above $15 billion in assets as a result of an acquisition, or organically grows to above $15 billion in assets and then makes an acquisition, the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2015, under guidance issued by the Board of Governors of the Federal Reserve System.

Management believes that, as of December 31, 2015, Hilltop and the Bank would meet all applicable capital adequacy requirements under the Basel III capital rules for bank holding companies with less than $15 billion in assets on a fully phased-in basis as if such requirements were currently in effect.

During September 2013, Hilltop and PlainsCapital contributed capital of $35.0 million and $25.0 million, respectively, to the Bank to provide additional capital in connection with the FNB Transaction.

The following table shows the Bank’s and Hilltop’s consolidated actual capital amounts and ratios compared to the regulatory minimum capital requirements and the Bank’s regulatory minimum capital requirements needed to qualify as a “well-capitalized” institution in accordance with Basel III as measured at December 31, 2015 and applicable regulatory guidelines at December 31, 2014.

	Actual		Minimum Capital Requirements		To Be Well Capitalized Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Tier 1 capital (to average assets):						
Bank	$ 1,064,212	13.22 %	$ 322,104	4.0 %	$ 402,630	5.0 %
Hilltop	1,520,514	12.65 %	480,928	4.0 %	N/A	N/A
Common equity Tier 1 capital (to risk-weighted assets):						
Bank	1,063,041	16.23 %	294,716	4.5 %	425,701	6.5 %
Hilltop	1,469,642	17.87 %	370,156	4.5 %	N/A	N/A

Tier 1 capital (to risk-weighted assets):												
Bank		1,064,212	16.25	%		392,954	6.0	%		523,939	8.0	%
Hilltop		1,520,514	18.48	%		493,541	6.0	%		N/A	N/A	
Total capital (to risk-weighted assets):												
Bank		1,112,654	16.99	%		523,939	8.0	%		654,924	10.0	%
Hilltop		1,553,867	18.89	%		658,055	8.0	%		N/A	N/A	
December 31, 2014												
Tier 1 capital (to average assets):												
Bank	$	845,656	10.31	%	$	328,025	4.0	%	$	410,031	5.0	%
Hilltop		1,231,724	14.17	%		347,619	4.0	%		N/A	N/A	
Tier 1 capital (to risk-weighted assets):												
Bank		845,656	13.74	%		246,099	4.0	%		369,148	6.0	%
Hilltop		1,231,724	19.02	%		259,078	4.0	%		N/A	N/A	
Total capital (to risk-weighted assets):												
Bank		888,744	14.45	%		492,198	8.0	%		615,247	10.0	%
Hilltop		1,275,023	19.69	%		518,157	8.0	%		N/A	N/A	

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Notes to Consolidated Financial Statements (continued)

To be considered "adequately capitalized" (as defined) under regulatory requirements, the Bank must maintain minimum Tier 1 capital to total average assets of 4%, common equity Tier 1 capital to risk-weighted assets of 4.5%, Tier 1 capital to risk-weighted assets ratios of 6% (an increase from 4% prior to January 1, 2015), and a total capital to risk-weighted assets ratio of 8%. Based on the actual capital amounts and ratios shown in the previous table, the Bank's ratios place it in the "well capitalized" (as defined) capital category under regulatory requirements.

A reconciliation of equity capital to common equity Tier 1, Tier 1 and total capital (as defined) is as follows (in thousands).

	December 31, 2015		December 31, 2014	
	Bank	Hilltop	Bank	Hilltop
Total equity capital	$ 1,293,327	$ 1,736,954	$ 1,104,048	$ 1,460,452
Add:				
Net unrealized holding losses (gains) on securities available for sale and held in trust	(567)	(2,629)	3,484	(651)
Deduct:				
Goodwill and other disallowed intangible assets	(229,656)	(264,683)	(259,048)	(290,052)
Other	(63)	—	(3,615)	(3,812)
Common equity Tier 1 capital (as defined)	1,063,041	1,469,642		
Add: Tier 1 capital				
Trust preferred securities	—	65,000	—	65,000
Minority interests	1,171	1,171	787	787
Deduct:				
Additional Tier 1 capital deductions	—	(15,299)	—	NA
Tier 1 capital (as defined)	1,064,212	1,520,514	845,656	1,231,724
Add: Allowable Tier 2 capital				
Allowance for loan losses	48,442	48,652	43,088	43,088
Net unrealized holding losses on equity securities	—	—	—	211
Deduct:				
Additional Tier 2 capital deductions	—	(15,299)	—	NA
Total capital (as defined)	$ 1,112,654	$ 1,553,867	$ 888,744	$ 1,275,023

Broker-Dealer

Pursuant to the net capital requirements of the Exchange Act, Hilltop Securities and FSC each elected to determine their respective net capital requirements using the alternative method. Accordingly, Hilltop Securities is, and FSC was, required to maintain minimum net capital, as defined in Rule 15c3-1 promulgated under the Exchange Act, equal to the greater of $250,000 and 1,000,000, respectively, or 2% of aggregate debit balances, as defined in Rule 15c3-3 promulgated under the Exchange Act. Additionally, the net capital rule of the NYSE provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of the aggregate debit items. HTS Independent Network follows the primary (aggregate indebtedness) method, as defined in Rule 15c3-1 promulgated under the Exchange Act, which requires the maintenance of the larger of minimum net capital of $250,000 or 1/15 of aggregate indebtedness.

At December 31, 2015, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

	FSC	Hilltop Securities	HTS Independent Network
Net capital	$ 68,613	$ 154,796	$ 1,326
Less required net capital	3,393	7,762	250
Excess net capital	$ 65,220	$ 147,034	$ 1,076
Net capital as a percentage of aggregate debit items	40.5 %	39.9 %	
Net capital in excess of 5% aggregate debit items	$ 60,131	$ 135,390	

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Notes to Consolidated Financial Statements (continued)

Under certain conditions, the Hilltop Broker-Dealers may be required to segregate cash and securities in a special reserve account for the benefit of customers under Rule 15c3-3 promulgated under the Exchange Act. Assets segregated under the provisions of the Exchange Act are not available for general corporate purposes. At December 31, 2015 and 2014, the Hilltop Broker-Dealers held cash of $158.6 million and $76.0 million, respectively, segregated in special reserve bank accounts for the benefit of customers. The Hilltop Broker-Dealers were not required to segregate cash or securities in special reserve accounts for the benefit of proprietary accounts of introducing broker-dealers at December 31, 2015 and 2014. The fair values of these segregated assets included in special reserve accounts were determined using Level 1 inputs.

Mortgage Origination

As a mortgage originator, PrimeLending is subject to minimum net worth requirements established by the United States Department of Housing and Urban Development (“HUD”) and the GNMA. On an annual basis, PrimeLending submits audited financial statements to HUD and GNMA documenting PrimeLending’s compliance with its minimum net worth requirements. In addition, PrimeLending monitors compliance on an ongoing basis and, as of December 31, 2015, PrimeLending’s net worth exceeded the amounts required by both HUD and GNMA.

Insurance

The statutory financial statements of the Company’s insurance subsidiaries, which are domiciled in the State of Texas, are presented on the basis of accounting practices prescribed or permitted by the Texas Department of Insurance. Texas has adopted the statutory accounting practices of the National Association of Insurance Commissioners’ (“NAIC”) as the basis of its statutory accounting practices with certain differences that are not significant to the insurance company subsidiaries’ statutory equity.

A summary of statutory capital and surplus and statutory net income of each insurance subsidiary is as follows (in thousands).

	December 31, 2015	December 31, 2014
Capital and surplus:		
National Lloyds Insurance Company	$ 121,750	$ 113,023
American Summit Insurance Company	30,592	28,964

	Year Ended December 31, 2015	2014	2013
Statutory net income:			
National Lloyds Insurance Company	$ 9,000	$ 14,893	$ 3,583
American Summit Insurance Company	1,611	2,554	521

Regulations of the Texas Department of Insurance require insurance companies to maintain minimum levels of statutory surplus to ensure their ability to meet their obligations to policyholders. At December 31, 2015, the Company's insurance subsidiaries had statutory surplus in excess of the minimum required.

The NAIC has adopted a risk based capital ("RBC") formula for insurance companies that establishes minimum capital requirements indicating various levels of available regulatory action on an annual basis relating to insurance risk, asset credit risk, interest rate risk and business risk. The RBC formula is used by the NAIC and certain state insurance regulators as an early warning tool to identify companies that require additional scrutiny or regulatory action. At December 31, 2015, the Company's insurance subsidiaries' RBC ratio exceeded the level at which regulatory action would be required.

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Notes to Consolidated Financial Statements (continued)

22. Stockholders' Equity

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2015, $312.4 million of its earnings was available for dividend declaration without prior regulatory approval, of which $50.0 million was paid to its parent in January 2016.

At December 31, 2015, the maximum aggregate dividend that may be paid to NLC from its insurance company subsidiaries in 2016 without regulatory approval was $15.2 million.

Stock Repurchase Program

During the second quarter of 2015, the Company's Board of Directors approved a stock repurchase program under which it authorized the Company to repurchase, in the aggregate, up to $30.0 million of its outstanding common stock. Under the stock repurchase program authorized, the Company could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. As of September 30, 2015, the Company had repurchased an aggregate of $30.0 million of its outstanding common stock. The extent to which the Company repurchased its shares and the timing of such repurchases depended upon market conditions and other corporate considerations, as determined by Hilltop's management team. The purchases were funded from available cash balances. The stock repurchase program terminated effective December 31, 2015.

During 2015, the Company paid $30.0 million to repurchase and retire an aggregate of 1,390,977 shares of common stock at an average price of $21.56 per share. These retired shares were returned to the Company's pool of authorized but unissued shares of common stock. The Company uses the par value method of accounting for its stock repurchases, whereby the par value of the shares is deducted from common stock. The excess of the cost of shares acquired over the par value is allocated to additional paid-in capital based on an estimated average sales price per issued share with the excess amounts charged to retained earnings.

Series B Preferred Stock

As a result of the PlainsCapital Merger, the outstanding shares of PlainsCapital's Non-Cumulative Perpetual Preferred Stock, Series C, all of which were held by the U.S. Treasury, were converted on a one-for-one basis into 114,068 shares of Hilltop Non-Cumulative Perpetual Preferred Stock, Series B ("Hilltop Series B Preferred Stock"). The terms of the Hilltop Series B Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, fluctuated until December 31, 2013 based upon changes in the level of "qualified small business lending" ("QSBL") by the Bank. The shares of Hilltop Series B Preferred Stock are senior to shares of Hilltop common stock with respect to dividends and liquidation preference, and qualify as Tier 1 Capital for regulatory purposes. At December 31, 2014, $114.1 million of Hilltop Series B Preferred Stock was outstanding.

The dividend rate on the Hilltop Series B Preferred Stock had been fixed at 5.0% since January 1, 2014, based upon the level of QSBL at September 30, 2013. On April 28, 2015, as discussed in Note 13 to the consolidated financial statements, Hilltop used the net proceeds of the offering of Senior Notes to redeem all shares of Hilltop Series B Preferred Stock at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million.

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Notes to Consolidated Financial Statements (continued)

23. Other Noninterest Income and Expense

The following tables show the components of other noninterest income and expense (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Other noninterest income:			
Change in fair value of Hilltop Broker-Dealer derivatives	$ 43,704	$ 16,228	$ 11,427
Direct bill fees and insurance service fee income	5,329	5,719	5,697
Net gain (loss) from trading securities portfolio	13,134	2,126	(2,773)
Net gain on investment in SWS common stock	—	5,985	—
Revenue from check and stored value cards	7,110	7,614	4,682
Service charges on depositor accounts	15,169	16,730	11,376
Trust fees	7,113	6,330	5,050
Other	14,906	18,809	9,211
	$ 106,465	$ 79,541	$ 44,670
Other noninterest expense:			
Accounting fees	$ 8,357	$ 5,247	$ 5,455
Acquisition costs	13,400	1,406	117
Amortization of intangible assets	12,375	11,138	11,087
Data processing	35,986	23,096	17,922
Marketing	26,957	21,372	17,257
Other professional services	50,535	39,310	32,526
Printing, stationery and supplies	7,949	4,902	4,583
Repossession and foreclosure	14,385	17,621	3,546
Telecommunications	7,324	11,249	8,350
Unreimbursed loan closing costs	35,253	32,669	30,095
Other	95,763	63,569	57,009
	$ 308,284	$ 231,579	$ 187,947

24. Derivative Financial Instruments

The Company uses various derivative financial instruments to mitigate interest rate risk. The Bank's interest rate risk management strategy involves effectively managing the re-pricing characteristics of certain assets and liabilities to mitigate potential adverse impacts from changes in interest rates on the net interest margin. PrimeLending has interest rate risk relative to IRLCs and its inventory of mortgage loans held for sale. PrimeLending is exposed to such interest rate risk from the time an IRLC is made to an applicant to the time the related mortgage loan is sold. To mitigate interest rate risk, PrimeLending executes forward commitments to sell mortgage-backed securities ("MBSs"). Additionally, PrimeLending has interest rate risk relative to its MSR asset. During the three months ended September 30, 2014, PrimeLending began using derivative instruments, including interest rate swaps and swaptions, to hedge this risk. The Hilltop Broker-Dealers use forward commitments to both purchase and sell MBSs to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions.

Non-Hedging Derivative Instruments and the Fair Value Option

As discussed in Note 3 to the consolidated financial statements, the Company has elected to measure substantially all mortgage loans held for sale at fair value under the provisions of the Fair Value Option. The election provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying complex hedge accounting provisions. The fair values of PrimeLending's IRLCs, forward commitments, and interest rate swaps and swaptions are recorded in other assets or other liabilities, as appropriate, and changes in the fair values of these derivative instruments are recorded as a component of net gains from sale of loans and other mortgage production income. The fair value of PrimeLending's derivative instruments increased $17.3 million and $8.2 million during 2015 and 2013, respectively, compared with a decrease of $16.3 million during 2014. Changes in fair value are attributable to changes in the volume of IRLCs, mortgage loans held for sale, commitments to purchase

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Notes to Consolidated Financial Statements (continued)

and sell MBSs and MSR assets, and changes in market interest rates. Changes in market interest rates also conversely affect the value of PrimeLending's mortgage loans held for sale and its MSR asset, which are measured at fair value under the Fair Value Option. The effect of the change in market interest rates on PrimeLending's loans held for sale and MSR asset is discussed in Note 3 to the consolidated financial statements. The fair values of the Hilltop Broker-Dealers' derivative instruments are recorded in other assets or other liabilities, as appropriate, and the fair values of the Hilltop Broker-Dealers' derivatives increased $43.7 million, $16.2 million and $11.4 million during 2015, 2014 and 2013, respectively. The changes in fair value were recorded as a component of other noninterest income.

Derivative positions are presented in the following table (in thousands).

	December 31, 2015		December 31, 2014	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments:				
IRLCs	$ 944,942	$ 23,762	$ 621,216	$ 17,057
Commitments to purchase MBSs	3,151,862	8,350	510,553	6,040
Commitments to sell MBSs	5,038,565	(2,352)	1,968,768	(12,566)
Interest rate swaps and swaptions	409,982	490	83,000	425

PrimeLending has advanced cash collateral totaling $0.8 million and $6.6 million to offset net liability derivative positions on its commitments to sell MBSs at December 31, 2015 and 2014, respectively. In addition, PrimeLending advanced cash collateral totaling $6.4 million and $3.3 million in initial margin on its interest rate swaps and swaptions at December 31, 2015 and 2014, respectively. These amounts are included in other assets within the consolidated balance sheets.

25. Balance Sheet Offsetting

Certain financial instruments, including resale and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheets and/or subject to master netting arrangements or similar agreements. The following tables present the assets and liabilities subject to enforceable master netting arrangements, repurchase agreements, or similar agreements with offsetting rights (in thousands).

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2015						
Securities borrowed:						
Institutional counterparties	$ 1,307,741	$ —	$ 1,307,741	$ (1,307,741)	$ —	$ —
Interest rate swaps and swaptions:						
Institutional counterparties	1,526	(393)	1,133	—	—	1,133
Reverse repurchase agreements:						
Institutional counterparties	105,660	—	105,660	(105,412)	—	248
Forward MBS derivatives:						
Institutional counterparties	1,377	—	1,377	(1,377)	—	—
	$ 1,416,304	$ (393)	$ 1,415,911	$ (1,414,530)	$ —	$ 1,381
December 31, 2014						
Securities borrowed:						
Institutional counterparties	$ 152,899	$ —	$ 152,899	$ (152,899)	$ —	$ —
Interest rate swaps and swaptions:						
Institutional counterparties	425	—	425	—	—	425
Forward MBS derivatives:						
Institutional counterparties	41	—	41	—	—	41
	$ 153,365	$ —	$ 153,365	$ (152,899)	$ —	$ 466

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	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2015						
Securities loaned:						
Institutional counterparties	$ 1,235,466	$ —	$ 1,235,466	$ (1,235,466)	$ —	$ —
Interest rate swaps and swaptions:						
Institutional counterparties	643	—	643	(2,519)	—	(1,876)
Repurchase agreements:						
Institutional counterparties	69,748	—	69,748	(69,748)	—	—
Customer counterparties	148,000	—	148,000	(148,000)	—	—
Forward MBS derivatives:						
Institutional counterparties	4,385	(1,769)	2,616	(1,420)	—	1,196
	$ 1,458,242	$ (1,769)	$ 1,456,473	$ (1,457,153)	$ —	$ (680)
December 31, 2014						
Securities loaned:						
Institutional counterparties	$ 117,822	$ —	$ 117,822	$ (117,822)	$ —	$ —
Repurchase agreements:						

Customer counterparties	136,396	—	136,396	(136,396)	—	—
Forward MBS derivatives:						
Institutional counterparties	12,829	(223)	12,606	—	(6,137)	6,469
	$ 267,047	$ (223)	$ 266,824	$ (254,218)	$ (6,137)	$ 6,469

Secured Borrowing Arrangements

Secured Borrowings (Repurchase Agreements) — The Company participates in transactions involving securities sold under repurchase agreements, which are secured borrowings and generally mature within one to thirty days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities, which is monitored on a daily basis.

Securities Lending Activities — The Company's securities lending activities include lending securities for other broker-dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker-dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. Management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

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The following tables present the remaining contractual maturities of repurchase agreement and securities lending transactions accounted for as secured borrowings (in thousands). The Company had no repurchase-to-maturity transactions outstanding at both December 31, 2015 or 2014.

	Remaining Contractual Maturities				
December 31, 2015	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 201,090	$ 16,658	$ —	$ —	$ 217,748
Securities lending transactions:					
U.S. Treasury and agency securities	12,646	—	—	—	12,646
Corporate securities	5,993	—	—	—	5,993
Equity securities	1,216,827	—	—	—	1,216,827
Total	$ 1,436,556	$ 16,658	$ —	$ —	$ 1,453,214
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 1,453,214
Amount related to agreements not included in offsetting disclosure above					$ —

	Remaining Contractual Maturities				
December 31, 2014	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 136,396	$ —	$ —	$ —	$ 136,396
Securities lending transactions:					
U.S. Treasury and agency securities	9,171	—	—	—	9,171
Corporate securities	200	—	—	—	200
Equity securities	108,451	—	—	—	108,451
Total	$ 254,218	$ —	$ —	$ —	$ 254,218
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 254,218
					$ —

Amount related to agreements not included in offsetting disclosure above

26. Broker-Dealer and Clearing Organization Receivables and Payables

Broker-dealer and clearing organization receivables and payables consisted of the following (in thousands).

	December 31, 2015	2014
Receivables:		
Securities borrowed	$ 1,307,741	$ 152,899
Securities failed to deliver	25,087	3,497
Clearing organizations	16,701	11,471
Trades in process of settlement, net	5,707	—
Other	7,263	17
	$ 1,362,499	$ 167,884
Payables:		
Securities loaned	$ 1,235,466	$ 117,822
Correspondents	69,046	51,930
Securities failed to receive	28,352	5,960
Clearing organizations	5,441	3,330
	$ 1,338,305	$ 179,042

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Notes to Consolidated Financial Statements (continued)

27. Deferred Policy Acquisition Costs

Policy acquisition expenses, primarily commissions, premium taxes and underwriting expenses related to the successful issuance of a new or renewal policy incurred by NLC are deferred and charged against income ratably over the terms of the related policies. A summary of the activity in deferred policy acquisition costs is as follows (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of year	$ 20,416	$ 20,991	$ 19,812
Acquisition expenses capitalized	39,716	41,034	41,771
Amortization charged to income	(40,258)	(41,609)	(40,592)
Balance, end of year	$ 19,874	$ 20,416	$ 20,991

Amortization is included in policy acquisition and other underwriting expenses in the accompanying consolidated statements of operations.

28. Reserve for Losses and Loss Adjustment Expenses

A rollforward of NLC's reserve for unpaid losses and LAE, as included in other liabilities within the consolidated balance sheets, is as follows (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of year	$ 29,716	$ 27,468	$ 34,012
Less reinsurance recoverables	(4,315)	(4,508)	(10,385)
Net balance, beginning of year	25,401	22,960	23,627
Incurred related to:			

Current year	93,544	86,642	110,096
Prior years	5,522	7,787	659
Total incurred	99,066	94,429	110,755
Payments related to:			
Current year	(74,866)	(73,841)	(96,284)
Prior years	(18,746)	(18,147)	(15,138)
Total payments	(93,612)	(91,988)	(111,422)
Net balance, end of year	30,855	25,401	22,960
Plus reinsurance recoverables	13,502	4,315	4,508
Balance, end of year	$ 44,357	$ 29,716	$ 27,468

The increase in the NLC's reserves at December 31, 2015 as compared with December 31, 2014 of $14.6 million is primarily due to increased reserves attributable to an increase in frequency and severity of severe weather events in NLC's geographic coverage area as well as additional reinsurance recoverables associated with the increase in reserves. The prior period adverse development of $5.5 million and $7.8 million during 2015 and 2014 was primarily related to litigation emerging from a series of hail storms within the 2012 through 2014 accident years.

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29. Reinsurance Activity

NLC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk. Substantial amounts of business are ceded, and these reinsurance contracts do not relieve NLC from its obligations to policyholders. Such reinsurance includes quota share, excess of loss, catastrophe, and other forms of reinsurance on essentially all property and casualty lines of insurance. Net insurance premiums earned, losses and LAE and policy acquisition and other underwriting expenses are reported net of the amounts related to reinsurance ceded to other companies. Amounts recoverable from reinsurers related to the portions of the liability for losses and LAE and unearned insurance premiums ceded to them are reported as assets. Failure of reinsurers to honor their obligations could result in losses to NLC; consequently, allowances are established for amounts deemed uncollectible as NLC evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 2015, reinsurance receivables have a carrying value of $16.9 million, which is included in other assets within the consolidated balance sheet. There was no allowance for uncollectible accounts at December 31, 2015, based on NLC’s quality requirements.

Reinsurers with a balance in excess of 5% of the Company’s outstanding reinsurance receivables at December 31, 2015 are listed below (in thousands).

	Balances Due From Reinsurers	A.M. Best Rating
Federal Emergency Management Agency	$ 6,003	N/A
Aspen Bermuda	2,819	A
Partner Reinsurance Co.	2,175	N/A
Everest Re	1,636	A+
Lloyd's Syndicate #2791	1,257	A
Lloyd's Syndicate #2001	868	A+
	$ 14,758	

The effects of reinsurance on premiums written and earned are summarized as follows (in thousands).

	Year Ended December 31,					
	2015		2014		2013	
	Written	Earned	Written	Earned	Written	Earned
Premiums from direct business	$ 167,025	$ 169,334	$ 172,464	$ 173,496	$ 173,982	$ 168,942
Reinsurance assumed	10,714	10,283	9,746	8,960	7,987	7,202
Reinsurance ceded	(17,170)	(17,535)	(17,845)	(17,932)	(18,528)	(18,611)
Net premiums	$ 160,569	$ 162,082	$ 164,365	$ 164,524	$ 163,441	$ 157,533

The effects of reinsurance on incurred losses are as follows (in thousands).

	Year Ended December 31,		
	2015	2014	2013
Loss and LAE incurred	$ 123,017	$ 97,011	$ 117,089
Reinsurance recoverables	(23,951)	(2,582)	(6,334)
Net loss and LAE incurred	$ 99,066	$ 94,429	$ 110,755

Multi-line excess of loss coverage

In addition to the catastrophe reinsurance noted below, both NLIC and ASIC participate in an excess of loss program placed with various reinsurers. This program is limited to each risk with respect to property and liability in the amount of $500,000 for each of NLIC and ASIC. Each of NLIC and ASIC retain $500,000 in this program.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Catastrophic coverage

NLC's liabilities for losses and LAE include liabilities for reported losses, liabilities for 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.

Effective July 1, 2015, NLC renewed its catastrophic excess of loss reinsurance coverage for a two year period. At December 31, 2015, NLC had catastrophic excess of loss reinsurance coverage of losses per event in excess of $8 million retention by NLIC and $1.5 million retention by ASIC. ASIC maintained an underlying layer of coverage, providing $6.5 million in excess of its $1.5 million retention to bridge to the primary program. The reinsurance in excess of $8 million is comprised of four layers of protection: $17 million in excess of $8 million retention; $25 million in excess of $25 million loss; $25 million in excess of $50 million loss and $50 million in excess of $75 million loss. NLIC and ASIC retain no participation in any of the layers, beyond the first $8 million and $1.5 million, respectively. At December 31, 2014, total retention for any one catastrophe that affects both NLIC and ASIC was limited to $8 million in the aggregate.

Effective July 1, 2013, NLC renewed its catastrophic reinsurance contract for its third and fourth layers of reinsurance for a two year period. In the contract renewal, the coverage provided by the fourth layer changed to reflect the reduction of exposure in Texas primarily as a result of NLIC exiting the Texas coast and reducing its exposure in Harris County, Texas. The coverage provides $40 million in excess of $100 million loss, resulting in catastrophic excess of loss reinsurance coverage up to $140 million. Effective January 1, 2014, NLC renewed its reinsurance contract for its first and second layers of reinsurance for an eighteen month period.

Effective January 1, 2016, NLC renewed its underlying excess of loss contract that provides $10.0 million aggregate coverage in excess of NLC's per event retention and aggregate retention for sub-catastrophic events. NLC retains no participation beyond the first $1 million, down from 9% participation in this coverage during 2015.

During 2015 and 2014, NLC experienced no significant catastrophes that resulted in losses in excess of retention at NLIC, compared to two significant catastrophes during 2013. NLC did not experience any significant catastrophe that resulted in losses in excess of retention at ASIC during 2015, 2014 or 2013. There were 11 tornado, hail and wind storms during 2015 that fit the coverage criteria for the underlying excess of loss contract providing aggregate coverage for sub-catastrophic events. These events had a gross incurred loss total of $35.3 million, which developed a reinsured recoverable of $9.1 million at the 91% subscription level. During 2014, the eight tornado, hail and wind storms that exceeded retention had incurred losses of $21.7 million, which developed a reinsured recoverable of $1.8 million at the 66% subscription level. The two tornado, hail and wind storms that exceeded retention in 2013 had incurred losses of $18.3 million. These losses have no effect on net loss and LAE incurred beyond retention because the catastrophic events exceeded retention levels and are fully recoverable. The primary financial effect beyond the reinsurance retention is additional reinstatement premium payable to the affected reinsurers. Reinstatement premiums during 2015, 2014 and 2013 of $0.2 million, $0.2 million and $0.3 million, respectively, were recorded as ceded premiums.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

30. Segment and Related Information

The Company currently has four reportable business segments that are organized primarily by the core products offered to the segments' respective customers. These segments reflect the manner in which operations are managed and the criteria used by the Company's chief operating decision maker function to evaluate segment performance, develop strategy and allocate resources. The chief operating decision maker function consists of the President and Chief Executive Officer of the Company and the Chief Executive Officer of PlainsCapital.

The banking segment includes the operations of the Bank and, since January 1, 2015, the operations of the former SWS FSB acquired in the SWS Merger. The broker-dealer segment includes the operations of First Southwest and, since January 1, 2015, the broker-dealer operations acquired in the SWS Merger. The mortgage origination segment is composed of PrimeLending, while the insurance segment is composed of NLC.

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.

Balance sheet amounts not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations." The following tables present certain information about reportable business segment revenues, operating results, goodwill and assets (in thousands).

Year Ended December 31, 2015	Banking	Broker-Dealer	Mortgage Origination	Insurance	Corporate	All Other and Eliminations	Hilltop Consolidated
Net interest income (expense)	$ 369,493	$ 32,971	$ (10,423)	$ 3,187	$ (5,109)	$ 18,464	$ 408,583

Provision for loan losses	12,795	(80)	—	—	—	—	12,715
Noninterest income	62,639	334,495	597,163	171,185	81,289	(19,129)	1,227,642
Noninterest expense	243,926	367,812	539,257	158,720	31,926	(1,625)	1,340,016
Income (loss) before income taxes	$ 175,411	$ (266)	$ 47,483	$ 15,652	$ 44,254	$ 960	$ 283,494

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

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

income taxes							
December 31, 2015							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 8,707,433	$ 2,673,455	$ 1,737,843	$ 349,259	$ 1,905,547	$ (3,506,536)	$ 11,867,001
December 31, 2014							
Goodwill	$ 207,741	$ 7,008	$ 13,071	$ 23,988	$ —	$ —	$ 251,808
Total assets	$ 8,036,729	$ 758,636	$ 1,498,846	$ 328,693	$ 1,522,655	$ (2,903,143)	$ 9,242,416

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

31. Earnings per Common Share

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

	Year Ended December 31,		
	2015	2014	2013
Basic earnings per share:			
Income applicable to Hilltop common stockholders	$ 209,119	$ 105,947	$ 121,015
Less: income applicable to participating shares	(952)	(547)	(672)
Net earnings available to Hilltop common stockholders	$ 208,167	$ 105,400	$ 120,343
Weighted average shares outstanding - basic	99,074	89,710	84,382
Basic earnings per common share	$ 2.10	$ 1.18	$ 1.43
Diluted earnings per share:			
Income applicable to Hilltop common stockholders	$ 209,119	$ 105,947	$ 121,015
Add: interest expense on Exchangeable Notes (net of tax)	—	—	5,059
Net earnings available to Hilltop common stockholders	209,119	105,947	126,074
Weighted average shares outstanding - basic	99,074	89,710	84,382
Effect of potentially dilutive securities	888	863	5,949
Weighted average shares outstanding - diluted	99,962	90,573	90,331
Diluted earnings per common share	$ 2.09	$ 1.17	$ 1.40

32. Condensed Financial Statements of Parent

Condensed financial statements of Hilltop (parent only) follow (in thousands). Investments in subsidiaries are determined using the equity method of accounting.

Condensed Statements of Operations and Comprehensive Income

	Year Ended December 31,		
	2015	2014	2013
Investment income	$ 445	$ 5,219	$ 6,635
Interest expense	5,554	—	8,232
Net gain on investment in SWS common stock	—	5,985	—
Bargain purchase gain	81,289	—	—
General and administrative expense	31,926	13,878	10,439
Income (loss) before income taxes, equity in undistributed earnings of subsidiaries and preferred stock activity	44,254	(2,674)	(12,036)
Income tax benefit	(9,562)	(592)	(4,680)
Equity in undistributed earnings of subsidiaries	158,763	114,640	134,065
Net income	$ 212,579	$ 112,558	$ 126,709
Other comprehensive income (loss), net	1,978	35,514	(43,418)
Comprehensive income	$ 214,557	$ 148,072	$ 83,291

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Condensed Balance Sheets

	December 31, 2015	2014	2013
Assets:			
Cash and cash equivalents	$ 55,542	$ 145,948	$ 163,856
Securities, available for sale	—	—	69,023
Investment in subsidiaries	1,817,083	1,218,182	1,069,226
Investment in SWS common stock	—	70,282	—
Other assets	32,922	88,243	14,293
Total assets	$ 1,905,547	$ 1,522,655	$ 1,316,398
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	$ 20,419	$ 62,203	$ 5,257
Notes payable	148,174	—	—
Stockholders' equity	1,736,954	1,460,452	1,311,141
Total liabilities and stockholders' equity	$ 1,905,547	$ 1,522,655	$ 1,316,398

Condensed Statements of Cash Flows

	Year Ended December 31, 2015	2014	2013
Operating Activities:			
Net income	$ 212,579	$ 112,558	$ 126,709
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(158,763)	(114,640)	(134,065)
Bargain purchase gain	(81,289)	—	—
Deferred income taxes	12,429	156	8,850
Net gain on investment in SWS common stock	—	(5,985)	—
Loss on redemption of senior exchangeable notes	—	—	3,733
Other, net	2,443	(1,379)	132
Net cash provided by (used in) operating activities	(12,601)	(9,290)	5,359
Investing Activities:			
Advance to subsidiary			